

BERKSHIRE HILLS BANCORP INC
Form 10-Q
May 10, 2011

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

FORM 10-Q

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

For the quarterly period ended: March 31, 2011

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

For the transition period from _____ to _____

Commission File Number: 000-51584

BERKSHIRE HILLS BANCORP, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

04-3510455
(I.R.S. Employer Identification No.)

24 North Street, Pittsfield, Massachusetts
(Address of principal executive offices)

01201
(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)

Yes No

The Registrant had 16,779,110 shares of common stock, par value \$0.01 per share, outstanding as of May 2, 2011.

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PART I

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

BERKSHIRE HILLS BANCORP, INC.
CONSOLIDATED BALANCE SHEETS

| (In thousands, except share data) | March 31, 2011 | December 31, 2010 |
|--|-------------------|----------------------|
| Assets | | |
| Cash and due from banks | \$30,928 | \$ 24,643 |
| Short-term investments | 10,297 | 19,497 |
| Total cash and cash equivalents | 41,225 | 44,140 |
| Trading security | 15,781 | 16,155 |
| Securities available for sale, at fair value | 315,333 | 310,242 |
| Securities held to maturity (fair values of \$57,802 and \$57,594) | 56,628 | 56,436 |
| Federal Home Loan Bank stock and other restricted securities | 23,120 | 23,120 |
| Total securities | 410,862 | 405,953 |
| Loans held for sale | 142 | 1,043 |
| Residential mortgages | 655,601 | 644,973 |
| Commercial mortgages | 924,311 | 925,573 |
| Commercial business loans | 288,375 | 286,087 |
| Consumer loans | 277,015 | 285,529 |
| Total loans | 2,145,302 | 2,142,162 |
| Less: Allowance for loan losses | (31,898) | (31,898) |
| Net loans | 2,113,404 | 2,110,264 |
| Premises and equipment, net | 39,131 | 38,546 |
| Other real estate owned | 2,400 | 3,386 |
| Goodwill | 161,725 | 161,725 |
| Other intangible assets | 10,638 | 11,354 |
| Cash surrender value of bank-owned life insurance policies | 46,465 | 46,085 |
| Other assets | 59,122 | 58,220 |
| Total assets | \$2,885,114 | \$ 2,880,716 |
| Liabilities | | |
| Demand deposits | \$283,526 | \$ 297,502 |
| NOW deposits | 217,776 | 212,143 |
| Money market deposits | 770,024 | 716,078 |
| Savings deposits | 229,528 | 237,594 |
| Time deposits | 740,195 | 741,124 |
| Total deposits | 2,241,049 | 2,204,441 |
| Short-term debt | 15,480 | 47,030 |
| Long-term Federal Home Loan Bank advances | 197,922 | 197,807 |
| Junior subordinated debentures | 15,464 | 15,464 |
| Total borrowings | 228,866 | 260,301 |

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| | | |
|--|--------------------|---------------------|
| Other liabilities | 25,201 | 28,014 |
| Total liabilities | 2,495,116 | 2,492,756 |
| Stockholders' equity | | |
| Common stock (\$.01 par value; 26,000,000 shares authorized; 15,848,825 shares issued and 14,114,874 shares outstanding in 2011; 15,848,825 shares issued and 14,076,148 shares outstanding in 2010) | 158 | 158 |
| Additional paid-in capital | 337,315 | 337,537 |
| Unearned compensation | (2,561) | (1,776) |
| Retained earnings | 103,720 | 103,285 |
| Accumulated other comprehensive loss | (4,888) | (6,410) |
| Treasury stock, at cost (1,733,951 shares in 2011 and 1,772,677 shares in 2010) | (43,746) | (44,834) |
| Total stockholders' equity | 389,998 | 387,960 |
| Total liabilities and stockholders' equity | \$2,885,114 | \$ 2,880,716 |

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

BERKSHIRE HILLS BANCORP, INC.
CONSOLIDATED STATEMENTS OF INCOME

| (In thousands, except per share data) | Three Months Ended March 31, | |
|---|---------------------------------|----------|
| | 2011 | 2010 |
| Interest and dividend income | | |
| Loans | \$24,606 | \$23,947 |
| Securities and other | 3,307 | 3,535 |
| Total interest and dividend income | 27,913 | 27,482 |
| Interest expense | | |
| Deposits | 5,715 | 6,896 |
| Borrowings and junior subordinated debentures | 2,052 | 2,289 |
| Total interest expense | 7,767 | 9,185 |
| Net interest income | 20,146 | 18,297 |
| Non-interest income | | |
| Loan related fees | 591 | 956 |
| Deposit related fees | 2,541 | 2,460 |
| Insurance commissions and fees | 3,730 | 3,473 |
| Wealth management fees | 1,192 | 1,176 |
| Total fee income | 8,054 | 8,065 |
| Other | 448 | 433 |
| Total non-interest income | 8,502 | 8,498 |
| Total net revenue | 28,648 | 26,795 |
| Provision for loan losses | 1,600 | 2,326 |
| Non-interest expense | | |
| Compensation and benefits | 11,151 | 10,997 |
| Occupancy and equipment | 3,435 | 3,035 |
| Technology and communications | 1,466 | 1,383 |
| Marketing and professional services | 1,213 | 1,297 |
| Supplies, postage and delivery | 454 | 573 |
| FDIC premiums and assessments | 1,027 | 773 |
| Other real estate owned | 609 | 27 |
| Amortization of intangible assets | 716 | 768 |
| Non-recurring expenses | 1,708 | 21 |
| Other | 1,410 | 1,318 |
| Total non-interest expense | 23,189 | 20,192 |
| Income before income taxes | 3,859 | 4,277 |
| Income tax expense | 1,061 | 941 |
| Net income | \$2,798 | \$3,336 |
| Basic earnings per share | \$0.20 | \$0.24 |
| Diluted earnings per share | \$0.20 | \$0.24 |
| Weighted average shares outstanding: | | |
| Basic | 13,943 | 13,829 |
| Diluted | 13,981 | 13,858 |

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

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

| (In thousands) | Common stock Shares | Preferred Amount stock | Additional paid-in capital | Unearned compen- sation | Retained earnings | Accumulated other comp- rehensive (loss) income | Treasury stock | Total | |
|--|------------------------|---------------------------|----------------------------------|-------------------------------|----------------------|---|-------------------|-------------|------------|
| Balance at December 31, 2009 | 13,916 | \$ 158 | \$ - | \$ 338,822 | \$ (1,318) | \$ 99,033 | \$ (2,968) | \$ (49,146) | \$ 384,581 |
| Comprehensive income: | | | | | | | | | |
| Net income | - | - | - | - | 3,336 | - | - | - | 3,336 |
| Other net comprehensive loss | - | - | - | - | - | (567) | - | - | (567) |
| Total comprehensive income | | | | | | | | | 2,769 |
| Cash dividends declared (\$0.16 per share) | - | - | - | - | (2,244) | - | - | - | (2,244) |
| Restricted stock grants | 123 | - | - | (1,093) | (2,036) | - | - | 3,129 | - |
| Stock-based compensation | - | - | - | 2 | 409 | - | - | - | 411 |
| Other, net | (12) | - | - | - | - | - | - | (196) | (196) |
| Balance at March 31, 2010 | 14,027 | 158 | - | 337,731 | (2,945) | 100,125 | (3,535) | (46,213) | 385,321 |
| Balance at December 31, 2010 | 14,076 | 158 | - | 337,537 | (1,776) | 103,285 | (6,410) | (44,834) | 387,960 |
| Comprehensive income: | | | | | | | | | |
| Net income | - | - | - | - | 2,798 | - | - | - | 2,798 |
| Other net comprehensive income | - | - | - | - | - | 1,522 | - | - | 1,522 |
| Total comprehensive income | | | | | | | | | 4,320 |
| Cash dividends declared (\$0.16 | - | - | - | - | (2,251) | - | - | - | (2,251) |

per share)

| | | | | | | | | | |
|---------------------------|--------|--------|------|------------|------------|------------|------------|-------------|------------|
| Forfeited shares | (7) | - | - | 3 | 167 | - | - | (170) | - |
| Exercise of stock options | 13 | - | - | - | - | (112) | - | 326 | 214 |
| Restricted stock grants | 55 | - | - | (226) | (1,159) | - | - | 1,385 | - |
| Stock-based compensation | - | - | - | 1 | 207 | - | - | - | 208 |
| Other, net | (22) | - | - | - | - | - | - | (453) | (453) |
| Balance at March 31, 2011 | 14,115 | \$ 158 | \$ - | \$ 337,315 | \$ (2,561) | \$ 103,720 | \$ (4,888) | \$ (43,746) | \$ 389,998 |

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

BERKSHIRE HILLS BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

| (In thousands) | Three Months Ended March 31, | |
|--|------------------------------|-----------|
| | 2011 | 2010 |
| Cash flows from operating activities: | | |
| Net income | \$ 2,798 | \$ 3,336 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for loan losses | 1,600 | 2,326 |
| Net amortization of securities | 340 | 673 |
| Change in unamortized net loan costs and premiums | 390 | 233 |
| Premises and equipment depreciation and amortization expense | 1,062 | 912 |
| Stock-based compensation expense | 208 | 411 |
| Amortization of intangible assets | 716 | 768 |
| Income from cash surrender value of bank-owned life insurance policies | (380) | (286) |
| Net decrease in loans held for sale | 901 | 2,272 |
| Net change in other | 1,281 | 3,793 |
| Net cash provided by operating activities | 8,916 | 14,438 |
| Cash flows from investing activities: | | |
| Trading account security: | | |
| Proceeds from maturities, calls and prepayments | 116 | 110 |
| Securities available for sale: | | |
| Sales | - | 3,159 |
| Proceeds from maturities, calls and prepayments | 40,355 | 24,389 |
| Purchases | (44,772) | (17,370) |
| Securities held to maturity: | | |
| Proceeds from maturities, calls and prepayments | 2,105 | 6,304 |
| Purchases | (2,296) | (11,494) |
| Net investment in limited partnership tax credits | (4,166) | - |
| Loan originations, net | (5,044) | (25,479) |
| Proceeds from sale of other real estate | 382 | - |
| Proceeds from surrender of life insurance | - | 2,217 |
| Capital expenditures | (1,647) | (965) |
| Net cash used by investing activities | (14,967) | (19,129) |
| Cash flows from financing activities: | | |
| Net increase in deposits | 36,608 | 50,531 |
| Proceeds from Federal Home Loan Bank advances and other borrowings | 15,480 | 44,130 |
| Repayments of Federal Home Loan Bank advances and other borrowings | (46,915) | (93,757) |
| Net proceeds from reissuance of treasury stock | 214 | - |
| Common stock cash dividends paid | (2,251) | (2,244) |
| Net cash provided (used) by financing activities | 3,136 | (1,340) |
| Net change in cash and cash equivalents | (2,915) | (6,031) |
| Cash and cash equivalents at beginning of period | 44,140 | 32,608 |
| Cash and cash equivalents at end of period | \$ 41,225 | \$ 26,577 |

Supplemental cash flow information:

| | | |
|--|-------|-------|
| Interest paid on deposits | 5,753 | 6,917 |
| Interest paid on borrowed funds | 2,052 | 2,316 |
| Income taxes paid, net | 55 | 2,209 |
| Transfers into other real estate owned | - | 3,250 |

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

1. GENERAL

Basis of presentation and consolidation

The consolidated financial statements (the “financial statements”) of Berkshire Hills Bancorp, Inc. (the “Company” or “Berkshire”) have been prepared in conformity with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and with the instructions to Form 10-Q adopted by the Securities and Exchange Commission (“SEC”). Accordingly, these financial statements, including year-end consolidated balance sheet data presented, do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments necessary for a fair presentation are reflected in the interim financial statements and consist of normal recurring entries. These financial statements include the accounts of the Company and its wholly-owned subsidiaries, Berkshire Insurance Group, Inc. (“BIG”) and Berkshire Bank (the “Bank”), together with the Bank’s consolidated subsidiaries. One of the Bank’s consolidated subsidiaries is Berkshire Bank Municipal Bank, a New York chartered limited-purpose commercial bank. All significant inter-company transactions have been eliminated in consolidation. The results of operations for the three months ended March 31, 2011 are not necessarily indicative of the results which may be expected for the year. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2010.

Business

Through its wholly-owned subsidiaries, the Company provides a variety of financial services to individuals, businesses, not-for-profit organizations, and municipalities through its offices in western Massachusetts, southern Vermont and northeastern and central New York. The Company also provides asset-based middle-market commercial lending throughout New England and its New York markets. Its primary deposit products are checking, NOW, money market, savings, and time deposit accounts. Its primary lending products are residential mortgages, commercial mortgages, commercial business loans and consumer loans. The Company offers electronic banking, cash management, other transaction and reporting services and interest rate swap contracts to commercial customers. The Company offers wealth management services including trust, financial planning, and investment services. The Company is also an agent for complete lines of property and casualty, life, disability, and health insurance.

Business segments

An operating segment is a component of a business for which separate financial information is available that is evaluated regularly by the chief operating decision-maker in deciding how to allocate resources and evaluate performance. The Company has two reportable operating segments, Banking and Insurance, which are delineated by the consolidated subsidiaries of Berkshire Hills Bancorp, Inc. Banking includes the activities of the Bank and its subsidiaries, which provide commercial and consumer banking services. Insurance includes the activities of BIG and its subsidiaries, which provides commercial and consumer insurance services. The only other consolidated financial activity of the Company consists of the transactions of its parent, Berkshire Hills Bancorp, Inc.

Use of estimates

In preparing the financial statements in conformity with GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated balance sheets and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses; the valuation of deferred tax assets; the estimates related to the initial

measurement of goodwill and intangible assets and subsequent impairment analyses; the determination of other-than-temporary impairment of securities; and the determination of fair value of financial instruments and subsequent impairment analysis.

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Significant accounting policies

The Company's significant accounting policies are described in Note 1 to the consolidated financial statements in the 2010 Form 10-K. The allowance for loan loss policy has since been refined and is described below:

Allowance for Loan Losses

The allowance for loan losses represents our estimate of probable credit losses inherent in the loan portfolio at the balance sheet date. We establish the amount of the allowance for loan losses by analyzing the quality of the loan portfolio at least quarterly, and more often if deemed necessary.

We estimate the appropriate level of our allowance for loan losses by applying historical and industry loss rates to existing loans with similar risk characteristics. The loss rates used to establish the allowance are adjusted to reflect our current assessment of many factors, including:

- State and local economic and business conditions;
- Trends in past due and concentration of portfolio risk;
- Experience, ability and depth of our lending management and staff;
- Risk selection, lending policies and underwriting standards
- Trends in portfolio mix, growth/concentration and types of products offered;
- Banking industry conditions and other external factors.

For all TDR's, regardless of size as well as, impaired loans having an outstanding balance greater than \$150 thousand, we conduct further analysis to determine the probable amount of loss and assign a specific allowance to the loan, if deemed appropriate. We estimate the extent of impairment by comparing the carrying amount of the loan with the estimated present value of its future cash flows, the fair value of its underlying collateral or the loan's observable market price. We may assign a specific allowance — even when sources of repayment appear sufficient — if we remain uncertain about whether the loan will be repaid in full.

In the first quarter of 2011, management made refinements to its allowance for loan loss methodology to better incorporate the Company's internal risk ratings into a formula-based approach. This refinement did not have a significant effect on the first quarter loan loss provision or the total allowance for loan loss.

The Company evaluates certain loans individually for specific impairment. A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Loans are selected for evaluation based upon a change in internal risk rating, occurrence of delinquency, loan classification, or non-accrual status. A specific allowance amount is allocated to an individual loan when such loan has been deemed impaired and when the amount of the probable loss is able to be estimated. Estimates of loss may be determined by the present value of anticipated future cash flows or the loan's observable fair market value, or the fair value of the collateral, if the loan is collateral dependent. However, for collateral dependent loans, the amount of the recorded investment in a loan that exceeds the fair value of the collateral is charged-off against the allowance for loan losses in lieu of an allocation of a specific allowance amount when such an amount has been identified definitively as uncollectible.

Large groups of small-balance homogeneous loans such as the residential mortgage, home equity and other consumer portfolios are collectively evaluated for impairment. As such, the Company does not typically identify individual loans within these groupings as impaired loans or for impairment evaluation and disclosure. The Company evaluates all TDRs for impairment on an individual loan basis regardless of loan type.

In the first quarter of 2011, management made refinements to its allowance for loan loss methodology to better incorporate the Company's internal risk ratings into its formula-based approach. This refinement did not have a significant effect on the first quarter loan loss provision or the total allowance for loan loss.

Earnings Per Common Share

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

| (In thousands, except per share data) | Three Months Ended March 31, | |
|--|---------------------------------|---------|
| | 2011 | 2010 |
| Net income | \$2,798 | \$3,336 |
| Average number of shares outstanding | 14,105 | 13,989 |
| Less: average number of unvested stock award shares | (162) | (160) |
| Average number of basic shares outstanding | 13,943 | 13,829 |
| Plus: average number of dilutive unvested stock award shares | 34 | 16 |
| Plus: average number of dilutive stock options | 4 | 13 |
| Average number of diluted shares outstanding | 13,981 | 13,858 |
| Basic earnings per share | \$0.20 | \$0.24 |
| Diluted earnings per share | \$0.20 | \$0.24 |

For the quarter ended March 31, 2011, 129 thousand shares of restricted stock and 141 thousand options were anti-dilutive and therefore excluded from the earnings per share calculations. For the quarter ended March 31, 2010, 144 thousand shares of restricted stock and 257 thousand options were anti-dilutive and therefore excluded from the earnings per share calculations.

Recent accounting pronouncements

FASB ASU No. 2010-20, "Receivables (Topic 310), Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses". In July 2010, the FASB issued ASU 2010-20 which requires an entity to provide disclosures that facilitate financial statement users' evaluation of (1) the nature of credit risk inherent in the entity's loan portfolio (2) how that risk is analyzed and assessed in arriving at the allowance for loan and lease losses and (3) the changes and reasons for those changes in the allowance for loan and lease losses. For public entities, the disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The adoption of this guidance resulted in significant additional loan disclosures included in Note 4.

FASB ASU No. 2010-29, "Business Combinations (Topic 805), Disclosure of Supplementary Pro Forma Information for Business Combinations". In December 2010, the FASB issued ASU 2010-29 which clarifies the presentation of pro forma information required for business combinations when a public company presents comparative financial information. The amendments in this guidance are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. The adoption of this guidance will require additional disclosures.

FASB ASU No. 2011-02, "A Creditor's Determination of Whether Restructuring Is a Troubled Debt Restructuring". In April 2011, the FASB issued ASU 2011-02 which clarifies when a loan modification or restructuring is considered a troubled debt restructuring. The guidance is effective for the first interim or annual period beginning on or after June 15, 2011, and is to be applied retrospectively to modifications occurring on or after the beginning of the annual period of adoption. The adoption of this guidance could result in additional loans being classified as troubled debt restructurings and will require additional loan disclosures.

2. TRADING ACCOUNT SECURITY

The Company holds a tax advantaged economic development bond that is being accounted for at fair value. The security had an amortized cost of \$14.4 million and \$14.6 million and a fair value of \$15.8 million and \$16.2 million at March 31, 2011 and December 31, 2010, respectively. As discussed further in Note 9-Derivative Financial Instruments and Hedging Activities, the Company has entered into a swap contract to swap-out the fixed rate of the security in exchange for a variable rate. The Company does not purchase securities with the intent of selling them in the near term, and there are no other securities in the trading portfolio at March 31, 2011.

3. SECURITIES AVAILABLE FOR SALE AND HELD TO MATURITY

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

| (In thousands) | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|--|-------------------|------------------------------|-------------------------------|------------|
| March 31, 2011 | | | | |
| Securities available for sale | | | | |
| Debt securities: | | | | |
| Municipal bonds and obligations | \$76,489 | \$1,451 | \$(177) | \$77,763 |
| Government guaranteed residential mortgage-backed securities | 18,987 | 233 | (10) | 19,210 |
| Government-sponsored residential mortgage-backed securities | 164,627 | 2,494 | (602) | 166,519 |
| Corporate bonds | 9,004 | 25 | (85) | 8,944 |
| Trust preferred securities | 22,192 | 678 | (2,260) | 20,610 |
| Other bonds and obligations | 386 | 2 | - | 388 |
| Total debt securities | 291,685 | 4,883 | (3,134) | 293,434 |
| Equity securities: | | | | |
| Marketable equity securities | 18,662 | 3,237 | - | 21,899 |
| Total securities available for sale | 310,347 | 8,120 | (3,134) | 315,333 |
| Securities held to maturity | | | | |
| Municipal bonds and obligations | 7,498 | - | - | 7,498 |
| Government-sponsored residential mortgage-backed securities | 82 | 4 | - | 86 |
| Tax advantaged economic development bonds | 48,625 | 1,170 | - | 49,795 |
| Other bonds and obligations | 423 | - | - | 423 |
| Total securities held to maturity | 56,628 | 1,174 | - | 57,802 |
| Total | \$366,975 | \$9,294 | \$(3,134) | \$373,135 |
| December 31, 2010 | | | | |
| Securities available for sale | | | | |
| Debt securities: | | | | |
| Municipal bonds and obligations | \$79,292 | \$1,008 | \$(394) | \$79,906 |
| Government guaranteed residential mortgage-backed securities | 25,801 | 370 | (7) | 26,164 |
| Government-sponsored residential mortgage-backed securities | 144,493 | 2,806 | (580) | 146,719 |
| Corporate bonds | 18,307 | 73 | (90) | 18,290 |
| Trust preferred securities | 22,222 | 316 | (2,683) | 19,855 |
| Other bonds and obligations | 402 | 2 | (1) | 403 |
| Total debt securities | 290,517 | 4,575 | (3,755) | 291,337 |
| Equity securities: | | | | |
| Marketable equity securities | 15,756 | 3,217 | (68) | 18,905 |
| Total securities available for sale | 306,273 | 7,792 | (3,823) | 310,242 |

Securities held to maturity

| | | | | |
|---|-----------|---------|------------|-----------|
| Municipal bonds and obligations | 7,069 | - | - | 7,069 |
| Government-sponsored residential mortgage-backed securities | 83 | 3 | - | 86 |
| Tax advantaged economic development bonds | 48,861 | 1,155 | - | 50,016 |
| Other bonds and obligations | 423 | - | - | 423 |
| Total securities held to maturity | 56,436 | 1,158 | - | 57,594 |
| Total | \$362,709 | \$8,950 | \$(3,823) | \$367,836 |

The amortized cost and estimated fair value of available for sale (“AFS”) and held to maturity (“HTM”) securities, segregated by contractual maturity at March 31, 2011 are presented below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations. Mortgage-backed securities are shown in total, as their maturities are highly variable. Equity securities have no maturity and are also shown in total.

| (In thousands) | Available for sale | | Held to maturity | |
|--|--------------------|------------|------------------|------------|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| Within 1 year | \$5,756 | \$5,782 | \$4,602 | \$4,602 |
| Over 1 year to 5 years | 2,995 | 2,910 | 1,702 | 1,702 |
| Over 5 years to 10 years | 21,098 | 21,429 | 30,665 | 31,375 |
| Over 10 years | 78,222 | 77,584 | 19,577 | 20,037 |
| Total bonds and obligations | 108,071 | 107,705 | 56,546 | 57,716 |
| Marketable equity securities | 18,662 | 21,899 | - | - |
| Residential mortgage-backed securities | 183,614 | 185,729 | 82 | 86 |
| Total | \$310,347 | \$315,333 | \$56,628 | \$57,802 |

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

| (In thousands) | Less Than Twelve Months | | Over Twelve Months | | Total | |
|--|-------------------------|------------|-------------------------|------------|-------------------------|------------|
| | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value |
| March 31, 2011 | | | | | | |
| Securities available for sale | | | | | | |
| Debt securities: | | | | | | |
| Municipal bonds and obligations | \$ 111 | \$ 8,288 | \$ 66 | \$ 2,902 | \$ 177 | \$ 11,190 |
| Government guaranteed residential mortgage-backed securities | 10 | 4,955 | - | - | 10 | 4,955 |
| Government-sponsored residential mortgage-backed securities | 600 | 53,418 | 2 | 2,890 | 602 | 56,308 |
| Corporate bonds | - | - | 85 | 2,910 | 85 | 2,910 |
| Trust preferred securities | - | - | 2,260 | 3,382 | 2,260 | 3,382 |
| Other bonds and obligations | - | - | - | 304 | - | 304 |
| Total debt securities | 721 | 66,661 | 2,413 | 12,388 | 3,134 | 79,049 |
| Marketable equity securities | - | - | - | - | - | - |
| Total securities available for sale | \$ 721 | \$ 66,661 | \$ 2,413 | \$ 12,388 | \$ 3,134 | \$ 79,049 |

December 31, 2010

Securities available for sale

| | | | | | | |
|--|--------|-----------|----------|-----------|----------|-----------|
| Debt securities: | | | | | | |
| Municipal bonds and obligations | \$ 335 | \$ 15,630 | \$ 59 | \$ 1,195 | \$ 394 | \$ 16,825 |
| Government guaranteed residential mortgage-backed securities | 7 | 5,125 | - | - | 7 | 5,125 |
| Government-sponsored residential mortgage-backed securities | 580 | 54,056 | - | - | 580 | 54,056 |
| Corporate bonds | 15 | 1,985 | 75 | 2,920 | 90 | 4,905 |
| Trust preferred securities | 5 | 2,041 | 2,678 | 4,529 | 2,683 | 6,570 |
| Other bonds and obligations | - | - | 1 | 309 | 1 | 309 |
| Total debt securities | 942 | 78,837 | 2,813 | 8,953 | 3,755 | 87,790 |
| Marketable equity securities | - | - | 68 | 1,432 | 68 | 1,432 |
| Total securities available for sale | \$ 942 | \$ 78,837 | \$ 2,881 | \$ 10,385 | \$ 3,823 | \$ 89,222 |

Debt Securities

The Company expects to recover its amortized cost basis on all debt securities in its AFS and HTM portfolios. Furthermore, the Company does not intend to sell nor does it anticipate that it will be required to sell any of its securities in an unrealized loss position as of March 31, 2011, 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 historical low portfolio sales. 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 portfolio were not other-than-temporarily impaired at March 31, 2011:

AFS municipal bonds and obligations

At March 31, 2011, 16 out of a total of 134 securities in the Company's portfolio of AFS municipal bonds and obligations were in unrealized loss positions. Aggregate unrealized losses represented 2% of the amortized cost of securities in unrealized loss positions. The securities are all investment grade rated, all insured except for one AAA bond, and all general obligation or water and sewer revenue bonds. The Company continually monitors the municipal bond sector of the market carefully and periodically evaluates the appropriate level of exposure to have to the market. At this time, the Company feels that the bonds in this portfolio carry minimal risk of default and that we are appropriately compensated for that risk. There were no material underlying credit downgrades during 2011. All securities are performing.

AFS residential mortgage-backed securities

At March 31, 2011, 15 out of a total of 110 securities in the Company's portfolio of AFS residential mortgage-backed securities were in unrealized loss positions. Aggregate unrealized losses represented less than 1% 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") guarantees the contractual cash flows of the Company's AFS residential mortgage-backed securities. The securities are investment grade rated and there were no material underlying credit downgrades during 2011. All securities are performing.

AFS corporate bonds

At March 31, 2011, 1 out of a total of 4 securities in the Company's portfolio of AFS corporate bonds was in an unrealized loss position. The aggregate unrealized loss represents 3% of the amortized cost. The security is investment grade rated, and there were no material underlying credit downgrades during 2011. The security is performing.

AFS trust preferred securities

At March 31, 2011, 3 out of 7 securities in the Company's portfolio of AFS trust preferred securities were in unrealized loss positions. Aggregate unrealized losses represented 40% of the amortized cost of securities in unrealized loss positions. The Company's evaluation of the present value of expected cash flows on these securities supports its conclusions about the recoverability of the securities' amortized cost basis. Except for the security discussed below, the aggregate unrealized loss on the other securities in unrealized loss positions represented less than 8% of their amortized cost.

At March 31, 2011, \$2.0 million of the total unrealized losses was attributable to a \$2.6 million investment in a Mezzanine Class B tranche of a \$360 million pooled trust preferred security issued by banking and insurance entities. The Company evaluated the security, with a Level 3 fair value of \$0.6 million, for potential other-than-temporary impairment ("OTTI") at March 31, 2011 and determined that OTTI was not evident based on both

the Company's more likely than not ability to hold the security until the recovery of its remaining amortized cost and the protection from credit loss afforded by \$37 million in excess subordination above current and projected losses.

AFS other bonds and obligations

At March 31, 2011, 4 out of a total of 7 securities in the Company's portfolio of other bonds and obligations were in unrealized loss positions. Aggregate unrealized losses represented less than 1% of the amortized cost of the securities in unrealized loss positions. The securities are investment grade rated and there were no material underlying credit downgrades during 2011. All securities are performing.

Marketable Equity Securities

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

At March 31, 2011, none of the 18 securities in the Company's portfolio of marketable equity securities was in an unrealized loss position.

4. LOANS

Loans consist of the following:

| (In thousands) | March 31, 2011 | December 31, 2010 |
|--|---------------------|---------------------|
| Residential mortgages | | |
| 1-4 family | \$ 629,302 | \$ 619,969 |
| Construction | 26,299 | 25,004 |
| Total residential mortgages | 655,601 | 644,973 |
| Commercial mortgages: | | |
| Construction | 107,931 | 126,824 |
| Single and multifamily | 88,393 | 86,925 |
| Commercial real estate | 727,987 | 711,824 |
| Total commercial mortgages | 924,311 | 925,573 |
| Commercial business loans | | |
| Asset based lending | 112,560 | 98,239 |
| Other commercial business loans | 175,815 | 187,848 |
| Total commercial business loans | 288,375 | 286,087 |
| Total commercial loans | 1,212,686 | 1,211,660 |
| Consumer loans: | | |
| Home equity | 225,857 | 226,458 |
| Other | 51,158 | 59,071 |
| Total consumer loans | 277,015 | 285,529 |
| Total loans | \$ 2,145,302 | \$ 2,142,162 |

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The following is a summary of past due loans at March 31, 2011 and December 31, 2010:

| (in thousands) | 30-59 Days Past Due | 60-89 Days Past Due | Greater Than 90 Days Past Due | Total Past Due | Current | Total Loans | Past Due > 90 days and Accruing |
|-----------------------------------|---------------------------|---------------------------|--|-------------------|---------------------|---------------------|---|
| March 31, 2011 | | | | | | | |
| Residential mortgages: | | | | | | | |
| 1-4 family | \$ 1,763 | \$ 208 | \$ 3,368 | \$ 5,339 | \$ 623,963 | \$ 629,302 | \$ 1,971 |
| Construction | - | - | 132 | 132 | 26,167 | 26,299 | - |
| Total | 1,763 | 208 | 3,500 | 5,471 | 650,130 | 655,601 | 1,971 |
| Commercial mortgages: | | | | | | | |
| Construction | 1,595 | - | 3,237 | 4,832 | 103,099 | 107,931 | - |
| Single and multi-family | 133 | 196 | 770 | 1,099 | 87,294 | 88,393 | 88 |
| Commercial real estate | 1,428 | 5,981 | 5,710 | 13,119 | 714,868 | 727,987 | 119 |
| Total | 3,156 | 6,177 | 9,717 | 19,050 | 905,261 | 924,311 | 207 |
| Commercial business loans - other | | | | | | | |
| | 334 | 353 | 1,508 | 2,195 | 286,180 | 288,375 | 1 |
| Consumer loans: | | | | | | | |
| Home equity | 200 | 19 | 716 | 935 | 224,922 | 225,857 | 5 |
| Other | 419 | 52 | 216 | 687 | 50,471 | 51,158 | 164 |
| Total | 619 | 71 | 932 | 1,622 | 275,393 | 277,015 | 169 |
| Total | \$ 5,872 | \$ 6,809 | \$ 15,657 | \$ 28,338 | \$ 2,116,964 | \$ 2,145,302 | \$ 2,348 |
| | | | | | | | |
| (in thousands) | 30-59 Days Past Due | 60-89 Days Past Due | Greater Than 90 Days Past Due | Total Past Due | Current | Total Loans | Past Due > 90 days and Accruing |
| December 31, 2010 | | | | | | | |
| Residential mortgages: | | | | | | | |
| 1-4 family | \$ 2,103 | \$ 1,598 | \$ 1,936 | \$ 5,637 | \$ 614,332 | \$ 619,969 | \$ - |
| Construction | - | 104 | 237 | 341 | 24,663 | 25,004 | - |
| Total | 2,103 | 1,702 | 2,173 | 5,978 | 638,995 | 644,973 | - |
| Commercial mortgages: | | | | | | | |
| Construction | - | - | 1,962 | 1,962 | 124,862 | 126,824 | - |
| Single and multi-family | - | - | 1,514 | 1,514 | 85,411 | 86,925 | 88 |
| Commercial real estate | 389 | 74 | 6,442 | 6,905 | 704,919 | 711,824 | 342 |
| Total | 389 | 74 | 9,918 | 10,381 | 915,192 | 925,573 | 430 |
| Commercial business loans - other | | | | | | | |
| | 111 | 128 | 1,617 | 1,856 | 284,231 | 286,087 | 312 |
| Consumer loans: | | | | | | | |
| Home equity | 119 | 20 | 856 | 995 | 225,463 | 226,458 | 147 |
| Other | 780 | 245 | 202 | 1,227 | 57,844 | 59,071 | 165 |

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| | | | | | | | |
|-------|----------|----------|-----------|-----------|--------------|--------------|----------|
| Total | 899 | 265 | 1,058 | 2,222 | 283,307 | 285,529 | 312 |
| Total | \$ 3,502 | \$ 2,169 | \$ 14,766 | \$ 20,437 | \$ 2,121,725 | \$ 2,142,162 | \$ 1,054 |

15

Activity in the allowance for loan losses for the three months ended March 31, 2011 and 2010 was as follows:

| (In thousands) | Residential mortgages | Commercial mortgages | Commercial business | Consumer | Unallocated | Total |
|---|-----------------------|----------------------|---------------------|----------|-------------|-----------|
| Balance at December 31, 2010 | \$ 3,077 | \$ 19,461 | \$ 6,038 | \$ 2,099 | \$ 1,223 | \$ 31,898 |
| Charged-off loans | 234 | 971 | 237 | 316 | - | 1,758 |
| Recoveries on charged-off loans | 110 | 8 | 15 | 25 | - | 158 |
| Provision for loan losses | (159) | 4,435 | (1,742) | 115 | (1,049) | 1,600 |
| Balance at March 31, 2011 | 2,794 | 22,933 | 4,074 | 1,923 | 174 | 31,898 |
| Ending balance: individually evaluated for impairment | 181 | 2,004 | 365 | - | - | 2,550 |
| Ending balance: collectively evaluated for impairment | \$ 2,613 | \$ 20,929 | \$ 3,709 | \$ 1,923 | \$ 174 | \$ 29,348 |

| (In thousands) | Total |
|---------------------------------|----------|
| Balance at December 31, 2009 | \$31,816 |
| Charged-off loans | (3,846) |
| Recoveries on charged-off loans | 1,533 |
| Net loans charged-off | (2,313) |
| Provision for loan losses | 2,326 |
| Balance at March 31, 2010 | \$31,829 |

The following is a summary of impaired loans at March 31, 2011 and for the three months then ended:

| (In thousands) | At March 31, 2011 | | | Three Months Ended March 31, 2011 | |
|---|---------------------|--------------------------|-------------------|-----------------------------------|---------------------------------------|
| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Cash Basis Interest Income Recognized |
| With no related allowance: | | | | | |
| Residential mortgages - 1-4 family | \$506 | \$ 506 | \$ - | \$ 304 | \$ 8 |
| Residential mortgages - construction | 85 | 85 | - | 57 | - |
| Commercial-construction | 189 | 189 | - | 189 | - |
| Commercial mortgages - single and multifamily | 290 | 290 | - | 214 | 1 |
| Commercial mortgages - real estate | 7,638 | 7,638 | - | 7,895 | 97 |
| Commercial business loans | 25 | 25 | - | 75 | 1 |
| Consumer-home equity | 393 | 393 | - | 394 | 2 |
| With an allowance recorded: | | | | | |
| Residential mortgages - 1-4 family | \$356 | \$ 537 | \$ 181 | \$ 847 | \$ 10 |
| Residential mortgages - construction | - | - | - | 64 | - |
| Commercial business loans | 61 | 426 | 365 | 216 | 1 |
| Commercial-construction | 2,311 | 3,011 | 700 | 1,658 | - |
| Commercial mortgages - single and multifamily | 295 | 353 | 58 | 921 | 8 |
| Commercial mortgages - real estate | 1,625 | 2,871 | 1,246 | 2,954 | 10 |

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Total

| | | | | | |
|---------------------------|----------|-----------|----------|-----------|--------|
| Residential mortgages | \$947 | \$ 1,128 | \$ 181 | \$ 1,272 | \$ 18 |
| Commercial mortgages | 12,348 | 14,352 | 2,004 | 13,831 | 116 |
| Commercial business loans | 86 | 451 | 365 | 291 | 2 |
| Consumer loans | 393 | 393 | - | 394 | 2 |
| Total impaired loans | \$13,774 | \$ 16,324 | \$ 2,550 | \$ 15,788 | \$ 138 |

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The following is a summary of impaired loans at December 31, 2010:

| (In thousands) | At December 31, 2010 | | |
|---|----------------------|--------------------------|-------------------|
| | Recorded Investment | Unpaid Principal Balance | Related Allowance |
| With no related allowance: | | | |
| Residential mortgages - 1-4 family | \$201 | \$ 201 | \$ - |
| Residential mortgages – construction | - | - | - |
| Commercial business - other | 8,596 | 8,596 | - |
| Consumer - home equity | 397 | 397 | - |
| With an allowance recorded: | | | |
| Residential mortgages - 1-4 family | \$973 | \$ 1,206 | \$ 233 |
| Residential mortgages - construction | 178 | 191 | 13 |
| Commercial mortgages - construction | 1,432 | 1,735 | 303 |
| Commercial mortgages - single and multifamily | 772 | 1,211 | 439 |
| Commercial mortgages - real estate | 1,594 | 3,003 | 1,409 |
| Commercial business - other | 10 | 102 | 92 |
| Total | | | |
| Residential mortgages | \$1,352 | \$ 1,598 | \$ 246 |
| Commercial mortgages | 3,798 | 5,949 | 2,151 |
| Commercial business | 8,606 | 8,698 | 92 |
| Consumer | 397 | 397 | - |
| Total impaired loans | \$14,153 | \$ 16,642 | \$ 2,489 |

The following is summary information pertaining to non-accrual loans March 31, 2011 and December 31, 2010:

| (In thousands) | March 31, 2011 | December 31, 2010 |
|-----------------------------------|------------------|-------------------|
| Residential mortgages: | | |
| 1-4 family | \$ 1,397 | \$ 1,936 |
| Construction | 132 | 237 |
| Total | 1,529 | 2,173 |
| Commercial mortgages: | | |
| Construction | 3,237 | 1,962 |
| Single and multi-family | 682 | 1,426 |
| Other | 5,591 | 6,100 |
| Total | 9,510 | 9,488 |
| Commercial business loans - other | 1,507 | 1,305 |
| Consumer loans: | | |
| Home equity | 711 | 709 |
| Other | 52 | 37 |
| Total | 763 | 746 |
| Total non-accrual loans | \$ 13,309 | \$ 13,712 |

Credit Quality Information

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

1 Substantially Risk Free

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

2 Minimal Risk

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

3 Moderate Risk

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

4 Better than Average Risk

A relationship which possesses most of the characteristics found in the Moderate Risk category and range from definitely sound to those with minor risk characteristics. Borrowers in this category operate in a reasonably stable industry that may be moderately affected by a business cycle. These loans have a satisfactory track record and are performing as agreed.

5 Average Risk

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

6 Acceptable Risk

Borrowers in this category may be more highly leveraged than their industry peers and experience moderate losses relative to net worth. Trends and performance i.e. sales and earnings, leverage, etc. may be negative. Management's ability may be questionable, or perhaps untested. The industry may be experiencing either temporary or long term pressures. Collateral values are seen as more important in assessing risk for these loans than in higher quality loans. In some cases borrowers have failed to meet required line clean-up periods or other terms and conditions such as timely payments.

7 Special Mention

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

8

Substandard – Performing

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

9

Substandard – Non-Performing

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

10

Doubtful

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

11

Loss

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

100

Small Business Express

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

The Company risk rates its residential mortgages, including 1-4 family and residential construction loans, based on a three rating system: Pass, Special Mention and Substandard. Loans that are current within 59 days are rated Pass. Residential mortgages that are 60-89 days delinquent are rated Special Mention. Loans delinquent for 90 days or greater are rated Substandard and generally placed on non-accrual status unless well secured when they would be transferred to non-accrual status at 120 days past due. Home equity loans are risk rated based on the same rating system as the Company's residential mortgages.

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

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The following table presents the Company's loans by risk rating at March 31, 2011 and December 31, 2010:

Residential Mortgages

Credit Risk Profile by Internally Assigned Grade

| (In thousands) | 1-4 family | | Construction | | Total residential mortgages | |
|-----------------|-------------------|-------------------|------------------|------------------|-----------------------------|-------------------|
| | Mar. 31, 2011 | Dec. 31, 2010 | Mar. 31, 2011 | Dec. 31, 2010 | Mar. 31, 2011 | Dec. 31, 2010 |
| Grade: | | | | | | |
| Pass | \$ 625,781 | \$ 616,435 | \$ 26,167 | \$ 24,663 | \$ 651,948 | \$ 641,098 |
| Special mention | 208 | 1,598 | - | 104 | 208 | 1,702 |
| Substandard | 3,313 | 1,936 | 132 | 237 | 3,445 | 2,173 |
| Total | \$ 629,302 | \$ 619,969 | \$ 26,299 | \$ 25,004 | \$ 655,601 | \$ 644,973 |

Commercial Mortgages

Credit Risk Profile by Creditworthiness Category

| (In thousands) | Construction | | Single and multi-family | | Real estate | | Total commercial mortgages | |
|-----------------|-------------------|-------------------|-------------------------|------------------|-------------------|-------------------|----------------------------|-------------------|
| | Mar. 31, 2011 | Dec. 31, 2010 | Mar. 31, 2011 | Dec. 31, 2010 | Mar. 31, 2011 | Dec. 31, 2010 | Mar. 31, 2011 | Dec. 31, 2010 |
| Grade: | | | | | | | | |
| Pass | \$80,118 | \$ 100,737 | \$84,255 | \$ 82,017 | \$639,663 | \$ 626,571 | \$ 804,036 | \$ 809,325 |
| Special mention | 9,570 | 10,803 | 374 | 381 | 25,408 | 27,377 | 35,352 | 38,561 |
| Substandard | 18,054 | 15,095 | 3,764 | 4,527 | 62,792 | 57,752 | 84,610 | 77,374 |
| Doubtful | 189 | 189 | - | - | 124 | 124 | 313 | 313 |
| Loss | - | - | - | - | - | - | - | - |
| Total | \$ 107,931 | \$ 126,824 | \$ 88,393 | \$ 86,925 | \$ 727,987 | \$ 711,824 | \$ 924,311 | \$ 925,573 |

Commercial Business Loans

Credit Risk Profile by Creditworthiness Category

| (In thousands) | Asset based lending | | Other | | Total commercial business loans | |
|-----------------|---------------------|------------------|-------------------|-------------------|---------------------------------|-------------------|
| | Mar. 31, 2011 | Dec. 31, 2010 | Mar. 31, 2011 | Dec. 31, 2010 | Mar. 31, 2011 | Dec. 31, 2010 |
| Grade: | | | | | | |
| Pass | \$ 112,560 | \$ 98,239 | \$ 166,768 | \$ 180,321 | \$ 279,328 | \$ 278,560 |
| Special mention | - | - | 1,627 | 1,281 | 1,627 | 1,281 |
| Substandard | - | - | 7,420 | 6,164 | 7,420 | 6,164 |
| Doubtful | - | - | - | 82 | - | 82 |
| Loss | - | - | - | - | - | - |
| Total | \$ 112,560 | \$ 98,239 | \$ 175,815 | \$ 187,848 | \$ 288,375 | \$ 286,087 |

Consumer Loans

Credit Risk Profile Based on Payment Activity

| (In thousands) | Home equity | | Other | | Total consumer loans | |
|-------------------|-------------------|-------------------|------------------|------------------|----------------------|-------------------|
| | Mar. 31, 2011 | Dec. 31, 2010 | Mar. 31, 2011 | Dec. 31, 2010 | Mar. 31, 2011 | Dec. 31, 2010 |
| Performing | \$ 225,146 | \$ 225,749 | \$ 51,106 | \$ 59,034 | \$ 276,252 | \$ 284,783 |

| | | | | | | |
|---------------|------------|------------|-----------|-----------|------------|------------|
| Nonperforming | 711 | 709 | 52 | 37 | 763 | 746 |
| Total | \$ 225,857 | \$ 226,458 | \$ 51,158 | \$ 59,071 | \$ 277,015 | \$ 285,529 |

5. DEPOSITS

A summary of time deposits is as follows:

| (In thousands) | March 31, 2011 | December 31, 2010 |
|--------------------------|----------------|-------------------|
| Time less than \$100,000 | \$ 368,828 | \$ 368,770 |
| Time \$100,000 or more | 371,367 | 372,354 |
| Total time deposits | \$ 740,195 | \$ 741,124 |

6. STOCKHOLDERS' EQUITY

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

| | March 31, 2011 | | December 31, 2010 | | FDIC Minimum to be Well Capitalized | |
|--|----------------|---|-------------------|---|--|---|
| | | % | | % | | % |
| Total capital to risk weighted assets | 10.9 | % | 10.6 | % | 10.0 | % |
| Tier 1 capital to risk weighted assets | 9.6 | | 9.3 | | 6.0 | |
| Tier 1 capital to average assets | 8.1 | | 8.0 | | 5.0 | |

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

7. STOCK-BASED COMPENSATION PLANS

A combined summary of activity in the Company's stock award and stock option plans for the three months ended March 31, 2011 is presented in the following table:

| (Shares in thousands) | Non-vested Stock Awards Outstanding | | Stock Options Outstanding | |
|---------------------------------|--|--|---------------------------|---|
| | Number of Shares | Weighted- Average Grant Date Fair Value | Number of Shares | Weighted- Average Exercise Price |
| Balance as of December 31, 2010 | 171 | \$18.42 | 152 | \$24.41 |
| Granted | 55 | 21.22 | - | - |
| Stock options exercised | - | - | (12) | 16.75 |
| Stock awards vested | (59) | 19.54 | - | - |
| Forfeited | (8) | 21.57 | - | - |
| Balance as of March 31, 2011 | 159 | \$18.82 | 140 | \$25.09 |

During the three months ended March 31, 2011, proceeds from stock option exercises totaled \$406 thousand. There were no stock options exercised during the three months ended March 31, 2010. During the three months ended March 31, 2011, there were 59 thousand shares issued in connection with vested stock awards. During the three months ended March 31, 2010, there were 42 thousand shares issued in connection with vested stock awards. All of these shares were issued from available treasury stock. Stock-based compensation expense totaled \$318 thousand and \$410 thousand during the three months ended March 31, 2011 and 2010, respectively. Stock-based compensation expense is recognized ratably over the requisite service period for all awards.

8. OPERATING SEGMENTS

The Company has two reportable operating segments, Banking and Insurance, which are delineated by the

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

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

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

| (In thousands) | Banking | Insurance | Parent | Eliminations | Total Consolidated |
|--|----------|-----------|---------|--------------|--------------------|
| Three months ended March 31, 2011 | | | | | |
| Net interest income (expense) | \$20,353 | \$- | \$(207) | \$- | \$ 20,146 |
| Provision for loan losses | 1,600 | - | - | - | 1,600 |
| Non-interest income | 4,772 | 3,730 | 4,089 | (4,089) | 8,502 |
| Non-interest expense | 18,951 | 2,256 | 1,981 | 1 | 23,189 |
| Income (loss) before income taxes | 4,574 | 1,474 | 1,901 | (4,090) | 3,859 |
| Income tax expense (benefit) | 1,354 | 605 | (897) | (1) | 1,061 |
| Net income | \$3,220 | \$869 | \$2,798 | \$(4,089) | \$ 2,798 |
| Average assets (in millions) | | | | | |
| | \$2,838 | \$33 | \$355 | \$(350) | \$ 2,876 |
| Three months ended March 31, 2010 | | | | | |
| Net interest income (expense) | \$18,510 | \$- | \$(213) | \$- | \$ 18,297 |
| Provision for loan losses | 2,326 | - | - | - | 2,326 |
| Non-interest income | 5,013 | 3,485 | 3,649 | (3,649) | 8,498 |
| Non-interest expense | 17,570 | 2,309 | 314 | (1) | 20,192 |
| Income (loss) before income taxes | 3,627 | 1,176 | 3,122 | (3,648) | 4,277 |
| Income tax expense (benefit) | 673 | 483 | (215) | - | 941 |
| Net income | \$2,954 | \$693 | \$3,337 | \$(3,648) | \$ 3,336 |
| Average assets (in millions) | | | | | |
| | \$2,632 | \$31 | \$364 | \$(350) | \$ 2,677 |

9. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

As of March 31, 2011, the Company held derivatives with a total notional amount of \$471 million. Of this total, interest rate swaps with a combined notional amount of \$160 million were designated as cash flow hedges and \$299 million have been designated as economic hedges. The remaining \$12 million notional amount represents commitments to originate residential mortgage loans for sale and commitments to sell residential mortgage loans, which are also accounted for as derivative financial instruments. At March 31, 2011, no derivatives were designated as hedges of net investments in foreign operations. Additionally, the Company does not use derivatives for trading or speculative purposes.

As part of the Company's risk management strategy, the Company enters into interest rate swap agreements to mitigate the interest rate risk inherent in certain of the Company's assets and liabilities. Interest rate swap agreements involve the risk of dealing with both Bank customers and institutional derivative counterparties and their ability to meet contractual terms. The agreements are entered into with counterparties that meet established credit standards and contain master netting and collateral provisions protecting the at-risk party. The derivatives program is overseen by the Risk Management Committee of the Company's Board of Directors. Based on adherence to the Company's credit standards and the presence of the netting and collateral provisions, the Company believes that the credit risk inherent

in these contracts was not significant at March 31, 2011.

The Company pledged collateral to derivative counterparties in the form of cash totaling \$5.6 million and securities with an amortized cost of \$28.3 million and a fair value of \$28.9 million as of March 31, 2011. The Company does not typically require its Commercial customers to post cash or securities collateral on its program of back-to-back economic hedges, however certain language is written into the ISDA and loan documents where, in default situations, the Bank is allowed to access collateral supporting the loan relationship to recover any losses suffered on the derivative asset or liability. The Company may need to post additional collateral in the future in proportion to potential increases in unrealized loss positions.

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

| | Notional Amount (In thousands) | Weighted Average Maturity (In years) | Weighted Average Rate Received | Weighted Average Rate Paid | Estimated Fair Value Asset (Liability) (In thousands) |
|---|--------------------------------------|---|-----------------------------------|-------------------------------|--|
| Cash flow hedges: | | | | | |
| Interest rate swaps on FHLBB borrowings | \$ 105,000 | 2.4 | 0.31 % | 4.00 % | \$ (6,656) |
| Forward-starting Interest rate swaps on FHLBB borrowings | 40,000 | 2.5 | - | 3.13 | (421) |
| Interest rate swaps on junior subordinated debentures | 15,000 | 3.1 | 2.16 | 5.54 | (988) |
| Total cash flow hedges | 160,000 | | | | (8,065) |
| Economic hedges: | | | | | |
| Interest rate swap on industrial revenue bond | \$ 14,443 | 18.7 | 0.61 | 5.09 | \$ (1,467) |
| Interest rate swaps on loans with commercial loan customers | 142,221 | 6.4 | 2.83 | 6.03 | (5,803) |
| Reverse interest rate swaps on loans with commercial loan customers | 142,221 | 6.4 | 6.03 | 2.83 | 5,870 |
| Total economic hedges | 298,885 | | | | (1,400) |
| Non-hedging derivatives: | | | | | |
| Commitments to originate residential mortgage loans to be sold | 6,171 | 0.2 | | | (39) |
| Commitments to sell residential mortgage loans | 6,171 | 0.2 | | | 26 |
| Total non-hedging derivatives | 12,342 | | | | (13) |
| Total | \$ 471,227 | | | | \$ (9,478) |

Information about interest rate swap agreements and non-hedging derivative assets and liabilities at December 31, 2010, follows:

| | Notional Amount | Weighted Average Maturity | Weighted Average Rate Received | Weighted Average Rate Paid | Estimated Fair Value Asset (Liability) |
|--|--------------------|---------------------------------|-----------------------------------|-------------------------------|---|
|--|--------------------|---------------------------------|-----------------------------------|-------------------------------|---|

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| | (In thousands) | (In years) | | | (In thousands) |
|---|-------------------|------------|--------|--------|---------------------|
| Cash flow hedges: | | | | | |
| Interest rate swaps on FHLBB borrowings | \$ 105,000 | 2.7 | 0.29 % | 4.00 % | \$ (7,696) |
| Forward-starting interest rate swaps on FHLBB borrowings | 40,000 | 2.8 | - | 3.13 | (468) |
| Interest rate swaps on junior subordinated debentures | 15,000 | 3.4 | 2.13 | 5.54 | (1,142) |
| Total cash flow hedges | 160,000 | | | | (9,306) |
| Economic hedges: | | | | | |
| Interest rate swap on tax advantaged economic development bond | 14,559 | 18.9 | 0.63 | 5.09 | (1,757) |
| Interest rate swaps on loans with commercial loan customers | 137,295 | 6.5 | 2.93 | 6.04 | (7,374) |
| Reverse interest rate swaps on loans with commercial loan customers | 137,295 | 6.5 | 6.04 | 2.93 | 7,406 |
| Total economic hedges | 289,149 | | | | (1,725) |
| Non-hedging derivatives: | | | | | |
| Commitments to originate residential mortgage loans | 13,172 | 0.2 | | | (280) |
| Commitments to sell residential mortgage loans | 13,172 | 0.2 | | | 267 |
| Total non-hedging derivatives | 26,344 | | | | (13) |
| Total | \$ 475,493 | | | | \$ (11,044) |

Cash flow hedges

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

The Company has entered into several interest rate swaps with an aggregate notional amount of \$105 million to convert the LIBOR based floating interest rates on a \$105 million portfolio of FHLBB advances to fixed rates, with the objective of fixing the Company's monthly interest expense on these borrowings. In the third quarter of 2010, the Company terminated \$40 million notional amount of interest rate swaps that were used to convert floating based FHLBB advances to a fixed rate. The Company has retained the floating rate advances and fully anticipates holding these advances until maturity. Net gains and losses for terminated cash flow hedges remain in accumulated other comprehensive income and are amortized into earnings in the same period or periods during which the originally hedged forecasted transaction affects earnings. Management's decision to terminate the swaps was based on its assessment that these hedges were no longer needed to execute management's balance sheet management strategy.

The Company has also entered into four forward-starting interest rate swaps each with a notional value of \$10 million. Two of these swaps take effect in April 2012 and the other two take effect in April 2013. All swaps have a one year duration. This hedge strategy converts the LIBOR based rate of interest on certain FHLB advances to fixed interest rates, thereby protecting the Company from floating interest rate variability.

The Company has entered into an interest rate swap with a notional value of \$15 million to convert the floating rate of interest on its junior subordinated debentures to a fixed rate of interest. The purpose of the hedge was to protect the Company from the risk of variability arising from the floating rate interest on the debentures.

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

| (In thousands) | Three Months Ended March 31, | |
|--|------------------------------|-------------|
| | 2011 | 2010 |
| Interest rate swaps on FHLBB borrowings: | | |
| Unrealized gain (loss) recognized in accumulated other comprehensive loss | \$ 1,099 | \$ (1,361) |
| Reclassification of realized gain from accumulated other comprehensive loss to other non-interest income for termination of swaps | 235 | - |
| Reclassification of unrealized loss from accumulated other comprehensive loss to other non-interest income for hedge ineffectiveness | 10 | - |
| Net tax (expense) benefit on items recognized in accumulated other comprehensive loss | (451) | 615 |
| Reclassification of unrealized deferred tax benefit from accumulated other comprehensive loss to tax expense for terminated swaps | (98) | - |

Interest rate swaps on junior subordinated debentures:

| | | |
|---|----------|-----------|
| Unrealized gain (loss) recognized in accumulated other comprehensive loss | 154 | (148) |
| Net tax (expense) benefit on items recognized in accumulated other comprehensive loss | (64) | 67 |
| Other comprehensive income (loss) recorded in accumulated other comprehensive loss, net of reclassification adjustments and tax effects | \$ 885 | \$ (827) |
| Net interest expense recognized in interest expense on hedged FHLBB borrowings | \$ 1,206 | \$ 1,412 |
| Net interest expense recognized in interest expense on junior subordinated debentures | \$ 127 | \$ 128 |

The Company's accumulated other comprehensive loss totaled \$4.9 million at March 31, 2011. Of this loss, \$13.8 million was attributable to accumulated losses on cash flow hedges, net of deferred tax benefits of \$5.7 million, and \$5.0 million was attributable to accumulated gains on available-for-sale securities, net of deferred tax expenses of \$1.8 million.

The Company's accumulated other comprehensive loss totaled \$6.4 million at December 31, 2010. Of this loss, \$15.3 million was attributable to accumulated losses on cash flow hedges, net of deferred tax benefits of \$6.4 million, and \$4.0 million was attributable to accumulated gains on available-for-sale securities, net of deferred tax expenses of \$1.5 million.

Hedge ineffectiveness on interest rate swaps designated as cash flow hedges was immaterial to the Company's financial statements during the three months ended March 31, 2011 and 2010. The Company does not anticipate material events or transactions within the next twelve months that are likely to result in a reclassification of unrealized gains or losses from accumulated other comprehensive loss to earnings.

Amounts reported in accumulated other comprehensive loss related to derivatives will be reclassified to interest expense as interest payments are made on the Company's variable-rate liabilities. During the next twelve months, the Company estimates that \$5.2 million will be reclassified as an increase to interest expense.

Economic hedges and non-hedging derivatives

The Company has an interest rate swap with a \$14.4 million notional amount to swap out the fixed rate of interest on an economic development bond bearing a fixed rate of 5.09%, currently within the Company's trading portfolio under the fair value option, in exchange for a LIBOR-based floating rate. The intent of the economic hedge is to improve the Company's asset sensitivity to changing interest rates in anticipation of favorable average floating rates of interest over the 21-year life of the bond. The fair value changes of the economic development bond are mostly offset by fair value changes of the related interest rate swap.

The Company also offers certain derivative products directly to qualified commercial borrowers. The Company economically hedges derivative transactions executed with commercial borrowers by entering into mirror-image, offsetting derivatives with third-party financial institutions. The transaction allows the Company's customer to convert a variable-rate loan to a fixed rate loan. Because the Company acts as an intermediary for its customer, changes in the fair value of the underlying derivative contracts mostly offset each other in earnings. Credit valuation adjustments arising from the difference in credit worthiness of the commercial loan and financial institution counterparties totaled \$73 thousand as of March 31, 2011 and were not material to the financial statements. The interest income and expense on these mirror image swaps exactly offset each other.

The Company enters into commitments with certain of its retail customers to originate fixed rate mortgage loans and simultaneously enters into an agreement to sell these fixed rate mortgage loans to the Federal National Mortgage Association. These commitments are considered derivative financial instruments and are recorded at fair value with any changes in fair value recorded through earnings.

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

| (In thousands) | Three Months Ended March 31, | |
|---|------------------------------|-----------|
| | 2011 | 2010 |
| Economic hedges | | |
| Interest rate swap on industrial revenue bond: | | |
| Net interest expense recognized in interest and dividend income on securities | \$ (162) | \$ (168) |
| Unrealized gain (loss) recognized in other non-interest income | 290 | (159) |
| Interest rate swaps on loans with commercial loan customers: | | |
| Unrealized (loss) gain recognized in other non-interest income | (1,571) | 1,605 |
| Reverse interest rate swaps on loans with commercial loan customers: | | |
| Unrealized gain (loss) recognized in other non-interest income | 1,571 | (1,605) |
| Favorable change in credit valuation adjustment recognized in other non-interest income | \$ 41 | \$ 270 |
| Non-hedging derivatives | | |
| Commitments to originate residential mortgage loans to be sold: | | |
| Unrealized loss recognized in other non-interest income | \$ (39) | \$ (32) |
| Commitments to sell residential mortgage loans: | | |
| Unrealized gain recognized in other non-interest income | \$ 26 | \$ 48 |

10. FAIR VALUE MEASUREMENTS

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

Recurring fair value measurements

The following table summarizes assets and financial liabilities measured at fair value on a recurring basis as of March 31, 2011 and December 31, 2010, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value. There were no transfers between levels during the three months ended March 31, 2011.

| (In thousands) | March 31, 2011 | | | |
|--|-------------------|-------------------|-------------------|---------------------|
| | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs | Total Fair Value |
| Trading account security | \$- | \$- | \$15,781 | \$15,781 |
| Available-for-sale securities: | | | | |
| Municipal bonds and obligations | - | 77,763 | - | 77,763 |
| Government guaranteed residential mortgage-backed securities | - | 19,210 | - | 19,210 |
| Government sponsored residential mortgage-backed securities | - | 166,519 | - | 166,519 |
| Corporate bonds | - | 8,944 | - | 8,944 |
| Trust preferred securities | - | 20,041 | 569 | 20,610 |
| Other bonds and obligations | - | 388 | - | 388 |
| Marketable equity securities | 20,275 | - | 1,624 | 21,899 |
| Derivative assets | - | 5,896 | - | 5,896 |
| Derivative liabilities | - | 15,374 | - | 15,374 |

| (In thousands) | December 31, 2010 | | | |
|--|-------------------|-------------------|-------------------|---------------------|
| | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs | Total Fair Value |
| Trading account security | \$- | \$- | \$16,155 | \$16,155 |
| Available-for-sale securities: | | | | |
| Municipal bonds and obligations | - | 79,906 | - | 79,906 |
| Government guaranteed residential mortgage-backed securities | - | 26,164 | - | 26,164 |
| Government-sponsored residential mortgage-backed securities | - | 146,719 | - | 146,719 |
| Corporate bonds | - | 18,290 | - | 18,290 |
| Trust preferred securities | - | 19,637 | 218 | 19,855 |
| Other bonds and obligations | - | 403 | - | 403 |
| Marketable equity securities | 17,428 | - | 1,477 | 18,905 |
| Derivative assets | - | 7,673 | - | 7,673 |
| Derivative liabilities | - | 18,717 | - | 18,717 |

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

Securities Available for Sale. AFS securities classified as Level 1 consist of publicly-traded equity securities for which the fair values can be obtained through quoted market prices in active exchange markets. AFS securities classified as Level 2 include most of the Company's debt securities. The pricing on Level 2 was primarily sourced from third party pricing services and is based on models that consider standard input factors such as dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and condition, among other things. The Company holds one trust preferred security and two limited partnership securities in its AFS portfolio which are classified as Level 3.

These securities' fair value is based on unobservable issuer-provided financial information and discounted cash flow models derived from the underlying structured pool.

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

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

Although the Company has determined that the majority of the inputs used to value its interest rate derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, as of March 31, 2011, the Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. As a result, the Company has determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

The Company enters into various commitments to originate residential mortgage loans for sale and commitments to sell residential mortgage loans. Such commitments are considered to be derivative financial instruments and are carried at estimated fair value on the consolidated balance sheets.

The estimated fair value of commitments to originate residential mortgage loans for sale is adjusted to reflect estimates for fall-out rates, associated servicing and origination costs. These assumptions are considered significant unobservable inputs resulting in a Level 3 classification. As of March 31, 2011, liabilities derived from commitments to originate residential mortgage loans for sale totaled \$39 thousand. The estimated fair values of commitments to sell residential mortgage loans were calculated by reference to prices quoted by the Federal National Mortgage Association in secondary markets. These valuations result in a Level 2 classification. As of March 31, 2011, assets derived from commitments to sell residential mortgage loans totaled \$26 thousand.

The table below presents the changes in Level 3 assets and liabilities that were measured at fair value on a recurring basis at March 31, 2011 and 2010.

| (In thousands) | Assets | |
|--|--------------------------|-------------------------------|
| | Trading Account Security | Securities Available for Sale |
| Balance as of December 31, 2010 | \$16,155 | \$1,695 |
| Unrealized loss recognized in other non-interest income | (257) | - |
| Unrealized gain included in accumulated other comprehensive loss | - | 498 |
| Amortization of trading account security | (117) | - |
| Balance as of March 31, 2011 | \$15,781 | \$2,193 |
| Unrealized gains (losses) relating to instruments still held at March 31, 2011 | \$1,338 | \$(1,950) |

| (In thousands) | Assets | |
|--|--------------------------|-------------------------------|
| | Trading Account Security | Securities Available for Sale |
| Balance as of December 31, 2009 | \$15,880 | \$2,016 |
| Unrealized gain recognized in other non-interest income | 46 | - |
| Unrealized gain included in accumulated other comprehensive loss | - | 267 |
| Amortization of trading account security | (110) | - |
| Balance as of March 31, 2010 | \$15,816 | \$2,283 |

| | | |
|--|-------|------------|
| Unrealized gains (losses) relating to instruments still held at March 31, 2010 | \$926 | \$(1,634) |
|--|-------|------------|

Non-recurring fair value measurements

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

| (In thousands) | March 31, 2011 | | | Total |
|---------------------------|-------------------|-------------------|-------------------|----------------|
| | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs | |
| Assets | | | | |
| Impaired loans | \$- | \$- | \$4,647 | \$4,647 |
| Other real estate owned | - | - | 2,400 | 2,400 |
| Mortgage servicing rights | - | - | 2,411 | 2,411 |
| Total Assets | \$- | \$- | \$9,548 | \$9,458 |

| (In thousands) | December 31, 2010 | | | Total |
|---------------------------|-------------------|-------------------|-------------------|-----------------|
| | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs | |
| Assets | | | | |
| Impaired loans | \$- | \$- | \$4,960 | \$4,960 |
| Other real estate owned | - | - | 3,386 | 3,386 |
| Mortgage servicing rights | - | - | 2,106 | 2,106 |
| Total Assets | \$- | \$- | \$10,452 | \$10,452 |

Securities held to maturity. Held to maturity securities are recorded at amortized cost and are evaluated periodically for impairment. No impairments were recorded on securities held to maturity for the three months ended March 31, 2011 and 2010. Held for maturity securities are fair valued using the same methodologies applied to the available for sales securities portfolio. Most securities in the held to maturity portfolio consist of economic development bonds and issues to local municipalities that are not actively traded and are priced using a discounted cash flows model. The Company views these as Level 3 pricing.

Restricted equity securities. The Company's restricted equity securities balance is primarily composed of FHLBB stock having a carrying value of \$21.0 million as of March 31, 2011. FHLBB stock is recorded at par and periodically evaluated for impairment. The FHLBB is a cooperative that provides services to its member banking institutions. The primary reason for joining the FHLBB was to obtain funding from the FHLBB and the purchase of stock in the FHLBB is a requirement for a member to gain access to funding. The Company purchases FHLBB stock proportional to the volume of funding received and views the purchases as a necessary long-term investment for the purposes of balance sheet liquidity and not for investment return.

The FHLBB reported positive net income for the three months ended March 31, 2011 and has reinstated its dividend payment in the first quarter of 2011. The Company also reviewed recent public filings, rating agency's analysis which showed investment-grade ratings, capital position which exceeds all required capital levels, and other factors. As a result of the Company's review for OTTI, management deemed the investment in the FHLBB stock not to be OTTI at March 31, 2011. There can be no assurance as to the outcome of management's future evaluation of the Company's investment in the FHLBB and it will continue to be monitored closely.

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

Loans held for sale. Loans originated and held for sale are carried at the lower of aggregate cost or market value. No fair value adjustments were recorded on loans held for sale during the three months ended March 31, 2011 and 2010, respectively. The Company holds loans in the held for sale category for a period generally less than 3 months and as a result fair value approximates carrying value.

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

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

Intangibles and Goodwill. The Company’s other intangible assets totaled \$10.6 million and \$11.4 million as of March 31, 2011 and December 31, 2010, respectively. Other intangibles include core deposit intangibles, insurance customer relationships, and non-compete agreements assumed by the Company as part of historical acquisitions. Other intangibles are initially recorded at fair value based on Level 3 data, such as internal appraisals and customized discounted criteria, and are amortized over their estimated lives on a straight-line or accelerated basis ranging from five to ten years. No impairment was recorded on other intangible assets during the three months ended March 31, 2011 and 2010.

The Company’s Goodwill balance as of March 31, 2011 and December 31, 2010 was \$161.7 million. The Company tests goodwill impairment annually in the fourth quarter or more frequently if events or changes in circumstances indicate that impairment is possible. No impairment was recorded by the Company during the three month periods ended March 31, 2011 and 2010.

Summary of estimated fair values of financial instruments

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

| (In thousands) | March 31, 2011 | | December 31, 2010 | |
|--|-----------------|-------------|-------------------|-------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Financial Assets | | | | |
| Cash and cash equivalents | \$41,225 | \$41,225 | \$44,140 | \$44,140 |
| Trading security | 15,781 | 15,781 | 16,155 | 16,155 |
| Securities available for sale | 315,333 | 315,333 | 310,242 | 310,242 |
| Securities held to maturity | 56,628 | 57,802 | 56,436 | 57,594 |
| Restricted equity securities | 23,120 | 23,120 | 23,120 | 23,120 |
| Net loans | 2,113,404 | 2,056,089 | 2,110,264 | 2,051,829 |
| Loans held for sale | 142 | 142 | 1,043 | 1,043 |
| Accrued interest receivable | 8,958 | 8,958 | 8,769 | 8,769 |
| Cash surrender value of bank-owned life insurance policies | 46,465 | 46,465 | 46,085 | 46,085 |
| Derivative assets | 5,896 | 5,896 | 7,673 | 7,673 |
| Financial Liabilities | | | | |
| Total deposits | \$2,241,049 | \$2,249,021 | \$2,204,441 | \$2,215,307 |
| Short-term debt | 15,480 | 15,480 | 47,030 | 47,030 |
| Long-term Federal Home Loan Bank advances | 197,922 | 200,507 | 197,807 | 200,746 |
| Junior subordinated debentures | 15,464 | 9,433 | 15,464 | 9,742 |
| Derivative liabilities | 15,374 | 15,374 | 18,717 | 18,717 |

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

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

Restricted equity securities. Carrying value approximates fair value based on the redemption provisions of the issuers.

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

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

Accrued interest receivable. Carrying value approximates fair value.

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

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

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

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

11. SUBSEQUENT EVENT

On April 1, 2011, the Company acquired all of the outstanding common shares of Rome Bancorp, Inc. ("Rome"), the parent company of The Rome Savings Bank. Concurrently, Rome Bancorp merged into Berkshire Hills Bancorp and The Rome Savings Bank merged into Berkshire Bank. Rome had five banking offices serving Rome, Lee, and New Hartford, New York.

Rome shareholders received 2.7 million shares of the Company and \$22.7 million in cash. As of April 1, 2011, Rome had assets with a carrying value of \$319.5 million, including loans outstanding with a carrying value of \$262.9 million, as well as deposits with a carrying value of \$228.7 million. The results of Rome's operations will be included in our Consolidated Statement of Income from the date of acquisition. As a result of the proximity of the closing of the merger with Rome to the date these consolidated financial statements are available to be issued, the Company is still evaluating the estimated fair values of the assets acquired and the liabilities assumed. Accordingly, the amount of any goodwill and other intangible assets to be recognized in connection with this transaction is also yet to be determined.

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

OVERVIEW

Management’s discussion and analysis of financial condition and results of operations is intended to assist in understanding the financial condition and results of operations of the Company. The following discussion and analysis should be read in conjunction with the Company’s consolidated financial statements and the notes thereto appearing in Part I, Item 1 of this document and with the Company’s consolidated financial statements and the notes thereto and Management’s Discussion and Analysis of Financial Condition and Results of Operations included in the 2010 Annual Report on Form 10-K. In the following discussion, income statement comparisons are against the same period of the previous year and balance sheet comparisons are against the previous fiscal year-end, unless otherwise noted. Operating results discussed herein are not necessarily indicative of the results for the year 2011 or any future period. In management’s discussion and analysis of financial condition and results of operations, certain reclassifications have been made to make prior periods comparable. Tax-equivalent adjustments are the result of increasing income from tax-advantaged securities by an amount equal to the taxes that would be paid if the income were fully taxable based on a 41.5% effective income tax rate.

Berkshire Hills Bancorp (“the Company” or “Berkshire”) is headquartered in Pittsfield, Massachusetts. It had \$2.9 billion in assets at March 31, 2011 and is the parent of Berkshire Bank — America’s Most Exciting BankSM (“the Bank”). The Company provides personal and business banking, insurance, investment, and wealth management services through 48 full service branch offices in western Massachusetts, northeastern New York, and southern Vermont. Berkshire completed the acquisition of Rome Bancorp, Inc. on April 1, 2011. Berkshire also has entered into a definitive merger agreement to acquire Legacy Bancorp, Inc. (Legacy”) which is headquartered in Pittsfield, Massachusetts. The merger is expected to be completed in the third quarter of 2011 and is subject to the approvals of Legacy and Berkshire shareholders and the applicable regulatory agencies. Berkshire Bank provides 100% deposit insurance protection on all deposit accounts, regardless of amount, based on a combination of FDIC insurance and membership in the Depositors Insurance Fund (DIF). For more information, visit www.berkshirebank.com or call 800-773-5601.

At the time of its acquisition, Rome Bancorp had loans totaling \$263 million and deposits totaling \$229 million, and it operated five banking offices in the vicinity of Rome, New York. At March 31, 2011, Legacy reported total loans of \$601 million and total deposits of \$677 million. Legacy operates 19 banking offices including 12 offices in western Massachusetts and 7 offices in northeastern New York.

Berkshire is the largest locally headquartered regional bank and financial services company serving its markets. Berkshire seeks to distinguish itself based on the following attributes:

- Strong growth from organic, de novo, product and acquisition strategies
- Solid capital, core funding and risk management culture
- Experienced executive team focused on earnings and stockholder value
- Distinctive brand and culture as America’s Most Exciting BankSM
- Diversified integrated financial service revenues
- Positioned to be regional consolidator in attractive markets

FORWARD-LOOKING STATEMENTS

Certain statements contained in this document that are not historical facts may constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (referred to as the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (referred to as the Securities Exchange Act), and are

intended to be covered by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. You can identify these statements from the use of the words “may,” “will,” “should,” “could,” “would,” “plan,” “potential,” “estimate,” “believe,” “intend,” “anticipate,” “expect,” “target” and similar expressions. These forward-looking statements are subject to significant risks, assumptions and uncertainties, including among other things, changes in general economic and business conditions.

Additional factors that could cause results to differ materially from those described in the forward-looking statements can be found in the filings made by Berkshire with the Securities and Exchange Commission, including the Berkshire Annual Report on Form 10-K for the fiscal year ended December 31, 2010 and the definitive Proxy Statement/Prospectus filed by Berkshire with the SEC on February 2, 2011 for the Rome acquisition and the Joint Proxy Statement/Prospectus on Form S-4 filed by Berkshire with the SEC on May 6, 2011 for the Legacy acquisition. Because of these and other uncertainties, Berkshire's actual results, performance or achievements, or industry results, may be materially different from the results indicated by these forward-looking statements. In addition, Berkshire's past results of operations do not necessarily indicate Berkshire's combined future results. You should not place undue reliance on any of the forward-looking statements, which speak only as of the dates on which they were made. Berkshire is not undertaking an obligation to update these forward-looking statements, even though its situation may change in the future, except as required under federal securities law. Berkshire qualifies all of its forward-looking statements by these cautionary statements.

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

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

The SEC defines "critical accounting policies" as those that require application of Management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in future periods. Management believes that the following policies would be considered critical under the SEC's definition:

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

Income Taxes. The Company uses the asset and liability method of accounting for income taxes in which deferred tax assets and liabilities are established for the temporary differences between the financial reporting basis and the tax basis of the Company's asset and liabilities. The realization of the net deferred tax asset generally depends upon future levels of taxable income and the existence of prior years' taxable income, to which "carry back" refund claims could be made. A valuation allowance is maintained for deferred tax assets that management estimates are more likely than not to be unrealizable based on available evidence at the time the estimate is made. Significant management judgment is required in determining income tax expense and deferred tax assets and liabilities. In determining the valuation allowance, the Company uses historical and forecasted future operating results, based upon approved business plans, including a review of the eligible carryforward periods, tax planning opportunities and other relevant considerations. These underlying assumptions can change from period to period. For example, tax law changes or variances in future

projected operating performance could result in a change in the valuation allowance. Should actual factors and conditions differ materially from those considered by management, the actual realization of the net deferred tax asset could differ materially from the amounts recorded in the financial statements. If the Company is not able to realize all or part of our net deferred tax asset in the future, an adjustment to the deferred tax asset valuation allowance would be charged to income tax expense in the period such determination was made.

Goodwill and Identifiable Intangible Assets. Goodwill and identifiable intangible assets are recorded as a result of business acquisitions and combinations. These assets are evaluated for impairment annually or whenever events or changes in circumstances indicate the carrying value of these assets may not be recoverable. There have been no such events or changes in circumstance since the Company's most recent report on Form 10-K. When these assets are evaluated for impairment, if the carrying amount exceeds fair value, an impairment charge is recorded to income. The fair value is based on observable market prices, when practicable. Other valuation techniques may be used when market prices are unavailable, including estimated discounted cash flows and market multiples analyses. These types of analyses contain uncertainties because they require management to make assumptions and to apply judgment to estimate industry economic factors and the profitability of future business strategies. In the event of future changes in fair value, the Company may be exposed to an impairment charge that could be material.

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

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

For additional information regarding critical accounting policies, refer to Note 1 in the notes to consolidated financial statements and the sections captioned "Critical Accounting Policies" and "Loan Loss Allowance" in Management's Discussion and Analysis of Financial Condition and Results of Operations included in the 2010 Form 10-K. There have been no significant changes in the Company's application of critical accounting policies since year-end 2010. Please refer to the note on Recent Accounting Pronouncements in Note 1 to the consolidated financial statements of this report for a detailed discussion of new accounting pronouncements.

SELECTED FINANCIAL DATA

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

| | At or for the Three Months Ended | | | |
|---|----------------------------------|-----------|---|---|
| | March 31, | | | |
| | 2011 | 2010 | | |
| PERFORMANCE RATIOS | | | | |
| Return on average assets | 0.39 | 0.50 | % | % |
| Return on average equity | 2.86 | 3.44 | | |
| Net interest margin, fully taxable equivalent | 3.30 | 3.24 | | |
| ASSET QUALITY RATIOS | | | | |
| Net charge-offs (annualized)/average loans | 0.30 | 0.47 | % | % |
| Non-performing assets/total assets | 0.54 | 0.92 | | |
| Loan loss allowance/total loans | 1.49 | 1.61 | | |
| Allowance loan losses/non-accruing loans | 240 | 147 | | |
| CAPITAL | | | | |
| Stockholders' equity to total assets | 13.52 | 14.24 | % | % |
| PER SHARE DATA | | | | |
| Net earnings, diluted | \$ 0.20 | \$ 0.24 | | |
| Total book value | 27.63 | 27.47 | | |
| Dividends | 0.16 | 0.16 | | |
| Stock price: | | | | |
| High | 22.75 | 20.99 | | |
| Low | 20.74 | 16.20 | | |
| Close | 20.83 | 18.33 | | |
| FINANCIAL DATA: (In millions) | | | | |
| Total assets | \$ 2,885 | \$ 2,705 | | |
| Total loans | 2,145 | 1,981 | | |
| Other earning assets | 421 | 420 | | |
| Total intangible assets | 172 | 175 | | |
| Deposits | 2,241 | 2,037 | | |
| Borrowings and debentures | 229 | 257 | | |
| Stockholders' equity | 390 | 385 | | |
| FOR THE PERIOD: (In thousands) | | | | |
| Net interest income | \$ 20,146 | \$ 18,297 | | |
| Provision for loan losses | 1,600 | 2,326 | | |
| Non-interest income | 8,502 | 8,498 | | |
| Non-interest expense | 23,189 | 20,192 | | |
| Net income | 2,798 | 3,336 | | |

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

AVERAGE BALANCES AND AVERAGE YIELDS/RATES

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

| (In millions) | Three Months Ended March 31, | | | |
|---|------------------------------|---------------------------|--------------------|---------------------------|
| | 2011 | | 2010 | |
| | Average Balance | Yield/Rate (FTE basis) | Average Balance | Yield/Rate (FTE basis) |
| Assets | | | | |
| Loans: | | | | |
| Residential mortgages | \$651 | 5.04 % | \$615 | 5.31 % |
| Commercial mortgages | 929 | 4.68 | 856 | 4.94 |
| Commercial business loans | 284 | 4.69 | 170 | 4.88 |
| Consumer loans | 281 | 3.63 | 311 | 4.04 |
| Total loans | 2,145 | 4.65 | 1,952 | 4.91 |
| Securities | 404 | 4.01 | 412 | 4.06 |
| Fed funds sold & short-term investments | 12 | 0.13 | 7 | 0.20 |
| Total earning assets | 2,561 | 4.53 | 2,371 | 4.75 |
| Other assets | 315 | | 306 | |
| Total assets | \$2,876 | | \$2,677 | |
| Liabilities and stockholders' equity | | | | |
| Deposits: | | | | |
| NOW | \$215 | 0.33 % | \$195 | 0.39 % |
| Money market | 746 | 0.75 | 542 | 1.02 |
| Savings | 235 | 0.31 | 224 | 0.32 |
| Time | 738 | 2.19 | 758 | 2.71 |
| Total interest-bearing deposits | 1,934 | 1.20 | 1,719 | 1.61 |
| Borrowings and debentures | 230 | 3.62 | 280 | 3.27 |
| Total interest-bearing liabilities | 2,164 | 1.46 | 1,999 | 1.84 |
| Non-interest-bearing demand deposits | 294 | | 270 | |
| Other liabilities | 26 | | 20 | |
| Total liabilities | 2,484 | | 2,289 | |
| Total stockholders' equity | 392 | | 388 | |
| Total liabilities and stockholders' equity | \$2,876 | | \$2,677 | |
| Net interest spread | | 3.07 % | | 2.91 % |
| Net interest margin | | 3.30 % | | 3.24 % |
| Supplementary data | | | | |
| Total deposits (In millions) | \$2,228 | | \$1,989 | |
| Fully taxable equivalent income adj. (In thousands) | 679 | | 646 | |

(1) The average balances of loans include nonaccrual loans, loans held for sale, and deferred fees and costs.

(2) The average balance for securities available for sale is based on amortized cost.

SUMMARY

Berkshire's first quarter net income was \$2.8 million in 2011 (\$0.20 per share), compared to \$3.3 million in 2010 (\$0.24 per share). Net income in 2011 reflected \$1.4 million in after-tax merger related expenses. Berkshire completed the acquisition of Rome Bancorp, Inc. on April 1, 2011 and is planning to complete the acquisition of Legacy Bancorp, Inc. in the third quarter of 2011. Excluding merger related expenses, Berkshire's net income increased in 2011 to \$4.2 million, \$0.30 per share, which was a 25% increase over 2010 earnings per share.

First quarter financial highlights included:

- 10% increase in net interest income, compared to prior year first quarter
- 7% growth in net revenue, compared to prior year first quarter
- 15% annualized growth in asset based and commercial real estate loans
 - 7% annualized growth in total deposits
- 3.30% net interest margin, unchanged from the prior quarter
- 0.54% non-performing assets/total assets, down from 0.59% in the prior quarter
- 0.30% annualized net loan charge-offs/average loans, down from 0.37% in the prior quarter
- 1.49% allowance for loan losses/total loans, unchanged from the prior quarter

Berkshire continued to build market share in targeted areas of loan and deposit growth. Asset quality remained favorable, with ongoing improvement in non-performing assets and loan charge-off metrics. At the end of the quarter, Berkshire Bank opened a new office in Rotterdam, New York, following the opening of two other New York branch offices in the latter part of 2010. Following the Rome and Legacy operations, the Company expects to have more than \$4 billion in assets, more than 60 branches, and a market capitalization exceeding \$450 million based on its recent stock price. These mergers position the Company well to continue to grow as the leading locally headquartered regional bank serving our New England and New York markets. Berkshire Bank is well capitalized and the Company's dividend to shareholders provided an annualized yield of approximately 2.92% based on the average closing price of Berkshire's common stock during the first quarter of 2011.

COMPARISON OF FINANCIAL CONDITION AT MARCH 31, 2011 AND DECEMBER 31, 2010

Summary: Total assets remained steady at \$2.9 billion during the first quarter of 2011. Growth of commercial loans in targeted areas offset loan run-off in other areas. Asset quality metrics improved. Deposit growth was primarily used to pay down overnight FHLBB advances. Stockholders' equity increased; tangible book value per share grew to \$15.44 at quarter-end, while total book value per share increased to \$27.63. Capital and liquidity ratios remained strong and improving.

Securities. The total portfolio of investment securities increased by \$5 million (5% annualized) in the first quarter of 2011. Net run-off totaling \$9 million of available for sale short duration corporate bonds was more than offset by net growth of \$13 million in available for sale mortgage backed securities consisting primarily of government sponsored planned amortization class instruments with 3-4 year durations. The net unrealized gain on investment securities increased slightly to \$6 million from \$5 million. The annualized yield on the portfolio increased slightly to 4.01% in the first quarter of 2011 from 3.94% in the prior quarter, including the benefit of dividend yielding equity securities purchased in the prior quarter. There were no material credit rating downgrades of securities in the portfolio during the most recent quarter. The Company had one investment in a pooled trust preferred security with a \$2.6 million book value and a \$0.6 million estimated fair value at quarter-end. The impairment was viewed as temporary; this security is described more fully in the notes to the consolidated financial statements. The estimated fair value of this security improved by \$0.4 million during the quarter.

Loans. Total loans increased by \$3 million (1% annualized) in the first quarter of 2011. Total asset based and commercial real estate loans grew at a 15% annualized rate, reflecting ongoing growth in these targeted areas and the continuing strong momentum of the asset based lending group which was recruited at the beginning of 2010. The above increases were partially offset by lower construction balances and a decrease in other consumer loans reflecting residual planned runoff in automobile loans. Due to the strong momentum coming into the quarter, the average balance of loans increased at a 12% annualized rate in the first quarter, compared to the prior quarter. The yield on loans decreased to 4.65% from 4.77% for these periods, reflecting the ongoing impact of runoff and repricings in the continuing low interest rate environment. The pipeline of committed commercial loans was \$100 million at quarter-end.

Several key asset quality metrics remained favorable in the most recent quarter. Non-performing assets decreased to 0.54% of total assets, and annualized net loan charge-offs decreased to 0.30% of average loans. Accruing delinquent loans also remained favorable, increasing modestly to 0.70% of total loans. Classified assets are those rated substandard or lower in the Company's internal rating systems. Commercial classified loans increased by \$8 million during the quarter including a performing commercial loan totaling \$5.4 million which was not deemed impaired. The total carrying value of loans deemed impaired decreased slightly to \$16.3 million from \$16.6 million during the quarter. The specific allowance for losses related to these loans remained unchanged at \$2.5 million.

Loan Loss Allowance. The loan loss allowance remained flat at \$31.9 million during the first quarter of 2011, measuring 1.49% of total loans and 240% of non-accruing loans at quarter-end. The allowance includes specific reserves for impaired loans, which were discussed above. Additionally, the allowance includes a general reserve for pools of loans. The methodology for computing the general reserve was enhanced in the first quarter. This methodology includes a historical loss component and an environmental factors component. The historical loss component is based on the attribution of loss factors based on Moody's historical corporate default and recovery rates. The environmental factors component assesses loss potential as it may be affected by economic business conditions, lending policies and procedures, portfolio characteristics, management and staff changes, problem loan trends, and credit concentration trends. The historical loss and environmental factors components are assessed for fifteen homogeneous pools in the loan portfolio. At quarter-end, the reserves for historical loss factors totaled \$21.9 million and the reserves for environmental factors totaled \$7.3 million.

Deposits and Borrowings. Total deposits increased by \$37 million (7% annualized) in the first quarter of 2011, primarily due to ongoing growth of money market accounts and expansion in the New York region. Due to the strong deposit growth near the end of 2010, the average balance of deposits increased at a 22% annualized pace in the first quarter, compared to the prior quarter. The cost of deposits continued to decrease, falling by an additional 0.11% in the most recent quarter, compared to the prior quarter. The decrease in deposit costs resulted from disciplined pricing and reflected the ongoing impact of low market interest rates. Deposit growth was primarily used to pay down overnight Federal Home Loan Bank advances, resulting in a \$32 million decrease in short term debt during the quarter. The average cost of borrowings increased due to the reduction in these low cost overnight advances. The loan/deposit ratio continued to improve, measuring 96% at quarter-end.

Stockholders' Equity. Total stockholders' equity increased by \$2 million (2% annualized) during the first quarter of 2011. This primarily reflected a reduction in the accumulated comprehensive loss related to improved market prices for the Company's investment securities and its derivative financial instruments. The ratio of tangible equity/tangible assets increased to 8.04% during the quarter, with total equity/assets increasing to 13.52%. Tangible book value per share increased to \$15.44 at quarter-end, while total book value per share increased to \$27.63. Berkshire Bank remained well capitalized at the end of the quarter, with the total risk based capital ratio measuring 10.9% at that date.

COMPARISON OF OPERATING RESULTS FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2010

Summary. Berkshire's first quarter net income was \$2.8 million in 2011 (\$0.20 per share), compared to \$3.3 million in 2010 (\$0.24 per share). Net income in 2011 reflected \$1.4 million in after-tax merger related expenses. Excluding merger related expenses, Berkshire's net income increased in 2011 to \$4.2 million (\$0.30 per share). This earnings growth has included the benefit of positive operating leverage from strong revenue growth and the benefit of a lower loan loss provision related to improved asset quality. The Company has maintained an asset sensitive net interest income profile, as management has chosen to sacrifice current yield to protect earnings in the event of future rate increases. The Company is also absorbing the costs of ongoing branch and business expansion in its cost of operations. The Company's first quarter return on assets was 0.39% in 2011, compared to 0.50% in 2010. Excluding merger related costs, the 2011 return on assets was 0.58%, which was the strongest quarterly result in two years. The first quarter return on equity was 2.86% in 2011, compared to 3.44% in 2010. Excluding merger related costs, the 2011 return on equity was 4.28%.

Revenue. Total first quarter net revenue increased by \$1.9 million (7%) in 2011 compared to 2010. Revenue growth was driven by net interest income, which increased by \$1.8 million (10%) for these periods, while non-interest income was flat. Quarterly net revenue per share increased to \$2.05 from \$1.93.

Net Interest Income. Net interest income has grown sequentially in the last seven quarters. In the most recent quarter, this growth resulted primarily from 12% annualized average loan growth due to the strong momentum coming into the year. The net interest margin remained stable at 3.30% compared to the prior quarter, and increased from 3.24% in the first quarter of 2010. Berkshire has maintained disciplined pricing of loans and deposits to mitigate pressures in the continuing low market rate environment. The yield compression on loans reflects the impact of run-off of higher rate loans, along with a shift in the portfolio mix. Similarly, the reduction in deposit costs reflects both the gradual repricing of accounts and a shift in the portfolio from time deposit accounts and towards lower cost money market accounts.

Non-Interest Income. First quarter non-interest income increased slightly in 2011 compared to 2010. Insurance fee revenues increased by \$0.3 million (7%); insurance income is seasonal in the first half of the year due to contingency income. Volume growth of 7% in commercial lines policies over the past twelve months has more than offset the impact of a 4% decrease in personal lines policies due to competitive conditions. Deposit related fee income was up \$0.1 million (3%) including the benefit of account growth. Deposit related fees increased despite a 7% decrease in overdraft income to \$1.4 million following the implementation of Regulation E in the second half of 2010. First quarter debit card fee income increased 11% to \$0.5 million from year-to-year. Deposit fee growth partially offset a decrease in loan related fee income including a \$0.6 million decrease for commercial loan interest rate swaps, reflecting lower volume. First quarter wealth management fee income was up 1% from year-to-year. Assets under management increased at a 17% annualized rate to \$694 million during the most recent quarter. Total non-interest income measured 30% of total net revenue in the most recent quarter. Berkshire's goal is to increase this ratio over time in order to diversify its revenues and to obtain the benefit of cross sales and increased wallet share of financial services in its market area.

Loan Loss Provision. The provision for loan losses is a charge to earnings in an amount sufficient to maintain the allowance for loan losses at a level deemed adequate by the Company. The level of the allowance is a critical accounting estimate, which is subject to uncertainty. The level of the loan loss allowance remained unchanged in the first quarter and was included in the earlier discussion of financial condition. The first quarter loan loss provision totaled \$1.6 million in 2011, compared to \$2.3 million in 2010, reflecting improvement in asset quality as reflected in asset quality metrics and loan charge-off ratios.

Non-Interest Expense and Income Tax Expense. First quarter non-interest expense increased by \$3.0 million (15%) in 2011 compared to 2010. Total non-interest expense in 2011 included \$1.7 million in charges for merger related expenses, consisting primarily of investment banking and legal fees and severance costs. Excluding these charges, non-interest expense increased by \$1.3 million (6%) in 2011 compared to 2010. This included a \$0.6 million increase in the expense of other real estate owned primarily due to the write-down of foreclosed properties to facilitate pending sales. Additionally excluding this expense, all other non-interest expense increased by 4%, including the costs of new de novo branches and business line expansion over the last year. Compensation expense growth was limited to 1% for these periods. Full time equivalent employees totaled 602 at March 31, 2011, compared to 599 at year-end 2010 and to 622 at the end of 2009. The first quarter effective income tax rate increased to 27% in 2011 from 22% in 2010. The higher tax rate in 2011 reflects the higher pretax income anticipated in the current year, and a lower proportion of tax advantaged income sources. The actual tax rate in 2011 will be impacted, among other things, by the amount of merger related expenses that are recorded by Berkshire, which is uncertain at this time.

Results of Segment and Parent Operations. The Company has designated two operating segments for financial statement disclosure: banking and insurance. Additional information about the Company's accounting for segment operations is contained in the notes to the financial statements. The Bank's results reflected the same general trends as the consolidated results previously reported, with higher revenues and earnings for the first quarter of 2011 compared to 2010. The insurance segment also posted higher revenues as discussed previously for non-interest income. Expenses were lower as a result of a reorganization early in 2010, and as a result first quarter insurance earnings improved to \$0.9 million from \$0.7 million. The parent's revenues are primarily the undistributed income of the bank and insurance subsidiaries, and therefore the parent's revenues increased along with subsidiary earnings; no dividends were paid to the parent by the subsidiaries in the first quarter. Most of the merger related expenses were charged to the parent, and as a result, the parent's earnings decreased to \$2.8 million from \$3.3 million.

Comprehensive Income. Comprehensive income includes changes in accumulated other comprehensive (loss) income, which consist of changes (after tax) in the unrealized market gains and losses on securities available for sale and the net gain (loss) on derivative instruments used as cash flow hedges, including a terminated hedge. The Company recorded first quarter comprehensive income of \$4.3 million in 2011, including net income of \$2.8 million and a \$1.5 million decrease in the accumulated other comprehensive loss due to improvement in the fair values of investment securities and interest rate swaps that are designated as cash flow hedges. Total first quarter comprehensive income was \$2.8 million in 2010. The Company recorded a \$0.6 million increase in the accumulated other comprehensive loss in the first quarter of 2010 due primarily to a decrease in the fair value of its interest rate swaps.

Liquidity and Cash Flows. The Company's primary source of funds was deposit growth in the first quarter of 2011, and the primary use of funds was reduction of short term debt. Deposit growth is expected to continue to be the primary source of funds for the remainder of the year, and net loan growth is expected to be the primary use of funds. Borrowings from the Federal Home Loan Bank are a significant source of liquidity for daily operations and for borrowings targeted for specific asset/liability purposes. The Company also uses interest rate swaps in managing its funds sources and uses.

Berkshire Hills Bancorp had a cash balance totaling \$11 million at quarter-end, and this cash was expected to fund routine uses of cash for dividends, debt service, and operating costs. The primary long run routine sources of funds for the holding company are expected to be dividends from Berkshire Bank and Berkshire Insurance Group, as well as cash from the exercise of stock options. As a result of the loss recorded in 2009, Berkshire Bank is not currently eligible to pay dividends to its parent under Massachusetts state banking statutes. The Company expects that, as a result of current and anticipated retained earnings, the Bank will again become eligible to pay dividends according to these statutes in 2011. The Company expects to meet all of its routine cash needs prior to that time from existing cash balances on hand and from insurance group dividends. Additional discussion about the Company's liquidity and cash flows is contained in the Company's 2010 Form 10-K in Item 7.

The Company acquired Rome Bancorp for cash and stock consideration on April 1, 2011 as described in the notes to the consolidated financial statements. The cash portion of the consideration was funded by cash held at Rome Bancorp which was upstreamed in the most recent quarter as a special dividend from The Rome Savings Bank which was funded through the liquidation of short and long term investments during the quarter. The Company expects to complete the acquisition of Legacy Bancorp in the third quarter of 2011 for cash and stock consideration. The cash portion of the merger consideration is expected to be funded primarily from cash expected to be held at Legacy Bancorp.

Capital Resources. Please see the "Stockholders' Equity" section of the Comparison of Financial Condition for a discussion of stockholders' equity. At March 31, 2011, Berkshire Bank continued to be classified as "well capitalized." Additional information about regulatory capital is contained in the notes to the consolidated financial statements and in the 2010 Form 10-K.

As discussed in the 2010 Form 10-K, there are financial system reforms which became federal law in July 2010 and which constitute the most significant regulatory and systemic reform since the 1930's. It cannot be determined at this time what the full impacts of the reforms will be. Some of the reforms are intended to increase required capital levels in the banking system.

As noted above, the Company issued common stock as partial consideration for the shares of Rome Bancorp on April 1, 2011 and the Company expects to issue common stock as 90% of the consideration for the shares of Legacy Bancorp in the merger which is targeted to be completed in the third quarter of 2011.

Off-Balance Sheet Arrangements and Contractual Obligations. In the normal course of operations, the Company engages in a variety of financial transactions that, in accordance with generally accepted accounting principles, are not recorded in the Company's financial statements. These transactions involve, to varying degrees, elements of credit, interest rate and liquidity risk. Such transactions are used primarily to manage customers' requests for funding and take the form of loan commitments and lines of credit. A further presentation of the Company's off-balance sheet arrangements is presented in the Company's 2010 Form 10-K. Information relating to payments due under contractual obligations is presented in the 2010 Form 10-K. There were no material changes in the Company's payments due under contractual obligations during the first quarter of 2011. As previously discussed, the Company completed the acquisition of Rome Bancorp on April 1, 2011 and has a definitive merger agreement with Legacy Bancorp which is expected to be completed in the third quarter of 2011. These transactions are further discussed in the Company's SEC filings related to these transactions.

Fair Value Measurements. The Company records fair value measurements of certain assets and liabilities, as described in the related note in the financial statements. There were no material changes in the difference between fair value and book value of financial instruments at March 31, 2011 compared to the prior year-end. The fair value discount of loans results from wider market risk premiums and downgrades in the risk ratings of certain loans compared to conditions at the time of loan origination. The excess fair value of time deposits and borrowings over book value reflects the impact of lower interest rates and, in the case of the subordinated debt obligation, wider market risk spreads compared to conditions prevailing at the time of origination.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes to the way that the Company measures market risk or in the Company's market risk position during the first three months of 2011. For further discussion about the Company's Quantitative and Qualitative Aspects of Market Risk, please review Item 7A of the Report 10-K filed for the fiscal year ended December 31, 2010.

As discussed in Item 2, Berkshire has a targeted position to maintain a moderately asset sensitive interest rate profile. Federal interventions to avoid a financial crisis unexpectedly drove short-term interest rates to near zero where they have remained since the fourth quarter of 2008. Berkshire maintains a discipline to avoid undue risks to net interest income and to the market value of equity which would result from taking on excessive fixed rate assets in the current environment.

Management believes that net interest income might increase by more than the modeled amount in the expected scenarios of rising interest rates. Management might decide to retain more, longer duration assets, after interest rates increase, and this would contribute additional income in the case of a parallel shift in the yield curve. Also, the Company has experienced certain market floors on deposit pricing in the current near zero short-term interest rate environment. In the case of rising rates, deposits might not increase in rate as quickly as they are modeled since they are presently above other comparable market rates in some cases. Additionally, in some scenarios, the Company's fee income might also increase as a result of improved economic and market conditions that might be related to higher market interest rates.

Rome's interest rate risk analysis as set forth in its 2010 Annual Report on Form 10-K demonstrated a modestly asset sensitive profile at year-end 2010. Based on Berkshire's review of Rome's balance sheet and anticipated balance sheet

changes subsequent to the merger, Berkshire models that the interest rate risk of Rome's operations will be modestly liability sensitive. This is expected to minimally reduce the asset sensitivity of the combined banks, but this change is not expected to be material compared to Berkshire's existing interest rate profile.

ITEM 4. CONTROLS AND PROCEDURES

As of the end of the period covered by this Quarterly Report on Form 10-Q, an evaluation was carried out by the Company's management, with the participation of its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were effective as of the end of the period covered by this report. No change in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) occurred during the last fiscal quarter that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

On February 24, 2011, the Company engaged PricewaterhouseCoopers LLP ("PwC") as the Company's new principal accountants for the fiscal year ending December 31, 2011. The engagement was approved by the Company's Audit Committee. During the fiscal years ended December 31, 2010 and 2009, and the subsequent interim period prior to the engagement of PwC, the Company did not consult with PwC, regarding any of the matters or events set forth in Item 304(a)(2)(i) and (ii) of Regulation S-K.

PART II

ITEM 1. LEGAL PROCEEDINGS

At March 31, 2011, neither the Company nor the Bank was involved in any pending legal proceedings believed by management to be material to the Company's financial condition or results of operations. Periodically, there have been various claims and lawsuits involving the Bank, such as claims to enforce liens, condemnation proceedings on properties in which the Bank holds security interests, claims involving the making and servicing of real property loans and other issues incident to the Bank's business. However, neither the Company nor the Bank is a party to any pending legal proceedings that it believes, in the aggregate, would have a material adverse effect on the financial condition or operations of the Company.

Following the public announcement of the execution of the Agreement and Plan of Merger, dated October 12, 2010 (the "Merger Agreement"), by and among the Company and Rome Bancorp, Inc. ("Rome Bancorp"), on October 18, 2010, Stephen Bushansky filed a stockholder class action lawsuit in the Supreme Court of the State of New York, County of the Bronx, on October 27, 2010, James and Liliana DiCastro filed a stockholder class action lawsuit in the Chancery Court of the State of Delaware, and on November 15, 2010, Samuel S. Rapasodi filed a stockholder class action lawsuit in the Supreme Court of the State of New York, County of Oneida, each against Rome Bancorp, the Directors of Rome Bancorp, and the Company. The lawsuit filed in Delaware was subsequently withdrawn voluntarily. The active lawsuits in New York state (collectively, the "Rome shareholder litigation") purported to be brought on behalf of all of Rome Bancorp's public stockholders and alleged that the directors of Rome Bancorp breached their fiduciary duties to Rome Bancorp's stockholders by failing to take steps necessary to obtain a fair and adequate price for Rome Bancorp's common stock and that the Company knowingly aided and abetted Rome Bancorp directors' breach of fiduciary duty.

On February 23, 2011, solely to avoid the costs, risks and uncertainties inherent in litigation and to allow Rome Bancorp's stockholders to vote on the proposals required in connection with the merger, Rome Bancorp entered into a memorandum of understanding with plaintiffs' counsel and other named defendants regarding the settlement of the Rome shareholder litigation. Under the terms of the memorandum negotiated by Rome Bancorp, Rome Bancorp, the other named defendants and the plaintiffs agreed to settle the two lawsuits subject to court approval. If the court approves the settlement contemplated in the memorandum, the Rome shareholder litigation will be dismissed with prejudice. Pursuant to the terms of the memorandum, Rome Bancorp agreed to make available additional information to its stockholders. In return, the plaintiffs have agreed to the dismissal of the Rome shareholder litigation, and did not seek to enjoin the proposed merger from proceeding.

In connection with the settlement, plaintiffs are seeking an award of attorneys' fees and expenses not to exceed \$395,000, subject to court approval. Rome Bancorp's insurance carrier agreed to pay the legal fees and expenses of plaintiffs' counsel, in an amount not to exceed \$395,000 and ultimately to be determined by the court. This payment is not being made by the Company and did not affect the amount of merger consideration paid in the merger. If the settlement is finally approved by the court, it is anticipated that it will resolve and release all claims in all actions that were or could have been brought challenging any aspect of the merger, the Merger Agreement, and any disclosure made in connection therewith (but excluding claims for appraisal under Section 262 of the Delaware General Corporation Law).

The Company and the other defendants vigorously denied, and continue to vigorously deny, that they committed or aided and abetted in the commission of any violation of law or engaged in any of the wrongful acts that were or could have been alleged in the Rome shareholder litigation, and expressly maintain that, to the extent applicable, they diligently and scrupulously complied with their fiduciary and other legal burdens and entered into the contemplated settlement solely to eliminate the burden and expense of further litigation, to put the claims that were or could have

been asserted to rest, and to avoid any possible delay in the consummation of the merger. As a result of the settlement, management of the Company believes the Rome shareholder litigation will not have any material adverse effect on the financial condition or operations of the Company.

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors previously disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2010. In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2010, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks that we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results. Additionally, the Company has reported risk factors in the Joint Proxy Statement/Prospectus filed with the SEC on April 8, 2011 related to the Legacy acquisition and you should carefully consider the risk factors described therein.

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

- (a) No Company unregistered securities were sold by the Company during the quarter ended March 31, 2011.
- (b) Not applicable.
- (c) The following table provides certain information with regard to shares repurchased by the Company in the first quarter of 2011.

| Period | Total number of shares purchased (paid per share) | Average price publicly announced | Total number of shares that may yet be purchased under the plans or programs | Maximum number of shares that may yet be purchased under the plans or programs |
|---------------------|---|----------------------------------|--|--|
| January 1-31, 2011 | 14,141 | \$ 21.22 | - | 97,993 |
| February 1-28, 2011 | - | - | - | 97,993 |
| March 1-31, 2011 | - | - | - | 97,993 |
| Total | 14,141 | \$ 21.22 | - | 97,993 |

- (1) Shares represent common stock withheld by the Company to satisfy tax withholding requirements on the vesting of shares under the Company's benefit plans.

On December 14, 2007, the Company authorized the purchase of up to 300,000 additional shares, from time to time, subject to market conditions. The repurchase plan will continue until it is completed or terminated by the Board of Directors. The Company has no plans that it has elected to terminate prior to expiration or under which it does not intend to make further purchases.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. (REMOVED AND RESERVED)

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

- 2.1 Agreement and Plan of Merger dated as of December 21, 2010 by and between Berkshire Hills Bancorp, Inc. and Legacy Bancorp, Inc.(1)
- 3.1 Certificate of Incorporation of Berkshire Hills Bancorp, Inc.(2)
- 3.2 Bylaws of Berkshire Hills Bancorp, Inc.(3)
- 4.1 Form of Common Stock Certificate of Berkshire Hills Bancorp, Inc. (2)
- 10.1 Amended and Restated Employment Agreement by and among Berkshire Bank, Berkshire Hills Bancorp, Inc. and Michael P. Daly (4)
- 10.2 Amended and Restated Three Year Change in Control Agreement by and among Berkshire Bank, Berkshire Hills Bancorp, Inc. and Kevin P. Riley (4)
- 10.3 Amended and Restated Three Year Change in Control Agreement by and among Berkshire Bank, Berkshire Hills Bancorp, Inc. and Sean A. Gray(7)
- 10.4 Separation and Release and Non-Solicitation and Non-Competition Agreement by and among Berkshire Bank, Berkshire Hills Bancorp, Inc. and Michael J. Oleksak (5)
- 10.5 Amended and Restated Three Year Change in Control Agreement by and among Berkshire Bank, Berkshire Hills Bancorp, Inc. and Richard M. Marotta (6)
- 10.6 Amended and Restated Three Year Change in Control Agreement by and among Berkshire Bank, Berkshire Hills Bancorp, Inc. and Linda A. Johnston (7)
- 10.7 Amended and Restated Supplemental Executive Retirement Agreement between Berkshire Bank and Michael P. Daly (8)
- 10.8 *Amended and Restated Berkshire Hills Bancorp, Inc. 2003 Equity Compensation Plan(9)
- 10.9 *Form of Berkshire Bank Employee Severance Compensation Plan(3)
- 10.10 *Berkshire Hills Bancorp, Inc. 2001 Stock-Based Incentive Plan(10)
- 10.11 *Woronoco Bancorp, Inc. 1999 Stock-Based Incentive Plan(11)
- 10.12 *Woronoco Bancorp, Inc. 2001 Stock Option Plan(12)
- 10.13 *Woronoco Bancorp, Inc. 2004 Equity Compensation Plan(13)
- 10.14 Factory Point Bancorp, Inc. 1999 Non-Employee Directors Stock Option Plan, as amended and restated (14)
- 10.15 Factory Point Bancorp, Inc. 1999 Stock Incentive Plan(14)
- 10.16 Factory Point Bancorp, Inc. 2004 Stock Incentive Plan, as amended and restated (13)
- 10.17 Form of Split Dollar Agreement entered into with Michael P. Daly, Kevin P. Riley, Sean A. Gray, Richard M. Marotta and Linda A. Johnston (15)
- 11.0 Statement re: Computation of Per Share Earnings is incorporated herein by reference to Part II, Item 8, "Financial Statements and Supplementary Data"

- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Section 1350 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(1) Incorporated by reference from the Exhibits to the Form 8-K filed on December 22, 2010.

(2) Incorporated herein by reference from the Exhibits to Form S-1, Registration Statement and amendments thereto, initially filed on March 10, 2000, Registration No. 333-32146.

(3) Incorporated herein by reference from the Exhibits to the Form 8-K as filed on February 29, 2008.

(4) Incorporated herein by reference from the Exhibits to the Form 8-K as filed on January 6, 2009.

(5) Incorporated herein by reference from the Exhibits to the Form 8-K as filed on May 5, 2011.

(6) Incorporated herein by reference from the Exhibits to the Form 10-K as filed on March 16, 2010.

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- (7) Incorporated herein by reference from the Exhibits to the Form 10-K as filed on March 16, 2011.
- (8) Incorporated herein by reference from the Exhibits to Form 10-K as filed on March 16, 2009.
- (9) Incorporated herein by reference from the Appendix to the Proxy Statement as filed on April 3, 2008.
- (10) Incorporated herein by reference from the Appendix to the Proxy Statement as filed on December 7, 2000.
- (11) Incorporated herein by reference from the Proxy Statement as filed on March 20, 2000 by Woronoco Bancorp, Inc.
- (12) Incorporated herein by reference from the Proxy Statement as filed on March 12, 2001 by Woronoco Bancorp, Inc.
- (13) Incorporated herein by reference from the Proxy Statement as filed on March 22, 2004 by Woronoco Bancorp, Inc.
- (14) Incorporated herein by reference from the Exhibits to the registration statement on Form S-8 as filed on October 10, 2007, registration No. 333-146604.
- (15) Incorporated herein by reference from the Exhibit to the Form 8-K as filed on January 19, 2011.

SIGNATURES

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

BERKSHIRE HILLS BANCORP, INC.

Dated: May 10, 2011

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

Dated: May 10, 2011

By: /s/ Kevin P. Riley
Kevin P. Riley
Executive Vice President and Chief Financial
Officer