

BERKSHIRE HILLS BANCORP INC  
Form 10-Q  
August 10, 2015  
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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: June 30, 2015

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-15781

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

Delaware 04-3510455  
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

24 North Street, Pittsfield, Massachusetts 01201  
(Address of principal executive offices) (Zip Code)

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

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

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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 30,895,052 shares of common stock, par value \$0.01 per share, outstanding as of August 7, 2015.

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FORM 10-Q

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## PART I

## ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

BERKSHIRE HILLS BANCORP, INC.  
CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)	June 30, 2015	December 31, 2014
Assets		
Cash and due from banks	\$ 177,858	\$ 54,179
Short-term investments	27,660	17,575
Total cash and cash equivalents	205,518	71,754
Trading security	14,378	14,909
Securities available for sale, at fair value	1,204,756	1,091,818
Securities held to maturity (fair values of \$87,512 and \$44,997)	86,994	43,347
Federal Home Loan Bank stock and other restricted securities	73,212	55,720
Total securities	1,379,340	1,205,794
Loans held for sale	48,514	19,493
Residential mortgages	1,637,356	1,496,204
Commercial real estate	1,907,237	1,611,567
Commercial and industrial loans	921,190	804,366
Consumer loans	818,831	768,463
Total loans	5,284,614	4,680,600
Less: Allowance for loan losses	(37,197)	(35,662)
Net loans	5,247,417	4,644,938
Premises and equipment, net	87,519	87,279
Other real estate owned	674	2,049
Goodwill	308,043	264,742
Other intangible assets	12,473	11,528
Cash surrender value of bank-owned life insurance policies	123,536	104,588
Deferred tax assets, net	39,565	28,776
Other assets	66,148	61,090
Total assets	\$ 7,518,747	\$ 6,502,031
Liabilities		
Demand deposits	\$ 1,012,003	\$ 869,302
NOW deposits	458,570	426,108
Money market deposits	1,477,770	1,407,179
Savings deposits	621,909	496,344
Time deposits	1,751,924	1,455,746
Total deposits	5,322,176	4,654,679
Short-term debt	1,058,001	900,900
Long-term Federal Home Loan Bank advances	118,483	61,676
Subordinated borrowings	89,782	89,747
Total borrowings	1,266,266	1,052,323
Other liabilities	103,154	85,742
Total liabilities	6,691,596	5,792,744
Stockholders' equity	307	265

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Common stock (\$.01 par value; 50,000,000 shares authorized and 30,879,974 shares issued and 29,521,482 shares outstanding in 2015; 26,525,466 shares issued and 25,182,566 shares outstanding in 2014)

Additional paid-in capital	700,193	585,289
Unearned compensation	(8,220	) (6,147
Retained earnings	164,644	156,446
Accumulated other comprehensive income (loss)	(396	) 6,579
Treasury stock, at cost (1,189,561 shares in 2015 and 1,342,900 shares in 2014)	(29,377	) (33,145
Total stockholders' equity	827,151	709,287
Total liabilities and stockholders' equity	\$7,518,747	\$6,502,031

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

Table of ContentsBERKSHIRE HILLS BANCORP, INC.  
CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)	Three Months Ended		Six Months Ended	
	June 30, 2015	2014	June 30, 2015	2014
Interest and dividend income				
Loans	\$51,504	\$42,309	\$95,949	\$84,803
Securities and other	8,899	8,866	17,205	16,167
Total interest and dividend income	60,403	51,175	113,154	100,970
Interest expense				
Deposits	5,292	4,478	10,241	9,199
Borrowings	2,474	2,368	4,783	4,676
Total interest expense	7,766	6,846	15,024	13,875
Net interest income	52,637	44,329	98,130	87,095
Non-interest income				
Loan related income	2,783	1,846	4,066	3,094
Mortgage banking income	1,546	691	2,799	1,063
Deposit related fees	6,442	6,610	12,119	12,049
Insurance commissions and fees	2,486	2,460	5,453	5,509
Wealth management fees	2,397	2,294	5,000	4,843
Total fee income	15,654	13,901	29,437	26,558
Other	(1,258)	) 402	(2,513)	) 926
Gain on sale of securities, net	2,384	203	2,418	237
Loss on termination of hedges	—	—	—	(8,792)
Total non-interest income	16,780	14,506	29,342	18,929
Total net revenue	69,417	58,835	127,472	106,024
Provision for loan losses	4,204	3,989	8,055	7,385
Non-interest expense				
Compensation and benefits	24,503	20,279	46,314	40,138
Occupancy and equipment	7,243	6,656	14,351	13,470
Technology and communications	4,090	3,800	7,683	7,578
Marketing and promotion	800	621	1,513	1,142
Professional services	1,375	1,024	2,647	2,176
FDIC premiums and assessments	1,143	1,029	2,272	2,038
Other real estate owned and foreclosures	251	33	502	556
Amortization of intangible assets	934	1,274	1,835	2,580
Acquisition, restructuring and conversion related expenses	8,711	190	13,132	6,491
Other	4,975	4,357	8,924	8,454
Total non-interest expense	54,025	39,263	99,173	84,623
Income before income taxes	11,188	15,583	20,244	14,016
Income tax expense	1,144	4,119	1,441	3,658
Net income	\$10,044	\$11,464	\$18,803	\$10,358
Earnings per share:				
Basic	\$0.35	\$0.46	\$0.71	\$0.42
Diluted	\$0.35	\$0.46	\$0.70	\$0.42

Weighted average common shares outstanding:



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Basic	28,301	24,715	26,557	24,707
Diluted	28,461	24,809	26,713	24,821

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

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)	Three Months Ended		Six Months Ended		
	June 30,		June 30,		
	2015	2014	2015	2014	
Net income	\$10,044	\$11,464	\$18,803	\$10,358	
Other comprehensive income, before tax:					
Changes in unrealized gain on securities available-for-sale	(16,071	) 11,113	(6,734	) 17,133	
Changes in unrealized loss on derivative hedges	784	(3,267	) (3,117	) 1,266	
Changes in unrealized gain on terminated swaps	—	—	—	3,237	
Changes in unrealized loss on pension	65	—	(1,466	) —	
Income taxes related to other comprehensive income:					
Changes in unrealized gain on securities available-for-sale	6,100	(4,261	) 2,495	(6,481	)
Changes in unrealized loss on derivative hedges	(316	) 1,322	1,256	(510	)
Changes in unrealized gain on terminated swaps	—	—	—	(1,312	)
Changes in unrealized loss on pension	(26	) —	591	—	
Total other comprehensive (loss) income	(9,464	) 4,907	(6,975	) 13,333	
Total comprehensive income	\$580	\$16,371	\$11,828	\$23,691	

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

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## BERKSHIRE HILLS BANCORP, INC.

## CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(In thousands)	Common stock Shares	Common stock Amount	Additional paid-in capital	Unearned compensation	Retained earnings	Accumulated other comprehensive (loss) income	Treasury stock	Total
Balance at December 31, 2013	25,036	\$265	\$587,247	\$ (5,563 )	\$141,958	\$ (9,057 )	\$(36,788)	\$678,062
Comprehensive income:								
Net income	—	—	—	—	10,358	—	—	10,358
Other comprehensive income	—	—	—	—	—	13,333	—	13,333
Total comprehensive income								23,691
Cash dividends declared (\$0.36 per share)	—	—	—	—	(9,122 )	—	—	(9,122 )
Treasury stock purchased	(100 )	—	—	—	—	—	(2,467 )	(2,467 )
Forfeited shares	(7 )	—	(6 )	156	—	—	(150 )	—
Exercise of stock options	72	—	—	—	(945 )	—	1,793	848
Restricted stock grants	130	—	44	(3,264 )	—	—	3,220	—
Stock-based compensation	—	—	41	1,783	—	—	—	1,824
Net tax benefit related to stock-based compensation	—	—	(1,980 )	—	—	—	—	(1,980 )
Other, net	(16 )	—	(6 )	—	—	—	(387 )	(393 )
Balance at June 30, 2014	25,115	\$265	\$585,340	\$ (6,888 )	\$142,249	\$ 4,276	\$(34,779)	\$690,463
Balance at December 31, 2014	25,183	\$265	\$585,289	\$ (6,147 )	\$156,446	\$ 6,579	\$(33,145)	\$709,287
Comprehensive income:								
Net income	—	—	—	—	18,803	—	—	18,803
Other comprehensive loss	—	—	—	—	—	(6,975 )	—	(6,975 )
Total comprehensive income								11,828
Acquisition of Hampden Bancorp, Inc. (1)	4,186	42	114,562	—	—	—	—	114,604
	—	—	—	—	(10,440 )	—	—	(10,440 )

Cash dividends declared (\$0.38 per share)									
Treasury stock purchased	—	—	—	—	—	—	—	—	—
Forfeited shares	(11 )	—	28	254	—	—	(282 )	—	—
Exercise of stock options	11	—	—	—	(165 )	—	281	116	
Restricted stock grants	174	—	283	(4,579 )	—	—	4,296	—	
Stock-based compensation	—	—	—	2,252	—	—	—	2,252	
Net tax benefit related to stock-based compensation	—	—	26	—	—	—	—	26	
Other, net	(22 )	—	5	—	—	—	(527 )	(522 )	
Balance at June 30, 2015	29,521	\$307	\$700,193	\$(8,220 )	\$164,644	\$(396 )	\$(29,377)	\$827,151	

(1) The Company's common stock includes the elimination of \$4.6 million of Berkshire Hills Bancorp stock held by a subsidiary.

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

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	Six Months Ended	
	June 30, 2015	2014
Cash flows from operating activities:		
Net income (loss)	\$18,803	\$10,358
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	8,055	7,385
Net amortization of securities	863	1,008
Change in unamortized net loan costs and premiums	836	(1,008)
Premises and equipment depreciation and amortization expense	4,282	4,037
Stock-based compensation expense	2,252	1,824
Accretion of purchase accounting entries, net	(3,071)	(3,479)
Amortization of other intangibles	1,835	2,580
Write down of other real estate owned	75	160
Excess tax loss from stock-based payment arrangements	(26)	(93)
Income from cash surrender value of bank-owned life insurance policies	(1,535)	(1,458)
Gain on sales of securities, net	(2,418)	(237)
Net (increase) decrease in loans held for sale	(28,102)	(4,345)
Loss on disposition of assets	2,084	715
Loss on sale of real estate	400	170
Loss on termination of hedges	—	3,237
Amortization of interest in tax-advantaged projects	5,748	825
Net change in other	(8,384)	3,143
Net cash provided by operating activities	1,697	24,822
Cash flows from investing activities:		
Net decrease in trading security	282	268
Proceeds from sales of securities available for sale	22,504	79,550
Proceeds from maturities, calls and prepayments of securities available for sale	94,561	68,342
Purchases of securities available for sale	(174,992)	(447,063)
Proceeds from maturities, calls and prepayments of securities held to maturity	1,875	2,764
Purchases of securities held to maturity	(45,520)	(1,021)
Net change in loans	(126,806)	(268,616)
Purchases of bank owned life insurance	431	—
Proceeds from sale of Federal Home Loan Bank stock	163	379
Purchase of Federal Home Loan Bank stock	(10,706)	(9,576)
Net investment in limited partnership tax credits	(2,500)	(2,884)
Proceeds from the sale of premises and equipment	541	1,756
Purchase of premises and equipment, net	(3,070)	(4,302)
Acquisitions, net of cash paid	83,134	423,416
Proceeds from sale of other real estate	1,476	799
Net cash (used in) provided by investing activities	(158,627)	(156,188)
(continued)		

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(In thousands)	Six Months Ended	
	June 30, 2015	2014
Cash flows from financing activities:		
Net increase (decrease) in deposits	206,354	189,568
Proceeds from Federal Home Loan Bank advances and other borrowings	3,896,000	2,935,035
Repayments of Federal Home Loan Bank advances and other borrowings	(3,801,362	) (2,945,250
Purchase of treasury stock	—	(2,467
Exercise of stock options	116	848
Excess tax loss from stock-based payment arrangements	26	93
Common stock cash dividends paid	(10,440	) (9,122
Net cash provided (used) by financing activities	290,694	168,705
Net change in cash and cash equivalents	133,764	37,339
Cash and cash equivalents at beginning of year	71,754	75,539
Cash and cash equivalents at end of year	\$205,518	\$112,878
Supplemental cash flow information:		
Interest paid on deposits	\$10,290	\$9,177
Interest paid on borrowed funds	4,555	5,533
Income taxes paid, net	324	71
Acquisition of non-cash assets and liabilities:		
Assets acquired	730,868	18,064
Liabilities assumed	(611,601	) (441,550
Other non-cash changes:		
Other net comprehensive income	(6,975	) 10,096
Real estate owned acquired in settlement of loans	460	816

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

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NOTE 1. BASIS OF PRESENTATION

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

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

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

Reclassifications

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

Recently Adopted Accounting Standards

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

Also in January 2014, the FASB issued ASU No. 2014-04, “Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure.” The objective of this guidance is to clarify when an in substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. ASU No. 2014-04 states that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, ASU No. 2014-04 requires interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. ASU No. 2014-04 is effective for interim and annual reporting periods beginning after December 15, 2014. The Company adopted the provisions of ASU No. 2014-04 effective January 1, 2015, which did not have a material effect on our consolidated financial statements. See Note 6. Loan Loss Allowance to the Consolidated Financial Statements for the disclosures required by ASU No. 2014-04.

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

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



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

### Future Application of Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09 related to the recognition of revenue from contracts with customers. The new revenue pronouncement creates a single source of revenue guidance for all companies in all industries and is more principles-based than current revenue guidance. The pronouncement provides a five-step model for a company to recognize revenue when it transfers control of goods or services to customers at an amount that reflects the consideration to which it expects to be entitled in exchange for those goods or services. The five steps are (1) identify the contract with the customer, (2) identify the separate performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the separate performance obligations and (5) recognize revenue when each performance obligation is satisfied. The standard is effective for public entities for interim and annual reporting periods beginning after December 15, 2016; early adoption is not permitted. However, in July 2015, the FASB voted to approve deferring the effective date by one year (i.e., interim and annual reporting periods beginning after December 15, 2017). Early adoption is permitted, but not before the original effective date (i.e., interim and annual reporting periods beginning after December 15, 2016). For financial reporting purposes, the standard allows for either full retrospective adoption, meaning the standard is applied to all of the periods presented, or modified retrospective adoption, meaning the standard is applied only to the most current period presented in the financial statements with the cumulative effect of initially applying the standard recognized at the date of initial application. The Company is currently evaluating the provisions of ASU No. 2014-09, and will be closely monitoring developments and additional guidance to determine the potential impact the new standard will have on our consolidated financial statements.

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

In April 2015, the FASB issued ASU No. 2015-05, "Customer's Accounting for Fees Paid in a Cloud Computing Arrangement." This ASU provides guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The new guidance does not change the accounting for a customer's accounting for service contracts. ASU No. 2015-05 is effective for interim and annual reporting periods beginning after December 15, 2015. The adoption of this pronouncement is not expected to have a material impact on our consolidated financial statements.

**NOTE 2. BANK ACQUISITION**

Hampden Bancorp, Inc.

On April 17, 2015, the Company acquired all of the outstanding common shares of Hampden Bancorp, Inc. ("Hampden"). Hampden, as a holding company, had one banking subsidiary ("Hampden Bank") that had ten branches primarily serving western

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Massachusetts. As a result of the transaction, Hampden merged into Berkshire Hills Bancorp, and Hampden Bank merged into Berkshire Bank. This business combination increases Berkshire's market share in its franchise and the goodwill recognized results from the expected synergies and earnings accretion from this combination, including future cost savings related to Hampden's operations.

On the acquisition date, Hampden had 5.167 million outstanding common shares, net of 209 thousand shares held by Berkshire Bank. Hampden shareholders received 4.186 million Berkshire common shares based on an exchange ratio of 0.81 shares of Berkshire common stock for each Hampden share. The merger qualifies as a reorganization for federal income tax purposes, and as a result, Hampden common shares exchanged for Berkshire common shares are transferred on a tax-free basis. The 4.355 million shares of Berkshire common stock issued in this exchange were valued at \$27.38 per share based on the closing price of Berkshire posted on April 17, 2015. Excluding the 169 thousand shares issued to Berkshire Bank, this resulted in a consideration value of \$114.6 million. The Hampden shares held by Berkshire Bank were valued at \$4.6 million, and the value in excess of the carrying value was recorded as a \$2.2 million non-recurring securities gain in the statement of income.

The results of Hampden's operations are included in the Company's Consolidated Statement of Income from the date of acquisition. The assets and liabilities in the Hampden acquisition were recorded at their fair value based on management's best estimate using information available as of the date of acquisition. Consideration paid, and fair values of Hampden's assets acquired and liabilities assumed, along with the resulting goodwill, are summarized in the following tables:

(in thousands)	Fair Value			As Recorded at
	As Acquired	Adjustments		Acquisition
Consideration paid:				
Berkshire Hills Bancorp common stock issued to Hampden common stockholders				\$114,604
Fair value of Hampden shares previously owned by the Company prior to acquisition				4,632
Total consideration paid				\$119,236
Recognized amounts of identifiable assets acquired and liabilities assumed, at fair value:				
Cash and short-term investments	\$83,134	\$—		\$83,134
Investment securities	72,439	(224	)(a)	72,215
Loans	501,870	(8,101	)(b)	493,769
Premises and equipment	4,449	775	)(c)	5,224
Core deposit intangibles	—	2,780	)(d)	2,780
Deferred tax assets, net	3,875	3,091	)(e)	6,966
Other assets	22,919	560	)(f)	23,479
Deposits	(482,130	)(1,439	)(g)	(483,569 )
Borrowings	(117,135	)(2,380	)(h)	(119,515 )
Other liabilities	(8,395	)(124	)(i)	(8,519 )
Total identifiable net assets	\$81,026	\$(5,062	)	\$75,964
Goodwill				\$43,272

## Explanation of Certain Fair Value Adjustments

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

(b) The adjustment represents the write down of the book value of loans to their estimated fair value based on current interest rates and expected cash flows, which includes an estimate of expected loan loss inherent in the portfolio.

Loans that met the criteria and are being accounted for in accordance with ASC 310-30 had a book value of \$28.5

million and have a fair value \$16.7 million. Non-impaired loans accounted for under ASC 310-10 had a book value of \$473.4 million and have a fair value of \$477.1 million. ASC 310-30 loans have a \$4.0 million fair value adjustment discount that is accretable in earnings over an estimated five year life using the effective yield as determined on the date of acquisition. The effective yield is periodically adjusted for changes in expected flows.  
ASC 310-10 loans

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have a \$0.4 million fair value adjustment premium that is amortized into expense over the remaining term of the loans using the effective interest method, or a straight-line method if the loan is a revolving credit facility.

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

(d) The adjustment represents the value of the core deposit base assumed in the acquisition. The core deposit asset was recorded as an identifiable intangible asset and will be amortized using a straight-line method over the average life of the deposit base, which is estimated to be nine years.

(e) Represents net deferred tax assets resulting from the fair value adjustments related to the acquired assets and liabilities, identifiable intangibles, and other purchase accounting adjustments.

The amount consists of a \$0.2 million fair value adjustment to write-down other real estate owned based on market report data, a \$0.3 million write-down of mortgage servicing assets acquired based on valuation reports, a \$0.5 million write-off of prepaid assets due to obsolescence, and a \$1.6 million measurement period adjustment increase to current taxes receivable. These adjustments are not accretable into earnings in the statement of income.

(f) The adjustment is necessary because the weighted average interest rate of time deposits exceeded the cost of similar funding at the time of acquisition. The amount will be amortized using an accelerated method over the estimated useful life of two years.

(g) Adjusts borrowings to their estimated fair value, which is calculated based on the amount of prepayment penalties that would be incurred if the borrowings were exited with the Federal Home Loan Bank of Boston on the date of acquisition.

(h) Adjusts the book value of other liabilities to their estimated fair value at the acquisition date. The adjustment consists of a \$0.4 million write-off of deferred revenue, a \$0.3 million increase to post-retirement liabilities due to change-in-control provisions, and a \$0.2 million increase related to non-level leases.

Except for collateral dependent loans with deteriorated credit quality, the fair values for loans acquired were estimated using cash flow projections based on the remaining maturity and repricing terms. Cash flows were adjusted by estimating future credit losses and the rate of prepayments. Projected monthly cash flows were then discounted to present value using a risk-adjusted market rate for similar loans. For collateral dependent loans with deteriorated credit quality, to estimate the fair value we analyzed the value of the underlying collateral of the loans, assuming the fair values of the loans were derived from the eventual sale of the collateral. Those values were discounted using market derived rates of return, with consideration given to the period of time and costs associated with the foreclosure and disposition of the collateral. There was no carryover of the seller's allowance for credit losses associated with the loans that were acquired in the acquisition as the loans were initially recorded at fair value.

Information about the acquired loan portfolio subject to ASC 310-30 as of April 17, 2015 is, as follows (in thousands):

	ASC 310-30 Loans
Gross contractual receivable amounts at acquisition	\$28,505
Contractual cash flows not expected to be collected (nonaccretable discount)	(7,884 )
Expected cash flows at acquisition	20,621
Interest component of expected cash flows (accretable discount)	(3,950 )
Fair value of acquired loans	\$16,671

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

The fair value of savings and transaction deposit accounts acquired in the Hampden acquisition was assumed to approximate the carrying value as these accounts have no stated maturity and are payable on demand. The fair value of time deposits was estimated by discounting the contractual future cash flows using market rates offered for time

deposits of similar remaining maturities.

Direct acquisition and integration costs of the Hampden acquisition were expensed as incurred, and totaled \$8.0 million during the six months ending June 30, 2015 and there were \$0 million for the same period of 2014.

The Company has determined it is impractical to report the amounts of revenue and earnings of the acquired entity since the acquisition date. Due to the integration of its operations with those of the organization, the Company does not record revenue

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and earnings separately for these operations. The revenue and earnings of these operations are included in the consolidated statement of income.

The following table presents selected unaudited pro forma financial information reflecting the acquisition assuming it was completed as of January 1, 2014. The unaudited pro forma financial information includes adjustments for scheduled amortization and accretion of fair value adjustments recorded at the time of the merger. These adjustments would have been different if they had been recorded on January 1, 2014, and they do not include the impact of prepayments. The unaudited pro forma financial information is presented for illustrative purposes only and is not necessarily indicative of the combined financial results of the Company and Hampden had the transaction actually been completed at the beginning of the periods presented, nor does it indicate future results for any other interim or full-year period. Pro forma basic and diluted earnings per common share were calculated using Berkshire's actual weighted-average shares outstanding for the periods presented plus the 4.2 million shares issued as a result of the Hampden acquisition. The unaudited pro forma information is based on the actual financial statements of Berkshire and Hampden for the periods shown until the date of acquisition, at which time the Hampden operations became included in Berkshire's financial statements.

The unaudited pro forma information, for the six months ended June 30, 2015 and 2014, set forth below reflects adjustments related to (a) amortization and accretion of purchase accounting fair value adjustments; (b) amortization of core deposit intangible; and (c) an estimated tax rate of 40.5 percent. Direct acquisition expenses incurred by Berkshire during 2015 as noted above, and \$7.7 million recorded by Hampden are reversed for the purposes of this unaudited pro forma information. Also excluded during 2015, was a \$2.2 million gain on Hampden stock that was held by Berkshire at the time of acquisition. Furthermore, the unaudited pro forma information does not reflect management's estimate of any revenue-enhancing or anticipated cost-savings that could occur after June 30, 2015.

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

	Pro Forma (unaudited)	
	Six Months Ended June 30,	
	2015	2014
Net interest income	\$105,076	\$98,639
Non-interest income	28,010	20,708
Net income	22,244	13,435
Pro forma earnings per share:		
Basic	\$0.77	\$0.46
Diluted	\$0.76	\$0.46

### NOTE 3. TRADING SECURITY

The Company holds a tax advantaged economic development bond that is being accounted for at fair value. The security had an amortized cost of \$12.3 million and \$12.6 million, and a fair value of \$14.4 million and \$14.9 million, at June 30, 2015 and December 31, 2014, respectively. As discussed further in Note 13 - Derivative Financial Instruments and Hedging Activities, the Company has entered into a swap contract to swap-out the fixed rate of the security in exchange for a variable rate. The Company does not purchase securities with the intent of selling them in the near term, and there are no other securities in the trading portfolio at June 30, 2015.

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## NOTE 4. SECURITIES AVAILABLE FOR SALE AND HELD TO MATURITY

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

(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2015				
Securities available for sale				
Debt securities:				
Municipal bonds and obligations	\$ 147,779	\$4,226	\$(1,704 )	\$ 150,301
Government-guaranteed residential mortgage-backed securities	61,533	511	(177 )	61,867
Government-sponsored residential mortgage-backed securities	886,974	7,005	(4,281 )	889,698
Corporate bonds	51,651	137	(1,030 )	50,758
Trust preferred securities	12,747	590	(72 )	13,265
Other bonds and obligations	3,197	—	(30 )	3,167
Total debt securities	1,163,881	12,469	(7,294 )	1,169,056
Marketable equity securities	31,616	5,998	(1,914 )	35,700
Total securities available for sale	1,195,497	18,467	(9,208 )	1,204,756
Securities held to maturity				
Municipal bonds and obligations	49,343	25	(992 )	48,376
Government-sponsored residential mortgage-backed securities	69	3	—	72
Tax advantaged economic development bonds	37,251	1,509	(27 )	38,733
Other bonds and obligations	331	—	—	331
Total securities held to maturity	86,994	1,537	(1,019 )	87,512
Total	\$ 1,282,491	\$ 20,004	\$(10,227 )	\$ 1,292,268
December 31, 2014				
Securities available for sale				
Debt securities:				
Municipal bonds and obligations	\$ 127,014	\$6,859	\$(174 )	\$ 133,699
Government-guaranteed residential mortgage-backed securities	68,972	702	(206 )	69,468
Government-sponsored residential mortgage-backed securities	755,893	7,421	(3,130 )	760,184
Corporate bonds	55,134	120	(1,103 )	54,151
Trust preferred securities	16,607	820	(1,212 )	16,215
Other bonds and obligations	3,211	—	(52 )	3,159
Total debt securities	1,026,831	15,922	(5,877 )	1,036,876
Marketable equity securities	48,993	7,322	(1,373 )	54,942
Total securities available for sale	1,075,824	23,244	(7,250 )	1,091,818
Securities held to maturity				
Municipal bonds and obligations	4,997	—	—	4,997
Government-sponsored residential mortgage-backed securities	70	4	—	74



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Tax advantaged economic development bonds	37,948	1,680	(34	) 39,594
Other bonds and obligations	332	—	—	332
Total securities held to maturity	43,347	1,684	(34	) 44,997
Total	\$ 1,119,171	\$24,928	\$(7,284	) \$1,136,815

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The amortized cost and estimated fair value of available for sale (“AFS”) and held to maturity (“HTM”) securities, segregated by contractual maturity at June 30, 2015 are presented below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations. Mortgage-backed securities are shown in total, as their maturities are highly variable. Equity securities have no maturity and are also shown in total.

(In thousands)	Available for sale		Held to maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Within 1 year	\$31,405	\$30,472	\$4,320	\$4,320
Over 1 year to 5 years	1,255	1,270	18,924	19,751
Over 5 years to 10 years	12,364	12,590	12,904	13,066
Over 10 years	170,350	173,159	50,777	50,303
Total bonds and obligations	215,374	217,491	86,925	87,440
Marketable equity securities	31,616	35,700	—	—
Residential mortgage-backed securities	948,507	951,565	69	72
Total	\$1,195,497	\$1,204,756	\$86,994	\$87,512

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

(In thousands)	Less Than Twelve Months		Over Twelve Months		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
June 30, 2015						
Securities available for sale						
Debt securities:						
Municipal bonds and obligations	\$ 618	\$ 11,657	\$ 1,086	\$ 30,986	\$ 1,704	\$ 42,643
Government-guaranteed residential mortgage-backed securities	128	12,773	49	14,035	177	26,808
Government-sponsored residential mortgage-backed securities	3,297	180,831	984	122,864	4,281	303,695
Corporate bonds	—	—	1,030	36,158	1,030	36,158
Trust preferred securities	—	—	72	928	72	928
Other bonds and obligations	30	3,025	—	—	30	3,025
Total debt securities	4,073	208,286	3,221	204,971	7,294	413,257
Marketable equity securities	1,871	8,972	43	299	1,914	9,271
Total securities available for sale	5,944	217,258	3,264	205,270	9,208	422,528
Securities held to maturity						
Municipal bonds and obligations	176	4,880	816	30,981	992	35,861
Tax advantaged economic development bonds	27	7,847	—	—	27	7,847
Total securities held to maturity	203	12,727	816	30,981	1,019	43,708
Total	\$ 6,147	\$ 229,985	\$ 4,080	\$ 236,251	\$ 10,227	\$ 466,236



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December 31, 2014

## Securities available for sale

## Debt securities:

Municipal bonds and obligations	\$8	\$1,001	\$166	\$7,206	\$174	\$8,207
Government guaranteed residential mortgage-backed securities	46	7,122	160	16,727	206	23,849
Government-sponsored residential mortgage-backed securities	236	30,672	2,894	167,473	3,130	198,145
Corporate bonds	1,103	39,571	—	—	1,103	39,571
Trust preferred securities	65	935	1,147	2,408	1,212	3,343
Other bonds and obligations	—	—	52	3,035	52	3,035
Total debt securities	1,458	79,301	4,419	196,849	5,877	276,150

Marketable equity securities	1,039	9,902	334	4,755	1,373	14,657
Total securities available for sale	2,497	89,203	4,753	201,604	7,250	290,807

## Securities held to maturity

Tax advantaged economic development bonds	—	—	34	7,972	34	7,972
Total securities held to maturity	—	—	34	7,972	34	7,972

Total	\$2,497	\$89,203	\$4,787	\$209,576	\$7,284	\$298,779
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## Debt Securities

The Company expects to recover its amortized cost basis on all debt securities in its AFS and HTM portfolios. Furthermore, the Company does not intend to sell nor does it anticipate that it will be required to sell any of its securities in an unrealized loss position as of June 30, 2015, prior to this recovery. The Company's ability and intent to hold these securities until recovery is supported by the Company's strong capital and liquidity positions as well as its historically low portfolio turnover. The following summarizes, by investment security type, the basis for the conclusion that the debt securities in an unrealized loss position within the Company's AFS and HTM portfolios were not other-than-temporarily impaired at June 30, 2015:

## AFS municipal bonds and obligations

At June 30, 2015, 41 of the total 186 securities in the Company's portfolio of AFS municipal bonds and obligations were in unrealized loss positions. Aggregate unrealized losses represented 3.8% of the amortized cost of securities in unrealized loss positions. The Company continually monitors the municipal bond sector of the market carefully and periodically evaluates the appropriate level of exposure to the market. At this time, the Company feels the bonds in this portfolio carry minimal risk of default and the Company is appropriately compensated for that risk. There were no material underlying credit downgrades during the quarter. All securities are performing.

## AFS residential mortgage-backed securities

At June 30, 2015, 86 out of the total 253 securities in the Company's portfolios of AFS residential mortgage-backed securities were in unrealized loss positions. Aggregate unrealized losses represented 1.2% of the amortized cost of securities in unrealized loss positions. The Federal National Mortgage Association ("FNMA"), Federal Home Loan Mortgage Corporation ("FHLMC") and Government National Mortgage Association ("GNMA") guarantee the contractual cash flows of all of the Company's residential mortgage-backed securities. The securities are investment grade rated and there were no material underlying credit downgrades during the quarter. All securities are performing.

## AFS corporate bonds

At June 30, 2015, 3 out of 5 securities in the Company's portfolio of AFS corporate bonds were in an unrealized loss position. The aggregate unrealized loss represents 2.8% of the amortized cost of bonds in unrealized loss positions. The Company reviews the financial strength of all of these bonds and has concluded that the amortized cost remains

supported by the expected future cash flows of these securities. None of the bonds are investment grade rated.

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At June 30, 2015, \$0.9 million of the total unrealized losses was attributable to a \$31.4 million investment. The Company evaluated this security, with a Level 2 fair value of \$30.5 million, for potential other-than-temporary impairment (“OTTI”) at June 30, 2015 and determined that OTTI was not evident based on both the Company’s ability and intent to hold the security until the recovery of its remaining amortized cost.

### AFS trust preferred securities

At June 30, 2015, 1 out of the 4 securities in the Company’s portfolio of AFS trust preferred securities was in an unrealized loss position. Aggregate unrealized losses represented 7.2% of the amortized cost of the security in an unrealized loss position. The Company’s evaluation of the present value of expected cash flows on this security supports its conclusions about the recoverability of the securities’ amortized cost basis. This security is investment grade rated. The Company reviews the financial strength of all of the single issue trust issuers and has concluded that the amortized cost remains supported by the market value of these securities and they are performing.

### AFS other bonds and obligations

At June 30, 2015, 4 of the total 8 securities in the Company’s portfolio of other bonds and obligations were in unrealized loss positions. Aggregate unrealized losses represented 0.9% of the amortized cost of securities in unrealized loss positions. The securities are investment grade rated and there were no material underlying credit downgrades during the quarter. All securities are performing.

### Marketable Equity Securities

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

At June 30, 2015, 4 out of the total 24 securities in the Company’s portfolio of marketable equity securities were in an unrealized loss position. The unrealized loss represented 17.1% of the amortized cost of the securities. The Company has the ability and intent to hold the securities until recovery of their cost basis and does not consider the securities other-than-temporarily impaired at June 30, 2015. As new information becomes available in future periods, changes to the Company’s assumptions may be warranted and could lead to a different conclusion regarding the OTTI of these securities.

### Securities Held to Maturity

#### HTM Municipal bonds and obligations

At June 30, 2015, 30 of the total 77 securities in the Company’s portfolio of other bonds and obligations were in unrealized loss positions. Aggregate unrealized losses represented 2.7% of the amortized cost of securities in unrealized loss positions. The securities are investment grade rated and there were no material underlying credit downgrades during the quarter. All securities are performing.

## NOTE 5. LOANS

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

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

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



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(In thousands)	June 30, 2015			December 31, 2014		
	Business Activities	Acquired Loans	Total	Business Activities	Acquired Loans	Total
Residential mortgages:						
1-4 family	\$1,238,456	\$366,046	\$1,604,502	\$1,199,408	\$268,734	\$1,468,142
Construction	30,247	2,607	32,854	27,044	1,018	28,062
Total residential mortgages	1,268,703	368,653	1,637,356	1,226,452	269,752	1,496,204
Commercial real estate:						
Construction	181,157	44,230	225,387	169,189	4,201	173,390
Single and multi-family	149,716	47,950	197,666	140,050	53,168	193,218
Other commercial real estate	1,105,381	378,803	1,484,184	1,030,837	214,122	1,244,959
Total commercial real estate	1,436,254	470,983	1,907,237	1,340,076	271,491	1,611,567
Commercial and industrial loans:						
Asset based lending	339,331	—	339,331	341,246	—	341,246
Other commercial and industrial loans	490,594	91,265	581,859	411,945	51,175	463,120
Total commercial and industrial loans	829,925	91,265	921,190	753,191	51,175	804,366
Total commercial loans	2,266,179	562,248	2,828,427	2,093,267	322,666	2,415,933
Consumer loans:						
Home equity	294,878	56,275	351,153	252,681	65,951	318,632
Auto and other	315,500	152,178	467,678	346,480	103,351	449,831
Total consumer loans	610,378	208,453	818,831	599,161	169,302	768,463
Total loans	\$4,145,260	\$1,139,354	\$5,284,614	\$3,918,880	\$761,720	\$4,680,600

The carrying amount of the acquired loans at June 30, 2015 totaled \$1.1 billion. A subset of these loans was determined to have evidence of credit deterioration at acquisition date, which is accounted for in accordance with ASC 310-30. These purchased credit-impaired loans presently maintain a carrying value of \$24.9 million (and a note balance of \$45.2). These loans are evaluated for impairment through the periodic reforecasting of expected cash flows. Loans that were considered not impaired at the acquisition date had a carrying amount of \$1.1 billion.

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

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



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(In thousands)	Three Months Ended June 30,			
	2015	2014		
Balance at beginning of period	\$3,431	\$3,154		
Acquisitions	4,178	—		
Sales	—	—		
Reclassification form nonaccretable difference for loans with improved cash flows	405	39		
Change in cash flows that do not affect nonaccretable difference	—	(149	)	
Accretion	(1,474	)	(604	)
Balance at end of period	\$6,540	\$2,440		
(In thousands)	Six Months Ended June 30,			
	2015	2014		
Balance at beginning of period	\$2,541	\$2,559		
Acquisitions	4,178	—		
Sales	—	—		
Reclassification form nonaccretable difference for loans with improved cash flows	1,736	1,579		
Change in cash flows that do not affect nonaccretable difference	—	(149	)	
Accretion	(1,915	)	(1,549	)
Balance at end of period	\$6,540	\$2,440		

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The following is a summary of past due loans at June 30, 2015 and December 31, 2014:

## Business Activities Loans

(in thousands)	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total Loans	Past Due > 90 days and Accruing
June 30, 2015							
Residential mortgages:							
1-4 family	\$1,915	\$1,073	\$3,777	\$6,765	\$1,231,691	\$1,238,456	\$913
Construction	—	—	—	—	30,247	30,247	—
Total	1,915	1,073	3,777	6,765	1,261,938	1,268,703	913
Commercial real estate:							
Construction	—	—	199	199	180,958	181,157	—
Single and multi-family	135	260	262	657	149,059	149,716	187
Other commercial real estate	993	1,819	6,896	9,708	1,095,673	1,105,381	442
Total	1,128	2,079	7,357	10,564	1,425,690	1,436,254	629
Commercial and industrial loans:							
Asset based lending	—	—	—	—	339,331	339,331	—
Other commercial and industrial loans	355	438	2,447	3,240	487,354	490,594	—
Total	355	438	2,447	3,240	826,685	829,925	—
Consumer loans:							
Home equity	60	—	2,623	2,683	292,195	294,878	1,194
Auto and other	928	120	293	1,341	314,159	315,500	2
Total	988	120	2,916	4,024	606,354	610,378	1,196
Total	\$4,386	\$3,710	\$16,497	\$24,593	\$4,120,667	\$4,145,260	\$2,738

## Business Activities Loans

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

Commercial and industrial loans:								
Asset based lending	—	—	—	—	341,246	341,246	—	
Other commercial and industrial loans	1,040	498	856	2,394	409,551	411,945	6	
Total	1,040	498	856	2,394	750,797	753,191	6	
Consumer loans:								
Home equity	333	1,000	1,387	2,720	249,961	252,681	230	
Auto and other	831	65	315	1,211	345,269	346,480	10	
Total	1,164	1,065	1,702	3,931	595,230	599,161	240	
Total	\$9,320	\$4,980	\$17,172	\$31,472	\$3,887,408	\$3,918,880	\$2,394	

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## Acquired Loans

(in thousands)	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Acquired Credit Impaired	Total Loans	Past Due > 90 days and Accruing
June 30, 2015							
Residential mortgages:							
1-4 family	\$1,622	\$514	\$1,787	\$3,923	\$2,615	\$366,046	\$417
Construction	—	—	—	—	—	2,607	—
Total	1,622	514	1,787	3,923	2,615	368,653	417
Commercial real estate:							
Construction	—	—	664	664	3,289	44,230	—
Single and multi-family	310	—	158	468	1,798	47,950	—
Other commercial real estate	445	—	2,786	3,231	15,179	378,803	603
Total	755	—	3,608	4,363	20,266	470,983	603
Commercial and industrial loans:							
Asset based lending	—	—	—	—	—	—	—
Other commercial and industrial loans	1,323	50	584	1,957	1,711	91,265	—
Total	1,323	50	584	1,957	1,711	91,265	—
Consumer loans:							
Home equity	78	41	939	1,058	113	56,275	212
Auto and other	661	825	544	2,030	153	152,178	—
Total	739	866	1,483	3,088	266	208,453	212
Total	\$4,439	\$1,430	\$7,462	\$13,331	\$24,858	\$1,139,354	\$1,232

## Acquired Loans

(in thousands)	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Acquired Credit Impaired	Total Loans	Past Due > 90 days and Accruing
December 31, 2014							
Residential mortgages:							
1-4 family	\$1,133	\$638	\$1,651	\$3,422	\$375	\$268,734	\$269
Construction	—	—	—	—	—	1,018	—
Total	1,133	638	1,651	3,422	375	269,752	269
Commercial real estate:							
Construction	—	—	691	691	1,296	4,201	—
Single and multi-family	277	—	572	849	5,477	53,168	—
Other commercial real estate	—	715	2,004	2,719	5,504	214,122	329
Total	277	715	3,267	4,259	12,277	271,491	329
Commercial and industrial loans:							
Asset based lending	—	—	—	—	—	—	—

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Other commercial and industrial loans	202	32	855	1,089	986	51,175	—
Total	202	32	855	1,089	986	51,175	—
Consumer loans:							
Home equity	176	95	1,049	1,320	171	65,951	466
Auto and other	1,170	944	1,363	3,477	—	103,351	194
Total	1,346	1,039	2,412	4,797	171	169,302	660
Total	\$2,958	\$2,424	\$8,185	\$13,567	\$13,809	\$761,720	\$1,258

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The following is summary information pertaining to non-accrual loans at June 30, 2015 and December 31, 2014:

(In thousands)	June 30, 2015			December 31, 2014		
	Business Activities Loans	Acquired Loans (1)	Total	Business Activities Loans	Acquired Loans (2)	Total
<b>Residential mortgages:</b>						
1-4 family	\$2,864	\$1,370	\$4,234	\$2,526	\$1,382	\$3,908
Construction	—	—	—	—	—	—
Total	2,864	1,370	4,234	2,526	1,382	3,908
<b>Commercial real estate:</b>						
Construction	199	—	199	720	—	720
Single and multi-family	75	158	233	458	141	599
Other commercial real estate	6,454	2,183	8,637	8,762	1,675	10,437
Total	6,728	2,341	9,069	9,940	1,816	11,756
<b>Commercial and industrial loans:</b>						
Other commercial and industrial loans	2,447	547	2,994	850	811	1,661
Total	2,447	547	2,994	850	811	1,661
<b>Consumer loans:</b>						
Home equity	1,429	728	2,157	1,157	583	1,740
Auto and other	291	543	834	305	1,169	1,474
Total	1,720	1,271	2,991	1,462	1,752	3,214
Total non-accrual loans	\$13,759	\$5,529	\$19,288	\$14,778	\$5,761	\$20,539

(1) At quarter end June 30, 2015, acquired credit impaired loans accounted for \$0.7 million of non-accrual loans that are not presented in the above table.

(2) At December 31, 2014, acquired credit impaired loans accounted for \$1.2 million of non-accrual loans that are not presented in the above table.

Loans evaluated for impairment as of June 30, 2015 and December 31, 2014 were as follows:

## Business Activities Loans

(In thousands)	Residential mortgages	Commercial real estate	Commercial and industrial loans	Consumer	Total
June 30, 2015					
Loans receivable:					
Balance at end of period					
Individually evaluated for impairment	\$2,926	\$19,100	\$8,410	\$605	\$31,041
Collectively evaluated	1,265,777	1,417,154	821,515	609,773	4,114,219
Total	\$1,268,703	\$1,436,254	\$829,925	\$610,378	\$4,145,260

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## Business Activities Loans

(In thousands)	Residential mortgages	Commercial real estate	Commercial and industrial loans	Consumer	Total
December 31, 2014					
Loans receivable:					
Balance at end of year					
Individually evaluated for impairment	\$3,238	\$22,015	\$ 743	\$452	\$26,448
Collectively evaluated for impairment	1,223,214	1,318,061	752,448	598,709	3,892,432
Total	\$1,226,452	\$1,340,076	\$ 753,191	\$599,161	\$3,918,880
Acquired Loans					
(In thousands)	Residential mortgages	Commercial real estate	Commercial and industrial loans	Consumer	Total
June 30, 2015					
Loans receivable:					
Balance at end of Period					
Individually evaluated for impairment	\$743	\$7,338	\$ 33	\$320	\$8,434
Collectively evaluated	367,910	463,645	91,232	208,133	1,130,920
Total	\$368,653	\$470,983	\$ 91,265	\$208,453	\$1,139,354
Acquired Loans					
(In thousands)	Residential mortgages	Commercial real estate	Commercial and industrial loans	Consumer	Total
December 31, 2014					
Loans receivable:					
Balance at end of year					
Individually evaluated for impairment	\$695	\$5,637	\$ 39	\$199	\$6,570
Collectively evaluated for impairment	269,057	265,854	51,136	169,103	755,150
Total	\$269,752	\$271,491	\$ 51,175	\$169,302	\$761,720

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The following is a summary of impaired loans at June 30, 2015:

## Business Activities Loans

(In thousands)	June 30, 2015		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance:			
Residential mortgages - 1-4 family	\$2,043	\$2,043	\$—
Commercial real estate - construction	2,140	2,140	—
Commercial real estate - single and multifamily	—	—	—
Other commercial real estate loans	15,958	15,958	—
Other commercial and industrial loans	6,669	6,669	—
Consumer - home equity	493	493	—
Consumer - other	112	112	—
With an allowance recorded:			
Residential mortgages - 1-4 family	\$796	\$883	\$87
Commercial real estate - construction	—	—	—
Commercial real estate - single and multifamily	—	—	—
Other commercial real estate loans	973	1,003	30
Other commercial and industrial loans	35	1,741	1,706
Consumer - home equity	—	—	—
Total			
Residential mortgages	\$2,839	\$2,926	\$87
Commercial real estate	19,071	19,101	30
Commercial and industrial loans	6,704	8,410	1,706
Consumer	605	605	—
Total impaired loans	\$29,219	\$31,042	\$1,823



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## Acquired Loans

	June 30, 2015		
(In thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance:			
Residential mortgages - 1-4 family	\$442	\$442	\$—
Commercial real estate - construction	664	664	—
Commercial real estate - single and multifamily	—	—	—
Other commercial real estate loans	1,915	1,915	—
Other commercial and industrial loans	33	33	—
Consumer - home equity	320	320	—
With an allowance recorded:			
Residential mortgages - 1-4 family	\$262	\$301	\$39
Commercial real estate - construction	—	—	—
Commercial real estate - single and multifamily	2,807	2,847	40
Other commercial real estate loans	1,786	1,912	126
Consumer - home equity	—	—	—
Total			
Residential mortgages	\$704	\$743	\$39
Commercial real estate	7,172	7,338	166
Commercial and industrial loans	33	33	—
Consumer	320	320	—
Total impaired loans	\$8,229	\$8,434	\$205

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

## Business Activities Loans

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

## Acquired Loans

(In thousands)	December 31, 2014		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance:			
Residential mortgages - 1-4 family	\$189	\$189	\$—
Other commercial real estate loans	5,206	5,206	—
Other commercial and industrial loans	39	39	—
Consumer - home equity	—	—	—
With an allowance recorded:			
Residential mortgages - 1-4 family	\$458	\$506	\$48
Other commercial real estate loans	383	431	48
Consumer - home equity	124	199	75
Total			
Residential mortgages	\$647	\$695	\$48
Other commercial real estate loans	5,589	5,637	48
Other commercial and industrial loans	39	39	—
Consumer - home equity	124	199	75

Total impaired loans	\$6,399	\$6,570	\$171
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The following is a summary of the average recorded investment and interest income recognized on impaired loans as of June 30, 2015 and 2014:

## Business Activities Loans

(in thousands)	Six Months Ended June 30, 2015		Six Months Ended June 30, 2014	
	Average Recorded Investment	Cash Basis Interest Income Recognized	Average Recorded Investment	Cash Basis Interest Income Recognized
With no related allowance:				
Residential mortgages - 1-4 family	\$2,281	\$ 41	\$4,661	\$ 99
Commercial real estate - construction	2,466	1	—	—
Commercial real estate - single and multifamily	120	—	17,308	312
Other commercial real estate loans	12,734	170	2,397	—
Commercial and industrial loans	1,447	3	583	14
Consumer - home equity	360	1	300	3
Consumer - other	114	2	123	2
With an allowance recorded:				
Residential mortgages - 1-4 family	\$764	\$ 17	\$482	\$ 3
Commercial real estate - construction	—	—	—	—
Commercial real estate - single and multifamily	—	—	2,858	—
Other commercial real estate loans	6,629	92	—	—
Commercial and industrial loans	329	2	2,055	44
Consumer - home equity	—	—	—	—
Total				
Residential mortgages	\$3,045	\$ 58	\$5,143	\$ 102
Commercial real estate	21,949	263	22,563	312
Commercial and industrial loans	1,776	5	2,638	58
Consumer loans	474	3	423	5
Total impaired loans	\$27,244	\$ 329	\$30,767	\$ 477



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## Acquired Loans

(in thousands)	Six Months Ended June 30, 2015		Six Months Ended June 30, 2014	
	Average Recorded Investment	Cash Basis Interest Income Recognized	Average Recorded Investment	Cash Basis Interest Income Recognized
With no related allowance:				
Residential mortgages - 1-4 family	\$569	\$ 2	\$930	\$ 5
Commercial real estate - construction	664	60	—	—
Commercial real estate - single and multifamily	254	—	—	—
Other commercial real estate loans	1,977	3	4,392	51
Other commercial and industrial loans	51	3	537	8
Consumer - home equity	355	6	51	—
Consumer - other	—	—	—	—
With an allowance recorded:				
Residential mortgages - 1-4 family	\$310	\$ 5	\$363	\$ 1
Commercial real estate - single and multifamily	2,872	63	—	—
Other commercial real estate loans	845	59	1,489	55
Other commercial and industrial loans	—	—	68	3
Total				
Residential mortgages	\$879	\$ 7	\$1,293	\$ 6
Other commercial real estate loans	6,612	185	5,881	106
Commercial and industrial loans	51	3	605	11
Consumer loans	355	6	51	—
Total impaired loans	\$7,897	\$ 201	\$7,830	\$ 123

## Troubled Debt Restructuring Loans

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

The following tables include the recorded investment and number of modifications identified during the three and six months ended June 30, 2015 and for the three and six months ended June 30, 2014, respectively. The table includes the recorded investment in the loans prior to a modification and also the recorded investment in the loans after the loans were restructured. The modifications for the three and six months ending June 30, 2015 were attributable to interest rate concessions, maturity date extensions and modified payment terms. The modifications for the three and six months ending June 30, 2014 were attributable to concessions granted as ordered by bankruptcy court, interest rate concessions and maturity date extensions.

(Dollars in thousands)	Three Months Ended June 30, 2015		
	Number of Modifications	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings			
Commercial - Construction	1	\$ 1,877	\$ 1,877

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Commercial - Other	1	1,694	1,694
Commercial and industrial - Other	4	8,159	8,159
Total	6	\$ 11,730	\$ 11,730

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		Six Months Ended June 30, 2015	
(Dollars in thousands)	Number of Modifications	Pre-Modification Outstanding Investment	Post-Modification Recorded Investment
Troubled Debt Restructurings			
Commercial - Construction	1	\$ 2,000	\$ 2,000
Commercial - Other	2	1,694	1,694
Commercial and industrial - Other	5	8,192	8,192
Total	8	\$ 11,886	\$ 11,886
		Three Months Ended June 30, 2014	
(Dollars in thousands)	Number of Modifications	Pre-Modification Outstanding Investment	Post-Modification Recorded Investment
Troubled Debt Restructurings			
Residential - 1-4 Family	2	\$ 247	\$ 247
Commercial - single and multifamily	1	623	623
Commercial - other	6	4,804	4,804
Total	9	\$ 5,674	\$ 5,674
		Six Months Ended June 30, 2014	
(Dollars in thousands)	Number of Modifications	Pre-Modification Outstanding Investment	Post-Modification Recorded Investment
Troubled Debt Restructurings			
Residential - 1-4 Family	3	\$ 369	\$ 366
Commercial - single and multifamily	1	623	623
Commercial - other	6	4,804	4,804
Total	10	\$ 5,796	\$ 5,793

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

		Modifications that Subsequently Defaulted Three Months Ended June 30, 2015	
		Number of Contracts Recorded Investment	
Troubled Debt Restructurings			
Commercial - Other	1		\$ 668
		Modifications that Subsequently Defaulted Six Months Ended June 30, 2015	
		Number of Contracts Recorded Investment	
Troubled Debt Restructurings			
Commercial - Other	1		\$ 649
		Modifications that Subsequently Defaulted Three Months Ended June 30, 2014	
		Number of Contracts Recorded Investment	
Troubled Debt Restructurings			
Commercial - Other	2		\$ 158



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	Modifications that Subsequently Defaulted Six Months Ended June 30, 2014	
	Number of Contracts	Recorded Investment
Troubled Debt Restructurings		
Commercial - Other	2	\$ 158

The following table presents the Company's TDR activity for the three and six months ended June 30, 2015 and 2014:

	Three Months Ended June 30,	
(In thousands)	2015	2014
Balance at beginning of the period	\$17,204	\$10,112
Principal payments	(607	) (88
TDR status change (1)	—	(589
Other reductions/increases (2)	(611	) 4
Newly identified TDRs	9,730	5,674
Balance at end of the period	\$25,716	\$15,113
	Six Months Ended June 30,	
(In thousands)	2015	2014
Balance at beginning of the period	\$16,714	\$10,822
Principal payments	(1,091	) (960
TDR status change (1)	—	(641
Other reductions/increases (2)	(1,793	) 99
Newly identified TDRs	11,886	5,793
Balance at end of the period	\$25,716	\$15,113

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

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

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

As of June 30, 2015, the Company maintained foreclosed residential real estate property with a fair value of \$119 thousand. Additionally, residential mortgage loans collateralized by real estate property that are in the process of foreclosure totaled \$5.3 million. As of December 31, 2014, foreclosed residential real estate property totaled \$1.3 million.

**NOTE 6. LOAN LOSS ALLOWANCE**

Activity in the allowance for loan losses for the six months ended June 30, 2015 and 2014 was as follows:

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Business Activities Loans (In thousands)	Residential mortgages	Commercial real estate	Commercial and industrial loans	Consumer	Unallocated	Total
June 30, 2015						
Balance at beginning of period	\$6,836	\$14,690	\$5,206	\$5,928	\$135	\$32,795
Charged-off loans	446	4,422	372	462	—	5,702
Recoveries on charged-off loans	113	146	154	127	—	540
Provision/(releases) for loan losses	(32)	2,553	4,178	(679)	(427)	5,593
Balance at end of period	\$6,471	\$12,967	\$9,166	\$4,914	\$(292)	\$33,226
Individually evaluated for impairment	87	30	1,706	—	—	1,823
Collectively evaluated	6,384	12,937	7,460	4,914	(292)	31,403
Total	\$6,471	\$12,967	\$9,166	\$4,914	\$(292)	\$33,226
June 30, 2014						
Balance at beginning of period	\$6,937	\$13,705	\$5,173	\$3,644	\$68	\$29,527
Charged-off loans	1,159	1,645	1,426	571	—	4,801
Recoveries on charged-off loans	64	6	22	177	—	269
Provision/(releases) for loan losses	(299)	2,389	1,396	1,597	143	5,226
Balance at end of period	\$5,543	\$14,455	\$5,165	\$4,847	\$211	\$30,221
Individually evaluated for impairment	57	712	475	—	—	1,244
Collectively evaluated	5,486	13,743	4,690	4,847	211	28,977
Total	\$5,543	\$14,455	\$5,165	\$4,847	\$211	\$30,221
June 30, 2015						
Balance at beginning of period	\$615	\$790	\$1,093	\$369	\$—	\$2,867
Charged-off loans	375	587	336	608	—	1,906
Recoveries on charged-off loans	41	395	56	56	—	548
Provision for loan losses	527	1,188	160	587	—	2,462
Balance at end of period	\$808	\$1,786	\$973	\$404	\$—	\$3,971
Individually evaluated for impairment	39	166	—	—	—	205
Collectively evaluated	769	1,620	973	404	—	3,766
Total	\$808	\$1,786	\$973	\$404	\$—	\$3,971

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Acquired Loans (In thousands)	Residential mortgages	Commercial real estate	Commercial and industrial loans	Consumer	Unallocated	Total
June 30, 2014						
Balance at beginning of period	\$625	\$2,339	\$597	\$235	\$—	\$3,796
Charged-off loans	723	495	176	638	—	2,032
Recoveries on charged-off loans	161	1	24	23	—	209
Provision for loan losses	599	246	624	690	—	2,159
Balance at end of period	\$662	\$2,091	\$1,069	\$310	\$—	\$4,132
Individually evaluated for impairment	60	306	20	—	—	386
Collectively evaluated	602	1,785	1,049	310	—	3,746
Total	\$662	\$2,091	\$1,069	\$310	\$—	\$4,132

## Credit Quality Information

## Business Activities Loans Credit Quality Analysis

The Company monitors the credit quality of its portfolio by using internal risk ratings that are based on regulatory guidance. Loans that are given a Pass rating are not considered a problem credit. Loans that are classified as Special Mention loans are considered to have potential credit problems and are evaluated closely by management.

Substandard and non-accruing loans are loans for which a definitive weakness has been identified and which may make full collection of contractual cash flows questionable. Doubtful loans are those with identified weaknesses that make full collection of contractual cash flows, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. The Company assigns an internal risk rating at origination and reviews the rating annually, semiannually or quarterly depending on the risk rating. The rating is also reassessed at any point in time when management becomes aware of information that may affect the borrower's ability to fulfill their obligations. The Company risk rates its residential mortgages, including 1-4 family and residential construction loans, based on a three rating system: Pass, Special Mention and Substandard. Loans that are current within 59 days are rated Pass. Residential mortgages that are 60-89 days delinquent are rated Special Mention. Loans delinquent for 90 days or greater are rated Substandard and generally placed on non-accrual status. Home equity loans are risk rated based on the same rating system as the Company's residential mortgages.

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

## Acquired Loans Credit Quality Analysis

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

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

ASC 310-30.

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

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

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

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

The following table presents the Company's loans by risk rating at June 30, 2015 and December 31, 2014:

## Business Activities Loans

## Residential Mortgages

## Credit Risk Profile by Internally Assigned Grade

(In thousands)	1-4 family		Construction		Total residential mortgages	
	June 30, 2015	December 31, 2014	June 30, 2015	December 31, 2014	June 30, 2015	December 31, 2014
Grade:						
Pass	\$1,233,607	\$1,195,209	\$30,247	\$26,634	\$1,263,854	\$1,221,843
Special mention	1,073	146	—	410	1,073	556
Substandard	3,776	4,053	—	—	3,776	4,053
Total	\$1,238,456	\$1,199,408	\$30,247	\$27,044	\$1,268,703	\$1,226,452

## Commercial Real Estate

## Credit Risk Profile by Creditworthiness Category

(In thousands)	Construction		Single and multi-family		Other		Total commercial real estate	
	June 30, 2015	December 31, 2014	June 30, 2015	December 31, 2014	June 30, 2015	December 31, 2014	June 30, 2015	December 31, 2014
Grade:								
Pass	\$178,785	\$166,295	\$146,780	\$137,533	\$1,048,171	\$959,836	\$1,373,736	\$1,263,664
Special mention	—	—	769	—	5,432	6,933	6,201	6,933
Substandard	2,372	2,894	2,167	2,517	51,705	63,995	56,244	69,406
Doubtful	—	—	—	—	73	73	73	73
Total	\$181,157	\$169,189	\$149,716	\$140,050	\$1,105,381	\$1,030,837	\$1,436,254	\$1,340,076

## Commercial and Industrial Loans

## Credit Risk Profile by Creditworthiness Category

(In thousands)	Asset based lending		Other		Total comm. and industrial loans	
	June 30, 2015	December 31, 2014	June 30, 2015	December 31, 2014	June 30, 2015	December 31, 2014
Grade:						
Pass	\$339,331	\$341,246	\$456,713	\$404,846	\$796,044	\$746,092
Special mention	—	—	20,047	560	20,047	560
Substandard	—	—	13,834	6,539	13,834	6,539
Total	\$339,331	\$341,246	\$490,594	\$411,945	\$829,925	\$753,191



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## Consumer Loans

## Credit Risk Profile Based on Payment Activity

(In thousands)	Home equity		Auto and other		Total consumer loans	
	June 30, 2015	December 31, 2014	June 30, 2015	December 31, 2014	June 30, 2015	December 31, 2014
Performing	\$293,449	\$251,524	\$315,209	\$346,175	\$608,658	\$597,699
Nonperforming	1,429	1,157	291	305	1,720	1,462
Total	\$294,878	\$252,681	\$315,500	\$346,480	\$610,378	\$599,161

## Acquired Loans

## Residential Mortgages

## Credit Risk Profile by Internally Assigned Grade

(In thousands)	1-4 family		Construction		Total residential mortgages	
	June 30, 2015	December 31, 2014	June 30, 2015	December 31, 2014	June 30, 2015	December 31, 2014
Grade:						
Pass	\$362,389	\$266,445	\$2,607	\$1,018	\$364,996	\$267,463
Special mention	631	638	—	—	631	638
Substandard	3,026	1,651	—	—	3,026	1,651
Total	\$366,046	\$268,734	\$2,607	\$1,018	\$368,653	\$269,752

## Commercial Real Estate

## Credit Risk Profile by Creditworthiness Category

(In thousands)	Construction		Single and multi-family		Other		Total commercial real estate	
	June 30, 2015	December 31, 2014	June 30, 2015	December 31, 2014	June 30, 2015	December 31, 2014	June 30, 2015	December 31, 2014
Grade:								
Pass	\$40,940	\$2,904	\$41,080	\$44,497	\$356,270	\$195,681	\$438,290	\$243,082
Special mention	2,020	—	625	533	9,076	4,868	11,721	5,401
Substandard	1,270	1,297	6,245	8,138	13,457	13,573	20,972	23,008
Total	\$44,230	\$4,201	\$47,950	\$53,168	\$378,803	\$214,122	\$470,983	\$271,491

## Commercial and Industrial Loans

## Credit Risk Profile by Creditworthiness Category

(In thousands)	Asset based lending		Other		Total comm. and industrial loans	
	June 30, 2015	December 31, 2014	June 30, 2015	December 31, 2014	June 30, 2015	December 31, 2014
Grade:						
Pass	\$—	\$—	\$86,751	\$45,757	\$86,751	\$45,757
Special mention	—	—	1,361	1,723	1,361	1,723
Substandard	—	—	3,113	3,695	3,113	3,695
Doubtful	—	—	40	—	40	—
Total	\$—	\$—	\$91,265	\$51,175	\$91,265	\$51,175

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## Consumer Loans

## Credit Risk Profile Based on Payment Activity

(In thousands)	Home equity		Auto and other		Total consumer loans	
	June 30, 2015	December 31, 2014	June 30, 2015	December 31, 2014	June 30, 2015	December 31, 2014
Performing	\$55,547	\$65,368	\$151,634	\$102,182	\$207,181	\$167,550
Nonperforming	728	583	544	1,169	1,272	1,752
Total	\$56,275	\$65,951	\$152,178	\$103,351	\$208,453	\$169,302

The following table summarizes information about total loans rated Special Mention or lower as of June 30, 2015 and December 31, 2014. The table below includes consumer loans that are special mention and substandard accruing that are classified in the above table as performing based on payment activity.

(In thousands)	June 30, 2015			December 31, 2014		
	Business Activities	Acquired Loans	Total	Business Activities	Acquired Loans	Total
Non-Accrual	\$13,759	\$6,230	\$19,989	\$14,778	\$6,927	\$21,705
Substandard Accruing	63,085	22,430	85,515	66,995	23,839	90,834
Total Classified	76,844	28,660	105,504	81,773	30,766	112,539
Special Mention	27,441	14,577	42,018	9,113	8,800	17,913
Total Criticized	\$104,285	\$43,237	\$147,522	\$90,886	\$39,566	\$130,452

## NOTE 7. DEPOSITS

A summary of time deposits is as follows:

(In thousands)	June 30, 2015	December 31, 2014
Time less than \$100,000	\$551,610	\$515,570
Time \$100,000 or more	1,200,314	940,176
Total time deposits	\$1,751,924	\$1,455,746

Included in deposits are brokered deposits of \$609.9 million and \$430.8 million at June 30, 2015 and December 31, 2014, respectively. Included in the brokered deposit balance stated above are reciprocal deposits of \$8.7 million and \$9.4 million at June 30, 2015 and December 31, 2014, respectively.

## NOTE 8. BORROWED FUNDS

Borrowed funds at June 30, 2015 and December 31, 2014 are summarized, as follows:



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	June 30, 2015		December 31, 2014		
(dollars in thousands)	Principal	Weighted Average Rate	Principal	Weighted Average Rate	
Short-term borrowings:					
Advances from the FHLBB	\$ 1,058,001	0.24	% \$ 890,900	0.24	%
Other Borrowings	—	—	10,000	1.80	
Total short-term borrowings:	1,058,001	0.24	900,900	0.23	
Long-term borrowings:					
Advances from the FHLBB	118,483	1.92	61,676	0.93	
Subordinated borrowings	74,318	7.00	74,283	7.00	
Junior subordinated borrowings	15,464	2.13	15,464	2.08	
Total long-term borrowings:	208,265	3.75	151,423	4.03	
Total	\$ 1,266,266	0.82	% \$ 1,052,323	0.79	%

Short term debt includes Federal Home Loan Bank of Boston (“FHLBB”) advances with an original maturity of less than one year and a short-term line-of-credit drawdown through a correspondent bank. The Bank also maintains a \$3.0 million secured line of credit with the FHLBB that bears a daily adjustable rate calculated by the FHLBB. There was no outstanding balance on the FHLBB line of credit for the periods ended June 30, 2015 and December 31, 2014. The Bank is approved to borrow on a short-term basis from the Federal Reserve Bank of Boston as a non-member bank. The Bank has pledged certain loans and securities to the Federal Reserve Bank to support this arrangement. No borrowings with the Federal Reserve Bank of Boston took place for the periods ended June 30, 2015 and December 31, 2014.

Long-term FHLBB advances consist of advances with an original maturity of more than one year. The advances outstanding at June 30, 2015 include callable advances totaling \$11.0 million, and amortizing advances totaling \$5.1 million. The advances outstanding at December 31, 2014 include callable advances totaling \$5.0 million, and amortizing advances totaling \$5.1 million. All FHLBB borrowings, including the line of credit, are secured by a blanket security agreement on certain qualified collateral, principally all residential first mortgage loans and certain securities.

A summary of maturities of FHLBB advances as of June 30, 2015 and December 31, 2014 is as follows:

	June 30, 2015		December 31, 2014		
(in thousands, except rates)	Principal	Weighted Average Rate	Principal	Weighted Average Rate	
Fixed rate advances maturing:					
2015	\$ 1,067,031	0.25	% \$ 940,900	0.24	%
2016	52,792	1.37	1,519	0.88	
2017	33,719	2.46	5,000	4.33	
2018	1,044	2.62	—	—	
2019 and beyond	21,898	2.72	5,157	3.85	
Total FHLBB advances	\$ 1,176,484	0.41	% \$ 952,576	0.28	%

The Company does not have variable-rate FHLB advances for the periods ended June 30, 2015 and December 31, 2014.

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

The Company holds 100% of the common stock of Berkshire Hills Capital Trust I (“Trust I”) which is included in other assets with a cost of \$0.5 million. The sole asset of Trust I is \$15.5 million of the Company’s junior subordinated debentures due in 2035. These debentures bear interest at a variable rate equal to LIBOR plus 1.85% and had a rate of 2.13% and 2.08% at June 30, 2015 and December 31, 2014, respectively. The Company has the right to defer

payments of interest for up to five years on the debentures at any time, or from time to time, with certain limitations, including a restriction on the payment of dividends to stockholders while such interest payments on the debentures have been deferred. The Company has not exercised this right to defer payments. The Company has the right to redeem the debentures at par value. Trust I is considered a variable interest entity

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for which the Company is not the primary beneficiary. Accordingly, Trust I is not consolidated into the Company's financial statements.

## NOTE 9. STOCKHOLDERS' EQUITY

The actual and required capital ratios were as follows:

	June 30, 2015	Regulatory Minimum to be Well Capitalized	December 31, 2014	Regulatory Minimum to be Well Capitalized
<b>Company (consolidated)</b>				
Total capital to risk weighted assets	11.7	% 10.0	% 11.4	% 10.0
Common Equity Tier 1 Capital to risk weighted assets	9.5	6.5	N/A	N/A
Tier 1 capital to risk weighted assets	9.6	8.0	9.0	6.0
Tier 1 capital to average assets	7.4	5.0	7.0	5.0
<b>Bank</b>				
Total capital to risk weighted assets	11.0	% 10.0	% 10.8	% 10.0
Common Equity Tier 1 Capital to risk weighted assets	9.7	6.5	N/A	N/A
Tier 1 capital to risk weighted assets	9.7	8.0	9.3	6.0
Tier 1 capital to average assets	7.5	5.0	7.2	5.0

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

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

## Accumulated other comprehensive income (loss)

Components of accumulated other comprehensive income is as follows:

(In thousands)	June 30, 2015	December 31, 2014
Other accumulated comprehensive income, before tax:		
Net unrealized holding gain on AFS securities	\$9,259	\$15,993
Net (loss) on effective cash flow hedging derivatives	(6,416)	(3,299)
Net unrealized holding (loss) on pension plans	(3,757)	(2,291)
Income taxes related to items of accumulated other comprehensive income:		
Net unrealized holding gain on AFS securities	(3,582)	(6,077)
Net (loss) on effective cash flow hedging derivatives	2,586	1,330
Net unrealized holding (loss) on pension plans	1,514	923
Accumulated other comprehensive income	\$(396)	\$6,579

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The following table presents the components of other comprehensive income for the three and six months ended June 30, 2015 and 2014:

(In thousands)	Before Tax	Tax Effect	Net of Tax
<b>Three Months Ended June 30, 2015</b>			
Net unrealized holding gains on AFS securities:			
Net unrealized losses arising during the period	\$(13,687	) \$5,243	\$(8,444 )
Less: reclassification adjustment for (gains) realized in net income	(2,384	) 857	(1,527 )
Net unrealized holding loss on AFS securities	(16,071	) 6,100	(9,971 )
Net loss on cash flow hedging derivatives:			
Net unrealized gain arising during the period	784	(316	) 468
Less: reclassification adjustment for losses realized in net income	—	—	—
Net gain on cash flow hedging derivatives	784	(316	) 468
Net unrealized holding loss on pension plans			
Net unrealized gain arising during the period	—	—	—
Less: reclassification adjustment for losses realized in net income	65	(26	) 39
Net unrealized holding gain on pension plans	65	(26	) 39
Other comprehensive loss	\$(15,222	) \$5,758	\$(9,464 )
<b>Three Months Ended June 30, 2014</b>			
Net unrealized holding loss on AFS securities:			
Net unrealized loss arising during the period	\$11,316	\$(4,344	) \$6,972
Less: reclassification adjustment for (gains) realized in net income	(203	) 83	(120 )
Net unrealized holding gain on AFS securities	11,113	(4,261	) 6,852
Net loss on cash flow hedging derivatives:			
Net unrealized loss arising during the period	(3,267	) 1,322	(1,945 )
Less: reclassification adjustment for (gains) realized in net income	—	—	—
Net loss on cash flow hedging derivatives	(3,267	) 1,322	(1,945 )
Net gain on terminated swap:			
Net unrealized loss arising during the period	—	—	—
Less: reclassification adjustment for losses realized in net income	—	—	—
Net gain on terminated swap	—	—	—
Other comprehensive income	\$7,846	\$(2,939	) \$4,907

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(In thousands)	Before Tax	Tax Effect	Net of Tax
<b>Six Months Ended June 30, 2015</b>			
Net unrealized holding gains on AFS securities:			
Net unrealized losses arising during the period	\$(4,316	) \$1,625	\$(2,691 )
Less: reclassification adjustment for (gains) realized in net income	(2,418	) 870	(1,548 )
Net unrealized holding loss on AFS securities	(6,734	) 2,495	(4,239 )
Net loss on cash flow hedging derivatives:			
Net unrealized loss arising during the period	(3,117	) 1,256	(1,861 )
Less: reclassification adjustment for losses realized in net income	—	—	—
Net loss on cash flow hedging derivatives	(3,117	) 1,256	(1,861 )
Net unrealized holding loss on pension plans			
Net unrealized loss arising during the period	(1,596	) 643	(953 )
Less: reclassification adjustment for losses realized in net income	130	(52	) 78
Net unrealized holding loss on pension plans	(1,466	) 591	(875 )
Other comprehensive income	\$(11,317	) \$4,342	\$(6,975 )
<b>Six Months Ended June 30, 2014</b>			
Net unrealized holding loss on AFS securities:			
Net unrealized loss arising during the period	\$17,370	\$(6,576	) \$10,794
Less: reclassification adjustment for (gains) realized in net income	(237	) 95	(142 )
Net unrealized holding gain on AFS securities	17,133	(6,481	) 10,652
Net loss on cash flow hedging derivatives:			
Net unrealized loss arising during the period	(4,127	) 1,691	(2,436 )
Less: reclassification adjustment for (gains) realized in net income	5,393	(2,201	) 3,192
Net gain on cash flow hedging derivatives	1,266	(510	) 756
Net gain on terminated swap:			
Net unrealized loss arising during the period	—	—	—
Less: reclassification adjustment for losses realized in net income	3,237	(1,312	) 1,925
Net gain on terminated swap	3,237	(1,312	) 1,925
Other comprehensive income	\$21,636	\$(8,303	) \$13,333



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The following table presents the changes in each component of accumulated other comprehensive income (loss), for the three and six months ended June 30, 2015 and 2014:

(in thousands)	Net unrealized holding gain on AFS Securities	Net loss on effective cash flow hedging derivatives	Net loss on terminated swap	Net unrealized holding loss on pension plans	Total
<b>Three Months Ended June 30, 2015</b>					
Balance at Beginning of Period	\$15,648	\$ (4,298)	\$—	\$ (2,282)	\$9,068
Other Comprehensive (Loss) Gain Before reclassifications	(8,444)	468	—	—	(7,976)
Amounts Reclassified from Accumulated other comprehensive income	(1,527)	—	—	39	(1,488)
Total Other Comprehensive (Loss) Income	(9,971)	468	—	39	(9,464)
Balance at End of Period	\$5,677	\$ (3,830)	\$—	\$ (2,243)	\$ (396)
<b>Three Months Ended June 30, 2014</b>					
Balance at Beginning of Period	\$ (1,976)	\$1,335	\$—	\$10	\$ (631)
Other Comprehensive Gain (Loss) Before reclassifications	6,972	(1,945)	—	—	5,027
Amounts Reclassified from Accumulated other comprehensive income	(120)	—	—	—	(120)
Total Other Comprehensive Income (Loss)	6,852	(1,945)	—	—	4,907
Balance at End of Period	\$4,876	\$ (610)	\$—	\$10	\$4,276
<b>Six Months Ended June 30, 2015</b>					
Balance at Beginning of Period	\$9,916	\$ (1,969)	\$—	\$ (1,368)	\$6,579
Other Comprehensive (Loss) Before reclassifications	(2,691)	(1,861)	—	(953)	(5,505)
Amounts Reclassified from Accumulated other comprehensive income	(1,548)	—	—	78	(1,470)
Total Other Comprehensive (Loss)	(4,239)	(1,861)	—	(875)	(6,975)
Balance at End of Period	\$5,677	\$ (3,830)	\$—	\$ (2,243)	\$ (396)
<b>Six Months Ended June 30, 2014</b>					
Balance at Beginning of Period	\$ (5,776)	\$ (1,366)	\$ (1,925)	\$10	\$ (9,057)
Other Comprehensive Gain (Loss) Before reclassifications	10,794	(2,436)	—	—	8,358
Amounts Reclassified from Accumulated other comprehensive income	(142)	3,192	1,925	—	4,975
Total Other Comprehensive Income	10,652	756	1,925	—	13,333
Balance at End of Period	\$4,876	\$ (610)	\$—	\$10	\$4,276





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The following table presents the amounts reclassified out of each component of accumulated other comprehensive income (loss) for the three and six months ended June 30, 2015 and 2014:

(in thousands)	Three Months Ended June 30,		Affected Line Item in the
	2015	2014	Statement where Net Income is Presented
Realized (gains) on AFS securities:			
	\$(2,384	) \$(203	) Non-interest income
	857	83	Tax expense
	(1,527	) (120	) Net of tax
Realized losses on cash flow hedging derivatives:			
	—	—	Non-interest income
	—	—	Tax expense
	—	—	Net of tax
Amortization of realized gains on terminated swap:			
	—	—	Non-interest income
	—	—	Tax expense
	—	—	Net of tax
Realized loss on pension plans:			
	65	—	Non-interest income
	(26	) —	Tax expense
	39	—	Net of tax
Total reclassifications for the period	\$(1,488	) \$(120	) Net of tax

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(in thousands)	Six Months Ended June 30,		Affected Line Item in the
	2015	2014	Statement where Net Income is Presented
Realized (gains) on AFS securities:			
	\$(2,418	) \$(237	) Non-interest income
	870	95	Tax expense
	(1,548	) (142	) Net of tax
Realized losses on cash flow hedging derivatives:			
	—	5,393	Non-interest income
	—	(2,201	) Tax expense
	—	3,192	Net of tax
Amortization of realized gains on terminated swap:			
	—	3,237	Non-interest income
	—	(1,312	) Tax expense
	—	1,925	Net of tax
Realized loss on pension plans:			
	130	—	Non-interest income
	(52	) —	Tax expense
	78	—	Net of tax
Total reclassifications for the period	\$(1,470	) \$4,975	Net of tax

## NOTE 10. EARNINGS PER SHARE

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

(In thousands, except per share data)	Three Months Ended June		Six Months Ended June 30,	
	30, 2015	2014	2015	2014
Net income	\$10,044	\$11,464	\$18,803	\$10,358
Average number of common shares issued	29,975	26,525	28,260	26,525
Less: average number of treasury shares	1,193	1,417	1,244	1,421
Less: average number of unvested stock award shares	481	393	459	397
Average number of basic common shares outstanding	28,301	24,715	26,557	24,707
Plus: dilutive effect of unvested stock award shares	94	44	91	55
Plus: dilutive effect of stock options outstanding	66	50	65	59
Average number of diluted common shares outstanding	28,461	24,809	26,713	24,821
Earnings per share:				
Basic	\$0.35	\$0.46	\$0.71	\$0.42
Diluted	\$0.35	\$0.46	\$0.70	\$0.42

For the six months ended June 30, 2015, 365 thousand shares of restricted stock and 207 thousand options were anti-dilutive and therefore excluded from the earnings per share calculations. For the six months ended June 30, 2014, 342 thousand shares of restricted stock and 305 thousand options were anti-dilutive and therefore excluded from the earnings per share calculations.

## NOTE 11. STOCK-BASED COMPENSATION PLANS



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A combined summary of activity in the Company's stock award and stock option plans for the six months ended June 30, 2015 is presented in the following table:

	Non-vested Stock Awards Outstanding		Stock Options Outstanding	
	Number of	Weighted-Average Grant Date Fair Value	Number of	Weighted-Average Exercise Price
(Shares in thousands)	Shares		Shares	
December 31, 2014	424	\$24.33	282	\$20.42
Granted	174	26.33	—	—
Stock options exercised	—	—	(11	) 10.52
Stock awards vested	(86	) 24.28	—	—
Forfeited	(11	) 23.64	—	—
Expired	—	—	—	—
June 30, 2015	501	\$24.92	271	\$21.12
Exercisable options, June 30, 2015			271	\$21.12

During the six months ended June 30, 2015 and 2014, proceeds from stock option exercises totaled \$116 thousand and totaled \$848 thousand, respectively. During the six months ended June 30, 2015, there were 86 thousand shares issued in connection with vested stock awards. During the six months ended June 30, 2014, there were 66 thousand shares issued in connection with vested stock awards. All of these shares were issued from available treasury stock. Stock-based compensation expense totaled \$2.3 million and \$1.8 million during the six months ended June 30, 2015 and 2014, respectively. Stock-based compensation expense is recognized over the requisite service period for all awards.

**NOTE 12. OPERATING SEGMENTS**

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

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



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

(In thousands)	Banking	Insurance	Parent	Eliminations	Total Consolidated
Three Months Ended June 30, 2015					
Net interest income	\$53,480	\$—	\$5,157	\$(6,000)	) \$ 52,637
Provision for loan losses	4,204	—	—	—	4,204
Non-interest income	14,096	2,486	7,445	(7,247)	) 16,780
Non-interest expense	47,531	1,901	4,591	2	54,025
Income before income taxes	15,841	585	8,011	(13,249)	) 11,188
Income tax expense (benefit)	2,951	227	(2,033)	) (1)	) 1,144
Net income	\$12,890	\$358	\$10,044	\$(13,248)	) \$ 10,044
Average assets (in millions)	\$7,191	\$29	\$884	\$(909)	) \$ 7,195
Three Months Ended June 30, 2014					
Net interest income (expense)	\$45,244	\$—	\$(915)	) \$—	\$ 44,329
Provision for loan losses	3,989	—	—	—	3,989
Non-interest income	12,046	2,460	12,272	(12,272)	) 14,506
Non-interest expense	36,970	1,887	406	—	39,263
Income before income taxes	16,331	573	10,951	(12,272)	) 15,583
Income tax expense (benefit)	4,409	223	(513)	) —	4,119
Net income	\$11,922	\$350	\$11,464	\$(12,272)	) \$ 11,464
Average assets (in millions)	\$6,111	\$27	\$744	\$(736)	) \$ 6,146
Six Months Ended June 30, 2015					
Net interest income	\$99,819	\$—	\$10,311	\$(12,000)	) \$ 98,130
Provision for loan losses	8,055	—	—	—	8,055
Non-interest income	23,509	5,453	11,229	(10,849)	) 29,342
Non-interest expense	90,025	3,841	5,305	2	99,173
Income before income taxes	25,248	1,612	16,235	(22,851)	) 20,244
Income tax expense (benefit)	3,384	626	(2,568)	) (1)	) 1,441
Net income	\$21,864	\$986	\$18,803	\$(22,850)	) \$ 18,803
Average assets (in millions)	\$6,837	\$29	\$821	\$(841)	) \$ 6,846
Six Months Ended June 30, 2014					
Net interest income (expense)	\$88,954	\$—	\$(1,859)	) \$—	\$ 87,095
Provision for loan losses	7,385	—	—	—	7,385
Non-interest income	13,420	5,509	12,020	(12,020)	) 18,929
Non-interest expense	79,543	4,209	871	—	84,623
Income before income taxes	15,446	1,300	9,290	(12,020)	) 14,016
Income tax expense (benefit)	4,217	509	(1,068)	) —	3,658
Net income	\$11,229	\$791	\$10,358	\$(12,020)	) \$ 10,358
Average assets (in millions)	\$5,971	\$26	\$733	\$(732)	) \$ 5,998

**NOTE 13. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES**

As of June 30, 2015, the Company held derivatives with a total notional amount of \$1.2 billion. That amount included \$300.0 million in forward starting interest rate swap derivatives that were designated as cash flow hedges for accounting purposes. The Company also had economic hedges and non-hedging derivatives totaling \$824.0 million

and \$55.7 million, respectively, which

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are not designated as hedges for accounting purposes and are therefore recorded at fair value. Economic hedges included interest rate swaps totaling \$692.6 million, risk participation agreements with dealer banks of \$48.8 million, and \$82.6 million in forward commitment contracts.

As part of the Company's risk management strategy, the Company enters into interest rate swap agreements to mitigate the interest rate risk inherent in certain of the Company's assets and liabilities. Interest rate swap agreements involve the risk of dealing with both Bank customers and institutional derivative counterparties and 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/Capital Committee of the Company's Board of Directors. Based on adherence to the Company's credit standards and the presence of the netting and collateral provisions, the Company believes that the credit risk inherent in these contracts was not significant at June 30, 2015.

The Company pledged collateral to derivative counterparties in the form of cash totaling \$6.0 million and securities with an amortized cost of \$24.8 million and a fair value of \$24.8 million as of June 30, 2015. The Company does not typically require its commercial customers to post cash or securities as collateral on its program of back-to-back economic hedges. However certain language is written into the International Swaps Dealers Association, Inc. ("ISDA") and loan documents where, in default situations, the Bank is allowed to access collateral supporting the loan relationship to recover any losses suffered on the derivative asset or liability. The Company may need to post additional collateral in the future in proportion to potential increases in unrealized loss positions.

Information about derivative assets and liabilities at June 30, 2015, follows:

	Notional Amount (In thousands)	Weighted Average Maturity (In years)	Weighted Received	Weighted Average Rate Contract pay rate	Estimated Fair Value Asset (Liability) (In thousands)
Cash flow hedges:					
Forward-starting interest rate swaps on FHLBB borrowings	\$ 300,000	3.8	—	% 2.29	% \$ (6,416 )
Total cash flow hedges	300,000				(6,416 )
Economic hedges:					
Interest rate swap on tax advantaged economic development bond	12,272	14.4	0.52	% 5.09	% (2,326 )
Interest rate swaps on loans with commercial loan customers	340,147	6.6	1.74	% 4.54	% (11,471 )
Reverse interest rate swaps on loans with commercial loan customers	340,147	6.6	4.54	% 1.74	% 11,567
Risk Participation Agreements with Dealer Banks	48,801	15.7			(69 )
Forward sale commitments	82,640	0.2			475
Total economic hedges	824,007				(1,824 )
Non-hedging derivatives:					
Interest rate lock commitments	55,749	0.2			382
Total non-hedging derivatives	55,749				382
Total	\$ 1,179,756				\$ (7,858 )





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

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

**Cash flow hedges**

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

The Company has entered into six forward-starting interest rate swap contracts with a combined notional value of \$300.0 million as of June 30, 2015. The six forward starting swaps will become effective in 2016. All have durations of three years. This hedge strategy converts the one month rolling FHLBB borrowings based on the FHLBB's one month fixed interest rate to fixed interest rates, thereby protecting the Company from floating interest rate variability. Amounts included in the Consolidated Statements of Income and in the other comprehensive income section of the Consolidated Statements of Comprehensive Income (related to interest rate derivatives designated as hedges of cash flows), were as follows:

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(In thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Interest rate swaps on FHLBB borrowings:				
Unrealized gain (loss) recognized in accumulated other comprehensive loss	\$784	\$(3,343 )	\$(3,117 )	\$(4,127 )
Reclassification of unrealized loss from accumulated other comprehensive income to other non-interest income for termination of swaps	—	—	—	8,630
Reclassification of unrealized deferred tax benefit from accumulated other comprehensive income to tax expense for terminated swaps	—	—	—	(3,611 )
Net tax benefit (expense) on items recognized in accumulated other comprehensive income	(316 )	1,352	1,256	1,666
Interest rate swaps on junior subordinated debentures:				
Unrealized loss recognized in accumulated other comprehensive income	—	—	—	(1 )
Reclassification of unrealized loss from accumulated other comprehensive income to interest expense	—	75	—	204
Net tax expense on items recognized in accumulated other comprehensive income	—	(29 )	—	(80 )
Other comprehensive gain (loss) recorded in accumulated other comprehensive income, net of reclassification adjustments and tax effects	\$468	\$(1,945 )	\$(1,861 )	\$2,681
Net interest expense recognized in interest expense on junior subordinated notes	\$—	\$75	\$—	\$204

Hedge ineffectiveness on interest rate swaps designated as cash flow hedges was immaterial to the Company's financial statements during the three and six months ended June 30, 2015 and 2014.

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

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

Economic hedges

As of June 30, 2015, the Company has an interest rate swap with a \$12.3 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

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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 \$94.7 thousand as of June 30, 2015. The interest income and expense on these mirror image swaps exactly offset each other.

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

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

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

• Best efforts loan sales,

• Mandatory delivery loan sales, and

• To Be Announced ("TBA") mortgage-backed securities sales.

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

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

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

Non-hedging derivatives

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



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

(In thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Economic hedges				
Interest rate swap on industrial revenue bond:				
Unrealized gain (loss) recognized in other non-interest income	\$331	\$(350	) \$60	\$(731
				)
Interest rate swaps on loans with commercial loan customers:				
Unrealized (loss) gain recognized in other non-interest income	3,889	(1,919	) 775	(1,732
				)
Reverse interest rate swaps on loans with commercial loan customers:				
Unrealized loss recognized in other non-interest income	(3,889	) 1,919	(775	) 1,732
Favorable (Unfavorable) change in credit valuation adjustment recognized in other non-interest income	56	4	57	11
Risk Participation Agreements:				
Unrealized gain recognized in other non-interest income	31	—	(40	) —
Forward Commitments:				
Unrealized gain (loss) recognized in other non-interest income	475	(561	) 87	(669
				)
Realized gain (loss) in other non-interest income	504	(177	) 413	(341
				)
Non-hedging derivatives				
Interest rate lock commitments				
Unrealized gain recognized in other non-interest income	\$382	\$660	\$1,359	\$1,037
Realized gain in other non-interest income	186	769	941	1,035

#### Assets and Liabilities Subject to Enforceable Master Netting Arrangements

##### Interest Rate Swap Agreements ("Swap Agreements")

The Company enters into swap agreements to facilitate the risk management strategies for commercial banking customers. The Company mitigates this risk by entering into equal and offsetting swap agreements with highly rated third party financial institutions. The swap agreements are free-standing derivatives and are recorded at fair value in the Company's consolidated statements of condition. The Company is party to master netting arrangements with its financial institution counterparties; however, the Company does not offset assets and liabilities under these arrangements for financial statement presentation purposes. The master netting arrangements provide for a single net settlement of all swap agreements, as well as collateral, in the event of default on, or termination of, any one contract. Collateral generally in the form of marketable securities is received or posted by the counterparty with net liability positions, respectively, in accordance with contract thresholds. The Company had net asset positions with its commercial banking counterparties totaling \$11.6 million and \$12.3 million as of June 30, 2015 and December 31,

2014, respectively. The Company had net liability positions with its financial institution counterparties totaling \$16.4 million and \$18.2 million as of June 30, 2015 and December 31, 2014, respectively. At June 30, 2015, the Company did not have a net liability position with its commercial banking counterparties, compared to a \$0.1 million liability at December 31, 2014. The collateral posted by the Company that covered liability positions was \$16.4 million and \$18.2 million as of June 30, 2015 and December 31, 2014, respectively.



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The following table presents the assets and liabilities subject to an enforceable master netting arrangement as of June 30, 2015 and December 31, 2014:

## Offsetting of Financial Assets and Derivative Assets

(in thousands) June 30, 2015	Gross	Gross Amounts	Net Amounts	Gross Amounts Not Offset in		Net Amount
	Amounts of	Offset in the	of Assets	the Statements of Condition		
	Recognized	Statements of	Statements of	Financial	Cash	
	Assets	Condition	Condition	Instruments	Collateral Received	
Interest Rate Swap Agreements:						
Institutional counterparties	\$27	\$ —	\$ 27	\$—	\$ —	\$27
Commercial counterparties	11,585	—	11,585	—	—	11,585
Total	\$11,612	\$ —	\$ 11,612	\$—	\$ —	\$11,612

## Offsetting of Financial Liabilities and Derivative Liabilities

(in thousands) June 30, 2015	Gross	Gross Amounts	Net Amounts	Gross Amounts Not Offset in		Net Amount
	Amounts of	Offset in the	of Liabilities	the Statements of Condition		
	Recognized	Statements of	Statements of	Financial	Cash	
	Liabilities	Condition	Condition	Instruments	Collateral Pledged	
Interest Rate Swap Agreements:						
Institutional counterparties	\$(16,421 )	\$ 5	\$( 16,416 )	\$10,596	\$ 5,820	\$—
Commercial counterparties	(18 )	—	(18 )	—	—	(18 )
Total	\$(16,439 )	\$ 5	\$( 16,434 )	\$10,596	\$ 5,820	\$(18 )

## Offsetting of Financial Assets and Derivative Assets

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

## Offsetting of Financial Liabilities and Derivative Liabilities

	Gross	Gross Amounts	Net Amounts	Gross Amounts Not Offset in	
	Amounts of	Offset in the	of Liabilities	the Statements of Condition	

(in thousands)	Recognized	Statements of	Presented in the	Financial	Cash	Net Amount
December 31, 2014	Liabilities	Condition	Statements of	Instruments	Collateral Pledged	Net Amount
Interest Rate Swap			Condition			
Agreements:						
Institutional counterparties	\$(18,232 )	\$ 58	\$ (18,174 )	\$14,984	\$ 3,190	\$—
Commercial counterparties	(50 )	—	(50 )	—	—	(50 )
Total	\$(18,282 )	\$ 58	\$ (18,224 )	\$14,984	\$ 3,190	\$(50 )

NOTE 14. FAIR VALUE MEASUREMENTS

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

## Recurring Fair Value Measurements

The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis as of June 30, 2015 and December 31, 2014, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value.

(In thousands)	June 30, 2015			Total Fair Value
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	
Trading security	\$—	\$—	\$ 14,378	\$ 14,378
Available-for-sale securities:				
Municipal bonds and obligations	—	150,301	—	150,301
Government guaranteed residential mortgage-backed securities	—	61,867	—	61,867
Government-sponsored residential mortgage-backed securities	—	889,698	—	889,698
Corporate bonds	—	50,758	—	50,758
Trust preferred securities	—	13,265	—	13,265
Other bonds and obligations	—	3,167	—	3,167
Marketable equity securities	33,983	944	773	35,700
Loans held for sale (1)	—	37,324	—	37,324
Derivative assets	425	11,610	431	12,466
Derivative liabilities	—	20,326	—	20,326

(1) Loans held for sale excludes \$11.2 million of loans for sale held shown on the balance sheet that is held at lower of cost or market.

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

There were no transfers between levels during the three and six months ended June 30, 2015 or 2014.

Trading Security at Fair Value. The Company holds one security designated as a trading security. It is a tax advantaged economic development bond issued to the Company by a local nonprofit which provides wellness and

health programs. The determination

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of the fair value for this security is determined based on a discounted cash flow methodology. Certain inputs to the fair value calculation are unobservable and there is little to no market activity in the security; therefore, the security meets the definition of a Level 3 security. The discount rate used in the valuation of the security is sensitive to movements in the 3-month LIBOR rate.

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

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

	Aggregate	Aggregate	Aggregate Fair Value Less Aggregate
June 30, 2015 (In thousands)	Fair Value	Unpaid Principal	Unpaid Principal
Loans Held for Sale (1)	\$37,324	\$36,787	\$ 537

(1) Loans held for sale excludes \$11.2 million of loans for sale held shown on the balance sheet that is held at lower of cost or market.

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

The changes in fair value of loans held for sale for the three and six months ended June 30, 2015, were losses of \$285 thousand and \$71 thousand, respectively. The changes in fair value of loans held for sale for the three and six months ended June 30, 2014, were gains of \$427 thousand and \$467 thousand, respectively. The changes in fair value are included in mortgage banking income in the Consolidated Statements of Income.

#### Derivative Assets and Liabilities.

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

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

Although the Company has determined that the majority of the inputs used to value its interest rate derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, as of June 30, 2015, the Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. As a result, the Company has determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

Interest Rate Lock Commitments. The Company enters into IRLCs for residential mortgage loans, which commit the Company to lend funds to a potential borrower at a specific interest rate and within a specified period of time. The estimated fair value of commitments to originate residential mortgage loans for sale is based on quoted prices for similar loans in active markets. However, this value is adjusted by a factor which considers the likelihood that the loan

in a lock position will ultimately close, and by the non-refundable costs of originating the loan. The closing ratio is derived from the Bank's internal data and is adjusted using significant management judgment. The costs to originate are primarily based on the Company's internal commission rates that are not observable. As such, IRLCs are classified as Level 3 measurements.

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

The table below presents the changes in Level 3 assets and liabilities that were measured at fair value on a recurring basis for the three and six months ended June 30, 2015 and 2014.

(In thousands)	Assets (Liabilities)			
	Trading Security	Securities Available for Sale	Interest Rate Lock Commitments	Forward Commitments
<b>Three Months Ended June 30, 2015</b>				
March 31, 2015	\$14,970	\$719	\$977	\$(93 )
Sale of AFS security	—	—	—	—
Unrealized (loss) gain, net recognized in other non-interest income	(451 )	—	941	—
Unrealized gain included in accumulated other comprehensive loss	—	54	—	143
Paydown of trading security	(141 )	—	—	—
Transfers to held for sale loans	—	—	(1,536 )	—
June 30, 2015	\$14,378	\$773	\$382	\$50
<b>Six Months Ended June 30, 2015</b>				
December 31, 2014	\$14,909	\$2,326	\$625	\$(93 )
Sale of AFS security	—	(1,327 )	—	—
Unrealized (loss) gain, net recognized in other non-interest income	(248 )	—	2,671	—
Unrealized gain included in accumulated other comprehensive loss	—	(226 )	—	143
Paydown of trading security	(283 )	—	—	—
Transfers to held for sale loans	—	—	(2,914 )	—
June 30, 2015	\$14,378	\$773	\$382	\$50
Unrealized gains (losses) relating to instruments still held at June 30, 2015	\$2,106	\$3	\$382	\$50

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



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

(In thousands) Assets (Liabilities)	Fair Value		Valuation Techniques	Unobservable Inputs	Significant Unobservable Input Value	
	June 30, 2015					
Trading Security	\$ 14,378		Discounted Cash Flow	Discount Rate	2.73	%
AFS Securities	773		Pricing Model	Median Peer Price/Tangible Book Value Percentage Multiple	99.02	%
Forward Commitments	50		Historical Trend	Closing Ratio	92.11	%
			Pricing Model	Origination Costs, per loan	\$ 2,500	
Interest Rate Lock Commitment	382		Historical Trend	Closing Ratio	92.11	%
			Pricing Model	Origination Costs, per loan	\$ 2,500	
Total	\$ 15,583					
		Fair Value				Significant Unobservable Input Value
(In thousands) Assets (Liabilities)	December 31, 2014		Valuation Techniques	Unobservable Inputs		
Trading Security	\$ 14,909		Discounted Cash Flow	Discount Rate	2.60	%
AFS Securities	2,326		Discounted Cash Flow	Discount Rate Credit Spread	13.74 11.06	% %
Forward Commitments	(93	)	Historical Trend	Closing Ratio	91.07	%
			Pricing Model	Origination Costs, per loan	\$ 2,500	
Interest Rate Lock Commitment	625		Historical Trend	Closing Ratio	91.07	%
			Pricing Model	Origination Costs, per loan	\$ 2,500	
Total	\$ 17,767					

## Non-Recurring Fair Value Measurements

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



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	June 30, 2015	December 31, 2014	Six months ended June 30, 2015	Fair Value Measurement Date
(In thousands)	Level 3	Level 3	Total	Level 3
Assets	Inputs	Inputs	Gains (Losses)	Inputs
Impaired loans	\$6,659	\$5,820	\$ 839	June 2015
Capitalized mortgage servicing rights	4,697	3,757	—	May 2015
Other real estate owned	674	2,049	(285 )	March 2013 - July 2014

Total \$12,030 \$11,626 \$ 554

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

(in thousands)	Fair Value June 30, 2015	Valuation Techniques	Unobservable Inputs	Range (Weighted Average) (a)
Assets				
Impaired loans	\$6,659	Fair value of collateral	Loss severity Appraised value	0.41% to 38.41% (9.15%) \$2.7 to \$2,272.0 (\$491.6)
Capitalized mortgage servicing rights	4,697	Discounted cash flow	Constant prepayment rate (CPR) Discount rate	7.67% to 21.08% (10.43%) 10.00% to 13.00% (10.58%)
Other real estate owned	674	Fair value of collateral	Appraised value	\$57 to \$700.0 (\$595.6)

Total \$12,030

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

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

Total \$11,626

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

adjustments to individuals properties.

There were no Level 1 or Level 2 nonrecurring fair value measurements for the periods ended June 30, 2015 and December 31, 2014.

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

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

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

Summary of Estimated Fair Values of Financial Instruments

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

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(In thousands)	June 30, 2015				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
<b>Financial Assets</b>					
Cash and cash equivalents	\$205,518	\$205,518	\$205,518	\$—	\$—
Trading security	14,378	14,378	—	—	14,378
Securities available for sale	1,204,756	1,204,756	33,983	1,170,000	773
Securities held to maturity	86,994	87,512	—	—	87,512
FHLB bank stock and restricted securities	73,212	73,212	—	73,212	—
Net loans	5,247,417	5,293,778	—	—	5,293,778
Loans held for sale	48,514	48,514	—	48,514	—
Accrued interest receivable	19,120	19,120	—	19,120	—
Cash surrender value of bank-owned life insurance policies	123,536	123,536	—	123,536	—
Derivative assets	12,466	12,466	425	11,610	431
Assets held for sale	2,519	2,519	—	2,519	—
<b>Financial Liabilities</b>					
Total deposits	\$5,322,176	\$5,324,354	\$—	\$5,324,354	\$—
Short-term debt	1,058,001	1,058,162	—	1,058,162	—
Long-term Federal Home Loan Bank advances	118,483	121,809	—	121,809	—
Subordinated borrowings	89,782	94,320	—	94,320	—
Derivative liabilities	20,326	20,326	—	20,326	—

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

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

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

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

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

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

Accrued interest receivable. Carrying value approximates fair value.

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

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

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

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





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## NOTE 15. NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES

Presented below is net interest income after provision for loan losses for the three months ended June 30, 2015 and 2014, respectively.

(In thousands)	Three Months Ended		Six Months Ended	
	June 30, 2015	2014	June 30, 2015	2014
Net interest income	\$52,637	\$44,329	\$98,130	\$87,095
Provision for loan losses	4,204	3,989	8,055	7,385
Net interest income after provision for loan losses	\$48,433	\$40,340	\$90,075	\$79,710

## NOTE 16. SUBSEQUENT EVENTS

On August 7, 2015, the Company acquired all of the outstanding equity of Firestone Financial Corp. (“Firestone”), which now operates as a subsidiary of Berkshire Bank. Firestone is a commercial specialty finance company providing secured installment loan equipment financing for small and medium-sized businesses.

Firestone shareholders received 1.4 million shares of the Company’s common stock and \$13.7 million cash. As of June 30, 2015, Firestone had assets with a carrying value of approximately \$201.2 million, including financing receivables outstanding with a carrying value of approximately \$197.7 million. The results of Firestone’s operations will be included in the Company’s Consolidated Statement of Income from the date of acquisition. The Company incurred \$896 thousand of merger and acquisition expenses related to the Firestone merger for the three months ended June 30, 2015.

As a result of the proximity of the closing of the merger with Firestone 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.

This merger agreement had no significant effect on the Company’s financial statements for the periods presented.

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

## GENERAL

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

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

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On April 17, 2015, Berkshire completed the acquisition of Springfield, MA based Hampden Bancorp, Inc. (“Hampden”). Hampden’s operations are included with Berkshire’s results as of the acquisition date. Hampden operated ten branches in the Springfield area and three of these branches were consolidated with existing Berkshire and Hampden branches in the second quarter of 2015. The Company now has 17 total branches in the Springfield area. The Company issued approximately 4.2 million net shares as merger consideration, and had a total of 29.5 million shares outstanding at mid-year 2015. The accounting for this acquisition is discussed in Note 2 of the consolidated financial statements. On May 22, 2015, Berkshire announced that Berkshire Bank would acquire Firestone Financial Corp., a commercial specialty finance company providing secured installment loan equipment financing for small and medium-sized businesses. This acquisition was completed on August 7, 2015 and is discussed in Note 16 of the consolidated financial statements.

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

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

Shown below is a profile of the Company:

**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, increased competitive pressures, changes in the interest rate environment, legislative and regulatory change, changes in the financial markets, and other risks and uncertainties disclosed from time to time in documents that Berkshire Hills Bancorp files with the Securities and Exchange Commission, including the Annual Report on Form 10-K for the fiscal year ended December 31, 2014 and the Risk Factors in Item 1A of this report. Because of these and other uncertainties, Berkshire’s actual results, performance or achievements, or industry results, may be materially different from the results indicated by these forward-looking statements. In addition, Berkshire’s past results of operations do not necessarily indicate Berkshire’s combined future results. You should not place undue reliance on any of the forward-looking statements, which speak only as of the dates on which they were made. Berkshire is not undertaking an obligation to update forward-looking statements, even though its situation may change in the future, except as required under federal securities law. Berkshire qualifies all of its forward-looking statements by these cautionary statements.

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

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

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

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

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

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

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

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

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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 loss is recognized as OTTI through earnings. Credit-related OTTI for all other impaired debt securities is recognized through earnings. Noncredit related OTTI for such debt securities is recognized in other comprehensive income, net of applicable taxes. In evaluating its marketable equity securities portfolios for OTTI, the Company considers its intent and ability to hold an equity security to recovery of its cost basis in addition to various other factors, including the length of time and the extent to which the fair value has been less than cost and the financial condition and near term prospects of the issuer. Any OTTI on marketable equity securities is recognized immediately through earnings. Should actual factors and conditions differ materially from those expected by management, the actual realization of gains or losses on investment securities could differ materially from the amounts recorded in the financial statements.

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



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## SELECTED FINANCIAL DATA

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

	At or for the Three Months Ended June 30,		At or for the Six Months Ended June 30,		
	2015	2014	2015	2014	
<b>PER COMMON SHARE DATA</b>					
Net earnings, diluted	\$0.35	\$0.46	\$0.70	\$0.42	
Adjusted earnings, diluted (1)	0.51	0.44	1.01	0.86	
Total common book value	28.02	27.49	28.02	27.49	
Dividends	0.19	0.18	0.38	0.36	
Common stock price:					
High	29.30	26.64	29.30	27.28	
Low	26.77	22.06	24.27	22.06	
Close	28.48	23.22	28.48	23.22	
<b>PERFORMANCE RATIOS (2)</b>					
Return on average assets	0.56	% 0.75	% 0.55	% 0.35	%
Return on average common equity	5.05	6.64	5.03	3.00	
Net interest margin, fully taxable equivalent	3.30	3.26	3.24	3.31	
Fee income/Net interest and fee income	22.92	23.87	23.08	23.37	
<b>ASSET QUALITY RATIOS (3)</b>					
Net charge-offs (period annualized)/average loans	0.27	% 0.31	% 0.26	% 0.30	%
Allowance for loan losses/total loans	0.70	0.77	0.70	0.77	
<b>CONDITION RATIOS</b>					
Stockholders' equity to total assets	11.00	% 10.94	% 11.00	% 10.94	%
Investments to total assets	18.35	18.99	18.35	18.99	
Loans/deposits	99	99	99	99	
<b>FINANCIAL DATA: (In millions)</b>					
Total assets	\$7,519	\$6,311	\$7,519	\$6,311	
Total earning assets	6,740	5,700	6,740	5,700	
Total loans	5,285	4,450	5,285	4,450	
Allowance for loan losses	37	34	37	34	
Total intangible assets	321	279	321	279	
Total deposits	5,322	4,479	5,322	4,479	
Total borrowings	1,266	1,054	1,266	1,054	
Total common stockholders' equity	827	690	827	690	
<b>FOR THE PERIOD: (In thousands)</b>					
Net interest income	\$52,637	\$44,329	\$98,130	\$87,095	
Non-interest income	16,780	14,506	29,342	18,929	
Provision for loan losses	4,204	3,989	8,055	7,385	
Non-interest expense	54,025	39,263	99,173	84,623	
Net income	10,044	11,464	18,803	10,358	
Adjusted Income (non-GAAP) (1)	14,556	10,915	26,930	21,327	



- (1) Adjusted income and adjusted earnings are non-GAAP financial measures that the Company believes provide investors with information that is useful in understanding our financial performance and condition.
- (2) All performance ratios are annualized and are based on average balance sheet amounts, where applicable.
- (3) Generally accepted accounting principles require that loans acquired in a business combination be recorded at fair value, whereas loans from business activities are recorded at cost. The fair value of loans acquired in a business combination includes expected loan losses, and there is no loan loss allowance recorded for these loans at the time of acquisition. Accordingly, the

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ratio of the loan loss allowance to total loans is reduced as a result of the existence of such loans, and this measure is not directly comparable to prior periods. Similarly, net loan charge-offs are normally reduced for loans acquired in a business combination since these loans are recorded net of expected loan losses. Therefore, the ratio of net loan charge-offs to average loans is reduced as a result of the existence of such loans, and this measure is not directly comparable to prior periods. Other institutions may have loans acquired in a business combination, and therefore there may be no direct comparability of these ratios between and among other institutions.

**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.

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(\$ In millions)	Three Months Ended June 30,				Six Months Ended June 30,				
	2015		2014		2015		2014		
	Average Balance	Yield/Rate (FTE basis)	Average Balance	Yield/Rate (FTE basis)	Average Balance	Yield/Rate (FTE basis)	Average Balance	Yield/Rate (FTE basis)	
Assets									
Loans:									
Residential mortgages	\$ 1,563	4.08	% \$ 1,380	3.99	% \$ 1,516	4.01	% \$ 1,379	4.05	%
Commercial real estate	1,889	4.46	1,488	4.16	1,768	4.29	1,454	4.30	
Commercial and industrial loans	886	3.64	704	3.82	847	3.67	694	3.90	
Consumer loans	822	3.24	730	3.49	794	3.23	715	3.53	
Total loans (1)	5,160	4.02	4,302	3.96	4,925	3.94	4,242	4.05	
Investment securities (2)	1,302	2.99	1,226	3.13	1,239	3.04	1,137	3.09	
Short term investments & loans held for sale (3)	72	1.13	28	1.40	64	1.26	29	1.46	
Total interest-earning assets	6,534	3.77	5,556	3.76	6,228	3.72	5,408	3.83	
Intangible assets	304		279		290		279		
Other non-interest earning assets	357		311		328		312		
Total assets	\$ 7,195		\$ 6,146		\$ 6,846		\$ 5,999		
Liabilities and stockholders' equity									
Deposits:									
NOW	\$ 460	0.15	% \$ 426	0.15	% \$ 442	0.15	% \$ 418	0.15	%
Money market	1,438	0.37	1,448	0.36	1,424	0.39	1,470	0.37	
Savings	606	0.17	482	0.16	554	0.16	473	0.16	
Time	1,558	0.91	1,153	0.98	1,489	0.91	1,111	1.07	
Total interest-bearing deposits	4,062	0.52	3,509	0.51	3,909	0.53	3,472	0.53	
Borrowings and notes (4)	1,299	0.76	1,126	0.84	1,209	0.80	1,019	0.94	
Total interest-bearing liabilities	5,361	0.58	4,635	0.59	5,118	0.59	4,491	0.63	
Non-interest-bearing demand deposits	974		780		922		765		
Other non-interest earning liabilities	65		40		58		52		
Total liabilities	6,400		5,455		6,098		5,308		
Total stockholders' equity (2)	795		691		748		691		
Total liabilities and stockholders' equity	\$ 7,195		\$ 6,146		\$ 6,846		\$ 5,999		
Net interest spread		3.19	%	3.17	%	3.13	%	3.20	%
Net interest margin (5)		3.30		3.26		3.24		3.31	
Cost of funds		0.49		0.51		0.50		0.53	
Cost of deposits		0.42		0.42		0.43		0.44	
Supplementary data									
Total deposits (In millions)	\$ 5,037		\$ 4,289		\$ 4,830		\$ 4,236		

Fully taxable equivalent income adj. (In thousands)	1,068	852	979	1,570
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(1) The average balances of loans include nonaccrual loans and deferred fees and costs.

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- (2) The average balance for securities available for sale is based on amortized cost. The average balance of equity also reflects this adjustment.
- (3) Interest income on loans held for sale is included in loan interest income on the income statement.
- (4) The average balances of borrowings includes the capital lease obligation presented under other liabilities on the consolidated balance sheet.  
Purchased loan accretion totaled \$2.2 million and \$1.1 million for the three months ended June 30, 2015 and 2014,
- (5) respectively. Purchased loan accretion totaled \$2.5 million and \$3.9 million for the six months ended June 30, 2015 and 2014, respectively.

NON-GAAP FINANCIAL MEASURES

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

The Company utilizes the non-GAAP measure of adjusted earnings in evaluating operating trends, including components for operating revenue and expense. These measures exclude amounts which the Company views as unrelated to its normalized operations, including securities gains/losses, losses recorded for hedge terminations, merger costs, restructuring costs, systems conversion costs, and out-of-period adjustments. Non-operating adjustments are presented net of an adjustment for income tax expense. This adjustment is determined as the difference between the GAAP tax rate and the effective tax rate applicable to operating income.

Charges related to merger and acquisition activity consist primarily of severance/benefit related expenses, contract termination costs, and professional fees. Systems conversion costs relate primarily to the Company’s operating systems conversion and related systems conversions costs. Restructuring costs primarily consist of costs and losses associated with the consolidation of branches and other operating facilities of the Company. Out-of-period accounting adjustments for interest income on acquired loans were recorded following systems conversions and merger related accounting activity and were deemed non-operating. Non-operating expenses include variable rate compensation related to non-operating items.

The Company calculates adjusted earnings per share based on its measure of earnings from ongoing operations. The Company views these amounts as important to understanding its operating trends, particularly due to the impact of accounting standards related to merger and acquisition activity. Analysts also rely on these measures in estimating and evaluating the Company’s operating performance. Management also believes that the computation of non-GAAP earnings and earnings per share may facilitate the comparison of the Company to other companies in the financial services industry. The efficiency ratio is adjusted for non-core revenue and expense items and for tax preference items. The Company adjusts certain equity related measures to exclude intangible assets due to the importance of these measures to the investment community.

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



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## RECONCILIATION OF NON-GAAP FINANCIAL MEASURES

		At or for the Quarters Ended		At or for the Six Months Ended		
		June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014	
(in thousands)						
Net income (loss) (GAAP)		\$10,044	\$11,464	\$18,803	\$10,358	
Adj: Gain on sale of securities, net		(2,384)	(203)	(2,418)	(237)	
Adj: Loss on termination of hedges		—	—	—	8,792	
Adj: Merger and acquisition expense		5,665	52	8,940	3,689	
Adj: Restructuring and conversion expense		3,046	138	4,192	2,803	
Adj: Out-of-period adjustment (1)		—	—	—	1,381	
Adj: Income taxes		(1,815)	(536)	(2,587)	(5,459)	
Total adjusted income (non-GAAP)	(A)	\$14,556	\$10,915	\$26,930	\$21,327	
Total revenue (GAAP)		\$69,417	\$58,835	\$127,472	\$106,024	
Adj: Securities gains, net		(2,384)	(203)	(2,418)	(237)	
Adj: Loss on termination of hedges		—	—	—	8,792	
Adj: Out-of-period adjustment (1)		—	—	—	1,381	
Total operating revenue (non-GAAP)	(B)	\$67,033	\$58,632	\$125,054	\$115,960	
Total non-interest expense (GAAP)		\$54,025	\$39,263	\$99,173	\$84,623	
Less: Total non-operating expense (see above)		(8,711)	(190)	(13,132)	(6,492)	
Operating non-interest expense (non-GAAP)	(C)	\$45,314	\$39,073	\$86,041	\$78,131	
(in millions, except per share data)						
Total average assets	(D)	\$7,195	\$6,146	\$6,846	\$5,999	
Total average stockholders' equity	(E)	795	691	748	692	
Total average tangible stockholders' equity	(F)	492	412	459	413	
Total tangible stockholders' equity, period-end (2)	(G)	507	411	507	411	
Total common shares outstanding, period-end (thousands)	(H)	29,521	25,115	29,521	25,115	
Average diluted shares outstanding (thousands)	(I)	28,461	24,809	26,713	24,821	
Adjusted earnings per share, diluted	(A/I)	\$0.51	\$0.44	\$1.01	\$0.86	
Tangible book value per share, period-end	(G/H)	\$17.16	\$16.40	\$17.16	\$16.40	
Performance ratios (3)						
Adjusted return on assets	(A/D)	0.81	%0.71	% 0.79	%0.71	%
Adjusted return on equity	(A/E)	7.32	6.32	7.20	6.17	
Adjusted return on tangible equity (4)	(A/F)	12.30	11.34	12.23	11.09	
Efficiency ratio	(C-L)/(B+J+M)	61.51	62.96	62.34	63.68	
Supplementary data (in thousands)						

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Tax benefit - tax-advantaged commercial project investments (5)	(J)	\$4,034	\$555	\$8,068	\$1,110
Non-interest income charge - tax-advantaged commercial project investments (6)	(K)	(2,851	) (417	) (5,703	) (834
Net income on tax-advantaged commercial project investments	(J+K)	1,183	138	2,365	276
Intangible amortization	(L)	934	1,274	1,835	2,580
Fully taxable equivalent income adjustment	(M)	1,068	852	1,957	1,570

(1) The out of period adjustment shown above relates to interest income earned on loans acquired in bank acquisitions.



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- (2) Total tangible stockholders' equity is computed by taking total stockholders' equity less the intangible assets at period-end.
- (3) Ratios are annualized and based on average balance sheet amounts, where applicable. Quarterly data may not sum to year-to-date data due to rounding.
- (4) Adjusted return on tangible equity is computed by dividing the total adjusted income adjusted for the tax-affected amortization of intangible assets, assuming a 40% marginal rate, by tangible equity.
- (5) The tax benefit is the direct reduction to the income tax provision due to tax credits and deductions generated from investments in historic rehabilitation, low-income housing, new market projects, and renewable energy projects.
- (6) The non-interest income charge is the reduction to the tax-advantaged commercial project investments, which are incurred as the tax credits are generated.

SUMMARY

Berkshire recorded growth in adjusted earnings per share in the second quarter and first half of 2015 compared to 2014. Adjusted earnings per share have increased sequentially in each quarter since the first quarter of 2014. Adjusted earnings per share exclude non-operating charges. This improvement reflects growth in income from business activities together with the benefit of business combinations including the purchase of New York branches on January 17, 2014 and the acquisition of Hampden Bancorp on April 17, 2015. Improved adjusted earnings also reflect economies resulting from restructuring activities as well as positive operating leverage based on increased market and wallet share in the Company's footprint. Profitability and efficiency metrics related to adjusted earnings in the most recent quarter were the strongest since the middle of 2013. Due to a dividend increase in January 2015, shareholder dividends increased in the second quarter and first half of 2015 were higher compared to comparable periods in 2014.

First half GAAP earnings per share increased in 2015 compared to 2014, while second quarter GAAP results decreased due to non-operating charges for the Hampden acquisition. GAAP earnings in all periods include the impact of non-operating charges consisting primarily of merger, acquisition, and restructuring related costs.

Total assets increased by 16% in the first half of 2015 primarily due to the Hampden acquisition. Measures of asset quality, capital, liquidity, and interest rate sensitivity have not significantly changed from the start of the year. The Company has used common stock as the primary source of merger consideration and funded asset growth primarily with deposit increases through a combination of acquisition and business activities and promotions.

Second quarter 2015 financial highlights included:

- 13% increase in commercial loans (8% annualized from business activities)
- 13% increase in deposits (10% annualized from business activities)
- 14% increase in fee income
- 61.5% efficiency ratio
- 0.05% improvement in adjusted ROA to 0.81% (0.56% GAAP ROA)
- 0.27% non-performing assets/assets
- 0.27% net loan charge-offs/average loans

Berkshire produced solid second quarter results from business development across its regions and business lines. Commercial loan activity remained strong and deposit growth improved after the slower winter quarter. Loan and deposit fee income also advanced and mortgage banking revenues remained elevated. The Company is benefiting from heightened recognition in its markets as a preferred partner, combining local focus with strong regional resources.

The acquisition of Hampden Bancorp was completed in April 2015 and the systems conversion was successfully completed in June 2015. Berkshire announced an agreement to acquire Firestone Financial in May 2015, a commercial specialty lender in Eastern Massachusetts, and expeditiously completed the merger effective August 7.

The benefit of positive operating leverage was demonstrated by improvement in Berkshire's profitability and efficiency in the second quarter compared to the prior quarter. The net interest margin continued to improve and is expected to benefit from the Firestone acquisition. In addition to improving bottom line results, Berkshire introduced Apple Pay™ convenience to our customers, and its employees participated in the biggest Week of Community Service in the Company's history.

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COMPARISON OF FINANCIAL CONDITION AT JUNE 30, 2015 AND DECEMBER 31, 2014

Summary: Total assets increased by \$1.0 billion, or 16%, to \$7.5 billion in the first half of 2015, including \$688 million in assets resulting from the Hampden acquisition. Deposits grew by \$667 million, including \$484 million from the Hampden acquisition. Berkshire issued \$115 million in net common stock as Hampden merger consideration, which accounted for most of the \$118 million increase in equity. Most other balance sheet categories also increased including acquired Hampden balances.

Capital and liquidity ratios improved slightly and remained solid. Berkshire remains modestly asset sensitive in most modeled scenarios of interest rate sensitivity. The Company's book value per share was generally stable, as Berkshire's internal capital generation was sufficient to absorb modest dilution from the Hampden acquisition. The acquisition is targeted to provide future accretion to earnings per share while immediately accreting key-operating profitability metrics. Mid-year tangible book value per share measured \$17.16 and total book value per share was \$28.02.

Cash and Short Term Investments: Cash and short term investments were higher at \$206 million at mid-year. The Company acquired \$83 million in cash and short term investments from Hampden. Berkshire was active in funds management during the second quarter as it integrated Hampden and funded loan growth. Temporary additional borrowings were repaid on July 1 and mid-year cash balances were elevated in anticipation of this scheduled paydown.

Securities: Total securities increased by \$174 million to \$1.38 billion in the first half of 2015, including \$72 million in balances acquired from Hampden. Some of the Hampden balances were restructured to increase yield and most of the securities growth was in municipal bonds (\$61 million) and mortgage-backed securities (\$122 million) which consisted primarily of collateralized mortgage obligations. Investments in bank capital instruments were reduced as a result of new regulatory requirements that increased the required capital support for these investments. The Company reduced its investment in equity securities and trust preferred securities by \$22 million. The Company continues to focus on loan growth as a primary operating objective; it utilizes the securities portfolio to provide additional income and to accomplish its overall balance sheet and asset liability management objectives. The Company classified most of its municipal securities purchases as held to maturity in the context of its interest rate risk strategies.

The overall portfolio yield of 2.99% in the most recent quarter was little changed from the fourth quarter of 2014. The mid-year portfolio duration was 4.9 years, compared to 4.3 years at the start of the year as longer lived instruments were utilized to mitigate the impact of yield compression in the ongoing low interest rate environment.

During the first quarter of 2015, the Company realized a \$1.4 million net loss on bonds due primarily to the sale of a pooled trust preferred security which was reported with a \$1.0 million unrealized loss at year-end 2014. The bond losses were offset by \$1.4 million in net gains realized on the sale of equity securities. During the second quarter, the Company recognized a \$2.2 million gain on its existing investment in Hampden common stock as a result of the acquisition. This stock was converted to Berkshire stock which is held as an investment security by a Bank subsidiary and is eliminated at the consolidated level.

The net unrealized gain on investment securities decreased to \$10 million (0.8% of cost) at mid-year 2015 compared to \$18 million (1.6% of cost) at year-end 2014 due to the impact of higher interest rates on securities prices at mid-year. There were no material changes in measures of securities asset quality during the first six months of 2015 and no securities impairments recognized during this period.

Loans. Berkshire generated 11% annualized commercial loan growth from business activities in the first half of 2015, while also integrating the acquired Hampden portfolio. The total loan portfolio increased by \$604 million to \$5.28

billion, including \$493 million of Hampden loans along with \$132 million of commercial loans from business activities. Residential mortgage growth from business activities was 2% annualized, while the consumer portfolio decreased at an 8% annualized rate, excluding Hampden loans, due to targeted runoff of lower rate super prime auto loans. Lending activities in all portfolios included both direct and indirect originations.

Berkshire continues to target double digit annualized commercial loan growth to increase earnings, market share, and business relationships. Mortgage and consumer loan growth is more affected by balance sheet management considerations depending on market conditions and asset liability objectives. Berkshire's commercial lending activities produced 7% annualized commercial real estate growth totaling \$56 million. The Company recorded 19% annualized growth in commercial and industrial loans from lending activities, including in-market and out-of-market production from established sources. Including Hampden loans, the growth in the commercial real estate portfolio included an \$87 million increase in owner occupied properties to \$592 million and a \$152 million increase to non-owner occupied properties to \$892 million. Commercial construction balances increased by \$52 million to \$225 million.

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The Hampden loan portfolio consists largely of Springfield area loans and included \$130 million of residential mortgages, \$281 million of commercial loans, and \$82 million of consumer loans. Determining the fair value of assets acquired in business combinations is a critical accounting estimate. Berkshire estimated the fair value yield of the Hampden portfolio at approximately 4.6% at the acquisition date. Berkshire's loans from business activities were originated with coupons averaging approximately 3.5% during the second quarter. Due to the added Hampden loans, Berkshire's overall loan portfolio yield increased to 4.02% in the second quarter of 2015 compared to 3.96% in the fourth quarter of 2014. For its loans from business activities, the Company estimated that its loan yield was approximately stable in the 2015 first quarter, and declined several basis points in the most recent quarter due to yield compression in the ongoing low rate environment. For the most recent several quarters, the Company has been pursuing strategies to remix its portfolio to help offset market related yield compression. This has included outplacing lower margin commercial balances and de-emphasizing the origination of lower yielding super prime auto loans. At mid-year, loans repricing in one to five years measured 25% of total loans, and loans repricing over five years were 40% of total loans. These metrics were little changed from the start of the year.

**Asset Quality.** Asset quality metrics remained favorable and continued to improve in the first half of 2015. Annualized net loan charge-offs measured 0.26% of average loans during this period, with little difference in the charge-off rate between loans from business activities and from business combinations. Mid-year non-performing assets decreased to \$21 million (0.27% of assets) from \$24 million (0.37% of assets) at the start of the year. In recent years, prior to its acquisition, Hampden reported negligible loan charge-offs, and it reported non-accruing loans in the area of 1% of total loans.

Due to accounting principles for business combinations, Hampden's loans are marked to fair value at acquisition and all are recorded as accruing, despite payment status. Accordingly, charge-off and accrual measures for the combined portfolio decreased including the acquired loans and are not fully comparable to prior periods. Berkshire's fair value estimate of Hampden's loans included impaired loans with a contractual balance of \$28.5 million which were recorded with a fair value of \$16.7 million (59% of the contract balance). This including a \$7.6 million non-accretable discount and a \$4.0 million accretable discount. The accretable discount is based on an average yield of 7.2% and average time of approximately 3.5 years to collect these balances. The total discount recorded on Hampden's impaired loans was \$11.8 million, or 2.4% of the total loan carrying balance at acquisition.

Accruing delinquent loans decreased to 0.41% of total loans from 0.52% in the first half of the year, including accruing loans over 90 days past due which increased slightly to 0.12% from 0.10% due to the Hampden merger accounting. Loans identified as troubled debt restructurings totaled \$26 million at mid-year including \$12 million which were newly identified in the first half of the year related to a small number of commercial loans. Loans which became non-accruing totaled \$5 million in the second quarter, which is within the general run rate range of \$4 - 9 million experienced for a number of recent quarters.

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

The total loan loss allowance increased by \$1.5 million to \$37.2 million in the first half of 2015, including the impact of increased loans from business activities as well as changes in commercial risk ratings. The ratio of the allowance to total loans decreased to 0.70% from 0.76% including the impact of the acquired Hampden balances. For loans from

business activities, this ratio decreased to 0.80% from 0.84%. At mid-year, the allowance provided 2.9X coverage of annualized second quarter net charge-offs and 186% coverage of period-end non-accrual loans.

The credit risk profile of the Company's loan portfolio is described in the Loan Loss Allowance note in the consolidated financial statements. The Company's risk management process focuses primary attention on loans with higher than normal risk, which includes loans rated special mention and classified (substandard and lower). These loans are referred to as criticized loans. Criticized loans increased to \$148 million (2.0% of assets) at mid-year 2015 from \$130 million (2.0% of assets) at the start of the year. This increase was primarily due to a small number of additional commercial loans designated as special mention due to industry related factors. The Company views its potential problem loans as those loans from business activities which are rated as classified and continue to accrue interest. These loans have a possibility of loss if weaknesses are not corrected. Classified loans acquired in business combinations are recorded at fair value and are classified as performing at the time of acquisition and therefore have not generally been viewed as potential problem loans. Potential problem loans decreased to \$63 million from \$67 million during the first half of the year. The balance of accruing classified acquired loans decreased to \$22 million from \$24 million during this period despite the addition of the Hampden portfolio. There were no significant changes in the composition of problem assets during 2015 through mid-year. The Company's evaluation of its credit risk profile also compares the amount of criticized assets

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to the total of the Bank's Tier 1 Capital plus the loan loss allowance. This ratio declined to 26% from 28% during the first six months of 2015.

**Deposits.** Total deposits increased by 8% annualized from business activities in the first half of the year, including 11% annualized growth in demand deposit balances. Total deposits increased by \$667 million to \$5.32 billion, including \$484 million in acquired balances from Hampden. There was little change in total deposits from business activities in savings and money market balances. Excluding Hampden balances, total NOW deposits decreased due to changes in institutional and corporate balances. Deposit growth included a \$196 million increase in brokered balances which helped fund loan growth and contributed to the Company's targeted asset sensitive interest rate sensitivity profile.

The Hampden deposit portfolio consisted largely of Springfield area accounts and increased Berkshire's estimated market share to a top five position in that market. These acquired deposits included \$97 million in demand deposits, \$51 million in NOW accounts, \$62 million in money market accounts, \$120 million in savings balances, and \$154 million in time account balances. The average cost of Hampden's deposits in the first quarter of 2015, before its acquisition, was approximately 0.57%. The average cost of Berkshire's combined deposits declined to 0.42% in the most recent quarter from 0.43% in the prior quarter, including a lower cost of money market balances as a result of account changes, along with the ongoing benefit of growth in demand deposits and the benefit of a lower fair value cost assigned to Hampden time deposits. Mid-year brokered time deposits had a cost of 0.64% and an 11.3 month average maturity.

In 2015, the Company has consolidated seven branches and entered an agreement for the sale of its Tennessee branch in the second half of the year. The Company does not expect that its branch consolidations will have any material impact on its deposit balances. The Company ended its participation in the Massachusetts Depositors Insurance Fund ("DIF") at mid-year 2014 and the one year transitional coverage of existing balances expired early in July, 2015. Hampden Bank's participation in this fund terminated with no transitional coverage as of the Hampden merger date. Normal FDIC insurance coverage remains in place for the Bank's deposits. The Company has initiated limited offerings of reciprocal deposit money market accounts, as well as collateralized deposit accounts for certain municipal customers. The DIF transition has affected the pace and mix of deposit growth over the last year. The Company is targeting positive deposit growth in the second half of 2015 through targeted deposit promotions and additional brokered balances as it develops the long run funding for the Firestone acquisition.

New federal regulatory liquidity coverage ratios for the largest banks became effective in 2015, with the potential of increasing competition for retail deposits and reducing competition for large corporate deposits. Additionally, some institutions have offered higher time deposit account rates in anticipation of the initiation of interest rate increases by the Federal Reserve Bank after several years of near-zero short term rates. The Company believes that it may have competitive advantage in the event of interest rate increases due to the comparative stability of some of its more rural deposit markets. The ratio of loans/deposits was 99% at mid-year, compared to 101% at the start of the year, and has initially increased as a result of the Firestone acquisition completed on August 7.

**Borrowings, Derivative Financial Instruments and Hedging Activities.** Berkshire uses borrowings as a supplement to deposits to fund asset growth. Total borrowings increased by \$214 million to \$1.27 billion in the first half of 2015. This growth included \$120 million in acquired Hampden borrowings and an additional amount of approximately \$100 million which was scheduled for repayment on July 1 from excess cash generated through the acquisition of brokered deposits late in June. There were no other significant changes in borrowing activities during the period. A major portion of borrowings is managed on a short term basis under collateralized borrowing arrangements provided through the Federal Home Loan Bank of Boston and is routinely renewed in the normal course of business. Berkshire is using its expanded systems capability to upgrade its collateral support related to existing and acquired loans to facilitate expanded liquidity from the Federal Home Loan Bank. The Bank's unused borrowing capacity with the FHLBB stood

at \$541 million at mid-year. The weighted average cost of borrowings decreased to 0.76% in the most recent quarter from 0.85% in the prior quarter due to the higher level of lower rate borrowings in the second quarter, including the fair value costs assigned to Hampden borrowings.

The notional amount of derivatives increased by \$145 million to \$1.18 billion during the first six months of 2015, including an \$86 million increase in derivatives related to commercial loan interest rate swaps and a \$56 million increase in derivatives related to mortgage banking. These increases were related to growth in lending activities and customer demand for fixed rate protection against expected future interest rate increases. The net unrealized loss on derivatives increased to \$7.9 million from \$5.8 million due to the increase in the loss on the Company's forward starting interest rate swaps to \$6.4 million. This reflects the slower pace of future interest rate increases expected by the market at mid-year. The amount of this loss has varied significantly due to the unusually high volatility of long term interest rates in recent periods reflecting uncertainty about domestic and foreign monetary policy.



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Stockholders' Equity. Stockholders' equity increased by \$118 million in the first half of the year, including \$115 in stock consideration issued for the Hampden acquisition. Retained earnings contributed \$8 million, which was mostly offset by the \$7 million decrease in accumulated other comprehensive income. This decrease resulted from the decline in unrealized bond gains previously discussed in the securities section. Total shares outstanding increased by 4.3 million to 29.5 million including 4.2 million shares issued as Hampden merger consideration.

The ratio of tangible equity/assets increased to 7.04% from 6.96% during the first half of 2015. This ratio is a non-GAAP financial measure commonly used by investors and it excludes goodwill and other intangible assets from equity and assets. The Company generally targets to maintain this measurement within a range of 7-8% and also considers its return on tangible equity as a source of capital strength for improving its condition and supporting its growth. The Hampden acquisition was estimated to be accretive to this capital measure, and the Firestone acquisition is also expected to be accretive to this measure. The ratio of equity/assets increased to 11.00% from 10.91% in the first six months of 2015. Regulatory capital measures also improved during the first half of 2015, with the Bank's risk based capital increasing to 11.0% of risk weighted assets.

Mid-year tangible book value per share measured \$17.16 and was down slightly from \$17.19 at year-end 2014. Retained earnings offset most of the dilution from the Hampden acquisition and the decline in other comprehensive income. Mid-year book value per share measured \$28.02 compared to \$28.17 at year-end 2014 and included the impact of the new shares issued for Hampden at \$27.38 per share.

## COMPARISON OF OPERATING RESULTS FOR THE THREE MONTHS AND SIX MONTHS ENDED JUNE 30, 2015 AND 2014

Summary. Berkshire's results in 2015 included the Hampden Bank operations acquired on April 17, 2015. As a result, many measures of revenue, expense, income, and average balances increased compared to prior periods, and per share measures were affected by new shares issued as Hampden Bank merger consideration. Results in 2014 included New York branch operations acquired on January 17, 2014.

As noted previously, Berkshire uses a non-GAAP measure of adjusted net income to supplement its evaluation of its operating results. Adjusted net income excludes certain amounts not viewed as related to ongoing operations. These non-operating items consist primarily of merger, acquisition, conversion, and restructuring expenses, together with gains recorded on securities and investments in acquired banks. Berkshire views its net merger related costs as part of the economic investment for its acquisitions.

Second quarter adjusted net income per share increased by 16% to \$0.51 in 2015 from \$0.44 in 2014. For the first half of the year, this measure increased by 17% to \$1.01 from \$0.86. This improvement was due to positive operating leverage driven by revenue growth from acquisitions and business activities, as well as reflecting the benefit of restructuring activities. Management estimated that the Hampden merger was neutral to adjusted earnings per share in the first half of 2015. Second quarter 2015 adjusted earnings per share increased at an 8% annualized rate compared to the prior quarter, demonstrating continued earnings momentum from business activities.

Second quarter GAAP net income per share was \$0.35 in 2015 compared to \$0.46 in 2014. First half GAAP net income per share was \$0.70 and \$0.42 in 2015 and 2014, respectively. In addition to operations, GAAP results included non-operating charges including charges from current year acquisitions and also related to the branch acquisition in January, 2014.

Quarterly adjusted EPS and profitability metrics have improved sequentially in all consecutive quarters since the beginning of 2014. Adjusted return on equity improved to 7.3% in the most recent quarter and adjusted return on assets improved to 0.81%. The GAAP measures of 5.1% and 0.56% for these measures, respectively, in the most

recent quarter and included the impact of net non-operating charges.

**Revenue.** Total second quarter net revenue increased by \$11 million, or 18%, to \$69 million in 2015 compared to 2014. This growth included an estimated \$5.3 million related to Hampden operations with the remainder attributable to business activities. Berkshire's goal is to produce positive operating leverage from revenue growth as it develops revenue synergies in its expanded footprint and from integrated product sales that improve wallet share, while further developing efficiencies in its operations. Annualized second quarter 2015 net revenue measured \$9.76 per share, increasing from the prior quarter including the benefits of the Hampden merger.

**Net Interest Income.** Second quarter 2015 net interest income increased over the prior quarter by \$7.1 million, or 16%, and by \$8.3 million, or 19%, over the second quarter of 2014. Included in the most recent quarter was an estimated \$4.5 million from the Hampden operations acquired on April 17, 2015. Income in all periods included purchased loan accretion, consisting primarily of recoveries on the collection of impaired loans acquired in business combinations. This accretion totaled \$2.2 million, \$0.3

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million, and \$1.0 million for the above three periods, respectively. Berkshire has a strong focus on achieving improved values from its management of acquired impaired loans, and these recoveries also reflect the benefit of a stronger market for higher risk assets due to the ongoing impact of low interest rates fostered by federal monetary policy. These recoveries vary from quarter to quarter and are difficult to predict. The Company has focused on building its operating revenues in anticipation of a decrease in these recoveries due to the general seasoning of the acquired loan portfolios. Six month trends in net interest income also reflect double digit year over year increases, while purchased loan accretion totaled \$2.5 million and \$3.9 million in the first half of 2015 and 2014, respectively. At mid-year 2015, the contractual balance of purchased impaired loans (including Hampden) was \$45 million and the carrying balance was \$25 million. The \$20 million discount on these loans included a \$6.5 million accretable balance, which included \$4.2 million from Hampden.

In addition to the benefit of growth in average earning assets, net interest income has also recently benefited from improvement in the net interest margin, despite the effects on industry margins of yield compression in the ongoing low interest rate environment. As previously discussed in the Loans section, the Company has pursued a strategy to remix its assets and reduce certain lower yielding loan balances. The net interest margin increased to 3.30% in the most recent quarter, and measured 3.16% excluding purchased loan accretion. The yield on earning assets improved to 3.77%, and the benefit of the higher yielding Hampden loans offset the impact of its lower yielding securities portfolio. The cost of funds declined to 0.49% due to the lower deposit and borrowings costs previously discussed.

**Non-Interest Income.** Non-interest income increased year over year by \$2.3 million in the second quarter and \$10.4 million in the first half 2015 compared to 2014. Non-interest income growth reflected the benefit of expanded operations on fee income together with changes in other non-interest income related to merger accounting.

Fee income increased both for the second quarter and for the first six months of 2015 compared to 2014. Second quarter 2015 fee income increased by \$1.9 million, or 14%, compared to the prior quarter and by \$1.8 million, or 13%, compared to the second quarter of 2014. This growth included an estimated \$0.8 million contributed by the Hampden operations in the most recent quarter. Fee income has also benefited from the improved market for residential mortgages in 2015 following a dip in long term interest rates near the start of the year. Second quarter mortgage banking fee income increased by \$0.3 million and \$0.9 million compared to the prior quarter and year over year. Loan related income increased including higher fees on commercial interest rate swaps and income on the sale of seasoned loans. The second quarter ratio of deposit fee income to average deposits decreased year over year to 0.51% from 0.57% and included the impact of lower overdraft utilization by customers. In the most recent quarter, overdraft fees totaled \$2.4 million, card related income totaled \$2.1 million, and all other deposit related fee income totaled \$1.9 million. Second quarter insurance and wealth revenues advanced modestly year over year. Wealth management income included the benefit of higher stock market prices together with the benefit of business development. Wealth assets under management totaled \$1.4 billion at mid-year 2015. Overall second quarter fee income as a percentage of revenue decreased to 23% from 24% year over year including the impact of Hampden which had a proportionate revenue contribution from fee based products and services.

Other non-interest income includes income on bank owned life insurance as well as capital gains distributions from investments. Non-interest income is stated net of charges to reduce the carrying value of tax-advantaged investments in commercial redevelopment projects. These charges are further discussed in the later section on income tax expense. Income in the most recent quarter included a \$2.2 million gain recorded on Hampden stock held since prior to the acquisition announcement. In the first quarter of 2014, non-interest income was net of \$8.8 million in charges for the termination of hedges following the New York branch acquisition.

**Loan Loss Provision.** The provision for loan losses increased year over year by \$0.2 million in the second quarter and by \$0.7 million in the first half of 2015 compared to 2014. The provision for loan losses is a charge to earnings in an amount sufficient to maintain the allowance for loan losses at a level deemed adequate by the Company as an

estimate of the probable and estimable loan losses in the portfolio as of period-end. The level of the allowance is a critical accounting estimate, which is subject to uncertainty. The level of the allowance was included in the discussion of financial condition. The amount of the provision exceeded net charge-offs in all periods shown, as the amount of the allowance has risen gradually based on loan portfolio growth and reflecting the ongoing improvement in loan performance and credit quality.

**Non-Interest Expense.** Non-interest expense increased year over year in the second quarter and for the first six months of 2015 compared to 2014 due to non-operating merger charges as well as the addition of the Hampden operations as of April 17, 2015. The Company evaluates its operations based on its measure of operating expense net of non-operating charges as disclosed previously in the reconciliation of non-GAAP measures. Operating non-interest expense in the second quarter of 2015 increased by \$4.6 million, or 11% compared to the prior quarter and by \$6.2 million, or 16%, compared to the prior year second quarter. The increase included \$2.7 million in estimated Hampden operating expense following the Hampden acquisition on April 17, 2015. The remaining increase was primarily related to factors associated with revenue production. These included higher loan

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related expenses associated with increased loan fee income, mortgage banking income, and impaired loan recoveries. Additionally, the Company's increased financing of tax-advantaged commercial development projects contributed \$0.10 per share in the first half of 2015 and the Company reinvested a portion of this benefit into resources targeted towards future revenue generation. In comparison to average assets, annualized operating non-interest expense measured 2.52% in the most recent quarter. This measure has remained in the range of 2.49% - 2.54% over the last five quarters. Management's focus is on investing in the business while managing overall expenses in proportion to the Company's growth and achieving higher revenue growth to produce positive operating leverage. Total full time equivalent staff increased by 6% during the most recent quarter to 1,153 including the Hampden team. With its combined strategies of revenue growth and expense management, Berkshire operated with an improved efficiency ratio measuring 61.5% in the most recent quarter. The Company had 93 ongoing branches as of mid-year and in 2015 has consolidated seven branches and entered an agreement to sell its Tennessee branch in the second half of the year.

**Income Tax Expense.** Berkshire's increased financing of tax-advantaged commercial development projects contributed \$0.09 per share towards earnings in the first half of 2015. Berkshire reinvested a portion of this benefit into professionals and projects targeted towards future revenue generation. Due to its regional reach and resources, the Company has expanded its tax-advantaged investments in redevelopment projects with commercial relationship partners in its communities. This financing results in a charge to non-interest income which is more than offset by the tax benefits recorded as a reduction in income tax expense. The charge to non-interest income represents a reduction in the carrying value of the Company's project investments; charges totaled \$5.8 million in the first half of 2015. The tax benefits include tax credits along with a tax deduction on the amount of the charge. The total tax benefit recognized for these projects was \$8.1 million in the first half of the year.

The Company's second quarter effective income tax rate was 10% in 2015 and 26% in 2014. For the first half of the year, the rate was 7% in 2015 and 26% in 2014. In addition to the above tax credit related investments, the tax rate also includes the benefit of tax advantaged investments in municipal bonds and bank owned life insurance. The lower effective rate in 2015 is primarily due to the increased financing of tax-advantaged commercial development projects. The Company evaluates its effective tax rate on operating earnings. In the most recent quarter, this rate was 17%, including a 16% benefit from tax credit related investments.

**Hampden Bancorp Acquisition.** The Hampden acquisition was completed on April 17, 2015. Hampden was a community bank headquartered in Springfield, Massachusetts and serving the Springfield area. This in-market merger was targeted to benefit all constituencies, bringing additional products and services to the Hampden customers, providing revenue synergies and cost efficiencies to the combined operations, and boosting Berkshire's deposit share in the Springfield MSA to a top 5 position based on most recent data. Berkshire is the largest Massachusetts based bank now serving the Springfield market. Berkshire consolidated 3 of the Hampden branches in the most recent quarter and now operates a total of 17 branches in that market, including 7 former Hampden offices.

The total acquisition cost was \$119 million and Berkshire issued 4.2 million common shares as merger consideration. The price to tangible book value measured 157% including \$8.4 million in pre-tax merger related costs recorded by Hampden and excluding the \$4.6 million value of the Hampden shares owned by Berkshire. Berkshire recorded \$9.6 million in pre-tax merger related costs through mid-year 2015 and expects to record additional related costs in the third quarter of 2015. The tangible deposit premium measured 8.6%. The Company believes that it is on plan to achieve its cost saves goal within a year of the closing date. The Company has also consolidated three Hampden branches and recorded in non-operating restructuring charges in 2015 for these consolidations.

The Company estimates that Hampden's operations in the most recent quarter contributed to improvements in its operating profitability ratios but were not accretive to second quarter adjusted earnings per share. The Company is targeting that these operations will be accretive to earnings per share after all cost savings are complete. Based on the pro forma analysis included in the consolidated financial statements, the Hampden acquisition was calculated to be

accretive to GAAP EPS for the periods shown based on the stated assumptions, due largely to the lower GAAP EPS resulting from other non-operating activities in those periods.

Due to the stock issued as merger consideration, the Company estimates that the Hampden acquisition improved the ratio of tangible equity/tangible assets by approximately 0.2% and also contributed positively to regulatory capital ratios. The acquisition is estimated to have resulted in approximately \$0.30 dilution to tangible book value per share. This exceeded the Company's original estimate including the impact of litigation costs and additional loan related discount because of the rise in interest rates since the time of the acquisition announcement. The Company continues to target tangible book value dilution payback within approximately 3 years from the merger date based on future merger related operating EPS accretion. The Company also continues to target double digit long run return on the equity invested in this acquisition.

Firestone Financial Acquisition. The Firestone acquisition was completed on August 7, 2015. Based in Needham, Massachusetts, Firestone is a longstanding profitable commercial specialty finance company providing secured installment loan equipment

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financing for small and medium-sized businesses. Firestone lends nationally, financing fitness equipment, carnival rides and games, amusement and video entertainment, gaming, vending, laundry, and ATM machines. This acquisition provides revenue diversification to Berkshire and increased opportunities for cross sales of existing Berkshire products and services. This business is viewed as complementary to Berkshire's existing specialized financing businesses, including asset based lending and SBA loan programs. Firestone is being operated as a subsidiary of Berkshire Bank and is maintaining its existing operations with a goal of expanding its programs based on Berkshire's increased capital and financing capabilities.

Second quarter 2015 financial results included \$0.9 million in non-operating Firestone merger related charges including legal fees and costs related to regulatory applications and SEC reporting. All other financial statement impacts of this business acquisition are being recorded in the third quarter of 2015 and in future operations. The initial cost of the acquisition was estimated at \$53 million and is subject to final adjustment in the third quarter of 2015. Merger consideration was 75% stock and 25% cash. The Company has issued 1.4 million shares as initial merger consideration, which is subject to adjustment in the third quarter.

The Company is targeting that this acquisition will be accretive to adjusted earnings per share and profitability metrics after Firestone's operations are integrated. The transaction is expected to be accretive to the Company's capital ratios and that dilution to tangible book value per share will not exceed \$0.10. The Company's goal is that Firestone's operations will produce a double digit return on its equity investment and tangible book value dilution will be repaid from Firestone's operating earnings accretion in 2.5 years.

Results of Segment and Parent Operations. Berkshire Hills Bancorp ("the Parent") has two subsidiary operating segments - banking and insurance. Results in the banking segment generally followed the levels and trends of consolidated results, which have been previously discussed. In the insurance segment, first half income increased to \$1.0 million in 2015 from \$0.8 million in the prior year due to a 9% reduction in operating expenses. For the Parent, operating results primarily reflected changes in the operations of its bank subsidiary.

Total Comprehensive Income. Total comprehensive income includes net income together with other comprehensive income. For the first half the year, total comprehensive income decreased to \$11.8 million in 2015 compared to \$23.7 million in the prior year. Net income increased by \$8.4 million to \$18.8 million. This improvement was offset by a change in the unrealized gain on investment securities. This gain decreased by \$6.7 million in 2015 whereas the gain had improved by \$17.1 million in 2014. This resulted in a \$23.8 million adverse swing in the contribution from unrealized securities gains from year to year. This was due to a general improvement in bond prices in the first half of 2014 which was followed by a general decline in bond prices in the first half of 2015 as a result of changes in long term interest rates. The adverse effect of this swing was partially offset by a tax related benefit on this change in unrealized bond gains.

Liquidity and Cash Flows. During the first half of 2015, increased deposits were the primary source of funds and net loan growth was the primary use of funds. The increase in cash in 2015 included funds that were used to pay down borrowings on July 1. Berkshire generally plans that over the medium term, deposit growth will be the primary source of funds and loan growth will be the primary use of funds. The Bank is diversifying its deposit sources including institutional and wholesale sources as part of the expansion of its liquidity management program and to provide additional options for managing its funds costs and asset/liability objectives. In select cases, the Bank may offer collateralized deposits to municipalities or insured reciprocal deposits to large institutional accounts to supplement its deposit insurance protection in place of its previous participation in the Depositors Insurance Fund.

The Bank is also expanding its use of short term institutional borrowings and FHLBB borrowings will continue to be a significant source of liquidity for daily operations and borrowings targeted for specific asset/liability purposes. The Company also uses interest rate swaps in managing its funds sources and uses. As of June 30, 2015, the Bank had

approximately \$541 million in borrowing availability with the Federal Home Loan Bank. This was increased from \$246 million at the start of the year due to additional collateral that was pledged to the FHLBB, together with the collateral provided through the Hampden acquisition.

Berkshire Hills Bancorp had a cash balance totaling \$28 million as of June 30, 2015 which was on deposit with Berkshire Bank. The primary long run routine sources of funds for the Parent are expected to be dividends from Berkshire Bank and Berkshire Insurance Group, as well as cash from the exercise of stock options. The Bank paid a \$12 million dividend to the Parent in the first half of 2015. The Parent has a \$10 million revolving line of credit provided by a correspondent bank. The primary long run uses of funds by the Parent include the payment of cash dividends on common stock and debt service. The Parent's cash at mid-year included cash acquired from Hampden Bancorp.

Capital Resources. Please see the "Stockholders' Equity" section of the Comparison of Financial Condition for a discussion of stockholders' equity together with the "Stockholders' Equity" note to the consolidated financial statements. At June 30, 2015, the regulatory capital ratios of the Bank and the Company continued to be consistent with the requirements to be classified as



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“Well Capitalized.” Additional information about regulatory capital is contained in the notes to the consolidated financial statements and in the 2014 Form 10-K.

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

The Company issued approximately 4.2 million net shares as merger consideration for the acquisition of Hampden Bancorp on April 17, 2015 in accordance with the terms of the merger agreement. Most of the Company’s capital ratios improved as a result of this acquisition. The Company issued approximately 1.4 million shares for the acquisition of Firestone Financial on August 7, 2015 and the Company also expects that this acquisition will be accretive to its capital ratios.

Off-Balance Sheet Arrangements and Contractual Obligations. In the normal course of operations, Berkshire engages in a variety of financial transactions that, in accordance with generally accepted accounting principles are not recorded in the Company’s financial statements. These transactions involve, to varying degrees, elements of credit, interest rate, and liquidity risk. Such transactions are used primarily to manage customers’ requests for funding and take the form of loan commitments and lines of credit. Further information about the Company’s off-balance sheet arrangements is contained in the Company’s 2014 Form 10-K and information relating to payments due under contractual obligations is presented in the 2014 form 10-K. Changes in the fair value of derivative financial instruments and hedging activities are included on the balance sheet and information related to these matters is reported in the related footnote to the consolidated financial statements, and was included in management’s discussion of changes in financial condition. Aside from the completion of the Hampden Bancorp acquisition on April 17, 2015, there have been no significant changes in off-balance sheet arrangements and contractual obligations since year-end 2014. Berkshire is modifying certain Hampden off-balance sheet arrangements and contractual obligations as a result of the merger. The Firestone Financial acquisition was a significant off-balance sheet contractual obligation at mid-year. This acquisition obligation was completed on August 7, 2015 and Firestone’s routine operating commitments are not viewed as material to the Company’s total obligations. As a result of its restructuring activities, including branch consolidations, certain facilities leases have been terminated during the first half of 2015.

Fair Value Measurements. The Company records fair value measurements of certain assets and liabilities, as described in the related note in the financial statements. There were no significant changes in the fair value measurement methodologies at June 30, 2015 compared to December 31, 2014. The Company compares the carrying value to fair value for major categories of financial assets and liabilities. The biggest difference relates to loans, which had an estimated fair value premium of \$50 million (1% of loans) at mid-year, which was not substantially changed from the prior year-end.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There were no material changes to the way that the Company measures market risk in the first half of 2015. 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, 2014. Berkshire's objective is to maintain an asset sensitive interest rate risk profile, as measured by the sensitivity of net interest income to market interest rate changes. The Company measures this sensitivity primarily by evaluating the impact of ramped and shocked interest rate changes on net interest income in the one year, two year, and three year time horizons, including parallel shifts and yield curve twists. The Company also evaluates its equity at risk from interest rate changes through discounted cash flow analysis. This measure assesses the present value changes to equity based on long term impacts of rate changes beyond the time horizons evaluated for net interest income at risk.

As of June 30, 2015, there were no significant changes in the Company's methodologies for measuring the sensitivity of net interest income to changes in market interest rates. The Company remains modestly asset sensitive in most interest rate scenarios. Increases in interest rates which result from a parallel shift in the yield curve generally result in higher interest income in most future periods

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compared to the base scenario of unchanged interest rates. Interest income is positively affected in the range of 1.5% - 2% in the third year compared to this base scenario. This reflects the repricing of assets in an upward rate environment, together with the benefit of the fixed payment swaps. The Company's position tends to be initially asset sensitive as prime and LIBOR indexed loans are expected to react quickly to rate changes while modeled deposit rate changes are expected to react less quickly. The Company's asset sensitivity in the third year is modestly lower than the 5% estimate at the end of the prior quarter due to the integration of the liability sensitive Hampden balance sheet. The Firestone acquisition, which consists primarily of variable rate loans, is not expected to have a material impact on interest rate sensitivity measures. If interest rates remain unchanged or if the yield curve flattens due to higher short term rates, the Company's net interest income could be negatively impacted in the initial effective period of the swaps due to the contracted fixed payments, together with the ongoing effects of asset yield compression which have pressured industry margins in recent years. Through its pricing disciplines and mix of business, Berkshire's goal is to manage its balance sheet to support the net interest margin in the event that interest rates do not rise as anticipated by management during the effective period of the swaps.

In addition to modeling market risk in relation to net interest income, the Company also models net income at risk in various interest rate scenarios. Various sources of fee income, including interest rate swap income and mortgage banking revenue, are sensitive to interest rates. Other components of revenue and expense are also considered and net income estimates include the impact of income taxes on modeled changes. Management considers the risks to net income in evaluating its overall asset liability management and strategies.

The Company also estimates the sensitivity of the economic value of its equity to interest rate shocks. The Company seeks to avoid having excess long term earnings at risk when interest rates rise in the future, as anticipated. At June 30, 2015, the Company estimated that the economic value of equity, including estimates related to Hampden, would decrease by approximately 7% in the event of a 200 basis point upward interest rate shock, which was within the Company's policy limits. This reflected the impact of fixed rate assets on medium and long term modeled net interest income if interest rates increase. This estimate is subject to numerous assumptions and uncertainties and is not intended as a projection of future operating results. The sensitivity of equity at risk in the modeled scenario decreased modestly from 9% at year-end 2014. Equity at risk is not expected to be materially impacted by the Firestone acquisition.

In a prolonged low rate environment, Berkshire has a number of business strategies to support its net interest income and margin objectives. These include changes in volumes and mix of interest bearing assets and liabilities, some of which are discussed above. The Company also evaluates its pricing strategies on an ongoing basis, and considers its investment, borrowings, and derivatives strategies in managing its income and risk profile. Due to the limitations and uncertainties relating to model assumptions, the modeled computations should not be relied on as projections of income. Further, the computations do not reflect any actions that management may undertake in response to changes in interest rates.

## ITEM 4. CONTROLS AND PROCEDURES

### a) Disclosure controls and procedures.

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

### b) Changes in internal control over financial reporting.

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



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## PART II

## ITEM 1. LEGAL PROCEEDINGS

As of June 30, 2015, neither the Company nor the Bank was involved in any pending legal proceedings believed by management to be material to the Company's financial condition or results of operations. Periodically, there have been various claims and lawsuits involving the Bank, such as claims to enforce liens, condemnation proceedings on properties in which the Bank holds security interests, claims involving the making and servicing of real property loans and other issues incident to the Bank's business. However, neither the Company nor the Bank is a party to any pending legal proceedings that it believes, in the aggregate, would have a material adverse effect on the financial condition or operations of the Company.

## ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2014, which could materially affect our business, financial condition or future results. The risks described in this form 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. As a result of the closing of the Hampden Bancorp acquisition on April 17, 2015, the risks related to the failure to complete that acquisition are no longer relevant. The risks related to the acquisition of Firestone Financial were described in the Form S4/A filed by Berkshire on June 29, 2015. The risks related to the failure to complete that acquisition are no longer relevant. There have been no other material changes in the Company's Risk Factors during the first half of 2015.

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

- (a) No Company unregistered securities were sold during the quarter ended June 30, 2015.  
 (b) Not applicable.  
 (c) The following table provides certain information with regard to shares repurchased by the Company in the second quarter of 2015.

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares that may yet be purchased under the plans or programs
April 1-30, 2015	—	\$—	—	18,113
May 1-31, 2015	—	—	—	18,113
June 1-30, 2015	—	—	—	18,113
Total	—	\$—	—	18,113

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

## ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

## ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

## ITEM 5. OTHER INFORMATION

None.

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ITEM 6.	EXHIBITS
2.1	Agreement and Plan of Merger, dated as of November 3, 2014, by and between Berkshire Hills Bancorp, Inc. and Hampden Bancorp, Inc. (1)
2.2	Agreement and Plan of Merger, dated as of May 21, 2015, by and among Firestone Financial Corp., Berkshire Hills Bancorp, Inc., Berkshire Bank, Jacob Acquisition LLC, and David S. Cohen, solely in his capacity as the representative of the Firestone security holders (15)
3.1	Certificate of Incorporation of Berkshire Hills Bancorp, Inc. (2)
3.2	Amended and Restated Bylaws of Berkshire Hills Bancorp, Inc.(3)
4.1	Form of Common Stock Certificate of Berkshire Hills Bancorp, Inc. (2)
4.2	Note Subscription Agreement by and among Berkshire Hills Bancorp, Inc. and certain subscribers dated September 20, 2012 (4)
10.1	Amended and Restated Employment Agreement by and among Berkshire Bank, Berkshire Hills Bancorp, Inc. and Michael P. Daly (5)
10.2	Amended and Restated Supplemental Executive Retirement Agreement between Berkshire Bank and Michael P. Daly (6)
10.3	Three Year Executive Change in Control Agreement by and among Berkshire Bank, Berkshire Hills Bancorp, Inc. and George F. Bacigalupo (7)
10.4	Three-Year Executive Change in Control Agreement by and among Berkshire Bank, Berkshire Hills Bancorp, Inc. and Josephine Iannelli (7)
10.5	Amended and Restated Three Year Change in Control Agreement by and among Berkshire Bank, Berkshire Hills Bancorp, Inc. and Richard M. Marotta (8)
10.6	Amended and Restated Three Year Change in Control Agreement by and among Berkshire Bank, Berkshire Hills Bancorp, Inc. and Sean A. Gray (9)
10.7	Form of Split Dollar Agreement entered into with Michael P. Daly, Sean A. Gray, and Richard M. Marotta (10)
10.8	Berkshire Hills Bancorp, Inc. 2011 Equity Incentive Plan (11)
10.9	Berkshire Hills Bancorp, Inc. 2013 Equity Incentive Plan (12)
10.10	Legacy Bancorp, Inc. Amended and Restated 2006 Equity Incentive Plan (13)
10.11	Berkshire Bank 2014 Executive Short Term Incentive Plan (14)
10.12	Form of Amended and Restated Director Retirement Agreement between Berkshire Bank (as successor to Hampden Bank) and Richard Suski
11.0	Statement re: Computation of Per Share Earnings is incorporated herein by reference to Part II, Item 8, “Financial Statements and Supplementary Data”
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Statements of Condition, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Changes in Stockholders’ Equity, (v) the Consolidated Statements of Cash Flows, and (vi) the Notes to Consolidated Financial Statements tagged as blocks of text and in detail

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(1) Incorporated by reference from the Exhibits to the Form 8-K filed on November 4, 2014.

(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 April 28, 2015.

- (4) Incorporated by reference from the Exhibits to the Form 8-K as filed on September 26, 2012.
- (5) Incorporated herein by reference from the Exhibits to the Form 8-K as filed on January 6, 2009.
- (6) Incorporated herein by reference from the Exhibits to Form 10-K as filed on March 16, 2009.
- (7) Incorporated herein by reference from the Exhibits to the Form 10-K as filed on March 17, 2014.



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- (8) Incorporated herein by reference from the Exhibits to the Form 10-K as filed on March 16, 2010.
- (9) Incorporated herein by reference from the Exhibits to the Form 10-K as filed on March 16, 2011.
- (10) Incorporated herein by reference from the Exhibit to the Form 8-K as filed on January 19, 2011.
- (11) Incorporated herein by reference from the Appendix to the Proxy Statement as filed on March 24, 2011.
- (12) Incorporated herein by reference from the Appendix to the Proxy Statement as filed on April 2, 2013.
- (13) Incorporated herein by reference from the Exhibits to the Form 8-K filed by Legacy Bancorp, Inc. on December 22, 2010.
- (14) Incorporated herein by reference from Exhibits to the Form 10-K as filed on March 16, 2015.
- (15) Incorporated herein by reference from Exhibits to the Form 8-K as filed on May 22, 2015.

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SIGNATURES

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

BERKSHIRE HILLS BANCORP, INC.

Dated: August 10, 2015

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

Dated: August 10, 2015

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