UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended: March 31, 2014

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

For the transition period from to

Commission File Number: 001-15781

BERKSHIRE HILLS BANCORP, INC.

(Exact name of registrant as specified in its charter)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

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

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

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

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

The Registrant had 25,108,296 shares of common stock, par value $0.01 per share, outstanding as of May 6, 2014.

Table of Contents

BERKSHIRE HILLS BANCORP, INC.

FORM 10-Q

INDEX

2

Table of Contents

PART I

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

BERKSHIRE HILLS BANCORP, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)	March 31, 2014	December 31, 2013
Assets		
Cash and due from banks	$ 60,023	$ 56,841
Short-term investments	12,650	18,698
Total cash and cash equivalents	72,673	75,539
Trading security	14,923	14,840
Securities available for sale, at fair value	1,033,637	760,048
Securities held to maturity (fair values of $44,191 and $45,764)	43,159	44,921
Federal Home Loan Bank stock and other restricted securities	53,124	50,282
Total securities	1,144,843	870,091
Loans held for sale, at fair value	7,669	15,840
Residential mortgages	1,377,771	1,384,274
Commercial real estate	1,456,976	1,417,120
Commercial and industrial loans	696,895	687,293
Consumer loans	710,985	691,836
Total loans	4,242,627	4,180,523
Less: Allowance for loan losses	(33,602)	(33,323)
Net loans	4,209,025	4,147,200
Premises and equipment, net	87,805	84,459
Other real estate owned	2,418	2,758
Goodwill	264,770	256,871
Other intangible assets	15,035	13,791
Cash surrender value of bank-owned life insurance policies	102,343	101,530
Deferred tax assets, net	40,202	50,711
Other assets	63,548	54,009
Total assets	$ 6,010,331	$ 5,672,799
Liabilities		
Demand deposits	$ 770,841	$ 677,917
NOW deposits	434,833	353,612
Money market deposits	1,459,062	1,383,856
Savings deposits	478,107	431,496
Time deposits	1,075,740	1,001,648
Total deposits	4,218,583	3,848,529
Short-term debt	914,950	872,510
Long-term Federal Home Loan Bank advances	21,797	101,918

Subordinated borrowings		89,696		89,679
Total borrowings		1,026,443		1,064,107
Other liabilities		87,715		82,101
Total liabilities		5,332,741		4,994,737
Stockholders equity				
Common stock ($.01 par value; 50,000,000 shares authorized and 26,525,466 shares issued and 25,105,207 shares outstanding in 2014; 26,525,466 shares issued and 25,036,169 shares outstanding in 2013)		265		265
Additional paid-in capital		585,342		587,247
Unearned compensation		(7,811)		(5,563)
Retained earnings		135,498		141,958
Accumulated other comprehensive loss		(631)		(9,057)
Treasury stock, at cost (1,420,259 shares in 2014 and 1,489,297 shares in 2013)		(35,073)		(36,788)
Total stockholders equity		677,590		678,062
Total liabilities and stockholders equity	$	6,010,331	$	5,672,799

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

Table of Contents

BERKSHIRE HILLS BANCORP, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)	Three Months Ended March 31, 2014	2013
Interest and dividend income		
Loans	$ 42,494	$ 47,081
Securities and other	7,301	3,800
Total interest and dividend income	49,795	50,881
Interest expense		
Deposits	4,721	5,363
Borrowings	2,308	3,581
Total interest expense	7,029	8,944
Net interest income	42,766	41,937
Non-interest income		
Loan related income	1,248	2,717
Mortgage banking income	372	2,217
Deposit related fees	5,439	4,259
Insurance commissions and fees	3,049	2,997
Wealth management fees	2,549	2,264
Total fee income	12,657	14,454
Other	524	344
Gain on sale of securities, net	34	
Loss on termination of hedges	(8,792)	
Total non-interest income	4,423	14,798
Total net revenue	47,189	56,735
Provision for loan losses	3,396	2,400
Non-interest expense		
Compensation and benefits	19,859	17,741
Occupancy and equipment	6,814	5,768
Technology and communications	3,778	2,991
Marketing and promotion	521	638
Professional services	1,152	1,490
FDIC premiums and assessments	1,009	828
Other real estate owned and foreclosures	523	23
Amortization of intangible assets	1,306	1,377
Acquisition, restructuring and conversion related expenses	6,301	5,064
Other	4,097	3,563
Total non-interest expense	45,360	39,483
(Loss) income before income taxes	(1,567)	14,852
Income tax (benefit) expense	(461)	4,387
Net (loss) income	$ (1,106)	$ 10,465
(Loss) earnings per share:		
Basic	$ (0.04)	$ 0.42
Diluted	$ (0.04)	$ 0.42
Weighted average common shares outstanding:		
Basic	24,698	24,948
Diluted	24,698	25,143

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

Table of Contents

BERKSHIRE HILLS BANCORP, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended March 31,	
(In thousands)	**2014**	**2013**
Net (loss) income	$ (1,106)	$ 10,465
Other comprehensive income, before tax:		
Changes in unrealized gains on securities available-for-sale	6,021	733
Changes in unrealized gains on derivative hedges	4,533	1,443
Changes in unrealized gains on terminated swaps	3,237	236
Income taxes related to other comprehensive income:		
Changes in unrealized gains on securities available-for-sale	(2,221)	(321)
Changes in unrealized gains on derivative hedges	(1,832)	(575)
Changes in unrealized gains on terminated swaps	(1,312)	(208)
Total other comprehensive income	8,426	1,308
Total comprehensive income	$ 7,320	$ 11,773

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

Table of Contents

BERKSHIRE HILLS BANCORP, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

(In thousands)	Common stock Shares	Common stock Amount	Additional paid-in capital	Unearned compensation	Retained earnings	Accumulated other comprehensive loss	Treasury stock	Total
Balance at December 31, 2012	25,148	$ 265	$ 585,360	$ (3,035)	$ 122,014	$ (2,979)	$ (34,360)	$ 667,265
Comprehensive income:								
Net income					10,465			10,465
Other comprehensive income						1,308		1,308
Total comprehensive income								11,773
Cash dividends declared ($0.18 per share)					(4,561)			(4,561)
Treasury stock purchased	(98)						(2,434)	(2,434)
Forfeited shares	(4)		8	90			(98)	
Exercise of stock options	118				(1,488)		3,315	1,827
Restricted stock grants	146		(691)	(3,485)			4,176	
Stock-based compensation			296	585				881
Net tax benefit related to stock-based compensation			479					479
Other, net	(56)						(1,348)	(1,348)
Balance at March 31, 2013	25,254	$ 265	$ 585,452	$ (5,845)	$ 126,430	$ (1,671)	$ (30,749)	$ 673,882
Balance at December 31, 2013	25,036	$ 265	$ 587,247	$ (5,563)	$ 141,958	$ (9,057)	$ (36,788)	$ 678,062
Comprehensive income:								
Net loss					(1,106)			(1,106)
Other comprehensive income						8,426		8,426
Total comprehensive income								7,320
Cash dividends declared ($0.18 per share)					(4,561)			(4,561)
Treasury stock purchased	(100)						(2,467)	(2,467)
Forfeited shares	(1)		1	5			(6)	
Exercise of stock options	61				(793)		1,512	719
Restricted stock grants	126		37	(3,144)			3,107	
Stock-based compensation			41	891				932
Net tax benefit related to stock-based compensation			(1,984)					(1,984)
Other, net	(17)						(431)	(431)
Balance at March 31, 2014	25,105	$ 265	$ 585,342	$ (7,811)	$ 135,498	$ (631)	$ (35,073)	$ 677,590

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

Table of Contents

BERKSHIRE HILLS BANCORP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	**Three Months Ended March 31, 2014**	**2013**
Cash flows from operating activities:		
Net (loss) income	$ (1,106)	$ 10,465
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	3,396	2,400
Net amortization of securities	604	354
Change in unamortized net loan costs and premiums	64	(511)
Premises and equipment depreciation and amortization expense	1,944	1,725
Stock-based compensation expense	932	881
Accretion of purchase accounting entries, net	(1,999)	(4,659)
Amortization of other intangibles	1,306	1,377
Write down of other real estate owned	125	
Excess tax loss from stock-based payment arrangements	(89)	(479)
Income from cash surrender value of bank-owned life insurance policies	(813)	(695)
Gain on sales of securities, net	(34)	(1)
Net decrease in loans held for sale	8,171	13,020
Loss on disposition of assets	834	1,596
Loss (gain) on sale of real estate	208	(115)
Loss on termination of hedges	3,237	
Net change in other	238	(3,072)
Net cash provided by operating activities	17,018	22,286
Cash flows from investing activities:		
Net decrease in trading security	135	128
Proceeds from sales of securities available for sale	3,171	
Proceeds from maturities, calls and prepayments of securities available for sale	25,440	37,481
Purchases of securities available for sale	(291,662)	(129,806)
Proceeds from maturities, calls and prepayments of securities held to maturity	1,762	882
Purchases of securities held to maturity		(329)
Net change in loans	(59,851)	100,676
Proceeds from sale of Federal Home Loan Bank stock	78	1,915
Purchase of Federal Home Loan Bank stock	(2,920)	
Net investment in limited partnership tax credits	(2,500)	
Purchase of premises and equipment, net	(3,130)	(5,094)
Acquisitions, net of cash paid	423,416	
Proceeds from sale of other real estate	483	449
Net cash provided by in investing activities	94,422	6,302

(continued)

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

Table of Contents

BERKSHIRE HILLS BANCORP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONCLUDED)

(In thousands)	**Three Months Ended March 31, 2014**	**2013**
Cash flows from financing activities:		
Net (decrease) increase in deposits	(70,422)	1,049
Proceeds from Federal Home Loan Bank advances and other borrowings	900,018	90,015
Repayments of Federal Home Loan Bank advances and other borrowings	(937,682)	(138,873)
Purchase of treasury stock	(2,467)	(2,434)
Exercise of stock options	719	1,827
Excess tax (gain) loss from stock-based payment arrangements	89	479
Common stock cash dividends paid	(4,561)	(4,564)
Net cash used in financing activities	(114,306)	(52,501)
Net change in cash and cash equivalents	(2,866)	(23,913)
Cash and cash equivalents at beginning of year	75,539	98,244
Cash and cash equivalents at end of year	$ 72,673	$ 74,331
Supplemental cash flow information:		
Interest paid on deposits	$ 4,718	$ 5,330
Interest paid on borrowed funds	3,145	3,440
Income taxes paid, net	146	638
Acquisition of non-cash assets and liabilities:		
Assets acquired	18,064	
Liabilities assumed	(441,550)	(330)
Other non-cash changes:		
Other net comprehensive loss	5,189	
Real estate owned acquired in settlement of loans	476	918

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

Table of Contents

NOTE 1. BASIS OF PRESENTATION

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

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

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

Reclassifications

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

Out of Period Adjustments

For the quarter ended March 31, 2014, the Company recorded a correction of an error to adjust ($1.4) million in prior period interest income earned on loans acquired in bank acquisitions all of which relates to prior periods. After evaluating the quantitative and qualitative aspects of these adjustments, the Company concluded that its prior period financial statements were not materially misstated.

Recently Adopted Accounting Principles

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

NOTE 2. ACQUISITION

New York Branch Acquisition

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

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

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

Table of Contents

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

Explanation of Certain Fair Value Adjustments

(a) The adjustment represents the write down of the book value of loans to their estimated fair value based on current interest rates and expected cash flows, which includes an estimate of expected loan loss inherent in the portfolio. Loans that met the criteria and are being accounted for in accordance with ASC 310-30 had a carrying amount of $201 thousand. Non-impaired loans not accounted for under 310-30 had a carrying value of $4.3 million.

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

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

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

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

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

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

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

ASC 310-30 Loans

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

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

Table of Contents

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

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

Direct acquisition and integration costs of the branch acquisition were expensed as incurred, and totaled $3.6 million during the three months ending March 31, 2014, and none during the same period of 2013.

The following table presents selected unaudited pro forma financial information reflecting the branch acquisition assuming it was completed as of January 1, 2013.   The unaudited pro forma financial information is presented for illustrative purposes only and is not necessarily indicative of the combined financial results of the Company and acquired branches had the transaction actually been completed at the beginning of the periods presented, nor does it indicate future results for any other interim or full-year period.   Pro forma basic and diluted earnings per common share were calculated using Berkshire s actual weighted-average shares outstanding for the periods presented. The unaudited pro forma information is based on the actual financial statements of Berkshire for the periods shown, and on the calculated results of the acquired branches for the 2013 period shown and in 2014 until the date of acquisition, at which time their operations became included in Berkshire s financial statements.

The unaudited pro forma information, for the three months ended March 31, 2014 and 2013, set forth below reflects adjustments related to (a) purchase accounting fair value adjustments; (b) amortization of core deposit and other intangibles; and (c) adjustments to interest income and expense due to additional investments and borrowing reductions as a result of the branch acquisition. Direct acquisition and integration-related costs incurred by the Company during 2014 are reversed; as those expenses are assumed to have occurred prior to 2013. Furthermore, the unaudited pro forma information does not reflect management s estimate of any revenue-enhancing opportunities beyond investment of cash received from deposits, or anticipated cost-savings.

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

	Pro Forma (unaudited) Three ended March 31,	
	2014	**2013**
Net interest income	$ 43,892	$ 43,631
Non-interest income	4,632	16,053
Net income	1,487	10,229
Pro forma earnings per share:		
Basic	$ 0.06	$ 0.41
Diluted	$ 0.06	$ 0.41

NOTE 3. TRADING SECURITY

The Company holds a tax advantaged economic development bond that is accounted for at fair value. The security had an amortized cost of $13.0 million and $13.1 million, and a fair value of $14.9 million and $14.8 million, at March 31, 2014 and December 31, 2013, respectively. As discussed further in Note 14 - Derivative Financial Instruments and Hedging Activities, the Company has entered into a swap contract to swap-out the fixed rate of the security in exchange for a variable rate. The Company does not purchase securities with the intent of selling them in the near term, and there are no other securities in the trading portfolio at March 31, 2014.

Table of Contents

NOTE 4. SECURITIES AVAILABLE FOR SALE AND HELD TO MATURITY

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

(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2014				
Securities available for sale				
Debt securities:				
Municipal bonds and obligations	$ 135,382	$ 2,949	$ (1,139)	$ 137,192
Government-guaranteed residential mortgage-backed securities	83,299	704	(317)	83,686
Government-sponsored residential mortgage-backed securities	726,195	2,217	(9,514)	718,898
Corporate bonds	40,917	116	(912)	40,121
Trust preferred securities	15,799	1,320	(1,361)	15,758
Other bonds and obligations	3,244	1	(116)	3,129
Total debt securities	1,004,836	7,307	(13,359)	998,784
Marketable equity securities	32,073	3,136	(356)	34,853
Total securities available for sale	1,036,909	10,443	(13,715)	1,033,637
Securities held to maturity				
Municipal bonds and obligations	3,881			3,881
Government-sponsored residential mortgage-backed securities	72	3		75
Tax advantaged economic development bonds	38,865	1,310	(281)	39,894
Other bonds and obligations	341			341
Total securities held to maturity	43,159	1,313	(281)	44,191
Total	$ 1,080,068	$ 11,756	$ (13,996)	$ 1,077,828
December 31, 2013				
Securities available for sale				
Debt securities:				
Municipal bonds and obligations	$ 77,852	$ 1,789	$ (1,970)	$ 77,671
Government-guaranteed residential mortgage-backed securities	78,885	544	(658)	78,771
Government-sponsored residential mortgage-backed securities	531,441	2,000	(10,783)	522,658
Corporate bonds	40,945	157	(1,822)	39,280
Trust preferred securities	16,927	1,249	(1,565)	16,611
Other bonds and obligations	3,250		(166)	3,084
Total debt securities	749,300	5,739	(16,964)	738,075
Marketable equity securities	20,042	2,266	(335)	21,973
Total securities available for sale	769,342	8,005	(17,299)	760,048
Securities held to maturity				
Municipal bonds and obligations	4,244			4,244
Government-sponsored residential mortgage-backed securities	73	2		75
Tax advantaged economic development bonds	40,260	1,255	(414)	41,101

Other bonds and obligations		344						344
Total securities held to maturity		44,921		1,257		(414)		45,764
Total	$	814,263	$	9,262	$	(17,713)	$	805,812

Table of Contents

The amortized cost and estimated fair value of available for sale (AFS) and held to maturity (HTM) securities, segregated by contractual maturity at March 31, 2014 are presented below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations. Mortgage-backed securities are shown in total, as their maturities are highly variable. Equity securities have no maturity and are also shown in total.

	Available for sale		Held to maturity	
(In thousands)	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**
Within 1 year	$ 8,070	$ 8,072	$ 1,047	$ 1,047
Over 1 year to 5 years	7,279	7,382	17,482	18,323
Over 5 years to 10 years	54,031	53,397	11,389	11,292
Over 10 years	125,962	127,349	13,169	13,454
Total bonds and obligations	195,342	196,200	43,087	44,116
Marketable equity securities	32,073	34,853		
Residential mortgage-backed securities	809,494	802,584	72	75
Total	$ 1,036,909	$ 1,033,637	$ 43,159	$ 44,191

Table of Contents

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

	Less Than Twelve Months		Over Twelve Months		Total	
(In thousands)	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
March 31, 2014						
Securities available for sale						
Debt securities:						
Municipal bonds and obligations	$ 433	$ 17,198	$ 706	$ 8,798	$ 1,139	$ 25,996
Government-guaranteed residential mortgage-backed securities	130	27,758	187	4,752	317	32,510
Government-sponsored residential mortgage-backed securities	6,890	446,031	2,624	72,307	9,514	518,338
Corporate bonds	535	14,552	377	15,453	912	30,005
Trust preferred securities			1,361	2,203	1,361	2,203
Other bonds and obligations	44	1,209	72	1,916	116	3,125
Total debt securities	8,032	506,748	5,327	105,429	13,359	612,177
Marketable equity securities	136	3,459	220	1,779	356	5,238
Total securities available for sale	8,168	510,207	5,547	107,208	13,715	617,415
Securities held to maturity						
Tax advantaged economic development bonds			281	7,916	281	7,916
Total securities held to maturity			281	7,916	281	7,916
Total	$ 8,168	$ 510,207	$ 5,828	$ 115,124	$ 13,996	$ 625,331
December 31, 2013						
Securities available for sale						
Debt securities:						
Municipal bonds and obligations	$ 1,657	$ 17,776	$ 313	$ 1,854	$ 1,970	$ 19,630
Government guaranteed residential mortgage-backed securities	658	35,631			658	35,631
Government-sponsored residential mortgage-backed securities	10,783	423,203			10,783	423,203
Corporate bonds	1,822	29,124			1,822	29,124
Trust preferred securities			1,565	2,039	1,565	2,039
Other bonds and obligations	166	3,082			166	3,082
Total debt securities	15,086	508,816	1,878	3,893	16,964	512,709
Marketable equity securities	117	1,653	218	1,782	335	3,435
Total securities available for sale	15,203	510,469	2,096	5,675	17,299	516,144

Securities held to maturity						
Tax advantaged economic development bonds	57	9,429	357	7,901	414	17,330
Total securities held to maturity	57	9,429	357	7,901	414	17,330
Total	$ 15,260	$ 519,898	$ 2,453	$ 13,576	$ 17,713	$ 533,474

Debt Securities

The Company expects to recover its amortized cost basis on all debt securities in its AFS and HTM portfolios. Furthermore, the Company does not intend to sell nor does it anticipate that it will be required to sell any of its securities in an unrealized loss position as of March 31, 2014, prior to this recovery. The Company s ability and intent to hold these securities until recovery is supported by the Company s strong capital and liquidity positions as well as its historically low portfolio turnover. The following summarizes, by investment security type, the basis for the conclusion that the debt securities in an unrealized loss position within the Company s AFS and HTM portfolios were not other-than-temporarily impaired at March 31, 2014:

Table of Contents

AFS municipal bonds and obligations

At March 31, 2014, 38 out of the total 198 securities in the Company s portfolio of AFS municipal bonds and obligations were in unrealized loss positions. Aggregate unrealized losses represented 4.2% 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 first quarter of 2014. All securities are investment grade rated and are performing.

AFS residential mortgage-backed securities

At March 31, 2014, 87 out of the total 236 securities in the Company s portfolios of AFS residential mortgage-backed securities were in unrealized loss positions. Aggregate unrealized losses represented 1.75% of the amortized cost of securities in unrealized loss positions within the AFS portfolio. The Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC) and Government National Mortgage Association (GNMA) guarantee the contractual cash flows of all of the Company s residential mortgage-backed securities. The securities are investment grade rated and there were no material underlying credit downgrades during the first quarter of 2014. All securities are performing.

AFS corporate bonds

At March 31, 2014, 6 out of the total 9 bonds in the Company s portfolio of AFS corporate bonds were in an unrealized loss position. The aggregate unrealized loss represented 2.95% of the amortized cost of the bonds in unrealized loss positions. The bonds are investment grade rated, and there are no material underlying credit downgrades during the first quarter of 2014. All bonds are performing.

AFS trust preferred securities

At March 31, 2014, 2 out of the total 5 securities in the Company s portfolio of AFS trust preferred securities were in unrealized loss positions. Aggregate unrealized losses represented 38.19% of the amortized cost of securities in unrealized loss positions. The Company s evaluation of the present value of expected cash flows on these securities supports its conclusions about the recoverability of the securities amortized cost basis. Except for the security discussed below, the aggregated unrealized loss on the other securities in unrealized loss positions represented 9% of their amortized cost. Again, excluding the security below, all trust preferred securities carry at least one investment grade, and had no material downgrades in the first quarter of 2014 and all are performing.

At March 31, 2014, $1.2 million of the total unrealized losses were attributable to a $2.8 million investment in a Mezzanine Class B tranche of a $360 million pooled trust preferred security collateralized by banking and insurance entities. The Company evaluated the security, with a Level 3 fair value of $1.3 million, for potential other-than-temporary-impairment (OTTI) at March 31, 2014 and determined that OTTI was not evident based on both the Company s ability and intent to hold the security until the recovery of its remaining amortized cost and the protection from credit loss afforded by $51 million in excess subordination above current and projected losses. The security is performing.

AFS other bonds and obligations

At March 31, 2014, 6 out of the total 8 securities in the Company s portfolio of other bonds and obligations were in unrealized loss positions. Aggregate unrealized losses represented 3.62% of the amortized cost of securities in unrealized loss positions. The securities are investment grade rated, except one security with a book value of less than $1,000, and there were no material underlying credit downgrades during the first quarter of 2014. All securities are performing.

Table of Contents

HTM tax advantaged economic development bonds

At March 31, 2014, 1 out of the total 7 securities in the Company s portfolio of tax advantaged economic development bonds were in an unrealized loss position. Aggregate unrealized losses represented 3.41% of the amortized cost of securities in unrealized loss positions. The Company has the intent of maintaining these bonds to recovery. All securities are considered 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 March 31, 2014, 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 6.37% of the amortized cost of the securities. The Company has the ability and intent to hold the securities until a recovery of their cost basis and does not consider the securities other-than-temporarily impaired at March 31, 2014. As new information becomes available in future periods, changes to the Company s assumptions may be warranted and could lead to a different conclusion regarding the OTTI of these securities.

NOTE 5. LOANS

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

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

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

Table of Contents

(In thousands)	March 31, 2014 Business Activities Loans	March 31, 2014 Acquired Loans	March 31, 2014 Total	December 31, 2013 Business Activities Loans	December 31, 2013 Acquired Loans	December 31, 2013 Total
Residential mortgages:						
1-4 family	$ 1,032,170	$ 320,848	$ 1,353,018	$ 1,027,737	$ 333,367	$ 1,361,104
Construction	19,599	5,154	24,753	18,158	5,012	23,170
Total residential mortgages	1,051,769	326,002	1,377,771	1,045,895	338,379	1,384,274
Commercial real estate:						
Construction	137,687	7,262	144,949	125,247	13,770	139,017
Single and multi-family	62,429	63,801	126,230	63,493	64,827	128,320
Other commercial real estate	925,513	260,284	1,185,797	871,271	278,512	1,149,783
Total commercial real estate	1,125,629	331,347	1,456,976	1,060,011	357,109	1,417,120
Commercial and industrial loans:						
Asset based lending	309,699	4,374	314,073	294,241	3,130	297,371
Other commercial and industrial loans	316,451	66,371	382,822	323,196	66,726	389,922
Total commercial and industrial loans	626,150	70,745	696,895	617,437	69,856	687,293
Total commercial loans	1,751,779	402,092	2,153,871	1,677,448	426,965	2,104,413
Consumer loans:						
Home equity	233,521	71,499	305,020	232,677	74,154	306,831
Auto and other	249,776	156,189	405,965	213,171	171,834	385,005
Total consumer loans	483,297	227,688	710,985	445,848	245,988	691,836
Total loans	$ 3,286,845	$ 955,782	$ 4,242,627	$ 3,169,191	$ 1,011,332	$ 4,180,523

The carrying amount of the acquired loans at March 31, 2014 totaled $956 million. These loans consisted of loans determined to be impaired at the time of acquisition, which are accounted for in accordance with ASC Topic 310-30, with a carrying amount of $24.5 million and loans that were considered not impaired at the acquisition date with a carrying amount of $931 million.

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

(In thousands)	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
Balance at beginning of period	$ 2,559	$ 8,247
Reclassification from nonaccretable difference for loans with improved cash flows	1,540	
Accretion	(945)	(2,581)
Balance at end of period	$ 3,154	$ 5,666

Table of Contents

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

Business Activities Loans (in thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total Loans	Past Due > 90 days and Accruing
March 31, 2014							
Residential mortgages:							
1-4 family	$ 2,882	$ 101	$ 6,240	$ 9,223	$ 1,022,947	$ 1,032,170	$ 1,452
Construction	127			127	19,472	19,599	
Total	3,009	101	6,240	9,350	1,042,419	1,051,769	1,452
Commercial real estate:							
Construction		174	2,558	2,732	134,955	137,687	
Single and multi-family		134	1,304	1,438	60,991	62,429	685
Other commercial real estate	999	2,226	7,036	10,261	915,252	925,513	639
Total	999	2,534	10,898	14,431	1,111,198	1,125,629	1,324
Commercial and industrial loans:							
Asset based lending					309,699	309,699	
Other commercial and industrial loans	903	317	1,302	2,522	313,929	316,451	62
Total	903	317	1,302	2,522	623,628	626,150	62
Consumer loans:							
Home equity	80	502	1,646	2,228	231,293	233,521	258
Auto and other	487	67	379	933	248,843	249,776	16
Total	567	569	2,025	3,161	480,136	483,297	274
Total	$ 5,478	$ 3,521	$ 20,465	$ 29,464	$ 3,257,381	$ 3,286,845	$ 3,112

Business Activities Loans (in thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total Loans	Past Due > 90 days and Accruing
December 31, 2013							
Residential mortgages:							
1-4 family	$ 2,500	$ 623	$ 7,382	$ 10,505	$ 1,017,232	$ 1,027,737	$ 1,451
Construction			41	41	18,117	18,158	
Total	2,500	623	7,423	10,546	1,035,349	1,045,895	1,451
Commercial real estate:							
Construction	174		3,176	3,350	121,897	125,247	
Single and multi-family	139	654	679	1,472	62,021	63,493	168
Other commercial real estate	622	4,801	6,912	12,335	858,936	871,271	865
Total	935	5,455	10,767	17,157	1,042,854	1,060,011	1,033
Commercial and industrial loans:							
Asset based lending					294,241	294,241	
Other commercial and industrial loans	1,136	386	1,477	2,999	320,197	323,196	42
Total	1,136	386	1,477	2,999	614,438	617,437	42
Consumer loans:							
Home equity	732	54	1,655	2,441	230,236	232,677	572
Auto and other	524	231	390	1,145	212,026	213,171	142
Total	1,256	285	2,045	3,586	442,262	445,848	714
Total	$ 5,827	$ 6,749	$ 21,712	$ 34,288	$ 3,134,903	$ 3,169,191	$ 3,240

19

Table of Contents

Acquired Loans (in thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total Loans	Past Due > 90 days and Accruing
March 31, 2014							
Residential mortgages:							
1-4 family	$ 1,877	$ 733	$ 2,308	$ 4,918	$ 315,930	$ 320,848	$ 1,025
Construction	36	16	462	514	4,640	5,154	462
Total	1,913	749	2,770	5,432	320,570	326,002	1,487
Commercial real estate:							
Construction			805	805	6,457	7,262	805
Single and multi-family	580	193	1,227	2,000	61,801	63,801	508
Other commercial real estate	763		5,349	6,112	254,172	260,284	2,606
Total	1,343	193	7,381	8,917	322,430	331,347	3,919
Commercial and industrial loans:							
Asset based lending					4,374	4,374	
Other commercial and industrial loans	71	239	1,649	1,959	64,412	66,371	478
Total	71	239	1,649	1,959	68,786	70,745	478
Consumer loans:							
Home equity	155	450	635	1,240	70,259	71,499	240
Auto and other	1,400	169	1,769	3,338	152,851	156,189	69
Total	1,555	619	2,404	4,578	223,110	227,688	309
Total	$ 4,882	$ 1,800	$ 14,204	$ 20,886	$ 934,896	$ 955,782	$ 6,193

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

Table of Contents

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

	March 31, 2014			December 31, 2013		
(In thousands)	Business Activities Loans	Acquired Loans	Total	Business Activities Loans	Acquired Loans	Total
Residential mortgages:						
1-4 family	$ 4,788	$ 1,283	$ 6,071	$ 5,931	$ 1,772	$ 7,703
Construction				41	123	164
Total	4,788	1,283	6,071	5,972	1,895	7,867
Commercial real estate:						
Construction	2,558		2,558	3,176		3,176
Single and multi-family	619	719	1,338	511	823	1,334
Other commercial real estate	6,397	2,743	9,140	6,047	3,183	9,230
Total	9,574	3,462	13,036	9,734	4,006	13,740
Commercial and industrial loans:						
Other commercial and industrial loans	1,240	1,171	2,411	1,434	921	2,355
Total	1,240	1,171	2,411	1,434	921	2,355
Consumer loans:						
Home equity	1,388	395	1,783	1,083	602	1,685
Auto and other	363	1,700	2,063	249	1,559	1,808
Total	1,751	2,095	3,846	1,332	2,161	3,493
Total non-accrual loans	$ 17,353	$ 8,011	$ 25,364	$ 18,472	$ 8,983	$ 27,455

Table of Contents

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

Business Activities Loans (In thousands)	**Residential mortgages**	**Commercial real estate**	**Commercial and industrial loans**	**Consumer**	**Total**
March 31, 2014					
Loans receivable:					
Balance at end of period					
Individually evaluated for impairment	$ 5,116	$ 22,148	$ 1,148	$ 402	$ 28,814
Collectively evaluated	1,046,653	1,103,481	625,002	482,895	3,258,031
Total	$ 1,051,769	$ 1,125,629	$ 626,150	$ 483,297	$ 3,286,845

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

Acquired Loans (In thousands)	**Residential mortgages**	**Commercial real estate**	**Commercial and industrial loans**	**Consumer**	**Total**
March 31, 2014					
Loans receivable:					
Balance at end of Period					
Individually evaluated for impairment	$ 1,032	$ 5,800	$ 478	$	$ 7,310
Collectively evaluated	324,970	325,547	70,267	227,668	948,472
Total	$ 326,002	$ 331,347	$ 70,745	$ 227,668	$ 955,782

Acquired Loans (In thousands)	**Residential mortgages**	**Commercial real estate**	**Commercial and industrial loans**	**Consumer**	**Total**
December 31, 2013					
Loans receivable:					
Balance at end of year					
Individually evaluated for impairment	$ 1,568	$ 6,295	$ 367	$ 154	$ 8,384
Collectively evaluated for impairment	336,811	350,814	69,489	245,834	1,002,948
Total	$ 338,379	$ 357,109	$ 69,856	$ 245,988	$ 1,011,332

Table of Contents

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

Business Activities Loans (In thousands)	Recorded Investment	At March 31, 2014 Unpaid Principal Balance	Related Allowance
With no related allowance:			
Residential mortgages - 1-4 family	$ 3,435	$ 3,435	$
Other commercial real estate loans	16,141	16,141	
Commercial real esate - construction	1,545	1,545	
Other commercial and industrial loans	1,094	1,094	
Consumer - home equity	238	238	
Consumer - other	123	123	
With an allowance recorded:			
Residential mortgages - 1-4 family	$ 1,283	$ 1,680	$ 397
Other commercial real estate loans	2,200	3,450	1,250
Commercial real esate - construction	705	1,013	308
Other commercial and industrial loans		54	54
Consumer - home equity	32	41	9
Total			
Residential mortgages	$ 4,718	$ 5,115	$ 397
Commercial real estate	20,591	22,149	1,558
Commercial and industrial loans	1,094	1,148	54
Consumer	393	402	9
Total impaired loans	$ 26,796	$ 28,814	$ 2,018

Acquired Loans (In thousands)	Recorded Investment	At March 31, 2014 Unpaid Principal Balance	Related Allowance
With no related allowance:			
Residential mortgages - 1-4 family	$ 871	$ 871	$
Other commercial real estate loans	4,391	4,391	
Other commercial and industrial loans	410	410	
With an allowance recorded:			
Residential mortgages - 1-4 family	$ 131	$ 161	$ 30
Other commercial real estate loans	1,159	1,409	250
Other commercial and industrial loans	47	68	21
Total			
Residential mortgages	$ 1,002	$ 1,032	$ 30
Commercial real estate	5,550	5,800	250
Commercial and industrial loans	457	478	21
Total impaired loans	$ 7,009	$ 7,310	$ 301

Table of Contents

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

Business Activities Loans (In thousands)	Recorded Investment	At December 31, 2013 Unpaid Principal Balance	Related Allowance
With no related allowance:			
Residential mortgages - 1-4 family	$ 1,575	$ 1,575	$
Commercial real estate - construction	3,176	3,176	
Commercial real estate - single and multifamily			
Other commercial real estate loans	5,587	5,587	
Other commercial and industrial loans	8	8	
Consumer - home equity	50	50	
With an allowance recorded:			
Residential mortgages - 1-4 family	$ 1,926	$ 2,831	$ 905
Commercial real estate - construction			
Commercial real estate - single and multifamily			
Other commercial real estate loans	(66)	153	219
Other commercial and industrial loans	514	569	55
Consumer - home equity	142	245	103
Total			
Residential mortgages	$ 3,501	$ 4,406	$ 905
Commercial real estate	8,697	8,916	219
Commercial and industrial loans	522	577	55
Consumer	192	295	103
Total impaired loans	$ 12,912	$ 14,194	$ 1,282

Acquired Loans (In thousands)	Recorded Investment	At December 31, 2013 Unpaid Principal Balance	Related Allowance
With no related allowance:			
Residential mortgages - 1-4 family	$ 20	$ 20	$
Other commercial real estate loans	1,462	1,462	
Other commercial and industrial loans	367	367	
With an allowance recorded:			
Residential mortgages - 1-4 family	$ 958	$ 1,188	$ 230
Other commercial real estate loans	1,954	2,442	488
Consumer - home equity	114	153	39
Total			
Residential mortgages	$ 978	$ 1,208	$ 230
Other commercial real estate loans	3,416	3,904	488
Other commercial and industrial loans	367	367	
Consumer - home equity	114	153	39
Total impaired loans	$ 4,875	$ 5,632	$ 757

Table of Contents

The following is a summary of the average recorded investment and interest income recognized on impaired loans as of March 31, 2014 and March 31, 2013:

	Three Months Ended March 31, 2014		Three Months Ended March 31, 2013	
Business Activities Loans (in thousands)	Average Recorded Investment	Cash Basis Interest Income Recognized	Average Recorded Investment	Cash Basis Interest Income Recognized
With no related allowance:				
Residential mortgages - 1-4 family	$ 4,142	$ 23	$ 2,141	$ 20
Commercial real estate - construction	1,957		2,380	
Other commercial real estate loans	16,180	154	3,295	10
Commercial and industrial loans	1,337	7	70	
Consumer - home equity	348	1	455	4
Consumer - other	124	1		
With an allowance recorded:				
Residential mortgages - 1-4 family	$ 1,774	$ 16	$ 2,234	$ 1
Commercial real estate - construction	1,013		1,938	
Other commercial real estate loans	3,450		2,765	
Commercial and industrial loans	55	1	1,721	14
Consumer - home equity	41		558	
Total				
Residential mortgages	$ 5,916	$ 39	$ 4,375	$ 21
Commercial real estate	22,600	154	10,378	10
Commercial and industrial loans	1,392	8	1,791	14
Consumer loans	513	2	1,013	4
Total impaired loans	$ 30,421	$ 203	$ 17,557	$ 49

	Three Months Ended March 31, 2014		Three Months Ended March 31, 2013	
Acquired Loans (in thousands)	Average Recorded Investment	Cash Basis Interest Income Recognized	Average Recorded Investment	Cash Basis Interest Income Recognized
With no related allowance:				
Residential mortgages - 1-4 family	$ 1,303	$ 5	$	$
Other commercial real estate loans	4,821	25	803	2
Commercial and industrial loans	562	1	181	
Consumer - home equity	154			
With an allowance recorded:				
Residential mortgages - 1-4 family	$ 162	$	$ 861	$
Other commercial real estate loans	1,577	46		
Commercial and industrial loans	70	2		
Total				
Residential mortgages	$ 1,465	$ 5	$ 861	$
Other commercial real estate loans	6,398	71	803	2
Commercial and industrial loans	632	3	181	
Consumer loans	154			
Total impaired loans	$ 8,649	$ 79	$ 1,845	$ 2

Table of Contents

Troubled Debt Restructuring Loans

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

The following tables include the recorded investment and number of modifications identified during the three months ended March 31, 2014 and for the three months ended March 31, 2013, respectively. The table includes the recorded investment in the loans prior to a modification and also the recorded investment in the loans after the loans were restructured. The modification for the three months ending March 31, 2014 were attributable to concessions granted as ordered by bankruptcy court. The modifications for the three months ending March 31, 2013 were attributable to maturity date extensions.

	Modifications by Class Three months ending March 31, 2014		
(Dollars in thousands)	**Number of Modifications**	**Pre-Modification Outstanding Recorded Investment**	**Post-Modification Outstanding Recorded Investment**
Troubled Debt Restructurings			
Residential - 1-4 Family	1	$ 122	$ 119

	Modifications by Class Three months ending March 31, 2013		
(Dollars in thousands)	**Number of Modifications**	**Pre-Modification Outstanding Recorded Investment**	**Post-Modification Outstanding Recorded Investment**
Troubled Debt Restructurings			
Residential- 1-4 Family	5	$ 941	$ 941
Commercial - Single and multifamily	1		40
Commercial - Other	5	2,022	1,590
	11	$ 2,963	$ 2,571

For the three months ended March 31, 2014 and 2013, there were no loans that were restructured within the last twelve months that have subsequently defaulted during the period.

The following table presents the Company s TDR activity for the three months ended March 31, 2014 and March 31, 2013:

Table of Contents

(In thousands)	Three Months Ending March 31, 2014	2013
Balance at beginning of the period	$ 10,822	$ 4,626
Principal Payments	(872)	(22)
TDR Status Change (1)	(52)	
Other Reductions (2)	95	(485)
Newly Identified TDRs	119	2,571
Balance at end of the period	$ 10,112	$ 6,690

(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.

NOTE 6. LOAN LOSS ALLOWANCE

Activity in the allowance for loan losses for the three months ended March 31, 2014 and 2013 was as follows:

Business Activities Loans (In thousands)	Residential mortgages	Commercial real estate	Commercial and industrial loans	Consumer	Unallocated	Total
March 31, 2014						
Balance at beginning of period	$ 6,937	$ 13,705	$ 5,173	$ 3,644	$ 68	$ 29,527
Charged-off loans	706	660	189	429		1,984
Recoveries on charged-off loans	7	1	20	79		107
Provision for loan losses	(575)	1,900	(185)	836	(248)	1,728
Balance at end of period	$ 5,663	$ 14,946	$ 4,819	$ 4,130	$ (180)	$ 29,378
Individually evaluated for impairment	397	1,558	54	9		2,018
Collectively evaluated	5,266	13,388	4,765	4,121	(180)	27,360
Total	$ 5,663	$ 14,946	$ 4,819	$ 4,130	$ (180)	$ 29,378

Business Activities Loans (In thousands)	Residential mortgages	Commercial real estate	Commercial and industrial loans	Consumer	Unallocated	Total
March 31, 2013						
Balance at beginning of period	$ 5,928	$ 18,863	$ 5,605	$ 1,466	$ 29	$ 31,891
Charged-off loans	190	720	679	250		1,839
Recoveries on charged-off loans	16	3	71	36		126
Provision for loan losses	244	402	194	874	148	1,862
Balance at end of period	$ 5,998	$ 18,548	$ 5,191	$ 2,126	$ 177	$ 32,040
Individually evaluated for impairment	765	1,374	824	272		3,235
Collectively evaluated	5,233	17,174	4,367	1,854	177	28,805
Total	$ 5,998	$ 18,548	$ 5,191	$ 2,126	$ 177	$ 32,040

Table of Contents

Acquired Loans (In thousands)	Residential mortgages	Commercial real estate	Commercial and industrial loans	Consumer	Unallocated	Total
March 31, 2014						
Balance at beginning of period	$ 625	$ 2,339	$ 597	$ 235	$	$ 3,796
Charged-off loans	429	447	52	405		1,333
Recoveries on charged-off loans	73	1	5	14		93
Provision for loan losses	401	231	548	488		1,668
Balance at end of period	$ 670	$ 2,124	$ 1,098	$ 332	$	$ 4,224
Individually evaluated for impairment	30	250	21			301
Collectively evaluated	640	1,874	1,077	332		3,923
Total	$ 670	$ 2,124	$ 1,098	$ 332	$	$ 4,224

Acquired Loans (In thousands)	Residential mortgages	Commercial real estate	Commercial and industrial loans	Consumer	Unallocated	Total
March 31, 2013						
Balance at beginning of period	$ 509	$ 390	$ 96	$ 314	$ 8	$ 1,317
Charged-off loans	86	235	25	316		662
Recoveries on charged-off loans			2	28		30
Provision for loan losses	95	265	27	307	(156)	538
Balance at end of period	$ 518	$ 420	$ 100	$ 333	$ (148)	$ 1,223
Individually evaluated for impairment	113					113
Collectively evaluated	405	420	100	333	(148)	1,110
Total	518	420	100	333	(148)	1,223

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

Table of Contents

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.

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 March 31, 2014, the allowance for loan losses related to acquired loans was $4.2 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.

Table of Contents

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

Business Activities Loans

Residential Mortgages

Credit Risk Profile by Internally Assigned Grade

(In thousands)	1-4 family Mar. 31, 2014	1-4 family Dec. 31, 2013	Construction Mar. 31, 2014	Construction Dec. 31, 2013	Total residential mortgages Mar. 31, 2014	Total residential mortgages Dec. 31, 2013
Grade:						
Pass	$ 1,025,829	$ 1,019,732	$ 19,599	$ 18,117	$ 1,045,428	$ 1,037,849
Special mention	101	623			101	623
Substandard	6,240	7,382		41	6,240	7,423
Total	$ 1,032,170	$ 1,027,737	$ 19,599	$ 18,158	$ 1,051,769	$ 1,045,895

Commercial Real Estate

Credit Risk Profile by Creditworthiness Category

(In thousands)	Construction Mar. 31, 2014	Construction Dec. 31, 2013	Single and multi-family Mar. 31, 2014	Single and multi-family Dec. 31, 2013	Other Mar. 31, 2014	Other Dec. 31, 2013	Total commercial real estate Mar. 31, 2014	Total commercial real estate Dec. 31, 2013
Grade:								
Pass	$ 132,955	$ 120,071	$ 58,499	$ 59,636	$ 857,236	$ 800,672	$ 1,048,690	$ 980,379
Special mention			138	140	6,164	8,150	6,302	8,290
Substandard	4,732	5,176	3,792	3,717	62,040	61,807	70,564	70,700
Doubtful					73	642	73	642
Total	$ 137,687	$ 125,247	$ 62,429	$ 63,493	$ 925,513	$ 871,271	$ 1,125,629	$ 1,060,011

Commercial and Industrial Loans

Credit Risk Profile by Creditworthiness Category

(In thousands)	Asset based lending Mar. 31, 2014	Asset based lending Dec. 31, 2013	Other Mar. 31, 2014	Other Dec. 31, 2013	Total comm. and industrial loans Mar. 31, 2014	Total comm. and industrial loans Dec. 31, 2013
Grade:						
Pass	$ 309,699	$ 294,241	$ 302,755	$ 313,984	$ 612,454	$ 608,225
Special mention			2,751	884	2,751	884
Substandard			10,857	7,725	10,857	7,725
Doubtful			88	603	88	603
Total	$ 309,699	$ 294,241	$ 316,451	$ 323,196	$ 626,150	$ 617,437

Consumer Loans

Credit Risk Profile Based on Payment Activity

	Home equity		Auto and other		Total consumer loans	
(In thousands)	**Mar. 31, 2014**	**Dec. 31, 2013**	**Mar. 31, 2014**	**Dec. 31, 2013**	**Mar. 31, 2014**	**Dec. 31, 2013**
Performing	$ 232,133	$ 231,594	$ 249,413	$ 212,922	$ 481,546	$ 444,516
Nonperforming	1,388	1,083	363	249	1,751	1,332
Total	$ 233,521	$ 232,677	$ 249,776	$ 213,171	$ 483,297	$ 445,848

Table of Contents

Acquired Loans

Residential Mortgages

Credit Risk Profile by Internally Assigned Grade

	1-4 family		Construction		Total residential mortgages	
(In thousands)	Mar. 31, 2014	Dec. 31, 2013	Mar. 31, 2014	Dec. 31, 2013	Mar. 31, 2014	Dec. 31, 2013
Grade:						
Pass	$ 317,806	$ 330,353	$ 1,056	$ 1,081	$ 318,862	$ 331,434
Special mention	734	437			734	437
Substandard	2,308	2,577	4,098	3,931	6,406	6,508
Total	$ 320,848	$ 333,367	$ 5,154	$ 5,012	$ 326,002	$ 338,379

Commercial Real Estate

Credit Risk Profile by Creditworthiness Category

	Construction		Single and multi-family		Other		Total commercial real estate	
(In thousands)	Mar. 31, 2014	Dec. 31, 2013	Mar. 31, 2014	Dec. 31, 2013	Mar. 31, 2014	Dec. 31, 2013	Mar. 31, 2014	Dec. 31, 2013
Grade:								
Pass	$ 4,589	$ 7,154	$ 46,361	$ 46,961	$ 237,533	$ 254,787	$ 288,483	$ 308,902
Special mention	347		4,719	4,799	8,169	9,034	13,235	13,833
Substandard	2,326	6,616	12,721	13,067	14,582	14,691	29,629	34,374
Total	$ 7,262	$ 13,770	$ 63,801	$ 64,827	$ 260,284	$ 278,512	$ 331,347	$ 357,109

Commercial and Industrial Loans

Credit Risk Profile by Creditworthiness Category

	Asset based lending		Other		Total comm. and industrial loans	
(In thousands)	Mar. 31, 2014	Dec. 31, 2013	Mar. 31, 2014	Dec. 31, 2013	Mar. 31, 2014	Dec. 31, 2013
Grade:						
Pass	$ 4,374	$ 3,130	$ 58,361	$ 59,615	$ 62,735	$ 62,745
Special mention			3,467	2,396	3,467	2,396
Substandard			4,543	4,715	4,543	4,715
Total	$ 4,374	$ 3,130	$ 66,371	$ 66,726	$ 70,745	$ 69,856

Consumer Loans

Credit Risk Profile Based on Payment Activity

	Home equity		Auto and other		Total consumer loans	
(In thousands)	Mar. 31, 2014	Dec. 31, 2013	Mar. 31, 2014	Dec. 31, 2013	Mar. 31, 2014	Dec. 31, 2013
Performing	$ 71,104	$ 73,552	$ 154,490	$ 170,275	$ 225,594	$ 243,827
Nonperforming	395	602	1,699	1,559	2,094	2,161
Total	$ 71,499	$ 74,154	$ 156,189	$ 171,834	$ 227,688	$ 245,988

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

	March 31, 2014			December 31, 2013		
(In thousands)	Business Activities Loans	Acquired Loans	Total	Business Activities Loans	Acquired Loans	Total
Non-Accrual	$ 17,353	$ 8,011	$ 25,364	$ 18,472	$ 8,983	$ 27,455
Substandard Accruing	72,494	34,971	107,465	70,667	38,891	109,558
Total Classified	89,847	42,982	132,829	89,139	47,874	137,013
Special Mention	9,724	18,054	27,778	10,081	17,853	27,934
Total Criticized	$ 99,571	$ 61,036	$ 160,607	$ 99,220	$ 65,727	$ 164,947

Table of Contents

NOTE 7. DEPOSITS

A summary of time deposits is as follows:

(In thousands)	March 31, 2014	December 31, 2013
Time less than $100,000	$ 535,983	$ 490,902
Time $100,000 or more	539,757	510,746
Total time deposits	$ 1,075,740	$ 1,001,648

NOTE 8. BORROWED FUNDS

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

	March 31, 2014		December 31, 2013	
(dollars in thousands)	Principal	Weighted Average Rate	Principal	Weighted Average Rate
Short-term borrowings:				
Advances from the FHLBB	$ 914,950	0.21%	$ 862,510	0.22%
Other Borrowings			10,000	1.92
Total short-term borrowings:	914,950	0.21	872,510	0.24
Long-term borrowings:				
Advances from the FHLBB	21,797	2.44	101,918	1.23
Subordinated borrowings	74,232	7.00	74,215	7.00
Junior subordinated borrowings	15,464	2.09	15,464	2.09
Total long-term borrowings:	111,493	5.43	191,597	3.53
Total	$ 1,026,443	0.78%	$ 1,064,107	0.83%

Short-term debt includes Federal Home Loan Bank of Boston (FHLBB) advances with an original maturity of less than one year. 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 March 31, 2014 and December 31, 2013.

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

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

Table of Contents

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

(in thousands, except rates)		March 31, 2014 Principal	March 31, 2014 Weighted Average Rate	December 31, 2013 Principal	December 31, 2013 Weighted Average Rate
Fixed rate advances maturing:					
	2014	$ 924,900	0.22%	$ 882,525	0.28%
	2015				
	2016	1,567	0.88	1,583	0.79
	2017	5,000	4.33	5,000	4.33
	2018 and beyond	5,280	3.83	5,320	3.83
Total fixed rate advances		$ 936,747	0.27%	$ 894,428	0.35%
Variable rate advances maturing:					
	2014	$	%	$ 10,000	0.32%
	2015			20,000	0.30
	2016			10,000	0.30
	2017				
	2018 and beyond			30,000	0.30
Total variable rate advances		$	%	$ 70,000	0.30%
Total FHLBB advances		$ 936,747	0.27%	$ 964,428	0.32%

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

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 2.09% and 2.09% at March 31, 2014 and December 31, 2013, respectively. The Company has the right to defer payments of interest for up to five years on the debentures at any time, or from time to time, with certain limitations, including a restriction on the payment of dividends to stockholders while such interest payments on the debentures have been deferred. The Company has not exercised this right to defer payments. The Company has the right to redeem the debentures at par value. Trust I is considered a variable interest entity for which the Company is not the primary beneficiary. Accordingly, Trust I is not consolidated into the Company s financial statements.

NOTE 9. STOCKHOLDERS EQUITY

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

	March 31, 2014	December 31, 2013	FDIC Minimum to be Well Capitalized

Total capital to risk weighted assets	11.2%	11.6%	10.0%
Tier 1 capital to risk weighted assets	9.5	10.0	6.0
Tier 1 capital to average assets	7.4	8.0	5.0

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

Table of Contents

Accumulated other comprehensive loss

Components of accumulated other comprehensive loss are as follows:

(In thousands)	March 31, 2014	December 31, 2013
Other accumulated comprehensive income (loss), before tax:		
Net unrealized holding loss on AFS securities	$ (3,274)	$ (9,294)
Net gain (loss) on effective cash flow hedging derivatives	2,244	(2,289)
Net loss on terminated swap		(3,237)
Net unrealized holding loss on pension plans	17	17
Income taxes related to items of accumulated other comprehensive (loss) income:		
Net unrealized holding loss on AFS securities	1,298	3,518
Net gain (loss) on effective cash flow hedging derivatives	(909)	923
Net loss on terminated swap		1,312
Net unrealized holding loss on pension plans	(7)	(7)
Accumulated other comprehensive loss	$ (631)	$ (9,057)

The following table presents the components of other comprehensive loss for the three months ended March 31, 2014 and March 31, 2013:

(In thousands)	Before Tax	Tax Effect	Net of Tax
Three Months Ended March 31, 2014			
Net unrealized holding gain on AFS securities:			
Net unrealized gain arising during the period	$ 6,055	$ (2,233)	$ 3,822
Less: reclassification adjustment for (gains) realized in net income	(34)	12	(22)
Net unrealized holding gain on AFS securities	6,021	(2,221)	3,800
Net gain on cash flow hedging derivatives:			
Net unrealized (losses) arising during the period	(860)	368	(492)
Less: reclassification adjustment for losses realized in net income	5,393	(2,200)	3,193
Net gain on cash flow hedging derivatives	4,533	(1,832)	2,701
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 Loss	$ 13,791	$ (5,365)	$ 8,426
Three Months Ended March 31, 2013			
Net unrealized holding gain on AFS securities:			
Net unrealized gain arising during the period	$ 733	$ (321)	$ 412
Less: reclassification adjustment for losses realized in net income			
Net unrealized holding gain on AFS securities	733	(321)	412
Net gain on cash flow hedging derivatives:			
Net unrealized gain arising during the period	431	(167)	264
Less: reclassification adjustment for losses realized in net income	1,012	(408)	604
Net gain on cash flow hedging derivatives	1,443	(575)	868

Net gain on terminated swap:						
Net unrealized loss arising during the period						
Less: reclassification adjustment for losses realized in net income		236		(208)		28
Net gain on terminated swap		236		(208)		28
Other Comprehensive Loss	$	2,412	$	(1,104)	$	1,308

Table of Contents

The following table presents the changes in each component of accumulated other comprehensive income, for the three months ended March 31, 2014 and March 31, 2013:

(in thousands)	Net unrealized holding (loss) gain on AFS Securities	Net loss on effective cash flow hedging derivatives	Net loss on terminated swap	Net unrealized holding loss on pension plans	Total
Three Months Ended March 31, 2014					
Balance at Beginning of Period	$ (5,776)	$ (1,366)	$ (1,925)	$ 10	$ (9,057)
Other Comprehensive Loss Before reclassifications	3,822	(492)			3,330
Amounts Reclassified from Accumulated other comprehensive income	(22)	3,193	1,925		5,096
Total Other Comprehensive Income	3,800	2,701	1,925		8,426
Balance at End of Period	$ (1,976)	$ 1,335	$	$ 10	$ (631)
Three Months Ended March 31, 2013					
Balance at Beginning of Period	$ 6,712	$ (6,558)	$ (2,378)	$ (755)	$ (2,979)
Other Comprehensive Loss Before reclassifications	412	264			676
Amounts Reclassified from Accumulated other comprehensive income		604	28		632
Total Other Comprehensive Income	412	868	28		1,308
Balance at End of Period	$ 7,124	$ (5,690)	$ (2,350)	$ (755)	$ (1,671)

The following table presents the amounts reclassified out of each component of accumulated other comprehensive income for the three months ended March 31, 2014 and March 31, 2013:

(in thousands)	Three Months Ended March 31, 2014	2013	Affected Line Item in the Statement where Net Income is Presented
Realized (gains) on AFS securities:			
	$ (34)	$	Non-interest income
	12		Tax expense
	(22)		Net of tax
Realized losses on cash flow hedging derivatives:			
	5,393	1,012	Non-interest income
	(2,200)	(408)	Tax expense
	3,193	604	Net of tax
Realized losses on terminated swap:			
	3,237	236	Non-interest income
	(1,312)	(208)	Tax expense
	1,925	28	Net of tax
Total reclassifications for the period	$ 5,096	$ 632	Net of tax

Table of Contents

NOTE 10. EARNINGS PER SHARE

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

(In thousands, except per share data)	Three Months Ended March 31, 2014	2013
Net (loss) income	$ (1,106)	$ 10,465
Average number of common shares issued	26,525	26,525
Less: average number of treasury shares	1,425	1,260
Less: average number of unvested stock award shares	402	317
Average number of basic common shares outstanding	24,698	24,948
Plus: dilutive effect of unvested stock award shares		73
Plus: dilutive effect of stock options outstanding		122
Average number of diluted common shares outstanding	24,698	25,143
(Loss) earnings per share:		
Basic	$ (0.04)	$ 0.42
Diluted	$ (0.04)	$ 0.42

For the three months ended March 31, 2014, 335 thousand shares of restricted stock and 321 thousand options were anti-dilutive and therefore excluded from the earnings per share calculations. For the three months ended March 31, 2013, 251 thousand shares of restricted stock and 499 thousand options were anti-dilutive and therefore excluded from the earnings per share calculations.

NOTE 11. STOCK-BASED COMPENSATION PLANS

A combined summary of activity in the Company s stock award and stock option plans for the three months ended March 31, 2014 is presented in the following table:

	Non-vested Stock Awards Outstanding		Stock Options Outstanding	
(Shares in thousands)	Number of Shares	Weighted-Average Grant Date Fair Value	Number of Shares	Weighted-Average Exercise Price
Balance, December 31, 2013	334	$ 23.26	442	$ 20.41
Granted	126	25.00		
Stock options exercised			(61)	11.83
Stock awards vested	(62)	22.75		
Forfeited	(1)	21.22		
Expired			(60)	37.41
Balance, March 31, 2014	397	$ 24.31	321	$ 20.16

Exercisable options, March 31, 2014	321	$	20.17

During the three months ended March 31, 2014 and 2013, proceeds from stock option exercises totaled $718 thousand and totaled $1.8 million, respectively. During the three months ended March 31, 2014, there were 62 thousand shares issued in connection with vested stock awards. During the three months ended March 31, 2013,

Table of Contents

there were 69 thousand shares issued in connection with vested stock awards. All of these shares were issued from available treasury stock. Stock-based compensation expense totaled $932 thousand and $881 thousand during the three months ended March 31, 2014 and 2013, respectively. Stock-based compensation expense is recognized ratably over the requisite service period for all awards.

NOTE 12. OPERATING SEGMENTS

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

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

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

(In thousands)	Banking	Insurance	Parent	Eliminations	Total Consolidated
Three months ended March 31, 2014					
Net interest income (expense)	$ 43,712	$	$ (946)	$	$ 42,766
Provision for loan losses	3,396				3,396
Non-interest income (expense)	1,374	3,049	(252)	252	4,423
Non-interest expense	42,574	2,322	464		45,360
(Loss) income before income taxes	(884)	727	(1,662)	252	(1,567)
Income tax (benefit) expense	(192)	287	(556)		(461)
Net (loss) income	$ (692)	$ 440	$ (1,106)	$ 252	$ (1,106)
Average assets (in millions)	$ 5,829	$ 26	$ 722	$ (726)	$ 5,851
Three months ended March 31, 2013					
Net interest income	$ 42,901	$	$ 6,036	$ (7,000)	$ 41,937
Provision for loan losses	2,400				2,400
Non-interest income	11,801	2,997	4,463	(4,463)	14,798
Non-interest expense	36,670	2,151	662		39,483
Income before income taxes	15,632	846	9,837	(11,463)	14,852
Income tax expense (benefit)	4,705	310	(628)		4,387
Net income	$ 10,927	$ 536	$ 10,465	$ (11,463)	$ 10,465
Average assets (in millions)	$ 5,203	$ 27	$ 755	$ (745)	$ 5,240

NOTE 13. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

As of March 31, 2014, the Company held derivatives with a total notional amount of $805.4 million. That amount included $315.0 million in interest rate swap derivatives that were designated as cash flow hedges for accounting purposes. The Company also had economic hedges and non-hedging derivatives totaling $468.3 million and $22.1 million, respectively, which are not designated as hedges for accounting purposes and are therefore recorded at fair value. Economic hedges included interest rate swaps totaling $438.0 million, and $30.3 million in forward commitment contracts.

Table of Contents

As part of the Company s risk management strategy, the Company enters into interest rate swap agreements to mitigate the interest rate risk inherent in certain of the Company s assets and liabilities. Interest rate swap agreements involve the risk of dealing with both Bank customers and institutional derivative counterparties and their ability to meet contractual terms. The agreements are entered into with counterparties that meet established credit standards and contain master netting and collateral provisions protecting the at-risk party. The derivatives program is overseen by the Risk Management Committee of the Company s Board of Directors. Based on adherence to the Company s credit standards and the presence of the netting and collateral provisions, the Company believes that the credit risk inherent in these contracts was not significant at March 31, 2014.

The Company pledged collateral to derivative counterparties in the form of cash totaling $1.8 million and securities with an amortized cost of $26.6 million and a fair value of $26.9 million as of March 31, 2014. The Company does not typically require its commercial customers to post cash or securities as collateral on its program of back-to-back economic hedges. However certain language is written into the International Swaps Dealers Association, Inc. (ISDA) and loan documents where, in default situations, the Bank is allowed to access collateral supporting the loan relationship to recover any losses suffered on the derivative asset or liability. The Company may need to post additional collateral in the future in proportion to potential increases in unrealized loss positions.

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

	Notional Amount (In thousands)	Weighted Average Maturity (In years)	Weighted Average Rate 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	5.0		2.29%	$ 2,319
Interest rate swaps on junior subordinated notes	15,000	0.1	2.09%	5.54%	(75)
Total cash flow hedges	315,000				2,244
Economic hedges:					
Interest rate swap on tax advantaged economic development bond	12,960	15.7	0.52%	5.09%	(2,121)
Interest rate swaps on loans with commercial loan customers	212,530	5.3	2.37%	4.61%	(6,714)
Reverse interest rate swaps on loans with commercial loan customers	212,530	5.3	4.61%	2.37%	6,717
Forward sale commitments	30,270	0.2			(108)
Total economic hedges	468,290				(2,226)
Non-hedging derivatives:					
Interest rate lock commitments	22,075	0.2			377
Total non-hedging derivatives	22,075				377
Total	$ 805,365				$ 395

Table of Contents

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

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

Cash flow hedges

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

The Company has entered into six forward-starting interest rate swap contracts with a combined notional value of $300.0 million as of March 31, 2014.   The six forward starting swaps will become effective in 2016, all have durations of three years. This hedge strategy converts the one month rolling FHLBB borrowings based on the FHLBB   s one month fixed interest rate to fixed interest rates, thereby protecting the Company from floating interest rate variability.

The Company has entered into an interest rate swap with a notional value of $15 million to convert the floating rate of interest on its junior subordinated debentures to a fixed rate of interest. The purpose of the hedge was to protect the Company from the risk of variability arising from the floating rate interest on the debentures. Amounts included in the Consolidated Statements of Income and in the other comprehensive income section of the Consolidated Statements of Comprehensive Income (related to interest rate derivatives designated as hedges of cash flows), were as follows:

Table of Contents

(In thousands)	Three Months Ended March 31, 2014	2013
Interest rate swaps on FHLBB borrowings:		
Unrealized (loss) gain recognized in accumulated other comprehensive loss	$ (785)	$ 306
Reclassification of unrealized (loss) gain from accumulated other comprehensive loss to interest expense		1,011
Reclassification of unrealized loss from accumulated other comprehensive loss to other non-interest income for termination of swaps	8,630	236
Reclassification of unrealized deferred tax benefit from accumulated other comprehensive loss to tax expense for terminated swaps	(3,611)	(208)
Net tax benefit (expense) on items recognized in accumulated other comprehensive loss	314	(522)
Interest rate swaps on junior subordinated debentures:		
Unrealized loss recognized in accumulated other comprehensive loss	(1)	(1)
Reclassification of unrealized loss from accumulated other comprehensive loss to interest expense	129	127
Net tax expense on items recognized in accumulated other comprehensive loss	(51)	(54)
Other comprehensive income recorded in accumulated other comprehensive loss, net of reclassification adjustments and tax effects	$ 4,625	$ 895
Net interest expense recognized in interest expense on hedged FHLBB borrowings	$	$ 1,243
Net interest expense recognized in interest expense on junior subordinated notes	$ 129	$ 127

Hedge ineffectiveness on interest rate swaps designated as cash flow hedges was immaterial to the Company s financial statements during the three months ended March 31, 2014 and 2013.

Amounts reported in accumulated other comprehensive loss related to derivatives will be reclassified to interest expense as interest payments are made on the Company s variable-rate liabilities. During the next twelve months, the Company estimates that $0.1 million will be reclassified as an increase to interest expense.

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 March 31, 2014, the Company has an interest rate swap with a $13.0 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

Table of Contents

of the economic hedge is to improve the Company s asset sensitivity to changing interest rates in anticipation of favorable average floating rates of interest over the 21-year life of the bond. The fair value changes of the economic development bond are mostly offset by fair value changes of the related interest rate swap.

The Company also offers certain derivative products directly to qualified commercial borrowers. The Company economically hedges derivative transactions executed with commercial borrowers by entering into mirror-image, offsetting derivatives with third-party financial institutions. The transaction allows the Company s customer to convert a variable-rate loan to a fixed rate loan. Because the Company acts as an intermediary for its customer, changes in the fair value of the underlying derivative contracts mostly offset each other in earnings. Credit valuation adjustments arising from the difference in credit worthiness of the commercial loan and financial institution counterparties totaled $24.5 thousand as of March 31, 2014. The interest income and expense on these mirror image swaps exactly offset each other.

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

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

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

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

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

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

Non-hedging derivatives

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

Table of Contents

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

(In thousands)	Three Months Ended March 31, 2014	2013
Economic hedges		
Interest rate swap on industrial revenue bond:		
Unrealized (loss) gain recognized in other non-interest income	$ (381)	$ 107
Interest rate swaps on loans with commercial loan customers:		
Unrealized gain recognized in other non-interest income	187	1,554
Reverse interest rate swaps on loans with commercial loan customers:		
Unrealized loss recognized in other non-interest income	(187)	(1,554)
Favorable change in credit valuation adjustment recognized in other non-interest income	7	78
Forward Commitments:		
Unrealized loss recognized in other non-interest income	(108)	(550)
Realized gain in other non-interest income	(164)	1,055
Non-hedging derivatives		
Interest rate lock commitments		
Unrealized gain recognized in other non-interest income	377	2,758
Realized gain in other non-interest income	$ 469	$ 1,240

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 $7.1 million and $7.8 million as of March 31, 2014 and December 31, 2013, respectively. The Company had net liability positions with its financial institution counterparties totaling $6.6 million and $11.2 million as of March 31, 2014 and December 31, 2013, respectively. At March 31, 2014, the Company also had a net liability position of $0.4 million with its commercial banking counterparties as compared to a $0.7 million liability at December 31, 2013. The collateral posted by the Company that covered liability positions was $6.6 million and $11.2 million as of March 31, 2014 and December 31, 2013, respectively.

Table of Contents

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

Offsetting of Financial Assets and Derivative Assets

(in thousands)	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Statements of Condition	Net Amounts of Assets Presented in the Statements of Condition	Gross Amounts Not Offset in the Statements of Condition: Financial Instruments	Gross Amounts Not Offset in the Statements of Condition: Cash Collateral Received	Net Amount
As of March 31, 2014						
Interest Rate Swap Agreements:						
Institutional counterparties	$	$	$	$	$	$
Commercial counterparties	7,140		7,140			7,140
Total	$ 7,140	$	$ 7,140	$	$	$ 7,140

Offsetting of Financial Liabilities and Derivative Liabilities

(in thousands)	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statements of Condition	Net Amounts of Liabilities Presented in the Statements of Condition	Gross Amounts Not Offset in the Statements of Condition: Financial Instruments	Gross Amounts Not Offset in the Statements of Condition: Cash Collateral Pledged	Net Amount
As of March 31, 2014						
Interest Rate Swap Agreements:						
Institutional counterparties	$ (9,396)	$ 2,794	$ (6,602)	$ 4,902	$ 1,700	$
Commercial counterparties	(423)		(423)			(423)
Total	$ (9,819)	$ 2,794	$ (7,025)	$ 4,902	$ 1,700	$ (423)

Offsetting of Financial Assets and Derivative Assets

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

Offsetting of Financial Liabilities and Derivative Liabilities

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

NOTE 14. FAIR VALUE MEASUREMENTS

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

Recurring fair value measurements

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

Table of Contents

(In thousands)	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
		March 31, 2014		
Trading security	$	$	$ 14,923	$ 14,923
Available-for-sale securities:				
Municipal bonds and obligations		137,192		137,192
Governmentguaranteed residential mortgage-backed securities		83,686		83,686
Government-sponsored residential mortgage-backed securities		718,898		718,898
Corporate bonds		40,121		40,121
Trust preferred securities		14,418	1,340	15,758
Other bonds and obligations		3,129		3,129
Marketable equity securities	33,790	357	706	34,853
Loans held for sale		7,669		7,669
Derivative assets		9,934	377	10,311
Derivative liabilities	13	9,710	96	9,819

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

There were no transfers between levels during the three months ended March 31, 2014 or 2013.

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

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

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

Table of Contents

March 31, 2014

(In thousands)	Aggregate Fair Value	Aggregate Unpaid Principal	Aggregate Fair Value Less Aggregate Unpaid Principal
Loans Held for Sale	$ 7,669	$ 7,430	$ 239

December 31, 2013

(In thousands)	Aggregate Fair Value	Aggregate Unpaid Principal	Aggregate Fair Value Less Aggregate Unpaid Principal
Loans Held for Sale	$ 15,840	$ 15,641	$ 199

The changes in fair value of loans held for sale for the three months ended March 31, 2014, were gains of $40 thousand. The changes in fair value of loans held for sale were losses of $1.0 million for the three months ended March 31, 2013. The changes in fair value are included in mortgage banking income in the Consolidated Statements of Income.

Derivative Assets and Liabilities.

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

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

Although the Company has determined that the majority of the inputs used to value its interest rate derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, as of March 31, 2014, the Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. As a result, the Company has determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

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

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

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 months ended March 31, 2014 and March 31, 2013.

Table of Contents

(In thousands)	Assets (Liabilities) Trading Security	Securities Available for Sale	Interest Rate Lock Commitments	Forward Commitments
Three Months Ended March 31, 2014				
Balance as of December 31, 2013	$ 14,840	$ 1,964	$ 258	$ 19
Purchase of Marketable Equity Security				
Unrealized (loss) gain, net recognized in other non-interest income	218		719	(115)
Unrealized gain included in accumulated other comprehensive loss		82		
Paydown of trading security	(135)			
Transfers to held for sale loans			(600)	
Balance as of March 31, 2014	$ 14,923	$ 2,046	$ 377	$ (96)
Unrealized gains (losses) relating to instruments still held at March 31, 2014	$ 1,962	$ (1,288)	$ 377	$ (96)

(In thousands)	Assets (Liabilities) Trading Security	Securities Available for Sale	Interest Rate Lock Commitments	Forward Commitments
Three Months Ended March 31, 2013				
Balance as of December 31, 2012	$ 16,893	$ 885	$ 6,258	$ (1,055)
Greenpark Acquisition		770		
Unrealized (loss) gain recognized in other non-interest income	(280)		3,998	538
Unrealized loss included in accumulated other comprehensive loss		13		
Paydown of trading security	(128)			
Transfers to held for sale loans			(7,498)	
Balance as of March 31, 2013	$ 16,485	$ 1,668	$ 2,758	$ (517)
Unrealized gains (losses) relating to instruments still held at March 31, 2013	$ 3,004	$ (1,704)	$ 2,758	$ (517)

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

(In thousands)	Fair Value March 31, 2014	Valuation Techniques	Unobservable Inputs	Significant Unobservable Input Value
Assets (Liabilities)				
Trading Security	$ 14,923	Discounted Cash Flow	Discount Rate	3.14%
Forward Commitments	(96)	Historical Trend	Closing Ratio	93.06%
		Pricing Model	Origination Costs, per loan	$ 2,500
Interest Rate Lock Commitment	377	Historical Trend	Closing Ratio	93.06%
		Pricing Model	Origination Costs, per loan	$ 2,500

Total	$	15,204			

(In thousands)	Fair Value December 31, 2013	Valuation Techniques	Unobservable Inputs	Significant Unobservable Input Value	
Assets (Liabilities)					
Trading Security	$ 14,840	Discounted Cash Flow	Discount Rate		3.39%
Forward Commitments	19	Historical Trend	Closing Ratio		94.83%
		Pricing Model	Origination Costs, per loan	$	2,500
Interest Rate Lock Commitment	258	Historical Trend	Closing Ratio		94.83%
		Pricing Model	Origination Costs, per loan	$	2,500
Total	$ 15,117				

Table of Contents

Non-recurring fair value measurements

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

(In thousands)	March 31, 2014 Level 3 Inputs	December 31, 2013 Level 3 Inputs	Three months ended March 31, 2014 Total Gains (Losses)
Assets			
Impaired loans	$ 5,557	$ 5,542	$ 15
Capitalized mortgage servicing rights	3,922	4,112	
Other real estate owned	2,418	2,995	(208)
Total	$ 11,897	$ 12,649	$ (193)

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

(in thousands)	Fair Value March 31, 2014	Valuation Techniques	Unobservable Inputs	Range (Weighted Average) (a)
Assets				
Impaired loans	$ 5,557	Fair value of collateral	Loss severity	5.28% to 100.0% (80.34%)
			Appraised value	$0 to $690.0 $(389.5)
Capitalized mortgage servicing rights	3,922	Discounted cash flow	Constant prepayment rate (CPR)	6.7% to 17.45% (8.45%)
			Discount rate	10.00% to 13.00% (10.36%)
Other real estate owned	2,418	Fair value of collateral	Appraised value	$0 to $774.0 $(449.5)
Total	$ 11,897			

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

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

Other real estate owned		2,995	Fair value of collateral	Appraised value	$0 to $774.0	$(413.4)
Total	$	12,649				

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

There were no Level 1 or Level 2 nonrecurring fair value measurements for the periods ended March 31, 2014 and December 31, 2013.

Impaired Loans. Loans are generally not recorded at fair value on a recurring basis. Periodically, the Company records non-recurring adjustments to the carrying value of loans based on fair value measurements for partial charge-offs of the uncollectible portions of those loans. Non-recurring adjustments can also include certain impairment amounts for collateral-dependent loans calculated when establishing the allowance for credit losses. Such amounts are generally based on the fair value of the underlying collateral supporting the loan and, as a result, the carrying value of the loan less the calculated valuation amount does not necessarily represent the fair

Table of Contents

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.

Table of Contents

(In thousands)	Carrying Amount	Fair Value	March 31, 2014 Level 1	Level 2	Level 3
Financial Assets					
Cash and cash equivalents	$ 72,673	$ 72,673	$ 72,673	$	$
Trading security	14,923	14,923			14,923
Securities available for sale	1,033,637	1,033,637	33,790	997,801	2,046
Securities held to maturity	43,159	44,191			44,191
Restricted equity securities	53,124	53,124		53,124	
Net loans	4,209,025	4,274,758			4,274,758
Loans held for sale	7,669	7,669		7,669	
Accrued interest receivable	15,938	15,938		15,938	
Cash surrender value of bank-owned life insurance policies	102,343	102,343		102,343	
Derivative assets	10,311	10,311		9,934	377
Assets held for sale	4,018	4,018		4,018	
Financial Liabilities					
Total deposits	$ 4,218,583	$ 4,219,546		$ 4,219,546	$
Short-term debt	914,950	915,066		915,066	
Long-term Federal Home Loan Bank advances	21,797	23,472		23,472	
Subordinated borrowings	89,696	88,210		88,210	
Derivative liabilities	9,819	9,819	13	9,710	96
Liabilities held for sale	25,093	25,093		25,093	

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

Derivative liabilities	11,964	11,964	11,964
Liabilities held for sale	24,834	24,834	24,834

Table of Contents

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

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

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

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

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

Accrued interest receivable. Carrying value approximates fair value.

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

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

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

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

NOTE 15. NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES

Presented below is net interest income after provision for loan losses for the three months ended March 31, 2014 and March 31, 2013, respectively.

	Three Months Ended March 31,	
(In thousands)	**2014**	**2013**
Net interest income	$ 42,766	$ 41,937
Provision for loan losses	3,396	2,400
Net interest income after provision for loan losses	$ 39,370	$ 39,537

NOTE 16. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through May 12, 2014, the date the financial statements were issued, noting no events requiring disclosure.

Table of Contents

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

Management s discussion and analysis of financial condition and results of operations is intended to assist in understanding the financial condition and results of operations of the Company. The following discussion and analysis should be read in conjunction with the Company s consolidated financial statements and the notes thereto appearing in Part I, Item 1 of this document and with the Company s consolidated financial statements and the notes thereto and Management s Discussion and Analysis of Financial Condition and Results of Operations included in the 2013 Annual Report on Form 10-K. In the following discussion, income statement comparisons are against the same period of the previous year and balance sheet comparisons are against the previous fiscal year-end, unless otherwise noted. Operating results discussed herein are not necessarily indicative of the results for the year 2014 or any future period. In management s discussion and analysis of financial condition and results of operations, certain reclassifications have been made to make prior periods comparable. Tax-equivalent adjustments are the result of increasing income from tax-advantaged securities by an amount equal to the taxes that would be paid if the income were fully taxable based on a 40.5% marginal income tax rate. In the discussion, references to earnings per share refer to diluted earnings per share unless otherwise specified.

Berkshire Hills Bancorp (Berkshire or the Company) is headquartered in Pittsfield, Massachusetts. Berkshire Hills Bancorp, Inc. is a Delaware corporation and the holding company for Berkshire Bank (the Bank) and Berkshire Insurance Group. Established in 1846, the Bank is a state chartered Massachusetts savings bank. 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®. For more information, visit www.berkshirebank.com or call 800-773-5601.

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
- History of positive operating leverage contributing to historic growth in operating earnings
- 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

The Company s profile is as follows:

Table of Contents

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, pla potential, estimate, project, believe, intend, anticipate, expect, target and similar expressions. These forward-looking statements are significant risks, assumptions and uncertainties, including among other things, changes in general economic and business conditions, increased competitive pressures, changes in the interest rate environment, legislative and regulatory change, changes in the financial markets, and other risks and uncertainties disclosed from time to time in documents that Berkshire Hills Bancorp files with the Securities and Exchange Commission, including the Annual Report on Form 10-K for the fiscal year ended December 31, 2013 and the Risk Factors in Item 1A of this report. Because of these and other uncertainties, Berkshire s actual results, performance or achievements, or industry results, may be materially different from the results indicated by these forward-looking statements. In addition, Berkshire s past results of operations do not necessarily indicate Berkshire s combined future results. You should not place undue reliance on any of the forward-looking statements, which speak only as of the dates on which they were made. Berkshire is not undertaking an obligation to update forward-looking statements, even though its situation may change in the future, except as required under federal securities law. Berkshire qualifies all of its forward-looking statements by these cautionary statements.

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

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

Table of Contents

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

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

Table of Contents

the event of future changes in fair value, the Company may be exposed to an impairment charge that could be material.

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

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

Table of Contents

SELECTED FINANCIAL DATA

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

	At or for the Three Months Ended March 31, 2014	2013
PER COMMON SHARE DATA		
Net earnings, diluted	$ (0.04)	$ 0.42
Total common book value	26.99	26.68
Dividends	0.18	0.18
Common stock price:		
High		