BERKSHIRE HILLS BANCORP INC
Form 10-K
March 16, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

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

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of Exchange on which registered**
Common stock, par value $0.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of the Form 10-K or any amendment to this Form 10-K. x

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 Act). Yes o No x

The aggregate market value of the voting and non-voting common equity held by non-affiliates was approximately $569 million, based upon the closing price of $23.22 as quoted on the New York Stock Exchange as of the last business day of the registrant s most recently completed second fiscal quarter.

The number of shares outstanding of the registrant s common stock as of March 9, 2015 was 25,250,136.

DOCUMENTS INCORPORATED BY REFERENCE: Portions of the Proxy Statement for the 2015 Annual Meeting of Stockholders are incorporated by reference in Part III of this Form 10-K.

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PART I

ITEM 1. BUSINESS

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, deviations from performance expectations related to Hampden Bancorp and Hampden Bank, Berkshire Hills Bancorp may fail to integrate Hampden Bancorp and Hampden Bank in accordance with expectations, 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. You should not place undue reliance on forward-looking statements, which reflect our expectations only as of the date of this report. We do not assume any obligation to revise forward-looking statements except as may be required by law.

GENERAL

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 one of Massachusetts oldest and largest independent banks.

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The Company profiles itself as follows:

The Company views itself as well positioned in an attractive footprint as illustrated below. This illustration includes locations of Springfield based Hampden Bancorp with which Berkshire has a pending merger agreement:

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Berkshire s common shares are listed on the New York Stock Exchange under the trading symbol BHLB. At year-end 2014, Berkshire s closing stock price was $26.66 and there were 25.183 million shares outstanding. Berkshire is a regional bank and financial services company providing the service capabilities of a larger institution and the focus and responsiveness of a local partner to its communities. The Company seeks to distinguish itself based on the following attributes:

- Strong top and bottom line momentum
- Diversified revenue drivers and controlled expenses
- Well positioned footprint in attractive markets
- AMEB culture
- Solid internal capital generation supports growth
- Focused on long-term profitability goals and shareholder value
- Acquisition disciplines a strength in a consolidating market

The Company operates under the brand of America s Most Exciting Bank® providing an engaging and innovative customer experience driven by its AMEB culture which is

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The Bank has 91 full-service banking offices in its New England and upstate New York footprint, which extends along Interstate 90 from Boston to Syracuse, and along Interstate 91 from Hartford into Vermont. The Bank also has commercial and retail lending offices located in Eastern Massachusetts. The Company s operations include those acquired as a result of four bank mergers in 2011 2012, a mortgage banking company acquisition in 2012, and the acquisition of 20 New York branches in 2014.

On November 3, 2014, the Company and Hampden Bancorp, Inc. (Hampden), the parent company of Hampden Bank, entered into an Agreement and Plan of Merger pursuant to which Hampden will merge with and into the Company. Concurrent with the merger, Hampden Bank will merge with and into Berkshire Bank. Upon completion of the acquisition of Hampden and Hampden Bank, the Bank will have acquired 10 branch offices in Hampden County, Massachusetts. As discussed further in the Proxy Statement/Prospectus dated January 29, 2015, this acquisition will expand the Bank s footprint in Hampden County, Massachusetts and the Springfield, Massachusetts area. Completion of the acquisition is subject to the receipt of certain regulatory approvals. The acquisition is expected to be completed early in the second quarter of 2015. The Company has announced plans to consolidate three of the acquired branches soon after the completion of the merger.

The Bank serves the following regions:

- **Western New England**, with 23 banking offices, including the Company s headquarters in Pittsfield, MA. This region includes Berkshire County, MA, which is the Company s traditional market, where it has a leading market share in many of its product lines. This region also includes Southern Vermont, and many of the region s branches are in communities close to Route 7, which runs north/south through the valleys to the west of the Berkshire Hills and Green Mountains. This region is within commuting range of both Albany, New York and Springfield, Massachusetts and is known throughout the world as a tourist and recreational destination area, with vacation and second home traffic from Boston and New York City. The Pittsfield 2013 MSA GDP totaled $6 billion.

- **New York,** with 46 banking offices serving the Albany Capital District and Central New York. Albany is the state capital and is part of New York s Tech Valley which is gaining prominence as a world technology hub including leading edge nanotechnology initiatives representing a blend of private enterprise and public investment. The Company s Central New York area includes operations in the Rome/Utica MSA and in the Syracuse MSA. These are markets along Interstate 90 with longstanding local industries and expansion influences from the Albany Capital District. The Albany/Schenectady 2013 MSA GDP was $47 billion, and the Rome/Utica/Syracuse total 2013 MSA GDP was $40 billion.

- **Hartford/Springfield,** with 19 banking offices serving the market along the Connecticut River in this region, which is the second largest economic area in New England. This region is centrally located between Boston and New York City at the crossroads of Interstate 91, which traverses the length of New England and Interstate 90, which traverses the width of Massachusetts. This region also has easy access to Bradley International Airport, which is a major airport serving central New England. The Springfield area is receiving major commercial investment including the first Massachusetts casino/entertainment complex, railcar manufacturing, and highway development. The Hartford/Springfield combined 2013 MSA GDP was $111 billion.

- **Eastern Massachusetts,** with lending offices and 2 branch offices located in towns west and north of Boston. Eastern Massachusetts is the largest economic area in New England, and the Company s banking operations extend from Worcester within the commuting and commerce area of Boston, east to Boston and its suburbs. Boston is viewed as a leading commercial real estate market nationally, including foreign demand for commercial and multifamily properties. The Bank s Asset Based Lending Group is headquartered in this region, and serves middle market businesses throughout the Company s footprint. The Boston/Worcester combined 2013 MSA GDP was

$408 billion.

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Total loans and deposits by region are shown below as of year-end 2014. Certain administrative balances and brokered deposits are included in Western New England. Balances related to the Tennessee branches are excluded.

These regions are viewed as having favorable demographics and provide an attractive regional niche for the Bank to distinguish itself from larger national and super-regional banks, and from smaller community banks, while serving its market area. The Bank is the only locally headquartered regional bank serving this footprint. The Company views its footprint as comparatively stable, with modest economic growth prospects in rural areas and higher growth prospects in more developed areas. The strongest growth is expected to be in Eastern Massachusetts and the New York Capital District. The Company views itself as positioned to take advantage of the best growth opportunities as they develop across its geography. The Company s regions have competitive economic strengths in precision manufacturing, distribution, technology, health care, and education which are expected to continue to support above average personal incomes and wealth. As a result of its growth, the Company has increased and diversified its revenues both geographically and by product type and this has improved its flexibility in pursuing growth opportunities as they arise. The Company believes it has attractive long term growth prospects because of the Bank s positioning as one of the leading regional banks in its markets with the ability to serve retail and commercial customers with a strong product set and responsive local management. The Company also has a goal to deepen its wallet share as a result of its focused cross sales program across its various business lines including insurance and wealth management.

The Company has recruited executives with experience in regional bank management and has augmented its management team as it has expanded into a diversified regional financial services provider. In addition to business acquisitions, Berkshire s expansion has been based on team and talent recruitment. The Company also pursues organic growth through ongoing business development, de novo branching, and product development. The Bank promotes itself as America s Most Exciting Bank®. It has set out to change the financial service experience.   Its vision is to excel as a high performing market leader with the right people, attitude, and energy providing an engaging and exciting customer and team member experience. This brand and culture statement is expected to drive customer engagement, loyalty, market share and profitability.

The Company offers a wide range of deposit, lending, insurance, and wealth management products to retail, commercial, not-for-profit, and municipal customers in its market areas. The Company s product offerings also include retail and commercial electronic banking, commercial cash management, and commercial interest rate swaps. The Company stresses a culture of teamwork and performance excellence to produce customer satisfaction to support its strategic growth and profitability. The Company utilizes Six Sigma tools to improve operational effectiveness and efficiency. The Company converted its core banking systems to a new scalable technology platform in 2012, with goals to enhance service, efficiency, reliability, customer relationship management, distribution channels, product quality, and revenue generation. The systems provide deeper and more granular customer and operational data that Berkshire is mining in order to better inform its strategic direction and business execution. Berkshire has also expanded its mobile banking and remote capture offerings and utilizes its internet web site and online banking tools to extend the convenience that it offers to customers.

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COMPANY WEBSITE AND AVAILABILITY OF SECURITIES AND EXCHANGE COMMISSION FILINGS

Information regarding the Company is available through the Investor Relations tab at berkshirebank.com. The Company s annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports filed pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available free of charge at sec.gov and at berkshirebank.com under the Investor Relations tab. Information on the website is not incorporated by reference and is not a part of this annual report on Form 10-K.

COMPETITION

The Company is subject to strong competition from banks and other financial institutions and financial service providers. Its competition includes national and super-regional banks such as Bank of America, TD Bank, Citizens Bank, Santander Bank, and Key Bank which have substantially greater resources and lending limits. Non-bank competitors include credit unions, brokerage firms, insurance providers, financial planners, and the mutual fund industry. New technology is reshaping customer interaction with financial service providers and the increase of Internet-accessible financial institutions increases competition for the Company s customers. The Company generally competes on the basis of customer service, relationship management, and the fair pricing of loan and deposit products and wealth management and insurance services. The location and convenience of branch offices is also a significant competitive factor, particularly regarding new offices. The Company does not rely on any individual, group, or entity for a material portion of its deposits.

LENDING ACTIVITIES

General. The Bank originates loans in the four basic portfolio categories discussed below. Lending activities are limited by federal and state laws and regulations. Loan interest rates and other key loan terms are affected principally by the Bank s credit policy, asset/liability strategy, loan demand, competition, and the supply of money available for lending purposes. These factors, in turn, are affected by general and economic conditions, monetary policies of the federal government, including the Federal Reserve, legislative tax policies and governmental budgetary matters. Most of the Bank s loans are made in its market areas and are secured by real estate located in its market areas. Lending is therefore affected by activity in these real estate markets. The Bank does not engage in subprime lending activities. The Bank monitors and manages the amount of long-term fixed-rate lending volume. Adjustable-rate loan products generally reduce interest rate risk but may produce higher loan losses in the event of sustained rate increases. The Bank retains most of the loans it originates, although the Bank generally sells its originations of conforming fixed rate residential mortgages. The Bank also conducts wholesale purchases and sales of loans and loan participations generally with other banks doing business in its markets. The Bank s loan portfolio includes loans acquired in recent business combinations and such loans generally conform to the loans from the Bank s business activities.

Loan Portfolio Analysis. The following table sets forth the year-end composition of the Bank s loan portfolio in dollar amounts and as a percentage of the portfolio at the dates indicated. Further information about the composition of the loan portfolio is contained in the Loans footnote in the consolidated financial statements.

Item 1 - Table 1 - Loan Portfolio Analysis

	2014		2013		2012		2011		2010	
(In millions)	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
Residential mortgages	$ 1,496.2	32%	$ 1,384.3	33%	$ 1,324.3	33%	$ 1,020.4	34%	$ 645.0	30%
Commercial real estate	1,611.6	35	1,417.1	34	1,413.5	35	1,156.2	39	925.6	43
Commercial and industrial loans	804.4	17	687.3	16	600.1	15	410.3	14	286.1	13
Total commercial loans	2,416.0	52	2,104.4	50	2,013.6	50	1,566.5	53	1,211.7	56
Consumer	768.4	16	691.8	17	650.7	17	369.6	13	285.5	14
Total loans	$ 4,680.6	100%	$ 4,180.5	100%	$ 3,988.6	100%	$ 2,956.5	100%	$ 2,142.2	100%
Allowance for loan losses	(35.7)		(33.3)		(33.2)		(32.4)		(31.9)	
Net loans	$ 4,645.0		$ 4,147.2		$ 3,955.4		$ 2,924.1		$ 2,110.3	

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Residential Mortgages. The Bank offers fixed-rate and adjustable-rate residential mortgage loans with maturities of up to 30 years that are fully amortizing with monthly loan payments.

Berkshire s loan products are available through FNMA, FHLMC, Government Insured and State Programs. In addition, the Bank offers a suite of portfolio products through Berkshire Bank. Berkshire Bank is an in-house Direct Endorsed Lender for FHA. It also offers VA, USDA, FHA Reverse, State Housing, Home Path, HARP and more. The Company targets that its programs and pricing are highly competitive in the marketplace as it pursues opportunities to expand market share in its footprint.

Residential mortgages are generally underwritten according to the Federal National Mortgage Association (Fannie Mae) or the Federal Home Loan Mortgage Association (Freddie Mac) guidelines for loans they designate as A or A- (these are referred to as conforming loans). Private mortgage insurance is generally required for loans with loan-to-value ratios in excess of 80%. The Bank also originates loans above conforming loan amount limits, referred to as jumbo loans, which are generally conforming to secondary market guidelines for these loans. The Bank does not offer subprime mortgage lending programs.

The Bank generally sells most of its newly originated conforming fixed rate mortgages. It also sometimes purchases or sells seasoned mortgage loans in the secondary mortgage market. The Bank is approved as a direct seller to Fannie Mae, retaining the servicing rights. The majority of the Bank s secondary marketing is to national institutional secondary market investors on a servicing released basis. Sales of mortgages generally involve customary representations and warranties and are nonrecourse in the event of borrower default. The Bank is also an approved originator of loans for sale to the Federal Housing Administration (FHA), U.S. Department of Veteran Affairs (VA), and state housing agency programs.

The Bank offers adjustable rate (ARM) mortgages which do not contain interest-only or negative amortization features. After an initial term of six months to ten years, the rates on these loans generally reset every year based upon a contractual spread or margin above the average yield on U.S. Treasury securities. ARM loan interest rates may rise as interest rates rise, thereby increasing the potential for default. At year-end 2014, the Bank s adjustable rate mortgage portfolio totaled $475 million. The Bank also originates loans to individuals for the construction and acquisition of personal residences. These loans generally provide fifteen-month construction periods followed by a permanent mortgage loan, and follow the Bank s normal mortgage underwriting guidelines.

Following its purchase of a mortgage banking company in 2012, the Bank has expanded its residential mortgage program and in 2014 rebranded the program as Berkshire Home Lending. Berkshire Bank is the preferred mortgage lender for the Massachusetts Teachers Association, and has been among the top ten banks in Massachusetts and Rhode Island for residential mortgage volume in certain periods in recent years.

Commercial Real Estate. The Bank originates commercial real estate loans on properties used for business purposes such as small office buildings, industrial, healthcare, lodging, recreation, or retail facilities. This portfolio also includes commercial 1-4 family and multifamily properties. Loans may generally be made with amortizations of up to 25 years and with interest rates that adjust periodically (primarily from short-term to five years). Most commercial real estate loans are originated with final maturities of ten years or less. As part of its business activities, the Bank also enters into commercial loan participations with regional and national banks and purchases and sells commercial loans in its footprint

Commercial real estate loans are among the largest of the bank s loans, and may have higher credit risk and lending spreads. At year-end 2014, the average size of a commercial mortgage was approximately $1.3 million and the Company believed that its competitive advantage for new originations was strongest in the $5-10 million size range. Because repayment is often dependent on the successful operation or management of the properties, repayment of such loans may be affected by adverse conditions in the real estate market or the economy. The Bank seeks to minimize these risks through strict adherence to its underwriting standards and portfolio management processes. The Bank generally requires that borrowers have debt service coverage ratios (the ratio of available cash flows before debt service to debt service) of at least 1.25 times based on stabilized cash flows of leases in place, with some exceptions for national credit tenants. For variable rate loans, the Bank underwrites debt service coverage to interest rate shocks of 300 basis points or higher based on a minimum of 1.0 times coverage and it uses loan maturities to manage risk based on the lease base

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and interest sensitivity. Loans at origination may be made up to 80% of appraised value based on property type and risk, with sublimits of 75% or less for designated specialty property types. Generally, commercial real estate loans require personal guarantees by the principals. Credit enhancements in the form of additional collateral or guarantees are normally considered for start-up businesses without a qualifying cash flow history.

The Bank offers interest rate swaps to certain larger commercial mortgage borrowers. These swaps allow the Bank to originate a mortgage based on short-term LIBOR rates and allow the borrower to swap into a longer term fixed rate. The Bank simultaneously sells an offsetting back-to-back swap to an investment grade national bank so that it does not retain this fixed-rate risk. The Bank also records fee income on these interest rate swaps based on the terms of the offsetting swaps with the bank counterparties.

The Bank originates construction loans to builders and commercial borrowers in and around its markets. The maximum loan to value limits for construction loans follow FDIC supervisory limits, up to a maximum of 80%. The Bank commits to provide the permanent mortgage financing on most of its construction loans on income-producing property. Advances on construction loans are made in accordance with a schedule reflecting the cost of the improvements. Construction loans include land acquisition loans up to a maximum 50% loan to value on raw land. Construction loans may have greater credit risk due to the dependence on completion of construction and other real estate improvements, as well as the sale or rental of the improved property. The Bank generally mitigates these risks with presale or preleasing requirements and phasing of construction.

Commercial and Industrial Loans. The Bank offers secured commercial term loans with repayment terms which are normally limited to the expected useful life of the asset being financed, and generally not exceeding ten years. The Bank also offers revolving loans, lines of credit, letters of credit, time notes and Small Business Administration guaranteed loans. Business lines of credit have adjustable rates of interest and are payable on demand, subject to annual review and renewal. Commercial and industrial loans are generally secured by a variety of collateral such as accounts receivable, inventory and equipment, and are generally supported by personal guarantees. Loan to value ratios depend on the collateral type and generally do not exceed 80% of orderly liquidation value. Some commercial loans may also be secured by liens on real estate. The Bank generally does not make unsecured commercial loans. At year-end 2014, the average commercial loan size was approximately $600 thousand. Commercial loans are of higher risk and are made primarily on the basis of the borrower s ability to make repayment from the cash flows of its business. Further, any collateral securing such loans may depreciate over time, may be difficult to monitor and appraise and may fluctuate in value. The Bank gives additional consideration to the borrower s credit history and the guarantor s capacity to help mitigate these risks. Additionally, the Bank uses loan structures including shorter terms, amortizations, and advance rate limitations as further mitigants based on the loan underwriting.

The Asset Based Lending Group serves the commercial middle market in New England, as well as the Bank s market in northeastern New York. This group expands the Bank s business lending offerings to include revolving lines of credit and term loans secured by accounts receivable, inventory, and other assets to manufacturers, distributors and select service companies experiencing seasonal working capital needs, rapid sales growth, a turnaround, buyout or recapitalization with credit needs ranging from $2 to $25 million. Asset based lending involves monitoring loan collateral so that outstanding balances are always properly secured by business assets, which reduces the risks associated with these loans.

The Bank has reorganized its small business lending function to expand this important business financing capability and includes the retail division in the origination of conforming small business loans in order to provide the best service to community based small businesses. The small business lending program is for businesses generally with annual revenues of up to $10 million and whose loan relationship with the bank is $2 million or less. The program has two distinct thresholds: branch originated loans for borrowers with revenues of $2 million or less, total loan relationship with the bank is $250,000 or less and loan requests are $50 thousand or less for lines of credit and $100 thousand or less for term loans; and Business Banker originated loans for borrowers with revenues of $10 million or less, total loan relationship is $2 million or less and loan requests up to $2 million for all lending products. The program also handles an exception managed loan portfolio for loans and loan relationships under $250 thousand which require limited documentation to provide timely credit to small businesses.

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Consumer Loans. The Bank s consumer loans consist principally of home equity lines of credit and indirect automobile loans, together with second mortgage loans and other consumer loans. The Bank s home equity lines of credit are typically secured by first or second mortgages on borrowers residences. Home equity lines have an initial revolving period up to fifteen years, followed by an amortizing term up to twenty years. These loans are normally indexed to the prime rate. Home equity loans also include amortizing fixed-rate second mortgages with terms up to fifteen years. Lending policies for combined debt service and collateral coverage are similar to those used for residential first mortgages, although underwriting verifications are more streamlined. The maximum combined loan-to-value is 80%. Home equity line credit risks include the risk that higher interest rates will affect repayment and possible compression of collateral coverage on second lien home equity lines. Acquired operations of Beacon Federal in 2012 included a significant consumer lending function focused on indirect originations of automobile loans, primarily in central New York. For new automobiles, the amount financed could be up to 100% of the value of the vehicle, plus applicable taxes and dealer charges (i.e., warranty and insurance charges). For used automobiles, the amount of the loan was limited to the loan value of the vehicle, as established by industry guides.

Maturity and Sensitivity of Loan Portfolio. The following table shows contractual final maturities of selected loan categories at year-end 2014. The contractual maturities do not reflect premiums, discounts, deferred costs, and prepayments.

Item 1 - Table 2 - Loan Contractual Maturity -Scheduled Loan Amortizations are not included in the maturities presented.

Contractual Maturity (In thousands)	**One Year or Less**	**More than One to Five Years**	**More Than Five Years**	**Total**
Construction mortgage loans:				
Residential	$ 16,356	$ 11,706	$	$ 28,062
Commercial	30,836	142,554		173,390
Commercial and industrial loans	228,415	402,979	172,972	804,366
Total	$ 275,607	$ 557,239	$ 172,972	$ 1,005,818

For the $730 million of loans above which mature in more than one year, $199 million of these loans are fixed-rate and $531 million are variable rate.

Loan Administration. Lending activities are governed by a loan policy approved by the Board s Risk Management Committee. Internal staff perform and monitor post-closing loan documentation review, quality control, and commercial loan administration. The lending staff assigns a risk rating to all commercial loans, excluding point scored small business loans. Management primarily relies on internal risk management staff to review the risk ratings of the majority of commercial loan balances.

The Bank s lending activities follow written, non-discriminatory underwriting standards and loan origination procedures established by the Risk Management Committee and Management. The Bank s loan underwriting is based on a review of certain factors including risk ratings, recourse, loan-to-value ratios and material policy exceptions. The Risk Management Committee has established individual and combined loan limits and lending approval authorities. Management s Executive Loan Committee is responsible for commercial and residential loan approvals in accordance with these standards and procedures. Generally, commercial lending management has the authority to approve pass rated secured loans (with normal credit risk) up to $1 million, in conjunction with a Credit Officer up to $4.5 million and in conjunction with the Chief Credit Officer up to $10 million. The Chief Credit Officer has the authority to approve up to $7.5 million for pass rated credits with major policy exceptions and pass/watch rated credits and up to $2.5 million for special mention rated credits. The Executive Loan Committee approves secured loans over these amounts (and over $1.5 million unsecured). The Bank tracks exceptions that are approved to loan underwriting standards and exception reports are actively monitored by executive lending management.

The Bank s lending activities are conducted by its salaried and commissioned loan personnel. Designated salaried branch staff originate conforming residential mortgages and receive bonuses based on overall performance. Additionally, the Bank employs commissioned residential mortgage originators. Commercial lenders receive salaries and are eligible for bonuses based on overall performance. From time to time, the Bank will purchase whole loans or participations in loans. These loans are underwritten according to the Bank s underwriting criteria and procedures and

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are generally serviced by the originating lender under terms of the applicable participation agreement. The Bank routinely sells newly originated fixed rate residential mortgages in the secondary market. Customer rate locks are offered without charge and rate locked applications are generally committed for forward sale or hedged with derivative financial instruments to minimize interest rate risk pending delivery of the loans to the investors. The Bank sells a limited number of commercial loan participations on a non-recourse basis. The Bank issues loan commitments to its prospective borrowers conditioned on the occurrence of certain events. Loan origination commitments are made in writing on specified terms and conditions and are generally honored for up to sixty days from approval; some commercial commitments are made for longer terms. The Company also monitors pipelines of loan applications and has processes for issuing letters of interest for commercial loans and preapprovals for residential mortgages, all of which are generally conditional on completion of underwriting prior to the issuance of formal commitments.

The loan policy sets certain limits on concentrations of credit and requires periodic reporting of concentrations to the Risk Management Committee. In most cases the commercial loan hold limit is 5% of risk based capital for loan transactions and 8% of risk based capital for lending relationships. Loans outstanding to the ten largest relationships averaged $24.5 million each, or 4.8% of total risk based capital in 2014. The Bank also actively monitors its 25 largest borrower relationships. Commercial real estate is generally managed within federal regulatory monitoring guidelines of 300% of risk based capital for commercial real estate and 100% for commercial construction loans. At year-end 2014, non-owner occupied commercial real estate totaled 216% of Bank risk based capital and outstanding commercial construction loans were 34% of Bank risk based capital. The Bank has hold limits for several categories of commercial specialty lending including healthcare, hospitality, designated franchises, and leasing, as well as hold limits for designated commercial loan participations purchased. In most cases, these limits are below 100% of risk based capital for all outstandings in each monitored category.

Problem Assets. The Bank prefers to work with borrowers to resolve problems rather than proceeding to foreclosure. For commercial loans, this may result in a period of forbearance or restructuring of the loan, which is normally done at current market terms and does not result in a troubled loan designation. For residential mortgage loans, the Bank generally follows FDIC guidelines to attempt a restructuring that will enable owner-occupants to remain in their home. However, if these processes fail to result in a performing loan, then the Bank generally will initiate foreclosure or other proceedings no later than the 90th day of a delinquency, as necessary, to minimize any potential loss. Management reports delinquent loans and non-performing assets to the Board quarterly. Loans are generally removed from accruing status when they reach 90 days delinquent, except for certain loans which are well secured and in the process of collection. All loan collections are managed through the Bank s special assets group, except for consumer loan collections, which are managed by the Retail group.

Real estate acquired by the Bank as a result of loan collections is classified as real estate owned until sold. When property is acquired it is recorded at fair market value less estimated selling costs at the date of foreclosure, establishing a new cost basis. Holding costs and decreases in fair value after acquisition are expensed. Interest income that would have been recorded for 2014 if non-accruing loans had been current according to their original terms, amounted to $1.1 million. Included in the amount is $104 thousand related to troubled debt restructurings. The amount of interest income on those loans that was recognized in net income in 2014 was $0.6 million. Included in this amount is $188 thousand related to troubled debt restructurings. Interest income on accruing troubled debt restructurings totaled $0.7 million for 2014. The total carrying value of troubled debt restructurings was $16.7 million at year-end.

The following table sets forth additional information on year-end problem assets and accruing troubled debt restructurings (TDR). Due to accounting standards for business combinations, non-accrual loans of acquired banks are recorded as accruing on the acquisition date. Therefore, measures related to accruing and non-accruing loans reflect these standards and may not be comparable to prior periods.

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Item 1 - Table 3 - Problem Assets and Accruing TDR

(In thousands)	2014	2013	2012	2011	2010
Non-accruing loans:					
Residential mortgages	$ 3,908	$ 7,868	$ 7,466	$ 7,010	$ 2,173
Commercial real estate	12,878	13,739	12,617	14,280	9,488
Commercial and industrial loans	1,705	2,355	3,681	990	1,305
Consumer	3,214	3,493	1,748	1,954	746
Total non-performing loans	21,705	27,455	25,512	24,234	13,712
Real estate owned	2,049	2,758	1,929	1,900	3,386
Total non-performing assets	$ 23,754	$ 30,213	$ 27,441	$ 26,134	$ 17,098
Troubled debt restructurings (accruing)	$ 12,612	$ 8,344	$ 3,641	$ 1,263	$ 7,829
Accruing loans 90+ days past due	$ 4,568	$ 9,223	$ 18,977	$ 10,184	$ 1,054
Total non-performing loans/total loans	0.46%	0.66%	0.64%	0.82%	0.64%
Total non-performing assets/total assets	0.37%	0.53%	0.52%	0.65%	0.59%

Asset Classification and Delinquencies. The Bank performs an internal analysis of its commercial loan portfolio and assets to classify such loans and assets in a manner similar to that employed by the federal banking regulators. There are four classifications for loans with higher than normal risk: Loss, Doubtful, Substandard and Special Mention. Usually an asset classified as Loss is fully charged-off. Substandard assets have one or more defined weaknesses and are characterized by the distinct possibility that the insured institution will sustain some loss if the deficiencies are not corrected. Doubtful assets have the weaknesses of substandard assets with the additional characteristic that the weaknesses make collection or liquidation in full on the basis of currently existing facts, conditions and values questionable, and there is a high possibility of loss. Assets that do not currently expose the insured institution to sufficient risk to warrant classification in one of the aforementioned categories but possess weaknesses are designated Special Mention. Please see the additional discussion of non-accruing and potential problem loans in Item 7 and additional information in the Loan Loss Allowance Note to the consolidated financial statements. Impaired loans acquired in business combinations are normally rated Substandard or lower and the fair value assigned to such loans at acquisition includes a component for the possibility of loss if deficiencies are not corrected.

Allowance for Loan Losses. The Bank s loan portfolio is regularly reviewed by management to evaluate the adequacy of the allowance for loan losses. The allowance represents management s estimate of inherent losses that are probable and estimable as of the date of the financial statements. The allowance includes a specific component for impaired loans (a specific loan loss reserve) and a general component for portfolios of all outstanding loans (a general loan loss reserve). At the time of acquisition, no allowance for loan losses is assigned to loans acquired in business combinations. These loans are carried at fair value, including the impact of expected losses, as of the acquisition date. An allowance on such loans is established subsequent to the acquisition date through the provision for loan losses based on an analysis of factors including environmental factors. The loan loss allowance is discussed further in the Note about Significant Accounting Policies in the consolidated financial statements.

Management believes that it uses the best information available to establish the allowance for loan losses. However, future adjustments to the allowance for loan losses may be necessary, and results of operations could be adversely affected if circumstances differ substantially from the assumptions used in making its determinations. Because the estimation of inherent losses cannot be made with certainty, there can be no assurance that the existing allowance for loan losses is adequate or that increases will not be necessary should the quality of any loan or loan portfolio category deteriorate as a result of the factors discussed above. Additionally, the regulatory agencies, as an integral part of their examination process, also periodically review the Bank s allowance for loan losses. Such agencies may require the Bank to make additional provisions for estimated losses based upon judgments different from those of management. Any material increase in the allowance for loan losses may adversely affect the Bank s financial condition and results of operations.

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The following table presents an analysis of the allowance for loan losses for the years indicated.

Item 1 - Table 4 - Allowance for Loan Loss

(In thousands)	2014	2013	2012	2011	2010
Balance at beginning of year	$ 33,323	$ 33,208	$ 32,444	$ 31,898	$ 31,816
Charged-off loans:					
Residential mortgages	2,596	2,426	2,647	1,322	409
Commercial real estate	5,684	5,026	4,229	4,046	6,403
Commercial and industrial loans	3,010	2,917	697	1,443	2,685
Consumer	2,563	2,467	1,877	885	1,188
Total charged-off loans	13,853	12,836	9,450	7,696	10,685
Recoveries on charged-off loans:					
Residential mortgages	365	399	103	231	213
Commercial real estate	270	549	52	189	794
Commercial and industrial loans	228	211	96	109	1,094
Consumer	361	414	373	150	140
Total recoveries	1,224	1,573	624	679	2,241
Net loans charged-off	12,629	11,263	8,826	7,017	8,444
Allowance attributed to loans acquired by merger					
Provision for loan losses	14,968	11,378	9,590	7,563	8,526
Transfer of commitment reserve					
Balance at end of year	$ 35,662	$ 33,323	$ 33,208	$ 32,444	$ 31,898
Ratios:					
Net charge-offs/average loans	0.29%	0.29%	0.26%	0.27%	0.42%
Recoveries/charged-off loans	8.84	12.25	6.60	8.82	20.97
Net loans charged-off/allowance for loan losses	35.41	33.80	26.58	21.63	26.47
Allowance for loan losses/total loans	0.76	0.80	0.83	1.10	1.49
Allowance for loan losses/non-accruing loans	164.30	121.37	130.17	133.88	232.63

The following tables present year-end data for the approximate allocation of the allowance for loan losses by loan categories at the dates indicated (including an apportionment of any unallocated amount). The first table shows for each category the amount of the allowance allocated to that category as a percentage of the outstanding loans in that category. The second table shows the allocated allowance together with the percentage of loans in each category to total loans. Management believes that the allowance can be allocated by category only on an approximate basis. The allocation of the allowance to each category is not indicative of future losses and does not restrict the use of any of the allowance to absorb losses in any category. Due to the impact of accounting standards for acquired loans, data in the accompanying tables may not be comparable between accounting periods.

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Item 1 - Table 5A - Allocation of Allowance for Loan Loss by Category

(Dollars in thousands)	2014 Amount Allocated	2014 Percent of Amount Allocated to Total Loans in Each Category	2013 Amount Allocated	2013 Percent of Amount Allocated to Total Loans in Each Category	2012 Amount Allocated	2012 Percent of Amount Allocated to Total Loans in Each Category	2011 Amount Allocated	2011 Percent of Amount Allocated to Total Loans in Each Category	2010 Amount Allocated	2010 Percent of Amount Allocated to Total Loans in Each Category
Residential mortgages	$ 7,480	0.50%	$ 7,562	0.55%	$ 6,444	0.49%	$ 3,420	0.34%	$ 3,200	0.50%
Commercial real estate	15,539	0.96	16,112	1.13	19,275	1.36	22,176	1.92	19,923	2.15
Commercial and industrial loans	6,322	0.79	5,770	0.85	5,707	0.95	4,566	1.11	6,498	2.27
Consumer	6,321	0.82	3,879	0.56	1,782	0.27	2,282	0.62	2,277	0.80
Total	$ 35,662	0.76%	$ 33,323	0.80%	$ 33,208	0.83%	$ 32,444	1.10%	$ 31,898	1.49%

Item 1 - Table 5B - Allocation of Allowance for Loan Loss

(Dollars in thousands)	2014 Amount Allocated	2014 Percent of Loans in Each Category to Total Loans	2013 Amount Allocated	2013 Percent of Loans in Each Category to Total Loans	2012 Amount Allocated	2012 Percent of Loans in Each Category to Total Loans	2011 Amount Allocated	2011 Percent of Loans in Each Category to Total Loans	2010 Amount Allocated	2010 Percent of Loans in Each Category to Total Loans
Residential mortgages	$ 7,480	31.97%	$ 7,562	33.11%	$ 6,444	33.20%	$ 3,420	34.51%	$ 3,200	30.11%
Commercial real estate	15,539	34.43	16,112	41.26	19,275	35.44	22,176	39.11	19,923	43.21
Commercial and industrial loans	6,322	17.19	5,770	9.08	5,707	15.05	4,566	13.88	6,498	13.35
Consumer	6,321	16.41	3,879	16.55	1,782	16.31	2,282	12.50	2,277	13.33
Total	$ 35,662	100.00%	$ 33,323	100.00%	$ 33,208	100.00%	$ 32,444	100.00%	$ 31,898	100.00%

INVESTMENT SECURITIES ACTIVITIES

The securities portfolio provides cash flow to protect the safety of customer deposits and as a potential source of liquidity for funding loan commitments. The portfolio is also used to manage interest rate risk and to earn a reasonable return on investment. Decisions are made in accordance with the Company s investment policy and include consideration of risk, return, duration, and portfolio concentrations. Day-to-day oversight of the portfolio rests with the Chief Financial Officer and the Treasurer. The Asset/Liability Committee meets monthly and reviews investment strategies. The Risk Management Committee reviews all securities transactions and provides general oversight of the investment function.

The Company has historically maintained a high-quality portfolio of managed duration mortgage-backed securities, together with a portfolio of municipal bonds including national and local issuers and local economic development bonds issued to non-profit organizations. Nearly all of the mortgage-backed securities are issued by Ginnie Mae, Fannie Mae or Freddie Mac, and consisting principally of collateralized mortgage obligations (generally consisting of planned amortization class bonds). Other than securities issued by the above agencies, no other issuer concentrations exceeding 10% of stockholders equity existed at year-end 2014. The municipal portfolio provides tax-advantaged yield, and the local economic development bonds were originated by the Company to area borrowers. All of the Company s available for sale municipal securities are investment grade rated and most of the portfolio carries credit enhancement protection. The Company invests in investment grade corporate bonds and non-investment grade fixed income securities consisting primarily of capital instruments issued by local and regional financial institutions and a mutual fund investing in non-investment grade bonds of national corporate issues. The Company also invests in equity securities of local financial institutions, including those that might be future potential partners, as well as dividend yielding equity securities of national corporate exchange traded issuers. The Company owns restricted equity in the Federal Home Loan Bank of Boston (FHLBB) based on its operating relationship with the FHLBB. The Company owns an interest rate swap against a tax advantaged economic development bond issued to a local not-for-profit organization, and as a result this security is carried as a trading account security. The Bank did not record any material losses or write-downs of investment securities during the year and none of the Company s investment securities were other-than-temporarily impaired at year-end.

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The following tables present the amortized cost and fair value of the Company s securities, by type of security, for the years indicated.

Item 1 - Table 6A - Amortized Cost and Fair Value of Securities

(In thousands)	2014 Amortized Cost	2014 Fair Value	2013 Amortized Cost	2013 Fair Value	2012 Amortized Cost	2012 Fair Value
Securities available for sale						
Municipal bonds and obligations	$ 127,013	$ 133,699	$ 77,852	$ 77,671	$ 79,498	$ 84,757
Mortgage-backed securities	824,865	829,652	610,326	601,429	318,245	321,685
Other bonds and obligations	74,953	73,525	61,123	58,975	35,241	34,436
Marketable equity securities	48,992	54,942	20,041	21,973	22,467	25,291
Total securities available for sale	$ 1,075,823	$ 1,091,818	$ 769,342	$ 760,048	$ 455,451	$ 466,169
Securities held to maturity						
Municipal bonds and obligations	$ 4,997	$ 4,997	$ 4,244	$ 4,244	$ 8,295	$ 8,295
Mortgage-backed securities	70	74	73	75	76	83
Tax advantaged economic development bonds	37,948	39,594	40,260	41,101	41,678	43,137
Other bonds and obligations	332	332	344	344	975	975
Total securities held to maturity	$ 43,347	$ 44,997	$ 44,921	$ 45,764	$ 51,024	$ 52,490
Trading account security	$ 12,554	$ 14,909	$ 13,096	$ 14,840	$ 13,610	$ 16,893
Restricted equity securities	$ 55,720	$ 55,720	$ 50,282	$ 50,282	$ 39,785	$ 39,785

Item 1 - Table 6B - Amortized Cost and Fair Value of Securities

(In thousands)	2014 Amortized Cost	2014 Fair Value	2013 Amortized Cost	2013 Fair Value	2012 Amortized Cost	2012 Fair Value
U.S. Treasuries,other Government agencies and corporations	$ 873,927	$ 884,668	$ 630,442	$ 623,478	$ 340,789	$ 347,058
Municipal bonds and obligations	182,513	193,199	135,451	137,855	143,080	153,082
Other bonds and obligations	131,004	129,577	111,749	109,601	76,001	75,197
Total Securites	$ 1,187,444	$ 1,207,444	$ 877,642	$ 870,934	$ 559,870	$ 575,337

The schedule includes available-for-sale and held-to-maturity securities as well as the trading security and restricted equity securities.

The following table summarizes year-end 2014 amortized cost, weighted average yields and contractual maturities of debt securities. A significant portion of the mortgage-based securities are planned amortization class bonds. Their expected durations are 3-5 years at current interest rates, but the contractual maturities shown reflect the underlying maturities of the collateral mortgages. Additionally, the mortgage-based securities maturities shown below are based on final maturities and do not include scheduled amortization.

Item 1 - Table 7 - Weighted Average Yield

	One Year or Less		More than One Year to Five Years		More than Five Years to Ten Years		More than Ten Years		Total	
(In millions)	**Amortized Cost**	**Weighted Average Yield**	**Amortized Cost**	**Weighted Average Yield**	**Amortized Cost**	**Weighted Average Yield**	**Amortized Cost**	**Weighted Average Yield**	**Amortized Cost**	**Weighted Average Yield**
Municipal bonds and obligations	$ 1.0	1.50%	$ 3.1	4.3%	$ 12.3	5.4%	$ 115.5	5.6%	$ 132.0	5.5%
Mortgage-backed securities			4.6	4.3	5.4	2.0	814.9	2.5	824.9	2.5
Other bonds and obligations			15.4	4.9	48.5	1.2	49.4	4.6	113.2	3.2
Total	$ 1.0	1.50%	$ 23.1	4.7%	$ 66.2	2.0%	$ 979.8	3.0%	$ 1,070.2	2.9%

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DEPOSIT ACTIVITIES AND OTHER SOURCES OF FUNDS

Deposits are the major source of funds for the Bank s lending and investment activities. Deposit accounts are the primary product and service interaction with the Bank s customers. The Bank serves personal, commercial, non-profit, and municipal deposit customers. Most of the Bank s deposits are generated from the areas surrounding its branch offices. The Bank offers a wide variety of deposit accounts with a range of interest rates and terms. The Bank also periodically offers promotional interest rates and terms for limited periods of time. The Bank s deposit accounts consist of demand deposits (noninterest-bearing checking), NOW (interest-bearing checking) (NOW), regular savings, money market savings and time certificates of deposit. The Bank emphasizes its transaction deposits checking and NOW accounts for personal accounts and checking accounts promoted to businesses. These accounts have the lowest marginal cost to the Bank and are also often a core account for a customer relationship. The Bank offers a courtesy overdraft program to improve customer service, and also provides debit cards and other electronic fee producing payment services to transaction account customers. The Bank is promoting remote deposit capture devices so that commercial accounts can make deposits from their place of business. Additionally, the Bank offers a variety of retirement deposit accounts to personal and business customers. Deposit related fee income is a significant source of fee income to the Bank, including overdraft income and interchange fees related to debit card usage. Deposit service fee income also includes other miscellaneous transaction and convenience services sold to customers through the branch system as part of an overall service relationship. The Bank offers compensating balance arrangements for larger business customers as an alternative to fees charged for checking account services. Berkshire s Business Connection is a personal financial services benefit package designed for the employees of its business customers. In addition to providing service through its branches, Berkshire provides services to deposit customers through its private bankers, MyBankers, commercial/small business relationship managers, and call center representatives.

The Bank s deposits are insured by the FDIC. The Bank has in the past offered additional 100% deposit insurance at no charge to customers through the Massachusetts Deposit Insurance Fund (DIF). The Bank terminated its participation in this fund in 2014 and the related insurance protection is being phased out. During 2014, the Bank expanded its use of brokered deposits as a significant deposit source, both to fund lending and investment activities as well as to provide enhanced insurance protection through reciprocal deposit programs to large commercial accounts.

The following table presents information concerning average balances and weighted average interest rates on the Bank s interest-bearing deposit accounts for the years indicated. Deposit amounts in the following tables include balances associated with discontinued operations.

Item 1 - Table 8 - Average Balance and Weighted Average Rates for Deposits

	2014			2013			2012		
(In millions)	**Average Balance**	**Percent of Total Average Deposits**	**Weighted Average Rate**	**Average Balance**	**Percent of Total Average Deposits**	**Weighted Average Rate**	**Average Balance**	**Percent of Total Average Deposits**	**Weighted Average Rate**
Demand	$ 805.0	18%	0.0	$ 655.7	17%	%	$ 529.0	15%	%
NOW	417.2	9	0.1	355.2	9	0.1	304.1	9	0.2
Money market	1,442.3	33	0.1	1,389.2	35	0.9	1,189.1	34	0.4
Savings	476.4	11	0.1	442.2	11	0.1	390.8	11	0.1
Time	1,265.4	29	0.7	1,085.8	28	1.2	1,056.0	31	1.6
Total	$ 4,406.3	100%	0.4	$ 3,928.1	100%	0.5%	$ 3,469.0	100%	0.6%

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At year-end 2014, the Bank had time deposit accounts in amounts of $100 thousand or more maturing as follows:

Item 1 - Table 9 - Maturity of Deposits > $100,000

Maturity Period **(In thousands)**		**Amount**	**Weighted Average Rate**
Three months or less	$	236,896	0.76%
Over 3 months through 6 months		188,336	0.90
Over 6 months through 12 months		151,605	1.14
Over 12 months		363,339	1.22
Total	$	940,176	1.03%

The Company also uses borrowings from the Federal Home Loan Bank of Boston (FHLBB) as an additional source of funding, particularly for daily cash management and for funding longer duration assets. FHLBB advances also provide more pricing and option alternatives for particular asset/liability needs. The FHLBB functions as a central reserve bank providing credit for member institutions. As an FHLBB member, the Company is required to own capital stock of the FHLBB. FHLBB borrowings are secured by a blanket lien on most of the Bank s mortgage loans and mortgage-related securities, as well as certain other assets. Advances are made under several different credit programs with different lending standards, interest rates, and range of maturities. The Company has a $15 million trust preferred obligation outstanding as well as $75 million in senior subordinated notes. The Company s common stock is listed on the New York Stock Exchange. Subject to certain limitations, the Company can also choose to issue common stock in public stock offerings and can also potentially obtain privately placed common and preferred stock, and subordinated, and senior debt from institutional and private investors.

DERIVATIVE FINANCIAL INSTRUMENTS

The Company uses interest rate swap instruments for its own account to fix the interest rate on some of its borrowings, most of which are designated as cash flow hedges. The Company also offers interest rate swaps to commercial loan customers who wish to fix the interest rates on their loans, and the Company backs these swaps with offsetting swaps with national bank counterparties. These swaps are designated as economic hedges. Additionally the Company s mortgage banking activities also result in derivatives. Interest rate lock commitments are provided on applications for residential mortgages intended for resale and are accounted for as non-hedging derivatives. The Company arranges offsetting forward sales commitments for most of these rate-locks with national bank counterparties, which are designated as economic hedges.

The Company has a policy for managing its derivative financial instruments, and the policy and program activity are overseen by the Risk Management Committee. Derivative financial instruments with counterparties which are not customers are limited to a select number of national financial institutions. Collateral may be required based on financial condition tests. The Company works with third-party firms which assist in marketing derivative transactions, executing transactions, and providing information for bookkeeping and accounting purposes.

WEALTH MANAGEMENT SERVICES

The Company s Wealth Management Group provides consultative investment management and trust relationships to individuals, businesses, and institutions, with an emphasis on personal investment management. The Wealth Management Group has built a track record over more than a decade with its dedicated in-house investment management team. Wealth Management services include investment management, trust administration, and estate planning. The Bank also provides a full line of investment products, financial planning, and brokerage services utilizing Commonwealth Financial Network as the broker/dealer. The Group s principal operations are in Western New England and it is expanding its services in the Company s other regions.

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At year-end 2014, assets under management totaled $1.4 billion, including $0.8 billion in the Bank s traditional wealth/trust platform, $0.3 billion in the Bank s registered investment advisor Renaissance Investment Group targeting high net worth clients, and $0.3 billion in investment accounts offered through BerkshireBanc Investment Services offered through the Commonwealth Financial Network. Total wealth management assets have more than doubled in the past five years through acquisition and talent recruitment and reflecting investment performance and the strength of the AMEB brand and referrals from the banking business teams. The Wealth platforms have been designed to be scalable as the Group further penetrates markets in its footprint. Berkshire Bank employees over 20 Wealth Management professionals many of who are licensed and credentialed with the CFP®, CFA, CTFA and/or a JD. Wealth Management is a significant element of the Berkshire s plan to increase market and wallet share, diversify revenues, and improve profitability. The Company will consider acquisitions of wealth management businesses in support of its growth strategy.

INSURANCE

As an independent insurance agent, the Berkshire Insurance Group represents a carefully selected group of financially sound, reputable insurance companies offering attractive coverage at competitive prices. The Insurance Group offers a full line of personal and commercial property and casualty insurance. It also offers employee benefits insurance and a full line of personal life, health, and financial services insurance products. Berkshire Insurance Group operates a focused cross-sell program of insurance and banking products through all offices and branches of the Bank with some of the Group s offices located within the Bank s branches. The Group s principal operations are in Western New England, and it is expanding its services in the Company s other regions. The Group is focusing on the Bank s distribution channels in order to broaden its retail and commercial customer base. The Company will consider acquisitions of insurance agencies in support of its growth strategy.

PERSONNEL

At year-end 2014, the Company had 1,091 full time equivalent employees, including 1,039 full time employees and 104 part time employees.. Berkshire continues to develop its staffing, including staff for new branches and hires related to team development. The Company has also developed staff with targeted skills to deepen the Company s infrastructure. The Company s employees are not represented by a collective bargaining unit.

SUBSIDIARY ACTIVITIES

The Company wholly-owns two active consolidated subsidiaries: the Bank and Berkshire Insurance Group. The Bank is a Massachusetts-chartered savings bank. Berkshire Insurance Group is incorporated in Massachusetts. Berkshire Bank owns consolidated subsidiaries operated as Massachusetts securities corporations. The Company also owns all of the common stock of a Delaware statutory business trust, Berkshire Hills Capital Trust I. The capital trust is unconsolidated and its only material assets is a $15 million trust preferred security related to the junior subordinated debentures reported in the Company s consolidated financial statements. Additional information about the subsidiaries is contained in Exhibit 21 to this report.

SEGMENT REPORTING

The Company has two reportable operating segments, banking and insurance. Banking includes the activities of the Bank and its subsidiaries, which provide commercial and retail banking services. Insurance includes the activities of Berkshire Insurance Group, which provides commercial and consumer insurance services. The only other consolidated financial activity of the Company is that of the Company s role as parent of the Bank and Berkshire Insurance Group. For more information about the Company s reportable operating segments, see the related note in the consolidated financial statements.

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REGULATION AND SUPERVISION

General

The Company is a Delaware corporation and a bank holding company, within the meaning of the Bank Holding Company Act of 1956, as amended. As such, it is registered with, supervised by and required to comply with the rules and regulations of, the Federal Reserve Board. The Federal Reserve Board requires the Company to file various reports and also conducts examinations of the Company. The Company must receive the approval of the Federal Reserve Board to engage in certain transactions, such as acquisitions of additional banks and savings associations. The Company was previously regulated as a savings and loan holding company. However, in July 2014, the Company became a bank holding company in connection with the Bank s conversion to a Massachusetts trust company charter. As a result, the Company is now regulated as a bank holding company and has further elected to become a financial holding company. As a financial holding company, the Company may engage in activities that are financial in nature or incidental to a financial activity.

The Bank is a Massachusetts-chartered trust company and its deposits are insured up to applicable limits by the FDIC. The Bank was previously a Massachusetts-chartered savings bank and converted to a Massachusetts-chartered trust company in July 2014. The Bank is subject to extensive regulation by the Massachusetts Commissioner of Banks (the Commissioner) as its chartering agency, and by the FDIC, as its deposit insurer. The Bank is required to file reports with the Commissioner and the FDIC concerning its activities and financial condition in addition to obtaining regulatory approvals prior to entering into certain transactions such as mergers with, or acquisitions of, other depository institutions or branches of other institutions. The Commissioner and the FDIC conduct periodic examinations to test the Bank s safety and soundness and compliance with various regulatory requirements. The regulatory structure gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes. Any change in such regulatory requirements and policies, whether by the Commissioner, the Massachusetts legislature, the FDIC, the Federal Reserve Board or Congress, could have a material adverse impact on the Company, the Bank and their operations.

In January 2015, the Commonwealth of Massachusetts enacted An Act Modernizing the Banking Laws and Enhancing the Competitiveness of State-Chartered Banks. Among other things, the legislation attempts to better synchronize Massachusetts laws with federal requirements in the same area, streamlines the process for an institution to engage in activities permissible for federally chartered and out of state institutions, consolidates corporate governance statutes and authorizes the Commissioner to establish a tiered supervisory system for Massachusetts chartered institutions based on factors such as asset size, capital level, balance sheet composition, examination rating, compliance and other factors deemed appropriate. The new provisions of Massachusetts banking law are scheduled to take effect on April 7, 2015.

Federal Legislation

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) was enacted in 2010. The Dodd-Frank Act has significantly changed the bank regulatory structure and is affecting the lending, investment, trading and operating activities of depository institutions and their holding companies. The Dodd-Frank Act eliminated the Office of Thrift Supervision, the Company s previous primary federal regulator, as of July 21, 2011.

Additionally, the Dodd-Frank Act created a new Consumer Financial Protection Bureau as an independent bureau of the Federal Reserve Board. The Consumer Financial Protection Bureau assumed responsibility for the implementation of the federal financial consumer protection and fair lending laws and regulations, a function previously assigned to prudential regulators, and has authority to impose new requirements. The Consumer Financial Protection Bureau has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions, including the authority to prohibit unfair, deceptive or abusive acts and practices. However, institutions of less than $10 billion in assets, such as the Bank, continue to be examined for compliance with consumer protection and fair lending laws and regulations by, and are subject to the primary enforcement authority of their prudential regulator rather than the Consumer Financial Protection Bureau.

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The Consumer Financial Protection Bureau has finalized the rule implementing the Ability to Repay requirements of the Dodd-Frank Act. The regulations generally require creditors to make a reasonable, good faith determination as to a borrower s ability to repay most residential mortgage loans. The final rule establishes a safe harbor for certain Qualified Mortgages, which contain certain features deemed less risky and omit certain other characteristics considered to enhance risk. The Ability to Repay final rules became effective on January 10, 2014.

The Dodd-Frank Act also broadened the base for Federal Deposit Insurance Corporation assessments for deposit insurance, permanently increased the maximum amount of deposit insurance to $250,000 per depositor. The Dodd-Frank Act increased shareholder influence over boards of directors by requiring companies to give shareholders a non-binding vote on executive compensation and so-called golden parachute payments. The legislation directed the Federal Reserve Board to promulgate rules prohibiting excessive compensation paid to company executives, regardless of whether or not the company is publicly traded. The Dodd-Frank Act also provided for originators of certain securitized loans to retain a percentage of the risk for transferred credits, directed the Federal Reserve Board to regulate pricing of certain debit card interchange fees, repealed restrictions on paying interest on checking accounts and contained a number of reforms related to mortgage origination.

Many of the provisions of the Dodd-Frank Act are subject to delayed effective dates and/or require the issuance of implementing regulations. The regulatory process is ongoing and the impact on operations cannot yet be fully assessed. However, there is a significant possibility that the Dodd-Frank Act will, at a minimum, result in increased regulatory burden, compliance costs and interest expense for the Company and the Bank.

Certain regulatory requirements applicable to the Company, including certain changes made by the Dodd-Frank Act, are referred to below or elsewhere herein. The description of statutory provisions and regulations applicable to savings institutions and their holding companies set forth in this Form 10-K does not purport to be a complete description of such statutes and regulations and their effects on the Company and is qualified in its entirety by reference to the actual laws and regulations.

Massachusetts Banking Laws and Supervision

General. As a Massachusetts-chartered depository institution, the Bank is subject to supervision, regulation and examination by the Commissioner and to various Massachusetts statutes and regulations which govern, among other things, investment powers, lending and deposit-taking activities, borrowings, maintenance of surplus and reserve accounts, distribution of earnings and payment of dividends. In addition, the Bank is subject to Massachusetts consumer protection and civil rights laws and regulations. The approval of the Commissioner is required for a Massachusetts-chartered institution to establish or close branches, merge with other financial institutions, issue stock and undertake certain other activities.

Massachusetts law and regulations generally allow Massachusetts institutions to engage in activities permissible for federally chartered banks or banks chartered by another state. The recent legislation establishes a 30 day notice procedure to the Commissioner in order to engage in such activities. The legislation also authorizes Massachusetts institutions to engage in activities determined to be financial in nature or incidental or complementary to such a financial activity, subject to a 30 day notice to the Commissioner.

Dividends. A Massachusetts stock institution, such as the Bank, may declare cash dividends from net profits not more frequently than quarterly and non-cash dividends at any time. No dividends may be declared, credited or paid if the institution s capital stock is impaired. A Massachusetts stock institution with outstanding preferred stock may not, without the prior approval of the Massachusetts Commissioner of Banks, declare dividends to the common stock without also declaring dividends to the preferred stock. The approval of the Commissioner is required if the total of all dividends declared in any calendar year exceeds the total of its net profits for that year combined with its retained net profits of the preceding two years, less any required transfer to surplus or a fund for the retirement of any preferred stock. Net profits for this purpose means the remainder of all earnings from current operations plus actual recoveries on loans and investments and other assets after deducting from the total thereof all current operating expenses, actual losses, accrued dividends on preferred stock, if any, and all federal and state taxes.

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Loans to One Borrower Limitations. Massachusetts banking law grants broad lending authority. However, with certain limited exceptions, total obligations of one borrower to an institution may not exceed 20.0% of the total of the institution s capital, which is defined under Massachusetts law as the sum of the institution s capital stock, surplus account and undivided profits.

Loans to a Bank s Insiders. Massachusetts banking laws prohibit any executive officer, director or trustee from borrowing from or otherwise becoming indebted to, their institution, except for any of the following loans or extensions of credit: (i) loans or extensions of credit, secured or unsecured, to an officer of the institution in an amount not exceeding $100,000; (ii) loans or extensions of credit intended or secured for educational purposes to an officer of the bank in an amount not exceeding $200,000; (iii) loans or extensions of credit secured by a mortgage on residential real estate to be occupied in whole or in part by the officer to whom the loan or extension of credit is made, in an amount not exceeding $750,000; and (iv) loans or extensions of credit to a director or trustee of the bank who is not also an officer of the institution in an amount permissible under the institution s loan to one borrower limit.

The loans described above require approval of the majority of the members of the institution s Board of Directors, excluding any member involved in the loan or extension of credit. No such loan or extension of credit may be granted with an interest rate or other terms that are preferential in comparison to loans granted to persons not affiliated with the institution.

The recent Massachusetts legislation provides that, beginning in April 2015, Massachusetts law incorporates federal regulations governing extensions of credit to insiders and separate Massachusetts requirements are repealed.

Investment Activities. In general, Massachusetts-chartered institutions may invest in preferred and common stock of any corporation organized under the laws of the United States or any state provided such investments do not involve control of any corporation and do not, in the aggregate, exceed 4.0% of the bank s deposits. Massachusetts-chartered institutions may also invest an amount equal to 1.0% of their deposits in stocks of Massachusetts corporations or companies with substantial employment in Massachusetts which have pledged to the Commissioner that such monies will be used for further development within the Commonwealth. However, these powers are constrained by federal law.

Regulatory Enforcement Authority. Any Massachusetts-chartered institution that does not operate in accordance with the regulations, policies and directives of the Commissioner may be sanctioned for non-compliance, including seizure of the property and business of the institution and suspension or revocation of its charter. The Commissioner may, under certain circumstances, suspend or remove officers or directors who have violated the law, conducted the institution s business in a manner which is unsafe, unsound or contrary to the depositors interests or been negligent in the performance of their duties. In addition, upon finding that an institution has engaged in an unfair or deceptive act or practice, the Commissioner may issue an order to cease and desist and impose a fine on the institution concerned. Finally, Massachusetts consumer protection and civil rights statutes applicable to the Bank permit private individual and class action lawsuits and provide for the rescission of consumer transactions, including loans, and the recovery of statutory and punitive damage and attorney s fees in the case of certain violations of those statutes.

Massachusetts has other statutes or regulations that are similar to the federal provisions discussed below.

Federal Regulations

Capital Requirements. Under FDIC regulations, federally insured state-chartered banks that are not members of the Federal Reserve System (state non-member banks), such as the Bank, are required to comply with minimum leverage capital requirements. For an institution determined by the FDIC to not be anticipating or experiencing significant growth and to be in general a strong banking organization, rated composite 1 under the Uniform Financial Institutions Rating System established by the Federal Financial Institutions Examination Council, the minimum capital leverage requirement during 2014 was a ratio of Tier 1 capital to total average assets (as defined) of 3%. For all other institutions, the minimum leverage capital ratio was not less than 4%. Tier 1 capital is the sum of common stockholders equity, noncumulative perpetual preferred stock (including any related surplus) and minority investments in certain subsidiaries, less intangible assets (except for certain servicing rights and credit card relationships) and certain other items.

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The Bank must also comply with the FDIC risk-based capital guidelines. The FDIC guidelines require state non-member banks to maintain certain levels of regulatory capital in relation to regulatory risk-weighted assets. Risk-based capital ratios are determined by allocating assets and specified off-balance sheet items to four risk-weighted categories ranging from 0% to 200%, with higher levels of capital being required for the categories perceived as representing greater risk.

During 2014, state non-member banks must maintain a minimum ratio of total capital to risk-weighted assets of at least 8%, of which at least one-half must be Tier 1 capital. Total capital consists of Tier 1 capital plus Tier 2 or supplementary capital items, which include allowances for loan losses in an amount of up to 1.25% of risk-weighted assets, cumulative preferred stock, a portion of the net unrealized gain on equity securities and other capital instruments.

In July 2013, the FDIC and the other federal bank regulatory agencies issued a final rule to revise their leverage and risk-based capital requirements and the method for calculating risk-weighted assets to make them consistent with agreements that were reached by the Basel Committee on Banking Supervision and certain provisions of the Dodd-Frank Act. Among other things, the rule established a new common equity Tier 1 minimum capital requirement (4.5% of risk-weighted assets); set the leverage ratio at a uniform 4% of total assets; increased the minimum Tier 1 capital to risk-based assets requirement (from 4% to 6% of risk-weighted assets) ; and assigned a higher risk weight (150%) to exposures that are more than 90 days past due or are on nonaccrual status and to certain commercial real estate facilities that finance the acquisition, development or construction of real property. The final rule also required unrealized gains and losses on certain available-for-sale securities holdings to be included for purposes of calculating regulatory capital requirements unless a one-time opt-out is exercised. The rule limits a banking organization s capital distributions and certain discretionary bonus payments to executive officers if the banking organization does not hold a capital conservation buffer consisting of 2.5% of common equity Tier 1 capital to risk-weighted assets in addition to the amount necessary to meet its minimum risk-based capital requirements. The final rule became effective on January 1, 2015. The capital conservation buffer is being phased in from January 1, 2016 to January 1, 2019, when the full capital conservation buffer will be effective.

As a bank holding company, the Company is also subject to regulatory capital requirements, as described in a subsequent section.

Interstate Banking and Branching. Federal law permits an institution, such as the Bank, to acquire another institution by merger in a state other than Massachusetts unless the other state has opted out. Federal law, as amended by the Dodd-Frank Act, authorizes de novo branching into another state to the extent that the target state allows its state chartered banks to establish branches within its borders. The Bank operates branches in New York, Vermont, Connecticut and Tennessee, as well as Massachusetts. At its interstate branches, the Bank may conduct any activity authorized under Massachusetts law that is permissible either for an institution chartered in that state (subject to applicable federal restrictions) or a branch in that state of an out-of-state national bank. The New York State Superintendent of Banks, the Vermont Commissioner of Banking and Insurance, the Connecticut Commissioner of Banking and the Tennessee Commissioner of Financial Institution may exercise certain regulatory authority over the Bank s branches in their respective states.

Prompt Corrective Regulatory Action. Federal law requires, among other things, that federal bank regulatory authorities take prompt corrective action with respect to banks that do not meet minimum capital requirements. For these purposes, the law establishes three categories of capital deficient institutions: undercapitalized, significantly undercapitalized and critically undercapitalized.

During 2014, an institution was deemed to be well capitalized if it had a total risk-based capital ratio of 10% or greater, a Tier 1 risk-based capital ratio of 6% or greater, and a leverage ratio of 5% or greater. An institution was adequately capitalized if it had a total risk-based capital ratio of 8% or greater, a Tier 1 risk-based capital ratio of 4% or greater and generally a leverage ratio of 4% or greater. An institution was undercapitalized if it had a total risk-based capital ratio of less than 8%, a Tier 1 risk-based capital ratio of less than 4%, or generally a leverage ratio of less than 4% (3% or less for institutions with the highest examination rating). An institution was deemed to be significantly undercapitalized if it had a total risk-based capital ratio

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of less than 6%, a Tier 1 risk-based capital ratio of less than 3%, or a leverage ratio of less than 3%. An institution was considered to be critically undercapitalized if it had a ratio of tangible equity (as defined in the regulations) to total assets that is equal to or less than 2%.

Undercapitalized banks must adhere to growth, capital distribution (including dividend) and other limitations and are required to submit a capital restoration plan. No institution may make a capital distribution, including payment as a dividend, if it would be undercapitalized after the payment. A bank s compliance with such plans is required to be guaranteed by its parent holding company in an amount equal to the lesser of 5% of the institution s total assets when deemed undercapitalized or the amount needed to comply with regulatory capital requirements. If an undercapitalized bank fails to submit an acceptable plan, it is treated as if it is significantly undercapitalized. Significantly undercapitalized banks must comply with one or more of a number of additional restrictions, including but not limited to an order by the FDIC to sell sufficient voting stock to become adequately capitalized , requirements to reduce assets and cease receipt of deposits from correspondent banks or dismiss directors or officers, and restrictions on interest rates paid on deposits, compensation of executive officers and capital distributions by the parent holding company. Critically undercapitalized institutions must comply with additional sanctions including, subject to a narrow exception, the appointment of a receiver or conservator within 270 days after it obtains such status.

At December 31, 2014, the Bank met the criteria for being considered well-capitalized as defined in the prompt corrective action regulations.

In connection with the final capital rule described earlier, the federal banking agencies have adopted revisions to the prompt corrective action framework, which became effective on January 1, 2015. Under the revised prompt corrective action requirements, insured depository institutions are required to meet the following in order to qualify as well capitalized: (1) a common equity Tier 1 risk-based capital ratio of at least 6.5% (new standard); (2) a Tier 1 risk-based capital ratio of at least 8% (increased from 6%); (3) a total risk-based capital ratio of at least 10% (unchanged) and (4) a Tier 1 leverage ratio of 5% or greater (unchanged).

Transactions with Affiliates. Transactions between depository institutions and their affiliates are governed by Sections 23A and 23B of the Federal Reserve Act. In a holding company context, at a minimum, the parent holding company of an institution and any companies which are controlled by such parent holding company are affiliates of the institution. Generally, Section 23A limits the extent to which the institution or its subsidiaries may engage in covered transactions, such as loans, with any one affiliate to 10% of such institution s capital stock and surplus, and contains an aggregate limit on all such transactions with all affiliates to 20% of capital stock and surplus. Loans to affiliates and certain other specified transactions must comply with specified collateralization requirements. Section 23B requires that transactions with affiliates be on terms that are no less favorable to the institution or its subsidiary as similar transactions with non-affiliates.

Further, federal law restricts an institution with respect to loans to directors, executive officers, and principal stockholders (insiders). Loans to insiders and their related interests may not exceed, together with all other outstanding loans to such persons and affiliated entities, the institution s total capital and surplus. Loans to insiders above specified amounts must receive the prior approval of the Board of Directors. Further, loans to insiders must be made on terms substantially the same as offered in comparable transactions to other persons, except that such insiders may receive preferential loans made under a benefit or compensation program that is widely available to the institution s employees and does not give preference to the insider over the employees. Federal law places additional limitations on loans to executive officers.

Enforcement. The FDIC has extensive enforcement authority over insured institutions, including the Bank. This enforcement authority includes, among other things, the ability to assess civil money penalties, issue cease and desist orders and remove directors and officers. In general, these enforcement actions may be initiated in response to violations of laws and regulations and unsafe or unsound practices. The FDIC has authority under federal law to appoint a conservator or receiver for an insured institution under certain circumstances.

***Insurance of Deposit Accounts*.** The Bank s deposit accounts are insured by the deposit insurance fund of the FDIC up to applicable limits. The FDIC insures deposits up to the standard maximum deposit insurance amount (SMDIA) of $250,000. The deposit insurance limit was increased in response to the Dodd-Frank Act, which, among other provisions, made permanent the increase in the SMDIA from $100,000 to $250,000. The Dodd-Frank Act provided

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for temporary unlimited coverage of certain noninterest bearing transaction accounts, but such unlimited coverage expired on December 31, 2012.

The FDIC has adopted a risk-based insurance assessment system. The FDIC assigns an institution to one of four risk categories based on the institution s financial condition and supervisory ratings. An institution s assessment rate depends on the capital category and supervisory category to which it is assigned and certain adjustments set forth in FDIC regulations. Institutions deemed to present higher risk to the insurance fund pay higher assessments. The overall assessment range, including prospective adjustments, is 2.5 to 45 basis points. Assessment rates are scheduled to decline as the FDIC fund reserve ratio improves. As required by the Dodd-Frank Act, FDIC assessments are now based on each institution s total assets less Tier 1 capital, rather than deposits, as was previously the case.

FDIC insured institutions are also required to pay assessments to the FDIC to fund interest payments on bonds issued by the Financing Corporation, an agency of the federal government established to recapitalize a predecessor deposit insurance fund. These assessments will continue until the Financing Corporation bonds mature in 2017 through 2019. The assessment rate is adjusted quarterly to reflect changes in the assessment base of the fund. For the quarter ended December 31, 2014, the Financing Corporation assessment amounted to 0.62 basis points of total assets less Tier 1 capital.

Insurance of deposits may be terminated by the FDIC upon a finding that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by a regulator. Management does not know of any practice, condition or violation that might lead to termination of FDIC deposit insurance.

The Dodd-Frank Act increased the minimum target federal deposit insurance fund ratio from 1.15% of estimated insured deposits to 1.35% of estimated insured deposits. The FDIC must seek to achieve the 1.35% ratio by September 30, 2020. Insured institutions with assets of $10 billion or more are supposed to fund the increase. The Dodd-Frank Act eliminated the 1.50% maximum fund ratio, instead leaving it to the discretion of the FDIC. The FDIC has exercised that discretion by establishing a long range fund ratio of 2.00%.

The FDIC has authority to increase insurance assessments. A significant increase in insurance premiums would likely have an adverse effect on the operating expenses and results of operations of the Bank. Management cannot predict what insurance assessment rates will be in the future.

Federal Home Loan Bank System. The Bank is a member of the Federal Home Loan Bank system, which consists of 12 regional Federal Home Loan Banks that provide a central credit facility primarily for member institutions. The Bank, as a member, is required to acquire and hold shares of capital stock in the FHLBB.

The Federal Home Loan Banks are required to provide funds for certain purposes including contributing funds for affordable housing programs. These requirements, and general financial results, could reduce the amount of dividends that the Federal Home Loan Banks pay to their members and result in the Federal Home Loan Banks imposing a higher rate of interest on advances to their members. Historically, the FHLBB has paid dividends to member banks based on money market rates. These dividends were suspended for a time due to losses reported in 2008 and they remain at nominal levels.

Enforcement

The Federal Deposit Insurance Corporation has primary federal enforcement responsibility over state chartered banks. The Federal Deposit Insurance Corporation has authority to bring enforcement actions against such institutions and their institution-related parties, including officers, directors, certain shareholders, and attorneys, appraisers and accountants who knowingly or recklessly participate in wrongful action likely to have an adverse effect on an insured institution. Formal enforcement action may range from the issuance of a capital directive or cease and desist order to removal of officers and/or directors of the institution or receivership or conservatorship in certain circumstances. Potential civil money penalties cover a wide range of violations and actions, and range up to $25,000 per day, unless a finding of reckless disregard is made, in which case penalties may be as high as $1.0 million per day.

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Holding Company Regulation

General. In July 2014, the Company s changed status from that of a savings and loan holding company to that of a bank holding company through the Bank s conversion from a Massachusetts-chartered savings bank to a Massachusetts-chartered trust company. By doing so, the previously applicable requirement that the Bank comply with the Qualified Thrift Lender Test, which required that a specified percentage of assets be in primarily residential mortgage-related investments, was eliminated.

The Company is now subject to examination, regulation, and periodic reporting as a bank holding company under the Bank Holding Company Act of 1956, as amended. The Company is required to obtain the prior approval of the Federal Reserve Board to acquire all, or substantially all, of the assets of any other bank or bank holding company. Prior Federal Reserve Board approval would be required for the Company to acquire direct or indirect ownership or control of any voting securities of any bank or bank holding company if, after such acquisition, it would, directly or indirectly, own or control more than 5% of any class of voting shares of the bank or bank holding company. In addition to the approval of the Federal Reserve Board, prior approval may also be necessary from other agencies having supervisory jurisdiction over the bank to be acquired before any bank acquisition can be completed.

A bank holding company is generally prohibited from engaging in non banking activities, or acquiring direct or indirect control of more than 5% of the voting securities of any company engaged in non-banking activities. One of the principal exceptions to this prohibition is for activities found by the Federal Reserve Board to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. Some of the principal activities that the Federal Reserve Board has determined by regulation to be so closely related to banking are: (i) making or servicing loans; (ii) performing certain data processing services; (iii) providing discount brokerage services; (iv) acting as fiduciary, investment or financial advisor; (v) leasing personal or real property; (vi) making investments in corporations or projects designed primarily to promote community welfare; and (vii) acquiring a savings and loan association whose direct and indirect activities are limited to those permitted for bank holding companies.

The Gramm-Leach-Bliley Act of 1999 authorized a bank holding company that meets specified conditions, including being well capitalized and well managed, to opt to become a financial holding company and thereby engage in a broader array of financial activities than previously permitted. Such activities can include insurance underwriting and investment banking. The Company has elected to become a financial holding company.

The Company is subject to the Federal Reserve Board s capital adequacy guidelines for bank holding companies (on a consolidated basis). Such guidelines have historically been similar to, though less stringent than, those of the Federal Deposit Insurance Corporation for the depository institution subsidiaries. The Dodd-Frank Act, however, required the Federal Reserve Board to promulgate consolidated capital requirements for depository institution holding companies that are no less stringent, both quantitatively and in terms of components of capital, than those applicable to institutions themselves. Instruments such as cumulative preferred stock and trust preferred securities are no longer includable as Tier 1 capital, as was primarily the case with bank holding companies, subject to certain grandfathering rules. The previously discussed final rule regarding regulatory capital requirements implements the Dodd-Frank Act as to bank holding company capital standards. Consolidated regulatory capital requirements identical to those applicable to the subsidiary institutions apply to bank holding companies with greater than $500 million of assets, effective January 1, 2015. As is the case with institutions themselves, the capital conservation buffer will be phased in between 2016 and 2019.

A bank holding company is generally required to give the Federal Reserve Board prior written notice of any purchase or redemption of then outstanding equity securities if the gross consideration for the purchase or redemption, when combined with the net consideration paid for all such purchases or redemptions during the preceding 12 months, is equal to 10% or more of the company s consolidated net worth. The Federal Reserve Board may disapprove such a purchase or redemption if it determines that the proposal would constitute an unsafe and unsound practice, or would violate any law, regulation, Federal Reserve Board order or directive, or any condition imposed by, or written agreement with, the Federal Reserve Board. There is an exception to this approval requirement for well-capitalized bank holding companies that meet certain other conditions.

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The Federal Reserve Board s policies also require that a bank holding company serve as a source of financial strength to its subsidiary banks by standing ready to use available resources to provide adequate capital funds to those banks during periods of financial stress or adversity and by maintaining the financial flexibility and capital-raising capacity to obtain additional resources for assisting its subsidiary banks where necessary. The Dodd-Frank Act codified the source of strength doctrine.

The Federal Reserve Board has issued a policy statement regarding the payment of dividends and the repurchase of shares of common stock by bank holding companies. In general, the policy provides that dividends should be paid only out of current earnings and only if the prospective rate of earnings retention by the holding company appears consistent with the organization s capital needs, asset quality and overall financial condition. Regulatory guidance provides for prior regulatory consultation with respect to dividends in certain circumstances such as where the company s net income for the past four quarters, net of dividends previously paid over that period, is insufficient to fully fund the dividend or the company s overall rate of earnings retention is inconsistent with the company s capital needs and overall financial condition. The ability of a holding company to pay dividends may be restricted if a subsidiary bank becomes undercapitalized. The guidance also provides for regulatory consultation prior to a holding company redeeming or repurchasing regulatory capital instruments when the holding company is experiencing financial weaknesses or redeeming or repurchasing common stock or perpetual preferred stock that would result in a net reduction as of the end of a quarter in the amount of such equity instruments outstanding compared with the beginning of the quarter in which the redemption or repurchase occurred. These regulatory policies could affect the ability of the Company to pay dividends, repurchase shares of its stock or otherwise engage in capital distributions.

The status of the Company as a registered bank holding company under the Bank Holding Company Act does not exempt it from certain federal and state laws and regulations applicable to corporations generally, including, without limitation, certain provisions of the federal securities laws.

Acquisition of the Company. Under the Change in Bank Control Act, no person may acquire control of a bank holding company such as the Company unless the Federal Reserve Board has been given 60 days prior written notice and has not issued a notice disapproving the proposed acquisition, taking into consideration certain factors, including the financial and managerial resources of the acquirer and the competitive effects of the acquisition. Control, as defined under federal law, means ownership, control of or holding irrevocable proxies representing more than 25% of any class of voting stock, control in any manner of the election of a majority of the company s directors, or a determination by the regulator that the acquiror has the power to direct, or directly or indirectly to exercise a controlling influence over, the management or policies of the institution. Acquisition of more than 10% of any class of a bank holding company s voting stock constitutes a rebuttable presumption of control under the regulations under certain circumstances including where, is the case with the Company, the issuer has registered securities under Section 12 of the Securities Exchange Act of 1934.

Massachusetts Holding Company Regulation. In addition to the federal holding company regulations, a bank holding company organized or doing business in Massachusetts must comply with regulations under Massachusetts law. Approval of the Massachusetts regulatory authorities would be required for the Company to acquire 25% or more of the voting stock of another depository institution. Similarly, prior regulatory approval would be necessary for any person or company to acquire 25% or more of the voting stock of the Company. The term bank holding company, for the purpose of Massachusetts law, is defined generally to include any company which, directly or indirectly, owns, controls or holds with power to vote more than 25% of the voting stock of each of two or more banking institutions, including commercial banks and state co-operative banks, savings banks and savings and loan association and national banks, federal savings banks and federal savings and loan associations. In general, a holding company controlling, directly or indirectly, only one banking institution will not be deemed to be a bank holding company for the purposes of Massachusetts law. Under Massachusetts law, the prior approval of the Board of Bank Incorporation is required before any of the following: any company becoming a bank holding company; any bank holding company acquiring direct or indirect ownership or control of more than 5% of the voting stock of, or all or substantially all of the assets of, a banking institution; or any bank holding company merging with another bank holding company. Although the Company is not a bank holding company for purposes of Massachusetts law, any future acquisition of ownership, control, or the power to vote 25% or more of the voting stock of another banking institution or bank holding company would cause it to become such.

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Legislation. The U.S. Congress, state lawmaking bodies and federal and state regulatory agencies continue to consider a number of wide-ranging and comprehensive proposals for altering the structure, regulation and competitive relationships of the nation s financial institutions. Any such legislation may impact the business of the Company and the Bank.

Other Regulations

Consumer Protection Laws. The Bank is subject to federal and state consumer protection statutes and regulations applicable to depository institutions including, but not limited to, the following:

- Truth-In-Lending Act, governing disclosures of credit terms to consumer borrowers;
- Home Mortgage Disclosure Act, requiring financial institutions to provide certain information about home mortgage and refinance loans;
- Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit;
- Fair Credit Reporting Act, governing the provision of consumer information to credit reporting agencies and the use of consumer information;
- Fair Debt Collection Act, governing the manner in which consumer debts may be collected by collection agencies; and
- Electronic Funds Transfer Act, governing automatic deposits to and withdrawals from deposit accounts and customers rights and liabilities arising from the use of automated teller machines and other electronic banking services.

The Bank also is subject to federal laws protecting the confidentiality of consumer financial records, and limiting the ability of the institution to share non-public personal information with third parties.

The Community Reinvestment Act (CRA) establishes a requirement for federal banking agencies that, in connection with examinations of depository institutions within their jurisdiction, the agencies evaluate the record of the depository institutions in meeting the credit needs of their local communities, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of those institutions. These factors are also considered in evaluating mergers, acquisitions and applications to open a branch or new facility. Under the CRA, institutions are assigned a rating of outstanding, satisfactory, needs to improve, or substantial non-compliance. A less than satisfactory rating would result in suspension of any growth of the Bank through acquisitions or opening de novo branches until the rating is improved. As of the most recent CRA examination by the FDIC, the Bank s CRA rating was satisfactory.

Anti-Money Laundering Laws. The Bank is subject to extensive anti-money laundering provisions and requirements, which require the institution to have in place a comprehensive customer identification program and an anti-money laundering program and procedures. These laws and regulations also prohibit depository institutions from engaging in business with foreign shell banks; require depository institutions to have due diligence procedures and, in some cases, enhanced due diligence procedures for foreign correspondent and private banking accounts; and improve information sharing between depository institutions and the U.S. government. The Bank has established policies and procedures intended to comply with these provisions.

Taxation

The Company reports its income on a calendar year basis using the accrual method of accounting. This discussion of tax matters is only a summary and is not a comprehensive description of the tax rules applicable to the Company and its subsidiaries. Further discussion of income taxation is contained in the income taxes note to the consolidated financial statements. The federal income tax laws apply to the Company in the same manner as to other corporations with some exceptions. The Company may exclude from income 100% of dividends received from the Bank and from Berkshire Insurance Group as members of the same affiliated group of corporations. The Company reports income on a calendar year basis to the Commonwealth of Massachusetts. Massachusetts tax law generally permits special tax treatment for a qualifying limited purpose securities corporation. The Bank s securities corporations all qualify for this treatment, and are taxed at a 1.3% rate on their gross income.

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ITEM 1A. RISK FACTORS

The risks set forth below, in addition to the other risks described in this Annual Report on Form 10-K, may adversely affect our business, financial condition and operating results. In addition to the risks set forth below and the other risks described in this annual report, there may also be additional risks and uncertainties that are not currently known to us or that we currently deem to be immaterial that could materially and adversely affect our business, financial condition or operating results. As a result, past financial performance may not be a reliable indicator of future performance, and historical trends should not be used to anticipate results or trends in future periods. Further, to the extent that any of the information contained in this Annual Report on Form 10-K constitutes forward-looking statements, the risk factors set forth below also are cautionary statements identifying important factors that could cause our actual results to differ materially from those expressed in any forward-looking statements made by or on behalf of us.

Overall Business Risks

The Company s Business May Be Adversely Affected by Conditions in the Financial Markets and Economic Conditions Generally and Locally. National and international markets continue to recover from the aftermath of the severe recession. Numerous fiscal and monetary policy measures address the evolving conditions related to the uneven conditions of economic and financial recovery. A slowing or failure of economic recovery in the U.S. and in the Company s markets could adversely effect these challenging economic and market conditions, with potential risks and negative impacts on the us and others in the financial services industry. A deterioration of business and economic conditions, particularly in our local markets, could adversely affect the credit quality of the Company s loans, results of operations and financial condition.

Lending

Deterioration in the Housing Sector, Commercial Real Estate, and Related Markets May Adversely Affect Business and Financial Results.

Real estate lending is a major business activity for the Company. Real estate market conditions affect the value and marketability of this real estate collateral, and they also affect the cash flows, liquidity, and net worth of many borrowers whose operations and finances depend on real estate market conditions. Adverse conditions in our market areas could reduce our growth rate, affect the ability of our customers to repay their loans and generally affect our financial condition and results of operations.

The Company s Emphasis on Commercial Lending May Expose the Company to Increased Lending Risks, Which Could Hurt Profits.

Berkshire plans to continue to emphasize the origination of commercial loans, which generally exposes us to a greater risk of nonpayment and loss because repayment of such loans often depends on the successful operations and income stream of the borrowers. Commercial loans are historically more sensitive to economic downturns. Such sensitivity includes potentially higher default rates and possible reduction of collateral values. Commercial lending involves larger loan sizes and larger relationship exposures, which can have a greater impact on profits in the event of adverse loan performance. The majority of the Company s commercial loans is secured by real estate and subject to the previously discussed real estate risk factors. Commercial lending sometimes involves construction or other development financing, which is dependent on the future success of new operations. The Company s commercial lending activities have extended across wider parts of its New England and New York markets into areas where the Company has less business experience. The Company s commercial lending includes asset based lending, which depends on the Company s processes for monitoring and being able to liquidate collateral on which these loans rely. The Company includes small business lending in its commercial loan disclosures. The Company has expanded this lending function and re-engineered it small business loan origination process in order to accelerate growth. Additionally, the Company has expanded its wholesale purchases and sales of loans and loan participations with other banks doing business in its markets, including participations in national credits. Commercial loans may increase as a percentage of total loans, and commercial lending may continue to expose the company to increased risks.

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The Allowance for Loan Losses May Prove to be Insufficient to Absorb Losses in The Loan Portfolio.

Like all financial institutions, the Company maintains an allowance for loan losses which is our estimate of the probable losses that are inherent in the loan portfolio as of the financial statement date. However, our allowance for loan losses may not be sufficient to cover actual loan losses, and future provisions for loan losses could materially and adversely affect our operating results. The accounting measurements related to impairment and the loan loss allowance require significant estimates which are subject to uncertainty and changes relating to new information and changing circumstances. Additionally, the allowance can only reflect those losses which are reasonably estimable, and there are constraints in our ability to estimate losses in this period of unusual economic and financial stress. This is particularly relevant for our estimates of losses for pools of loans. Accordingly, at any time, there may be probable losses inherent in the portfolio but which we are not reasonably able to estimate until additional information emerges which can form the basis for a reasonable estimate.

State and federal regulators, as an integral part of their examination process, periodically review our allowance for loan losses and may require us to increase our allowance for loan losses by recognizing additional provisions for loan losses charged to expense, or to decrease our allowance for loan losses by recognizing loan charge-offs, net of recoveries. Any such additional provisions for loan losses or charge-offs, as required by these regulatory agencies, could have a material adverse effect on our financial condition and results of operations.

Estimates Related to Accounting for Acquired Loans May Differ From Actual Results.

Under generally accepted principles for business combinations, there is no loan loss allowance recorded for acquired loans, which are recorded at net fair value on the acquisition date. This net fair value generally includes embedded loss estimates for acquired loans with deteriorated credit quality. These estimates are based on projections of expected cash flows for these problem loans, which in many cases rely on estimates deriving from the liquidation of collateral. If the projections are inadequate, the fair value estimates may exceed the actual collectability of the balances, and this may result in the related loans being considered impaired, which would result in a reduction in interest income. If fair value estimates differ from actual collectability, then tangible book value of the Company will have been recorded incorrectly at the time of the acquisition, and subsequent earnings will differ from original estimates. Measures of tangible book value and earnings impacts of business combinations are frequently used in evaluating the merits and value of business combinations. The Company has recorded significant income resulting from collections of acquired impaired loans which exceeded the fair value estimates originally established. Additionally, accounting for acquired loans involves ongoing assessments of the timing and amount of expected loan collections. Numerous assumptions and estimates are integral to purchased loan accounting, and actual results could be different from prior estimates.

New regulations could restrict the Company s ability to originate and sell mortgage loans.

The CFPB has issued a rule designed to clarify for lenders how they can avoid monetary damages under the Dodd-Frank Act, which would hold lenders accountable for ensuring a borrower s ability to repay a mortgage. Loans that meet this qualified mortgage definition will be presumed to have complied with the new ability-to-repay standard. Under the CFPB s rule, a qualified mortgage loan must not contain certain specified features, including:

- excessive upfront points and fees (those exceeding 3% of the total loan amount, less bona fide discount points for prime loans);

- interest-only payments;
- negative-amortization; and
- terms longer than 30 years.

Also, to qualify as a qualified mortgage, a borrower s total debt-to-income ratio may not exceed 43%. Lenders must also verify and document the income and financial resources relied upon to qualify the borrower for the loan and underwrite the loan based on a fully amortizing payment schedule and maximum interest rate during the first five years, taking into account all applicable taxes, insurance and assessments. The CFPB s rule on qualified mortgages could limit our ability or desire to make certain types of loans or loans to certain borrowers, or could make it more expensive/and or time consuming to make these loans, which could limit our growth or profitability.

Operating

Expansion, Growth, and Acquisitions Could Negatively Impact Earnings If Not Successful.

The Company plans to achieve significant growth organically, by geographic expansion, through business line expansion, and through acquisitions. We have recently expanded into new geographic markets and anticipate that we will continue to expand into additional geographic markets as we grow as a regional bank. The success of this expansion depends on our ability to continue to maintain and develop an infrastructure appropriate to support and integrate such growth. Also, our success depends on the acceptance by customers of us and our services in these new markets and, in the case of expansion through acquisitions, our success depends on many factors, including the long-term recruitment and retention of key personnel and acquired customer relationships. The profitability of our expansion strategy also depends on whether the income we generate in the new markets will offset the increased expenses of operating a larger entity with increased personnel, more branch locations and additional product offerings. In 2013, revenues decreased in the second half of the year due to changes related to loans and operations acquired in the prior two years. The Company has implemented certain expense restructuring activities, related in part to the rationalization of acquired operations. Such activities expose us to risk that revenues may be affected or that changes in operations may result in inefficiencies or control deficiencies that could contribute to financial or market share losses.

Berkshire continues to identify and evaluate opportunities to expand through acquisition of banks, insurance agencies, and wealth management firms. Some of these opportunities could result in further geographic expansion. Merger and acquisition activities are subject to a number of risks, including lending, operating, and integration risks. Growth through acquisition requires careful due diligence, evaluation of risks, and projections of future operations and financial conditions. Actual results may differ from our expectations and could have a material adverse effect on our financial condition and results of operations. Growth through acquisition also often involves the negotiation and execution of extensive merger agreements. Such agreements may give rise to litigation, constrain us in certain ways, or expose us to other risks beyond our normal operating risks.

The Company completed the purchase and integration of 20 branches in Central New York in 2014. The amount of deposits acquired was significantly below the amount at the time of the purchase agreement. Runoff abated after the purchase was completed, but it there is future attrition of deposit balances or difficulties in retaining acquired customer relationships, the expected benefits of this acquisition may not be realized.The Company s recruitment of new executive and commercial lending management has in several cases brought in new management who previously worked at larger institutions. These individuals have often served larger customers than the Company has historically serviced, and they have had the benefit of larger capital and administrative resources than are present in the Company s current structure. The success of this recruitment may depend on the successful integration of these individuals into the Company and may expose the Company to lending and operating losses related to large new customers in newer markets. The Company s commercial banking strategy has particularly focused on taking market share from larger national institutions and in many cases these new accounts are larger than the Company s historic accounts. Additionally, the Company s ability to service these accounts may in some cases involve arranging loan participations and syndications. These activities can expose the Company to additional lending, administrative, and liquidity risks. The Company also actively recruits in other business lines, including private banking and wealth management. This activity can give the Company additional access to large customers in its markets in order to expand our business. Such recruitment can affect the retention of new and old business, and can also be affected by competitive reactions and other relationship risks in retaining accounts.

Operations acquired in business combinations have frequently been subject to bank regulations prior to the merger date. Related regulatory examinations may result in the identification of certain operating matters requiring remediation, undisclosed deficiencies related to regulatory compliance, deficiencies that arise as a result of integration of acquired operations and operating activities conducted by those operations subsequent to the merger date, or impacts on existing business operations which are being integrated with the acquired operations. Any identified deficiencies related to regulatory compliance may result in changes that affect operating revenues and costs, including the scope or scale of business activities and/or potential future expansion initiatives.

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Competition From Financial Institutions and Other Financial Service Providers May Adversely Affect the Company s Growth and Profitability.

Competition in the banking and financial services industry is intense. We compete with commercial banks, savings institutions, mortgage brokerage firms, credit unions, finance companies, mutual funds, insurance companies, and brokerage and investment banking firms operating locally and elsewhere. Larger banking institutions have substantially greater resources and lending limits and may offer certain services that we do not. Local competitors with excess capital may accept lower returns on new business. There is increased competition by out-of-market competitors through the internet. Federal regulations and financial support programs may in some cases favor competitors or place us at an economic disadvantage. Our profitability depends on our continued ability to successfully compete and grow profitably in our market areas. Competition among financial institutions has included competition for banking teams and talent which creates risk that revenues, earnings, or market share could be adversely affected by the loss of talent.

Market Changes May Adversely Affect Demand For The Company s Services and Impact Revenue, Costs, and Earnings.

Channels for servicing the Company s customers are evolving rapidly, with less reliance on traditional branch facilities, more use of online and mobile banking, and demand for universal bankers and other relationship managers who can service multiples product lines. The Company has an ongoing process for evaluating the profitability of its branch system and other office and operational facilities. The identification of unprofitable operations and facilities can lead to restructuring charges and introduce the risk of disruptions to revenues and customer relationships. The Company competes with larger providers who are rapidly evolving their service channels and escalating the costs of evolving the service process.

The Company is Subject to Security and Operational Risks Relating to Our Use of Technology that Could Damage Our Reputation and Our Business.

Security breaches of confidential information in our internet banking activities could expose us to possible liability and damage our reputation. Any compromise of our data security could also deter customers from using our internet banking services. We rely on industry standard internet security systems to provide the security and authentication necessary to effect secure transmission of data. These precautions may not protect our security systems from compromises or breaches and could result in damage to our reputation and our business. We utilize third party core banking software and for some systems we have outsourced our data processing to a third party. If our third party providers encounter difficulties or if we have difficulty in communicating and/or transmitting with such third parties, it could significantly affect our ability to adequately process and account for customer transactions, which could significantly affect our business operations. We utilize file encryption in designated internal systems and networks and are subject to certain state and federal regulations regarding how we manage data security. Our enterprise governance risk and compliance function includes a framework of controls, policies and technologies to monitor and protect information from cyberattacks, mishandling, and loss, together with safeguards related to the confidentiality, integrity and availability of information. Natural disasters and disaster recovery risks could affect our operating systems, which could affect our reputation. Our business continuity program addresses crisis management, business impact, and data and systems recovery. Potential problems with the management of technology security and operational risks may affect regulatory compliance, which could affect operating costs and expansion plans.

The Company faces cybersecurity risks, including denial of service attacks, hacking and identity theft that could result in the disclosure of confidential information, which could adversely affect the Company s business or reputation and create significant legal and financial exposure.

The Company s computer systems and network infrastructure are subject to security risks and could be susceptible to cyber-attacks, such as denial of service attacks, hacking, terrorist activities or identity theft. Financial services institutions and companies engaged in data processing have reported breaches in the security of their websites or other systems, some of which have involved sophisticated and targeted attacks intended to obtain unauthorized access to confidential information, destroy data, disable or degrade service, or sabotage systems, often through the introduction of computer viruses or malware, cyber-attacks and other means. Denial of service attacks have been launched against a number of large financial services institutions. As a growing regional bank, the Company anticipates that it may be subject to similar attacks in the future. Hacking and identity theft risks could cause serious reputational harm to the Company. Cyber threats are rapidly evolving and the Company may not be able to anticipate or prevent all such attacks. The Company may incur increasing costs in an effort to minimize these risks and could be held liable for any security breach or loss. Despite efforts to ensure the integrity of its systems, the Company will not be able to anticipate all security breaches of these types, and the Company may not be able to implement effective preventive measures against such security breaches. The techniques used by cyber criminals change frequently and can originate from a wide variety of sources, including outside groups such as external service providers, organized crime affiliates, terrorist organizations or hostile foreign governments. Those parties may also attempt to fraudulently induce employees, customers or other users of the Company s systems to disclose sensitive information in order to gain access to its data or that of its clients. These risks may increase in the future as the Company continues to increase its mobile-payment and other internet-based product offerings and expands its internal usage of web-based products and applications. A successful penetration or circumvention of system security could cause serious negative consequences to the Company, including significant disruption of operations, misappropriation of confidential information of the Company or that of its customers, or damage to computers or systems of the Company or those of its customers and counterparties. A security breach could result in violations of applicable privacy and other laws, financial loss to the Company or to its customers, loss of confidence in the Company s security measures, significant litigation exposure, and harm to the Company s reputation, all of which could have a material adverse effect on the Company.

Financial and Operating Counterparties Expose the Company to Risks.

We have increased our use of derivative financial instruments, primarily interest rate swaps, which exposes us to financial and contractual risks with counterparty banks. We maintain correspondent bank relationships, manage certain loan participations, engage in securities transactions, and engage in other activities with financial counterparties that are customary to our industry. We also utilize services from major vendors of technology, telecommunications, and other essential operating services. There is financial and operating risk in these relationships, which we seek to manage through internal controls and procedures, but there are no assurances that we will not experience loss or interruption of our business as a result of unforeseen events with these providers. Our expanded mortgage lending and mortgage banking operations have also exposed us to more counterparty transactions including the use of third parties to participate in the management of interest rate risk and mortgage sales and hedging. Financial and operational risks are inherent in these counterparty relationships.

The Company May Not Be Able to Attract and Retain Skilled People.

Our success depends, in large part, on our ability to attract new employees, retain and motivate our existing employees, and continue to compensate employees competitively. Competition for the best people in our industry can be intense and we may not be able to hire or retain appropriately qualified individuals. As a result of recent revenue declines and expense restructuring activities, the Company could experience changes in the retention of existing employees.

Controls and Procedures May Fail or Be Circumvented.

Management regularly reviews and updates the Company s internal controls, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of the controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on the Company s business, results of operations and financial condition.

Retail Lending Changes Expose the Company to Operating Risks.

Volatile conditions in mortgage markets have been reflected in changes in the Company s mortgage operations. The Company has expanded its recruitment and re-engineered its mortgage banking activities (including a systems conversion) and changed its management of this function. Similarly, consumer indirect auto lending has varied between high growth and declines in a short amount of time.

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These changes expose us to operating risks and expose the Bank to the risk of loan losses, losses related to interest rate risk management, compliance, litigation, and other risks common in consumer lending operations.

Derivatives and Counterparty Risks Have Increased.

Berkshire could experience losses if there are failures in the controls or accounting for these activities or if there are performance failures by any of these new counterparties. The risk of loss is increased when interest rates change suddenly and if the intended hedging objectives are not achieved as a result of market or counterparty behaviors. The sudden change in interest rates in 2013 contributed to lower mortgage banking profitability in 2013.

Following the completion of the New York branch acquisition shortly after year-end 2013, all outstanding interest rate swaps related to Federal Home Loan Bank loans were terminated and new borrowings and interest rate swaps were entered into based on an analysis of the current interest rate profile and objectives. These terminations in hedge management were due to changed circumstances and the Company s ability to utilize its hedge accounting methods depends on its ability to forecast related economic and financial factors which could limit its ability to utilize these methods in the event of future unforeseen events.

Ongoing System Conversions Expose the Company to Operating and Financial Risks.

Following its core systems conversion in 2012, the Company has further converted companion accounting and banking systems. These conversions also create increasing risks of maintaining systems interfaces. The changes expose the Bank to new risks with new systems and new vendors. The Bank has worked closely with third parties to manage the related operating and financial risks. Potential problems with new systems could involve regulatory compliance risk, potentially resulting in higher operating costs or limitations on operating activities. The new systems involve new costs with the new vendor, which could exceed expectations and impact profitability and future vendor relations.

Liquidity

Our Wholesale Funding Sources May Prove Insufficient to Replace Deposits at Maturity and Support Our Operations and Future Growth.

We must maintain sufficient funds to respond to the needs of depositors and borrowers. As a part of our liquidity management, we use a number of funding sources in addition to adjusted deposit growth and repayments and maturities of loans and investments. These sources include Federal Home Loan Bank advances, proceeds from the sale of loans, and liquidity resources at the holding company. Most recently, the Company has expanded its use of brokered deposits both to support ongoing growth and to provide enhanced deposit insurance to support large dollar commercial relationships. Our financial flexibility will be severely constrained if we are unable to maintain our access to funding or if adequate financing is not available to accommodate future growth at acceptable costs. Finally, if we are required to rely more heavily on more expensive funding sources to support future growth, our revenues may not increase proportionately to cover our costs. In this case, our operating margins and profitability would be adversely affected. Turbulence in the capital and credit markets may adversely affect our liquidity and financial condition and the willingness of certain counterparties and customers to do business with us. The Company s long term plan anticipates asset growth at a faster rate than deposit growth, which has resulted in increased reliance on wholesale or nontraditional funding sources. If deposits in new markets do not remain at planned levels, this could increase the possible reliance on wholesale or nontraditional funding sources.

The Company Has Terminated Its Participation in the Massachusetts Depositors Insurance Fund Size Thresholds, Which May Result In Changes to the Company and the Bank s Operations.

Due to ongoing growth, the Company exceeded certain Massachusetts Depositors Insurance Fund size thresholds. Berkshire Bank chose to withdraw from participation in the Depositors Insurance Fund. The Bank was required, under Massachusetts law, to convert from a Massachusetts savings bank to a Massachusetts trust company and, under federal law, the Company was required to convert from a savings and loan holding company to a bank holding company. Such a charter conversion and holding company change affected the overall powers and obligations of the Company and the Bank. None of these issues affected the Bank s federal deposit insurance coverage by the FDIC the withdrawal from the DIF supplemental insurance program included a notice and transition time period for currently insured accounts which is extending into 2015. Withdrawal from DIF could have negative impact to future deposit acquisition or retention. The Company believes that related charter changes were accomplished in an orderly manner without significant impact to business operations.

Our Ability to Service Our Debt, Pay Dividends and Otherwise Pay Our Obligations as They Come Due Is Substantially Dependent on Capital Distributions from the Bank, and These Distributions Are Subject to Regulatory Limits and Other Restrictions.

A substantial source of our holding company income is the receipt of dividends from the Bank, from which we service our debt, pay our obligations, and pay shareholder dividends. The availability of dividends from the Bank is limited by various statutes and regulations. It is possible, depending upon the financial condition of the Bank and other factors, that the applicable regulatory authorities could assert that payment of dividends or other types of payments are an unsafe or unsound practice. If the Bank is unable to pay dividends to us, we may not be able to service our debt, pay our obligations or pay dividends on our common stock. The inability to receive dividends from the Bank would adversely affect our business, financial condition, results of operations and prospects.

Interest Rates

Changes in Interest Rates Could Adversely Affect Results of Operations and Financial Condition.

Net interest income is our largest source of income. Changes in interest rates can affect the level of net interest income. The Company s interest rate sensitivity is discussed in more detail in Item 7A of this report. The Company principally manages interest rate risk by managing its volume and mix of earning assets and funding liabilities. In a changing interest rate environment, the Company may not be able to manage this risk effectively. If the Company is unable to manage interest rate risk effectively, its business, financial condition and results of operations could be materially harmed. Changes in interest rates can also affect the demand for the Company s products and services, and the supply conditions in the U.S. financial and capital markets. Changes in the level of interest rates may negatively affect the Company s ability to originate real estate loans, the value of its assets and its ability to realize gains from the sale of our assets, all of which ultimately affect our earnings.

Securities Market Values

Declines in the Value of Certain Investment Securities Could Require Write-Downs, Which Would Reduce Our Earnings.

Unrealized losses on investment securities result from changes in credit spreads and liquidity issues in the marketplace, along with changes in the credit profile of individual securities issuers. The Company concluded that, as of year-end 2014, any unrealized losses are temporary in nature, and it has the intent and ability to hold these investments for a time necessary to recover its cost or stated maturity (at which time, full payment is expected). However, a continued decline in the value of these securities or other factors could result in an other-than-temporary impairment write-down which would reduce earnings. The Company has increased its investment in equity securities and non-investment grade debt securities which may exhibit more credit risk and price volatility. Some of the Company s securities are locally originated economic development bonds. These securities could become impaired due to economic and real estate market conditions which also affect loan risk. The Company has an investment in the stock of the Federal Home Loan Bank of Boston, which currently provides a modest dividend after a period when the dividend was suspended. If the capitalization of a Federal Home Loan Bank, including the FHLBB, became substantially diminished it could result in a write-down which would reduce our earnings. Future regulatory pronouncements could affect the securities portfolio and its carrying value.

Regulatory

Legislative and Regulatory Initiatives May Affect Business Activities and Increase Operating Costs.

The potential exists for additional federal or state laws and regulations regarding lending, funding practices, capital, and liquidity standards. Bank regulatory agencies are expected to be more active in responding to concerns and trends identified in examinations, including the expected issuance of many formal enforcement orders. In addition, new laws,

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regulations, and other regulatory changes may also increase our compliance costs and affect our business and operations. Moreover, the FDIC sets the cost of our FDIC insurance premiums, which can affect our profitability.

The Company is required by federal and state regulatory authorities to maintain adequate levels of capital to support our operations. Regulatory capital requirements and their impact on the Company may change. It may need to raise additional capital in the future to support operations and continued growth. Our ability to raise capital, if needed, will depend on conditions in the capital markets at that time, which are outside of our control, and on our financial performance. If we cannot raise additional capital when needed, it could affect operations and the execution of the strategic plan, which includes further expanding operations through internal growth and acquisitions.

The Dodd-Frank Act made extensive changes in the regulation of insured depository institutions. In addition to eliminating the OTS and creating the Consumer Financial Protection Bureau, the Dodd-Frank Act, among other things, directs changes in the way that institutions are assessed for deposit insurance, mandates the imposition of consolidated capital requirements on savings and loan holding companies, requires originators of certain securitized loans to retain a percentage of the risk for the transferred loans, stipulates regulatory rate-setting for certain debit card interchange fees, repeals restrictions on the payment of interest on commercial demand deposits and contains a number of reforms related to mortgage originations. The impact of many of the provisions of the Dodd-Frank Act is ongoing as further regulations are promulgated. The Company expects that the Dodd-Frank Act will, at a minimum, result in increased regulatory burden, compliance costs and interest expense for the Company. New laws, regulations, and other regulatory changes, along with negative developments in the financial industry and the domestic and international credit markets, may significantly affect the markets in which the Company does business, the markets for and value of our loans and investments, and our ongoing operations, costs and profitability. For more information, see Regulation and Supervision in Item 1 of this report.

New Federal Bank Capital Rules May Affect the Company s Future Condition and Performance.

In July 2013, the Office of the Comptroller of the Currency (OCC), Board of Governors of the Federal Reserve System (FRB), and the Federal Deposit Insurance Corporation (FDIC) announced the adoption of new rules that revise and replace the agencies capital rules as these federal agencies move forward with implementing capital requirements in response to agreements reached by the Basel Committee on Banking Supervision (Basel III). Many of these rules became effective on January 1, 2015 and some of the rules are being implemented in a phased transition which will be completed in 2019. The Company expects that these rules will make some investments in earning assets less attractive and that overall measures of capital adequacy will be reduced but will remain Well Capitalized. The new capital rules phase in certain buffers which, if not maintained, could result in limitations on certain distributions to management and shareholders. The Company expects that such buffers will be maintained. The implementation of the new capital rules is extensive and some aspects of interpretation and guidance have been delayed until close to implementation dates, increasing the uncertainty related to capital planning. The Company has a high focus on the ongoing assessment of these new capital rules as they become effective, including the impact on capital sources and capital returns.

Provisions of Our Certificate of Incorporation, Bylaws and Delaware Law, as Well as State and Federal Banking Regulations, Could Delay or Prevent a Takeover of Us by a Third Party.

Provisions in our certificate of incorporation and bylaws, the corporate law of the State of Delaware, and state and federal regulations could delay, defer or prevent a third party from acquiring us, despite the possible benefit to our stockholders, or otherwise adversely affect the price of our common stock. These provisions include: limitations on voting rights of beneficial owners of more than 10% of our common stock; supermajority voting requirements for certain business combinations; the election of directors to staggered terms of three years; and advance notice requirements for nominations for election to our Board of Directors and for proposing matters that stockholders may act on at stockholder meetings. In addition, we are subject to Delaware laws, including one that prohibits us from engaging in a business combination with any interested stockholder for a period of three years from the date the person became an interested stockholder unless certain conditions are met. These provisions may discourage potential takeover attempts, discourage bids for our common stock at a premium over market price or adversely affect the market price of, and the voting and other rights of the holders of, our common stock. These provisions could also discourage proxy

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contests and make it more difficult for you and other stockholders to elect directors other than the candidates nominated by our Board.

Goodwill and Other Intangible Assets

Acquisitions Have Resulted in Significant Goodwill, Which if it Becomes Impaired Would be Required to be Written Down, Resulting in a Negative Impact on Earnings.

The initial recording and subsequent impairment testing of goodwill and other intangible assets requires subjective judgments about the estimates of the fair value of assets acquired. Factors that may significantly affect the estimates include specific industry or market sector conditions, changes in revenue growth trends, customer behavior, competitive forces, cost structures and changes in discount rates. It is possible that future impairment testing could result in an impairment of the value of goodwill or intangible assets, or both. If we determine impairment exists at a given point in time, our earnings and the book value of the related intangible asset(s) will be reduced by the amount of the impairment. Notwithstanding the foregoing, the results of impairment testing on goodwill and adjusted deposit intangible assets have no impact on our tangible book value or regulatory capital levels. These are non-GAAP financial measures. They are not a substitute for GAAP measures and should only be considered in conjunction with the Company s GAAP financial information.

Trading of our Common Stock

The Trading History of The Company s Common Stock Is Characterized By Low Trading Volume. The Value of Your Investment May be Subject To Sudden Decreases Due To the Volatility of the Price of Our Common Stock.

The level of interest and trading in the Company s stock depends on many factors beyond our control. The market price of our common stock may be highly volatile and subject to wide fluctuations in response to numerous factors, including, but not limited to, the factors discussed in other risk factors and the following: actual or anticipated fluctuations in operating results; changes in interest rates; changes in the legal or regulatory environment; press releases, announcements or publicity relating to the Company or its competitors or relating to trends in its industry; changes in expectations as to future financial performance, including financial estimates or recommendations by securities analysts and investors; future sales of our common stock; changes in economic conditions in our marketplace, general conditions in the U.S. economy, financial markets or the banking industry; and other developments affecting our competitors or us. These factors may adversely affect the trading price of our common stock, regardless of our actual operating performance, and could prevent stockholders from selling their common stock at a desirable price.

In the past, stockholders have brought securities class action litigation against a company following periods of volatility in the market price of their securities. We could be the target of similar litigation in the future, which could result in substantial costs and divert management s attention and resources.

Pending Agreement to Acquire Hampden Bancorp

Legal Proceedings Commenced After the Announcement of the Merger May Delay Consummation of the Merger, Result in Increased Expenditures and Consume the Time and Attention of Our Executive Officers.

A complaint has been filed against Hampden, the Hampden board of directors and Berkshire, seeking class action status and asserting that Hampden and the Hampden board of directors violated their fiduciary duties to Hampden stockholders in connection with the proposed Merger. The complaint further alleged that Berkshire aided and abetted Hampden and the Hampden board of directors in their alleged breach of fiduciary duties. Berkshire is vigorously defending itself against these claims. At this time, Berkshire is unable to predict an outcome, favorable or unfavorable, or to estimate the amount of any potential loss. Legal proceedings of this type are costly to defend and may consume the time and attention of our executive officers, as well as delay the consummation of the Merger.

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Failure to Complete the Merger Could Negatively Impact the Stock prices and Future Businesses and Financial results of Berkshire and Hampden.

If the merger is not completed, the ongoing businesses of Berkshire and Hampden may be adversely affected and Berkshire and Hampden will be subject to several risks, including the following:

- Berkshire and Hampden will be required to pay certain costs relating to the merger, whether or not the merger is completed, such as legal, accounting, financial advisor and printing fees;

- under the merger agreement, Hampden is subject to certain restrictions on the conduct of its business prior to completing the merger, which may adversely affect its ability to execute certain of its business strategies; and

- matters relating to the merger may require substantial commitments of time and resources by Berkshire and Hampden management, which could otherwise have been devoted to other opportunities that may have been beneficial to Berkshire and Hampden as independent companies, as the case may be.

In addition, if the merger is not completed, Berkshire and/or Hampden may experience negative reactions from the financial markets and from their respective customers and employees. Berkshire and/or Hampden also could be subject to litigation related to any failure to complete the merger or to enforcement proceedings commenced against Berkshire or Hampden to perform their respective obligations under the merger agreement. If the merger is not completed, Berkshire and Hampden cannot assure their shareholders that the risks described above will not materialize and will not materially affect the business, financial results and stock prices of Berkshire and/or Hampden.

The Company May be Unable to Successfully Integrate Hampden s Operations or Otherwise Realize the Expected Benefits from the Merger, Which Would Adversely Affect the Company s Results of Operations and Financial Condition.

The merger of Hampden with and into the Company involves the integration of two companies that have previously operated independently. The difficulties of combining the operations of the two companies include:

- integrating personnel with diverse business backgrounds;

- combining different corporate cultures; and

- retaining key employees.

The process of integrating operations could cause an interruption of, or loss of momentum in, the activities of the business and the loss of key personnel. The integration of the two companies will require the experience and expertise of certain key employees of Hampden who are expected to be retained by the Company. The Company may not be successful in retaining these employees for the time period necessary to successfully integrate Hampden s operations with those of the Company. The diversion of management s attention and any delay or difficulty encountered in connection with the merger and the integration of the two companies operations could have an adverse effect on the business and results of operation of the Company following the merger.

The success of the merger will depend, in part, on the Company s ability to realize the anticipated benefits and cost savings from combining the business of the Company with Hampden. If the Company is unable to successfully integrate Hampden, the anticipated benefits and cost savings of the merger may not be realized fully or may take longer to realize than expected. For example, the Company may fail to realize the anticipated increase in earning and cost savings anticipated to be derived from the acquisition. In addition, as with regard to any merger, a significant decline in asset valuations or cash flows may also cause the Company not to realize expected benefits.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The Company s headquarters are located in owned and leased facilities located in Pittsfield, Massachusetts. The Company also owns or leases other facilities within its primary market areas: Berkshire County, Massachusetts;

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Pioneer Valley (Springfield area), Massachusetts; Southern Vermont; the Capital Region (Albany area), New York; Central New York; Northern Connecticut; and Central/Eastern Massachusetts. The Company has 91 full-service branches in Massachusetts, New York, Connecticut, and Vermont (including one branch in Tennessee following a bank acquisition.)

The Company also has 7 regional headquarters. The 7 regional locations are full-service commercial offices located in Pittsfield, Massachusetts; Springfield, Massachusetts; Albany, New York; Syracuse, New York; Hartford, Connecticut; Westborough, Massachusetts; and Burlington, Massachusetts. In addition, the Company has 5 residential mortgage lending locations in Central/Eastern, Massachusetts.

Berkshire Insurance Group operates from 12 locations in Western Massachusetts and Syracuse, New York in both standalone premises as well as in rented space located in the Bank s premises.

In January 2014, Berkshire completed the acquisition of 20 New York branches, reaching more communities between Albany and Syracuse. As part of the acquisition, two branches were consolidated in Central New York. The Company also opened a new office in Loudonville, New York in January 2014, as part of its ongoing organic expansion. Additionally, in October 2014 the Bank opened a new branch banking office in the Westborough, Massachusetts facility which it had previously established as a regional commercial head quarters serving the Worcester and Central/Eastern Massachusetts markets.

Berkshire continues to expand its new retail branch design which eliminates traditional teller counters and provides an interactive customer service environment through pod stations which include automated cash handling technology. In many cases, this branch design also includes a multimedia community room which is offered for use by nonprofit community groups.

Based on its pending merger agreement with Hampden Bancorp, the Bank expects to add an additional seven branch offices in the Springfield market in the second quarter of 2015.

ITEM 3. LEGAL PROCEEDINGS

At December 31, 2014, neither the Company nor the Bank was involved in any pending legal proceedings believed by management to be material to the Company s financial condition or results of operations. Periodically, there have been various claims and lawsuits involving the Bank, such as claims to enforce liens, condemnation proceedings on properties in which the Bank holds security interests, claims involving the making and servicing of real property loans and other issues incident to the Bank s business. However, neither the Company nor the Bank is a party to any pending legal proceedings that it believes, in the aggregate, would have a material adverse effect on the financial condition or operations of the Company.

Following the public announcement of the execution of the Agreement and Plan of Merger, dated November 3, 2014 (the Merger Agreement), by and among the Company and Hampden Bancorp, Inc. (Hampden), on or about February 11, 2015, Brian Levy, a purported shareholder of Hampden, filed a shareholder class action lawsuit in the Superior Court of the Commonwealth of Massachusetts for Hampden County against Hampden, the Directors of Hampden and the Company (the Hampden shareholder litigation). The Hampden shareholder litigation purports to be brought on behalf of all of Hampden s public stockholders and alleges that (i) the directors of Hampden breached their fiduciary duties to it s stockholders by, among other things, failing to take steps necessary to obtain a fair and adequate price for Hampden s common stock, (ii) Hampden and its directors failed to disclose material facts in its proxy solicitation materials for its shareholder vote to approve the transaction set forth in the Merger Agreement, and (iii) the Company knowingly aided and abetted Hampden s directors breach of fiduciary duty.

Hampden, its Directors and the Company all deny and are vigorously defending each of the allegations asserted in the Hampden shareholder litigation. Management of the Company believes the Hampden shareholder litigation will not have any material adverse effect on the financial condition or operations of the Company.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

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PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

The common shares of the Company trade on the New York Stock Exchange under the symbol BHLB . The following table sets forth the quarterly high and low sales price information and dividends declared per share of common stock in 2014 and 2013.

2014	High	Low	Dividends Declared
First quarter	$ 27.28	$ 23.95	$ 0.18
Second quarter	26.64	22.06	0.18
Third quarter	25.11	22.37	0.18
Fourth quarter	26.91	22.84	0.18
2013			
First quarter	$ 26.01	$ 23.38	$ 0.18
Second quarter	27.84	24.62	0.18
Third quarter	29.38	24.34	0.18
Fourth quarter	27.86	24.50	0.18

The Company had approximately 3,307 holders of record of common stock at March 9, 2015.

Dividends

The Company intends to pay regular cash dividends to common stockholders; however, there can be no assurance as to future dividends because they are dependent on the Company s future earnings, capital requirements, financial condition, and regulatory environment. Dividends from the Bank have been a source of cash used by the Company to pay its dividends, and these dividends from the Bank are dependent on the Bank s future earnings, capital requirements, and financial condition. Further information about dividend restrictions is provided in the Stockholders Equity note in the consolidated financial statements.

Recent Sales of Unregistered Securities; Use of Proceeds from Registered Securities

On September 28, 2012, the Company issued $75.0 million principal amount of fixed to floating rate unregistered subordinated notes through a private placement to institutional investors in accordance with Rule 506 of Regulation D. The notes are due in 2027 and are redeemable at par by the Company during the final five years. The notes bear interest at a fixed rate of 6.875% for the first ten years and convert to a variable rate of interest in the final five years. The proceeds were used for Beacon merger consideration and other corporate purposes. There have been no other sales of registered or unregistered securities within the last three years.

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Purchases of Equity Securities by the Issuer and Affiliated Purchases

There were no purchases of equity securities during the fourth quarter of 2014 made by or on behalf of the Company or any affiliated purchaser , as defined by Section 240.10b-18(a)(3) of the Securities and Exchange Act of 1934, of shares of the Company s common stock. On March 26, 2013, the Company authorized the purchase of up to 500 thousand shares, from time to time, subject to market conditions. The repurchase plan will continue until it is completed or terminated by the Board of Directors. The Company has no intentions to terminate this plan or to cease any potential future purchases. As of year-end 2014, there were 23 thousand shares that remain unpurchased under this plan.

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares that may yet be purchased under the plans or programs
October 1-31, 2014		$		23,113
November 1-30, 2014				23,113
December 1-31, 2014				23,113
Total		$		23,113

Common Stock Performance Graph

The performance graph compares the Company s cumulative stockholder return on its common stock over the last five years to the cumulative return of the NYSE Composite Index and the KBW Regional Bank Index. Total stockholder return is measured by dividing total dividends (assuming dividend reinvestment) for the measurement period plus share price change for a period by the share price at the beginning of the measurement period. The Company s cumulative stockholder return over a five-year period is based on an initial investment of $100 on December 31, 2009.

Information used on the graph and table was obtained from a third party provider, a source believed to be reliable, but the Company is not responsible for any errors or omissions in such information.

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	Period Ending					
Index	**12/31/09**	**12/31/10**	**12/31/11**	**12/31/12**	**12/31/13**	**12/31/14**
Berkshire Hills Bancorp, Inc.	100.00	110.47	114.34	126.76	148.98	150.02
NYSE Composite Index	100.00	110.84	104.07	117.52	144.75	150.86
PHLX KBW Regional Banking Index	100.00	118.22	109.78	121.26	174.20	174.55

In accordance with the rules of the SEC, this section captioned Common Stock Performance Graph, shall not be incorporated by reference into any of our future filings made under the Securities Exchange Act of 1934 or the Securities Act of 1933. The Common Stock Performance Graph, including its accompanying table and footnotes, is not deemed to be soliciting material or to be filed under the Exchange Act or the Securities Act.

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ITEM 6. SELECTED FINANCIAL DATA

The following summary data is based in part on the consolidated financial statements and accompanying notes, and other schedules appearing elsewhere in this Form 10-K. Historical data is also based in part on, and should be read in conjunction with, prior filings with the SEC.

	At or For the Years Ended December 31,				
(In thousands, except per share data)	**2014**	**2013**	**2012**	**2011 (1)**	**2010 (1)**
Selected Financial Data:					
Total assets	$ 6,502,031	$ 5,672,799	$ 5,296,809	$ 3,992,257	$ 2,882,298
Securities	1,205,794	870,091	573,871	533,181	405,953
Loans	4,680,600	4,180,523	3,988,654	2,956,570	2,142,162
Allowance for loan losses	(35,662)	(33,323)	(33,208)	(32,444)	(31,898)
Goodwill and intangibles	276,270	270,662	274,258	223,364	173,079
Deposits	4,654,679	3,848,529	4,100,409	3,101,175	2,204,441
Borrowings and subordinated notes	1,052,323	1,064,107	448,088	237,402	260,301
Total stockholders equity	709,287	678,062	667,265	551,808	387,323
Selected Operating Data:					
Total interest and dividend income	$ 207,042	$ 203,741	$ 175,939	$ 138,260	$ 112,277
Total interest expense	28,351	34,989	32,551	31,740	35,330
Net interest income	178,691	168,752	143,388	106,520	76,947
Fee income	53,434	50,525	51,265	33,727	29,859
All other non-interest (loss) income	(5,664)	7,707	2,791	2,076	(108)
Total net revenue	226,461	226,984	197,444	142,323	106,698
Provision for loan losses	14,968	11,378	9,590	7,563	8,526
Total non-interest expense	165,986	157,359	140,806	116,442	82,137
Income tax expense - continuing operations	11,763	17,104	13,223	1,884	2,420
Net (loss) income from discontinued operations			(637)	914	
Net income	$ 33,744	$ 41,143	$ 33,188	$ 17,348	$ 13,615
Dividends per common share	$ 0.72	$ 0.72	$ 0.69	$ 0.65	$ 0.64
Basic earnings per common share	1.36	1.66	1.49	0.97	0.98
Diluted earnings per common share	1.36	1.65	1.49	0.97	0.98
Weighted average common shares outstanding - basic	24,730	24,802	22,201	17,885	13,862
Weighted average common shares outstanding - diluted	24,854	24,965	22,329	17,952	13,896

(1) For the years 2011 and 2010, the above schedule has been adjusted for prior year lease adjustments.

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	At or For the Years Ended December 31, 2014	2013	2012	2011 (4)	2010 (4)
Selected Operating Ratios and Other Data: (1)					
Share Data:					
Book value per share	$ 28.17	$ 27.08	$ 26.53	$ 26.09	$ 27.52
Market price at year end	$ 26.66	$ 27.27	$ 23.86	$ 22.19	$ 22.11
Performance Ratios:					
Return on average assets	0.55%	0.78%	0.73%	0.50%	0.50%
Return on average equity	4.87	6.09	5.66	3.64	3.55
Interest rate spread	3.15	3.47	3.47	3.38	3.01
Net interest margin	3.26	3.63	3.62	3.57	3.28
Non-interest income/total net revenue	21.09	25.65	27.38	27.16	27.88
Non-interest expense/average assets	2.69	2.97	3.11	3.34	2.99
Dividend payout ratio	52.94	41.57	46.31	67.01	65.16
Growth Ratios:					
Total loans	11.96	4.81	34.91	38.02	9.20
Total deposits	20.95	(6.14)	32.22	40.68	10.96
Total net revenue	(0.23)	14.96	38.73	33.39	12.58
Asset Quality Ratios: (3)					
Net loans charged-off/average total loans	0.29	0.29	0.26	0.27	0.42
Allowance for loan losses/total loans	0.76	0.80	0.83	1.10	1.49
Capital Ratios:					
Tier 1 capital to average assets - bank	7.18	7.99	7.46	8.41	8.04
Total capital to risk-weighted assets - bank	10.78	11.62	11.79	11.29	10.61
Stockholders equity/total assets	10.91	11.95	12.60	13.82	13.44
Tangible common stockholders equity to tangible assets (2)	6.96	7.54	7.82	8.71	7.91

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

(2) Tangible common stockholders equity to tangible assets exclude goodwill and other intangibles. This is a non-GAAP financial measure that the Company believes provides investors with information that is useful in understanding our financial performance and condition.

(3) Generally accepted accounting principles require that loans acquired in a business combination be recorded at fair value, whereas loans from business activities are recorded at cost. The fair value of loans acquired in a business combination includes expected loan losses, and there is no loan loss allowance recorded for these loans at the time of acquisition. Accordingly, the ratio of the loan loss allowance to total loans is reduced as a result of the existence of such loans, and this measure is not directly comparable to prior periods. Similarly, net loan charge-offs are normally reduced for loans acquired in a business combination since these loans are recorded net of expected loan losses. Therefore, the ratio of net loan charge-offs to average loans is reduced as a result of the existence of such loans, and this measure is not directly comparable to prior periods. Other institutions may have loans acquired in a business combination, and therefore there may be no direct comparability of these ratios between and among other institutions.

(4) For the years 2011 and 2010, the above schedule has been adjusted for prior year lease adjustments.

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Average Balances, Interest and Average Yields/Cost

The following table presents an analysis of average rates and yields on a fully taxable equivalent basis for the years presented. Tax exempt interest revenue is shown on a tax-equivalent basis for proper comparison.

Item 6 - Table 3 - Average Balance, Interest and Average Yields / Costs

	2014			2013			2012		
(Dollars in millions)	**Average Balance**	**Interest**	**Average Yield/ Rate**	**Average Balance**	**Interest**	**Average Yield/ Rate**	**Average Balance**	**Interest**	**Average Yield/ Rate**
Interest-earning assets:									
Loans: (1)									
Residential loans	$ 1,410.2	$ 55.8	3.96%	$ 1,271.7	$ 51.5	4.05%	$ 1,193.9	$ 52.7	4.42%
Commercial real estate	1,525.5	65.2	4.27	1,380.8	74.3	5.38	1,271.6	69.1	5.44
Commercial and industrial loans	709.9	28.1	3.95	637.9	29.6	4.64	507.9	20.4	4.01
Consumer loans	744.0	25.4	3.42	654.7	29.6	4.52	427.5	17.8	4.17
Total loans (3)	4,389.6	174.5	3.98	3,945.1	185.0	4.69	3,400.9	160.0	4.71
Investment securities (2)	1,158.7	35.2	3.04	701.1	19.6	2.79	550.8	17.6	3.19
Short-term investments and loans held for sale	37.9	0.6	1.47	71.3	1.5	2.10	76.4	0.9	1.18
Total interest-earning assets	5,586.2	210.3	3.76	4,717.5	206.1	4.37	4,028.1	178.5	4.43
Intangible assets	278.0			272.2			241.7		
Other non-interest earning assets	308.6			317.1			262.4		
Total assets	$ 6,172.8			$ 5,306.8			$ 4,532.2		
Interest-bearing liabilities:									
Deposits:									
NOW accounts	$ 417.2	$ 0.6	0.15%	$ 355.2	$ 0.8	0.23%	$ 304.1	$ 0.9	0.30%
Money market accounts	1,442.3	5.5	0.38	1,389.2	5.7	0.41	1,189.1	5.8	0.48
Savings accounts	476.4	0.7	0.15	442.2	0.7	0.17	390.8	0.7	0.19
Certificates of deposit	1,265.4	12.4	0.98	1,085.8	13.6	1.25	1,056.0	15.1	1.43
Total interest-bearing deposits (3)	3,601.3	19.2	0.53	3,272.4	20.8	0.63	2,940.0	22.5	0.77
Borrowings and notes (4)	1,024.4	9.2	0.89	655.3	14.1	2.16	432.1	10.1	2.33
Total interest-bearing liabilities	4,625.7	28.4	0.61	3,927.7	34.9	0.89	3,372.1	32.6	0.97
Non-interest-bearing demand deposits	805.0			655.7			529.0		
Other non-interest-bearing liabilities	49.1			48.1			44.8		
Total liabilities	5,479.8			4,631.5			3,945.9		
Equity	693.0			675.3			586.3		
Total liabilities and equity	$ 6,172.8			$ 5,306.8			$ 4,532.2		
Net interest-earning assets	$ 960.5			$ 802.4			$ 656.0		
Net interest income		$ 181.9			$ 171.2			$ 145.9	

Supplementary data						
Total non-maturity deposits	$ 3,140.9		$ 2,842.3		$ 2,413.0	
Total deposits	4,406.3		3,928.1		3,469.0	
Fully taxable equivalent adjustment	3.3		2.6		2.6	
Interest rate spread		3.15%		3.48%		3.47%
Net interest margin		3.26		3.63		3.62
Cost of funds		0.52		0.77		0.84
Cost of deposits		0.44		0.53		0.65
Interest-earning assets/interest-bearing liabilities		120.76		120.50		119.45

Notes:

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

(2) The average balance of investment securities is based on amortized cost.

(3) The above schedule includes loans and deposit balances of discontinued operations in operating accounts.

(4) The average balances of borrowings and notes include the capital lease obligation presented under other liabilities on the consolidated balance sheet.

RATE/VOLUME ANALYSIS

The following table presents the effects of rate and volume changes on the fully taxable equivalent net interest income. Tax exempt interest revenue is shown on a tax-equivalent basis for proper comparison. For each category of interest-earning assets and interest-bearing liabilities, information is provided with respect to changes attributable to (1) changes in rate (change in rate multiplied by prior year volume), (2) changes in volume (change in volume multiplied by prior year rate) and (3) changes in volume/rate (change in rate multiplied by change in volume) have been allocated proportionately based on the absolute value of the change due to the rate and the change due to volume.

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Item 6 - Table 4 - Rate Volume Analysis

(In thousands)	2014 Compared with 2013 (Decrease) Increase Due to Rate	Volume	Net	2013 Compared with 2012 (1) (Decrease) Increase Due to Rate	Volume	Net
Interest income:						
Residential loans	$ (1,173)	$ 5,501	$ 4,328	$ (4,559)	$ 3,310	$ (1,249)
Commercial real estate	(16,074)	6,987	(9,085)	(1,158)	6,337	5,179
Commercial and industrial loans	(4,640)	3,125	(1,515)	3,483	5,720	9,203
Consumer loans	(7,849)	3,685	(4,166)	1,593	10,162	11,755
Total loans	(29,736)	19,298	(10,438)	(641)	25,529	24,888
Investment securities	1,234	14,390	15,624	(2,012)	4,013	2,001
Short-term investments and loans held for sale	(376)	(592)	(968)	667	(63)	604
Total interest income	(28,878)	33,096	4,218	(1,986)	29,479	27,493
Interest expense:						
NOW accounts	(301)	126	(175)	(238)	138	(100)
Money market accounts	(462)	214	(248)	(906)	892	(14)
Savings accounts	(101)	55	(46)	(70)	91	21
Certificates of deposit	(3,236)	2,031	(1,205)	(1,962)	416	(1,546)
Total deposits	(4,100)	2,426	(1,674)	(3,176)	1,537	(1,639)
Borrowings	(10,659)	5,696	(4,963)	(785)	4,846	4,061
Total interest expense	(14,759)	8,122	(6,637)	(3,961)	6,383	2,422
Change in net interest income	$ (14,119)	$ 24,974	$ 10,855	$ 1,975	$ 23,096	$ 25,071

(1) The above schedule includes balances associated with discontinued operations.

NON-GAAP FINANCIAL MEASURES

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

The Company utilizes the non-GAAP measure of adjusted earnings in evaluating operating trends, including components for operating revenue and expense. These measures exclude amounts which the Company views as unrelated to its normalized operations, including securities gains/losses, losses recorded for hedge terminations, merger costs, restructuring costs, systems conversion costs, and out-of-period adjustments.

Non-operating adjustments are presented net of an adjustment for income tax expense. This adjustment in 2013 was based on the marginal tax rate applied to the net non-operating pre-tax adjustments. In 2014, due to the comparative magnitude of the non-operating items, this adjustment was determined as the difference between the GAAP tax rate and the effective tax rate applicable to operating income.

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

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

The Company also adjusts certain equity related measures to exclude intangible assets due to the importance of these measures to the investment community.

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

	At or for the Quarters Ended		At or For the Years Ended	
(Dollars in thousands)	**December 31, 2014**	**December 31, 2013**	**December 31, 2014**	**December 31, 2013**
Net income (GAAP)	$ 11,398	$ 10,537	$ 33,744	$ 41,143
Non-GAAP measures				
Adj: Gain on sale of securities, net		(3,392)	(482)	(4,758)
Adj: Loss on termination of hedges		0	8,792	
Adj: Acquisition, restructuring and conversion related expenses (1)	1,762	2,493	8,492	15,348
Adj: Out-of-period adjustment (2)			1,381	(1,287)
Adj: Income taxes	(1,114)	364	(7,185)	(3,750)
Net non-operating charges	648	(535)	10,998	5,553
Total adjusted income (non-GAAP) (A)	$ 12,046	$ 10,002	$ 44,742	$ 46,696
Total revenue	$ 60,847	$ 55,556	$ 226,461	$ 226,984
Adj: Gain on sale of securities and other non-recurring gain, net		(3,392)	(482)	(4,758)
Adj: Loss on termination of hedges			8,792	
Adj: Out-of-period adjustment (2)			1,381	(1,287)
Total operating revenue	$ 60,847	$ 52,164	$ 236,152	$ 220,939
Total non-interest expense	$ 41,676	$ 37,157	$ 165,986	$ 157,359
Less: Total non-operating expense (see above)	(1,762)	(2,493)	(8,492)	(15,348)
Operating non-interest expense	$ 39,914	$ 34,664	$ 157,494	$ 142,011
Net earnings per share, diluted (GAAP)	$ 0.46	$ 0.42	$ 1.36	$ 1.65
Plus: Non-operating earnings per share, diluted	0.02	(0.02)	0.44	0.22
Adjusted earnings per share, diluted (A/G)	0.48	0.40	1.80	1.87
Average diluted shares outstanding *(thousands)* (GAAP)	24,912	24,857	24,854	24,965
Average operating diluted shares outstanding *(thousands)* (G)	24,912	24,857	24,854	24,965

(Dollars in millions, except per share data)				
Total assets, period-end (GAAP)	$ 6,502	$ 5,673	$ 6,502	$ 5,673
Less: intangible assets, period-end	276	271	276	271
Total tangible assets, period-end	6,226	5,402	6,226	5,402
Total stockholders equity, period-end (GAAP)	$ 709	$ 678	$ 709	$ 678
Less: intangible assets, period-end	276	271	276	271
Total tangible stockholders equity, period-end	433	407	433	407

(1) Acquisition, restructuring, conversion and other related expenses includes $5.4 million in merger and acquisition expenses and $3.1 million of restructuring, conversion and other expenses for the year ended December 31, 2014. For the year ended 2013, these expenses included $8.0 million in merger and acquisition expenses and $7.4 million of restructuring, conversion and other expenses.

(2) The out of period adjustments shown above relate to interest income earned on loans acquired in bank acquisitions.

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ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

This discussion is intended to assist in understanding the financial condition and results of operations of the Company. This discussion should be read in conjunction with the consolidated financial statements and accompanying notes contained in this report.

APPLICATION OF CRITICAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

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

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

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

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

Income Taxes. Significant management judgment is required in determining income tax expense and deferred tax assets and liabilities. The Company uses the asset and liability method of accounting for income taxes in which deferred tax assets and liabilities are established for the temporary differences between the financial reporting basis and the tax basis of the Company s assets and liabilities. The realization of the net deferred tax asset generally depends upon future levels of taxable 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

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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 analysis of market pricing multiples. These types of analyses contain uncertainties because they require management to make assumptions and to apply judgment to estimate industry economic factors and the profitability of future business strategies. In the event of future changes in fair value, the Company may be exposed to an impairment charge that could be material.

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

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

SUMMARY

Berkshire recorded net income totaling $34 million in 2014, or $1.36 per share, compared to $41 million, or $1.65 per share, in the prior year. This decrease was primarily attributable to higher net non-operating charges related to the acquisition of 20 New York branches near the start of 2014. Additionally, the net interest margin tightened due to the ongoing low interest rate environment and declining purchased loan accretion. Berkshire achieved significant volume growth in loans and deposits and posted higher non-interest income, with the result that year-over year quarterly earnings comparisons turned positive in the second half of the year.

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Berkshire measures its adjusted earnings before net non-operating charges in order to evaluate its results related to ongoing operations. Berkshire recorded adjusted net income totaling $45 million, or $1.80 per share, in 2014, compared to $47 million, or $1.87 per share, in the prior year. During 2014, Berkshire posted steady improvement in quarterly adjusted earnings per share, which increased sequentially by $0.02 each quarter. Adjusted earnings per share reached $0.48 in the final quarter of the year and exceeded GAAP earnings of $0.46 per share which included non-operating charges related to the pending agreement to acquire Hampden Bancorp.

In 2014, the Company continued to grow the franchise both organically and through acquisition. Accomplishments included improvement in the run rate of adjusted earnings per share, improved market share, growth in equity, improvement in liquidity, and benefits to shareholders in the form of dividends and growth in book value per share. Operating momentum was strong through the end of the year.

2014 financial highlights included:

- 12% increase in total loans
- 15% increase in commercial loans
- 21% increase in total deposits
- 28% increase in demand deposits
- 6% increase in net interest income
- 6% increase in fee income
- 4% increase in book value per share
- 0.29% net loan charge-offs/average loans
- 0.37% non-performing assets/assets at year-end

Additional management accomplishments included:

- Recruited former Chairman of TD Banknorth, Bill Ryan, as Chairman of our Board of Directors
- Strengthened executive and senior management team
- Agreed to acquire Springfield based Hampden Bancorp with $700 million in assets
- Expanded commercial and business banking and wealth management operations through recruitment

- Active balance sheet management
- Integrated 20 branch acquisition in Central and Eastern NY
- Opened two de novo branches/consolidated four branches
- Implemented leading enterprise risk management system

As a result of expansion in recent years, the Company believes that it has diversified its earnings sources and balance sheet risks and improved its strategic positioning for market share growth and long run financial results. Revenue gains were achieved in 2014 in all business lines including retail, commercial, wealth management, and insurance. Expansion initiatives were pursued in small business banking, mortgage banking, private banking, and the MyBanker service. Product enhancements were implemented in targeted areas including mobile banking and SBA lending. Relationship management teams were enhanced. Brand awareness was further supported through Berkshire s partnership with the New England Sports Network (NESN) as the official bank of Boston Bruins coverage on the network, along with brand positioning through women s national champion coach and spokesperson Geno Auriemma. Berkshire s initiatives were recognized with several marketing, communications and philanthropic awards. Berkshire s Foundations provided $1.4 million in charitable contributions in its markets, and its employees provided more than 40,000 hours of volunteer service in their communities.

As a result of its growth and progress, the Bank changed its charter from a Massachusetts chartered savings bank to a Massachusetts chartered trust company in July 2014. Simultaneously, the Company changed its holding company status from a savings and loan holding company to a bank holding company, and it elected the financial holding company designation as a bank holding company. At the time of these changes, the Bank also terminated its

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participation in the Massachusetts Depositors Insurance Fund (DIF). This change had no impact on the Bank s ongoing participation in FDIC deposit insurance and the Bank continues to target deposit growth while completing this transition.

In the fourth quarter of 2014, Berkshire entered into an agreement to acquire Hampden Bancorp, which is targeted to be completed in the second quarter of 2015, subject to customary regulatory approvals. Hampden has approximately $700 million in assets and Berkshire expects to increase its Springfield area branches from 11 offices to 18 offices with this transaction. This in-market merger is expected to improve Berkshire s Springfield MSA deposit market share from tenth position to fifth position. Including the benefit of planned cost savings, this merger is targeted to improve most metrics related to financial performance and condition. Merger consideration is 100% stock, which is expected to increase Berkshire s total share count by approximately 4 million shares.

COMPARISON OF FINANCIAL CONDITION AT DECEMBER 31, 2014 AND 2013

Summary: Berkshire continued to extend and deepen its banking footprint in 2014. Total loans increased by 12% through organic growth, team recruitment, product expansion, and wholesale activities. Total deposits increased by 21% including organic growth in demand deposit balances together with the benefit of the acquired branches and growth of brokered deposits. The Company s risk management maintained the momentum of favorable and improving asset quality while also producing significant recoveries of purchased impaired loans which contributed to the year s income. The ratio of loans/deposits decreased to 101% as a result of the strong deposit growth. Total assets increased by 15% including additional investment securities purchased with acquired deposit funds and as a result, the ratio of capital/assets decreased to 10.9% and the ratio of tangible capital to assets decreased to 7.0%. The targeted acquisition of Hampden Bancorp for all-stock consideration is expected to improve the tangible equity capital ratio. The Company continues to view its internal generation of tangible capital as a fundamental element of its capital strength for supporting operations and growth as well as shareholder dividends. Internal capital generation improved during the year and in the fourth quarter annualized earnings before intangible amortization measured 11.3% of tangible equity. In January 2015, following its review of 2014 results, the Board approved a 6% increase in the quarterly cash dividend to $0.19 per share. Berkshire continues to manage its interest rate sensitivity with the goal of benefiting income from expected future increases in interest rates and to limit the present value of equity at risk from higher interest rates in the long term.

Investment Securities. Berkshire s goal is to maintain a high quality portfolio consisting primarily of liquid investment securities with managed durations to limit the potential for market value declines in rising rate markets. Berkshire focuses on loan growth as the primary use of funds and the primary source of interest income. The investment portfolio is an additional source of interest income and also provides additional liquidity and interest rate risk management flexibility. The Company evaluates the portfolio within its overall objectives of producing growth in earnings per share and contributing to return on equity. The Company continuously evaluates options for managing the portfolio s size, diversification, risk, and duration.

In 2014, portfolio management was targeted to help absorb acquired deposit funds, to further leverage capital for enhanced return on equity, to improve the run rate securities yield based on disciplined management of duration and credit risk, and to provide total return and comprehensive income through active balance sheet management. Gross interest income on securities and other earning assets increased by 85% in 2014 compared to 2013 and was integral to offsetting declining loan income as well as increasing overall net interest income. Total securities increased by $336 million, or 39%, to $1.2 billion at year-end 2014. Nearly all of the increase was in securities available for sale, and the increase in investments contributed 40% of the total increase in assets during the year. Securities totaled 19% of total assets at year-end 2014 and measured 115% of total borrowings.

Berkshire actively managed its investment portfolio in 2014 to utilize the acquired deposits and to support the securities yield despite the impact of ongoing low interest rates.   The majority of purchases were in the first half of the year before interest rates dipped further. The Company uses collateralized mortgage obligations (CMOs) of U.S. agencies as the primary component of its investment strategy, the majority of which are planned amortization class securities. Available for sale CMOS increased by $207 million to $714 million during the year. Other major areas of investment in available for sale securities included municipal bonds (increasing $56 million to $134 million), equity securities (increasing $33 million to $ 55 million), and a $30 million investment in a mutual fund targeted at higher yielding debt securities of U.S. corporate issuers.

The Company manages the maturity structure of the securities portfolio to provide liquidity while also balancing the duration and yields of the portfolio to align with its interest rate risk and income strategies. The effective duration of the bond portfolio had increased to 5.0 years from 4.7 years during the first nine months of the year before decreasing to 4.3 years at year-end 2014 due to a shortening of mortgage backed securities durations resulting from the fourth quarter decrease in interest rates. This was reflected in the year-end average life extension risk in the event of a 300 basis point increase in interest rates, which was 3.0 years at year-end 2014, compared to 2.2 years at the start of the year. These changes reflect a modest targeted lengthening of the portfolio with the purchases of municipal and mortgage securities to support the overall securities yield.

As a result of securities activities, the yield on securities improved to 3.00% in the fourth quarter of 2014 compared to 2.72% in the final quarter of 2013. This included the benefit of the longer dated municipal and mortgage securities, as well as the increased investment in corporate equities and bonds. Additionally, the Company recorded $0.5 million in net securities gains and $0.6 million in other non-interest income resulting from a mutual fund distribution. Gross securities gains and losses related to bond repositioning, including exiting certain corporate bonds in the second quarter and certain lower performing CMOs in the third quarter.

The unrealized value of the securities portfolio increased in 2014 primarily due to improved bond prices reflecting lower interest rates. The benchmark ten year Treasury rate decreased to 2.17% at year-end 2014, compared to 3.04% at the prior year-end. The securities portfolio had a $17.6 million, or 1.6%, unrealized gain at year-end 2014, compared to an $8.5 million, or 1.0%, unrealized loss at the start of the year.

The Company did not record any write-downs of investment securities in 2014 and none of the Company s investment securities were classified as other-than-temporarily impaired during the year or at year-end. Securities with unrealized losses decreased to $7 million from $18 million in 2014 due to improved securities prices. Detail on these securities, including one security with a $1.0 million unrealized loss, is included in the Securities note in the consolidated financial statements. At year-end 2014, excluding corporate bonds, all available for sale debt securities carried at least one investment grade rating by a major rating agency except for the above security. The Company owns non-investment grade U.S. corporate securities including bank capital securities and high non-investment grade U.S. corporate issues targeted towards potential ratings upgrades. The Company s equity securities include both local community bank stocks as well as dividend yielding U.S. corporate stocks. Including the benefit of higher U.S. stock prices, gross unrealized equity security losses with durations over 12 months totaled only $0.3 million at year-end 2014. The Company s held to maturity securities are generally unrated local securities, all of which are performing and none of which is deemed criticized according to the Company s internal ratings systems.

With the recent change in the Bank s charter, the Bank is no longer eligible to make future purchases of equity securities, although this activity is permitted by the Company as a bank holding company. Under new regulatory capital rules beginning in 2015, the Company is required to keep higher levels of capital to support certain equity and other investments. At December 31, 2014, the Company held Hampden Bancorp stock with a total fair value of $4.4 million including an unrealized gain of $2.0 million.

Loans. Berkshire produced growth in all categories of loans in 2014 as it took advantage of its franchise expansion to increase market and wallet share. The rate of loan growth was highest in commercial and industrial loans and indirect auto loans. Competition remained strong across the footprint, although some competitors scaled back originations efforts in residential mortgages and indirect auto lending during the year. To mitigate ongoing yield compression, the Company began to shift its business mix in the fourth quarter with more focus on commercial and industrial loans with higher lending spreads. Loan quality and performance measures continued to improve and remained favorable based on the Company s credit selection and strategies.

Loan relationship managers were hired in most lending functions, as team and talent recruitment remained important aspects of Berkshire s operating strategy. Additionally, the Company increased wholesale activity to take advantage of opportunities based on its regional niche to develop business with other area banks and to manage the composition and growth of the portfolio. Acquired impaired loans continued to be liquidated more quickly than originally expected, and recoveries of purchased loan discount contributed significantly to total revenue.

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Total loans increased by $500 million, or 12%, to $4.68 billion in 2014. Growth in total loans was concentrated in the commercial portfolio, which grew by $311 million, or 15%. Loan growth momentum remained strong through the second half of the year. Loan yields were under pressure throughout the year due to ongoing low interest rates and despite the portfolio volume growth, gross interest income decreased $11.6 million, or 6% year over year. This included a $11.4 million decrease in purchased loan accretion to $6.7 million in 2014, most of which was due to lower recoveries on the collection of purchased impaired loans. The overall portfolio yield decreased to 3.96% in the fourth quarter of 2014 from 4.26% in the fourth quarter of 2013. Excluding purchased loan accretion, the yield decreased to 3.82% from 4.01% for these periods. This yield in the most recent quarter increased by 0.01% from the prior quarter as Berkshire focused on favorable changes in the mix of originations and runoff. During the year, Berkshire enhanced its loan pricing and return on equity analytics to support its goals for improving overall return on equity and managing in the highly competitive markets that prevailed throughout the year.

Berkshire focuses on growth of its commercial loan portfolio as a fundamental component of its strategy to build middle market business volume and commercial relationships while taking advantage of its size and geographic positioning to gain market share from national banks. The Bank s commercial banking teams operate out of its seven commercial regional offices to provide commercial real estate and commercial and industrial loans together with commercial depository and banking services, as well as insurance and wealth management services. The Bank also has an asset based lending group based in its Burlington, MA office which services the entire footprint. Through team and talent recruitment, the Company expanded its commercial relationship management teams throughout most of its regions in 2014. The Company s growing small business banking team is part of the Bank s retail organization and small business loans are included in commercial loan totals. This team improved its competitive position and was a leader in SBA lending in several of Berkshire s regions in the latter part of the year.

The $311 million, or 15%, increase in commercial loans included a 14% increase in commercial real estate loans and a 17% increase in commercial and industrial loans. Commercial real estate growth of $194 million included $34 million in construction loans, $65 million in commercial multifamily, $18 million in owner occupied properties, and $77 million in non-owner occupied commercial properties. The $117 million increase in commercial and industrial loans included $44 million of asset based lending balances and $73 million of all other commercial and industrial loans. Among the Company s regions, commercial balances increased in a number of regional markets. In the latter part of the year, the Company outplaced certain lower yielding commercial balances and replaced them with higher yielding commercial loans including purchased syndication participations. In the final quarter of the year, the yield on commercial loans was 3.90% before purchased loan accretion, which was a 0.03% increase over the prior quarter. This was the first quarter over quarter increase in this measure for several quarters. Including purchased loan accretion, the commercial yield was 4.19% in the final quarter of the year.

Berkshire originated $561 million in mortgages in 2014, compared to $1.027 billion in 2013. Mortgage market demand slowed following unanticipated rate increases in midyear 2013. Demand has remained softer than the previous robust market, but volume increased in the second half of 2014 due to lower interest rates and some strengthening in the housing market. Residential real estate markets were comparatively strong in Eastern Massachusetts, where the majority of the Company s loan originators are located. The Company originates a significant portion of its mortgages for sale to manage interest rate risk associated with fixed rate mortgages. Mortgages originated for sale totaled $243 million in 2014. Most jumbo mortgages are retained due to the lack of secondary market demand, and much of the Eastern Massachusetts production consists of jumbo mortgages due to elevated home prices in that region. Net of secondary market sales and other wholesale purchases and sales of residential mortgages, the mortgage portfolio increased by $112 million, or 8%, in 2014. Due to ongoing interest rate compression, the yield on the portfolio decreased to 3.88% in the fourth quarter of 2014 compared to 3.98% in the same quarter of 2013. In 2014, Berkshire upgraded its loan origination platform, expanded its loan originations team, and rebranded its mortgage operations as Berkshire Home Lending. Berkshire also has an exclusive mortgage relationship with the Massachusetts Teachers Association which was expanded in 2014 to include certain other services offered by the Company. The Company is targeting to grow the mortgage portfolio but actual growth will depend on market conditions and asset liability management considerations.

Berkshire increased its consumer loan portfolio in 2014 by $77 million, or 11%, as it actively pursued expansion of indirect auto loan originations. Due to less favorable market conditions in the second half of the year, the Company

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scaled back its originations and also sold certain existing loans. At year-end, the Company was not targeting expansion of the indirect auto portfolio in the near term and expected to manage the size of the portfolio based on overall balance sheet management considerations. The home equity loan portfolio increased by $12 million, or 4%, in 2014 which reflected the ongoing modest market demand for this product. The consumer loan portfolio yield decreased to 3.35% in the fourth quarter of 2014, compared to 4.01% in the final quarter of 2013 due to ongoing yield compression and the Company s origination strategies. Towards the end of 2014, the Company changed its strategies, leading to a 1% decrease in the portfolio during the final quarter and a 0.01% improvement in the portfolio yield compared to the prior quarter.

Berkshire s total commitments to originate loans decreased at year-end 2014 compared to the start of the year. This was largely due to a decrease in commercial loan commitments. Berkshire monitors its commercial loan pipeline including loan applications which are viewed as likely to materialize as closed loans. The commercial pipeline generally remained around the $150 million level through the second half of the year and was viewed as stable at year-end. Closed loan originations from the pipeline are sometimes seasonally lower in the first quarter of the year due to weather impacts on borrower activity.

Berkshire favors a profile of net interest income related interest rate risk that is neutral or asset sensitive and accepts a profile of equity at risk which is modestly liability sensitive due to market factors in the ongoing low rate environment. The Bank offers back-to-back interest rate swaps to certain commercial loan customers, which allows the Bank to book a variable rate loan while providing the customer with a contract to fix its interest rate. This allows the Company to be more competitive with national financing sources without booking long-term, fixed rate assets at current low interest rates, as well as providing a source of fee income. At year-end 2014, approximately 37% of the loan portfolio was scheduled to reprice within one year, 24% was scheduled to reprice in one five years, and 39% was scheduled to reprice over five years. The comparable percentages at the prior year-end were 32%, 29%, and 39% respectively. The shift towards more variable rate loans primarily reflected the higher growth in commercial loans and particularly in commercial and industrial loans which are often priced off of the 30 day LIBOR index. The Company estimated that the fair value of net loans exceeded carrying value by approximately 1.1% at year-end 2014, compared to equaling book value at the start of the year. This reflected the benefit of lower interest rates at year-end 2014 and further improvement of the risk profile, which was partially offset by tighter lending spreads and higher assumed prepayment speeds due to the lower interest rates.

Asset Quality. Berkshire has a Chief Risk Officer and a Risk Committee of the Board which keep a close focus on maintaining strong asset quality. This includes setting loan portfolio objectives, maintaining sound underwriting, close portfolio oversight, and careful management of problem assets and potential problem assets. Additionally, merger due diligence is an integral component of maintaining asset quality. Acquired loans are recorded at fair value and are deemed performing regardless of their payment status. Therefore, some overall portfolio measures of asset quality are not comparable between years or among institutions as a result of recent business combinations. A general goal is to achieve significant resolutions of impaired loans acquired in bank mergers in the first year following the acquisition date. Berkshire s asset quality has reflected its strong credit disciplines together with the generally favorable economic characteristics of its footprint among U.S. regions through the last recession and recovery.

Net loan charge-offs were 0.29% of average loans in 2014 and 2013. In 2014, the charge-off rate on loans from business activities was 0.25% and the rate on loans acquired in bank acquisitions was 0.43%. Year-end 2014 non-performing assets decreased to $24 million from $30 million at the start of the year, measuring 0.37% of total assets at year-end. Loans which became non-performing during the year totaled $22 million in 2014, compared to $28 million in 2013. The impact of new non-performing assets was more than offset by resolutions including upgrades, collections, and charge-offs. The ten largest non-performing loans decreased to $9.7 million from $11.8 million during the year and were generally well secured, with $1.0 million in impairment reserves as of year-end. The largest non-performing loan at year-end was $1.9 million. For loans from business activities, the ratio of non-performing loans to total loans decreased to 0.38% from 0.58% during the year.

Loans classified as performing troubled debt restructurings totaled $16.7 million at year-end 2014, compared to $10.8 million at year-end 2013. Loans restructured during the year totaled $10.5 million in 2014, of which $0.1 million subsequently defaulted. In 2013, these amounts totaled $7.8 million and $2.5 million, respectively. Foreclosed real estate decreased in 2014 to $2.0 million from $2.8 million. Accruing loans over 90 days past due improved to 0.10%

of total loans from 0.22%, and loans delinquent 30-89 days decreased to 0.42% of total loans from 0.51%. At year-end 2014, the remaining carrying balance of purchased credit impaired loans was $14 million and the contractual amount owed on these loans was $26 million. The comparable measures at year-end 2013 were $30 million and $53 million, respectively.

In the fourth quarter of 2014, Berkshire entered into an agreement to acquire Springfield Massachusetts based Hampden Bancorp, which has a $513 million loan portfolio including residential mortgage, commercial, and consumer loans. Based on its due diligence, the Company anticipated a credit related discount equating to 2.8% of outstanding loans, which would generally be offset by other premium aspects of the acquired loans. The estimated credit discount was lower than in recent bank acquisitions by the Company and reflected the solid credit performance and characteristics of the Hampden portfolio. Berkshire s general goal is to integrate this portfolio and the lending management of Hampden into its overall operations. Hampden s CEO is expected to become the Regional President for the Pioneer Valley and Connecticut and to further build the combined operations in those markets.

Loan Loss Allowance. The determination of the allowance for loan losses is a critical accounting estimate. The Company s methodologies for determining the loan loss allowance are discussed in Item 1 of this report, and Item 8 includes further information about the accounting policy for the loan loss allowance and the Company s accounting for the allowance in the consolidated financial statements.

The Company considers the allowance for loan losses appropriate to cover probable losses which can be reasonably estimated and which are inherent in the loan portfolio as of the balance sheet date. Under accounting standards for business combinations, acquired loans are recorded at fair value with no loan loss allowance on the date of acquisition. The fair value of acquired loans includes the impact of estimated loan losses for the life of the portfolio, including factors which are not probable or inherent as of the acquisition date, and including subjective assessments of risk. A loan loss allowance is recorded by the Company for the emergence of new probable and estimable losses relating to acquired loans which were not impaired as of the acquisition date. Because of the accounting for acquired loans, some measures of the loan loss allowance are not comparable to periods prior to the acquisition date or to other financial institutions. Loans acquired in business combinations totaled $762 million, or 16% of total loans at year-end 2014, compared to $1.011 billion, or 24% of total loans at the prior year-end.

The total amount of the loan loss allowance increased by $2.3 million to $35.7 million in 2014. The ratio of the allowance to total loans decreased to 0.76% at year-end from 0.80% at the start of the year due to the improved credit profile of the portfolio. The allowance on loans from business activities decreased to 0.84% from 0.93% of related loans, while the allowance on loans acquired in acquisitions remained unchanged at 0.38%. The year-end allowance on total loans provided 2.8X coverage of 2014 net charge-offs and 1.6X coverage of year-end non-accrual loans. At year-end 2013, the comparable measures were 3.0X and 1.2X, respectively. The ratio of the allowance to total loans decreased in 2014 for residential mortgages, commercial real estate, and commercial and industrial loans due to ongoing favorable experience with charge-offs, loan performance, overall credit characteristics, impaired loans, and economic conditions. The ratio of the consumer loan allowance to consumer loans increased due to the higher growth of indirect auto loans compared to lower risk home equity loans in the consumer loan portfolio.

The credit risk profile of the Company s loan portfolio is described in the Loan Loss Allowance note in the consolidated financial statements. The Company s risk management process focuses primary attention on loans with higher than normal risk, which includes loans rated special mention and classified (substandard and lower). These loans are referred to as criticized loans. Criticized loans were reduced in 2014 to $130 million (2.0% of assets) from $165 million (2.9% of assets) due primarily to targeted resolutions of balances acquired in business acquisitions. The Company views its potential problem loans as those loans from business activities which are rated as classified and continue to accrue interest. These loans have a possibility of loss if weaknesses are not corrected. Classified loans acquired in business combinations are recorded at fair value and are classified as performing at the time of acquisition and therefore are not generally viewed as potential problem loans. Potential problem loans totaled $67 million at year-end 2014 compared to $71 million at the prior year-end. The ten largest potential problem loans totaled $51 million at year-end 2014, with the largest such loan totaling $18 million. This asset is an in-market commercial real estate participation loan on a retail/office property on interest-only payment terms during an interim tenant remarketing period. The Company s evaluation of its credit risk profile also compares the amount of criticized loan and foreclosed

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assets to the total of the Bank s Tier 1 Capital plus the loan loss allowance. This ratio was 28% at year-end 2014, compared to 37% at the prior year-end.

The Financial Accounting Standards Board intends to issue final revised standards in 2015 for loan loss estimation pursuant to Proposed Accounting Standards Update (Subtopic 825-15), more commonly referred to as the Current Expected Credit Loss model, or CECL. It is proposed to move from an incurred loss model to a life-of-expected loss model. FASB has proposed to remove the probability threshold, adding forecasting, and requiring more in-depth analysis an d disclosure for the credit loss estimation. It is anticipated that banks will generally carry higher loan loss allowance estimates as a result of this change and that loan loss estimates be made at acquisition date for loans acquired in business combinations. Further analysis of the impacts of this expected change will depend on final implementation rules.

Other Assets. Berkshire received $423 million in cash in January 2014 related to the New York branch purchase. This cash was initially used to fund purchases of investment securities and to reduce borrowings. Additionally, the Company received $5 million in loans and $5 million in premises and other assets with this purchase. Capital expenditure activity in 2014 was routine, including de novo branches and branch relations. As a result of recent restructuring activities certain assets were liquidated, written down, or held for sale at year-end. Berkshire continues to evaluate its branch and premises network to identify potential opportunities to further reduce underperforming locations. In considering restructuring activities, the Company considers revenue and expense impacts and the expected time to payback the restructuring charges, which are normally viewed by the Company as non-operating charges against income. Total intangible assets increased by $6 million to $276 million in 2014. Goodwill increased due to the 2.25% premium paid for the New York deposits. Other intangible assets decreased as scheduled amortization more than offset the core deposit intangible recognized on the acquired deposits. The net deferred tax asset decreased due to the recognition of current items in normal operations.

Deposits. During 2014, the Company adjusted its funding strategies based on the acquisition of the new core deposits, and the diversification of its liquidity sources with brokered deposits. Additionally, the Company s business strategies included reductions in its utilization of municipal deposit sources and changes in the supplemental depositors insurance provided by the Massachusetts Depositors Insurance Fund. The benefits of these strategies included improved liquidity measures, greater flexibility, lower funding costs, and improved asset sensitivity of the asset/liability profile. Berkshire continues to increase its demand deposit account relationships, reflecting its emphasis on promotion of these low cost relationship based accounts. During the third quarter, the Company decided to end its classification of its Tennessee branch as held for sale. As a result, the $23 million in deposits of this branch were reclassified from other liabilities and were included in total deposits.

Total deposits increased by $806 million, or 21%, in 2014. Growth included $440 million in New York deposits acquired in January and a $390 million increase in brokered deposits. Growth since January also included a $118 million increase in commercial deposits to $1.166 billion due to expansion in commercial and business banking. Growth since January was partially offset by a $63 million decrease to $128 million in municipal balances due to a targeted reduction in less profitable relationships. Total demand deposits increased by $191 million, or 28% during the year, including a $94 million, or 12%, increase since January. Berkshire targets demand deposits as a central relationship account and growth of these balances included the benefit of the commercial expansion noted above. The Company does not pay interest on its demand deposit balances.

The total cost of deposits decreased to 0.44% in the fourth quarter of 2014 compared to 0.53% in the same quarter of 2013. The cost of interest bearing deposits decreased by 0.10% over this period, including a 0.02% decrease in the rate paid on non-maturity accounts and a 0.34% decrease in the cost of time deposits to 0.91%. Time deposit costs declined due to the ongoing low interest rate environment and the Company s strategies, including the expansion of brokered time deposits.

Acquired New York deposits totaled $440 million and included $110 million in demand deposits, $80 million in NOW accounts, $124 million in money market deposits, $36 million in savings accounts, and $90 million in time deposits. The balances of New York acquired deposits had decreased between the announcement and completion of this transaction and this was reflected in the lower premium paid. Balances in the acquired branches at year-end were modestly higher than at acquisition date. In the second quarter, the Company merged Berkshire Bank Municipal Bank

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into Berkshire Bank, which had no material impact on the Company s operations. In 2014, the Company began utilizing brokered deposits as an alternative to Federal Home Loan Bank borrowings in order to diversify its funding sources and to achieve better execution of its asset/liability objectives.

Due to the deposit growth, the loans/deposits ratio decreased to 101% at year-end from 109% at the start of the year. On July 11, 2014, the Bank terminated its participation in the Massachusetts Depositors Insurance Fund (DIF). This termination had no impact on the Bank s FDIC insurance and existing deposits continue to be insured by DIF for a transition period. Due to its growth, the Bank would have been required to provide third party reinsurance to DIF, which was determined to be cost prohibitive and which led to the decision to terminate participation in this program. The Company s goal is to grow its total deposits organically through business activities in 2014 and 2015 while it completes this transition from DIF insurance. The estimated amount of uninsured deposit balances totaled $1.1 billion at year-end 2014, compared to $1.0 billion at the prior year-end. The Bank has also begun to offer reciprocal deposits to certain large commercial depositors and money market deposits included $9 million of reciprocal balances at year-end 2014. These reciprocal money market deposits result in 100% deposit insurance for the customer through reciprocal agreements with other FDIC insured banks while also providing deposit sources to Berkshire to fund its operating activities.

The Company opened two de novo branches in 2014 and consolidated four others. In comparison, in 2013 the Company opened one de novo branch and consolidated five branches. During the year, the Company introduced product innovations targeted towards mobile customers and certain other customer segments. The Company s active promotion its various partnerships garnered numerous awards for branch awareness and communications. The Company continues to develop its non-branch relationship channels including private banking, My Banker, and investment services professionals. The Company also manages its small business banking and insurance business operations within the Retail division to promote customer wallet share development.

Berkshire had 91 branches at year-end 2014, which was up from 73 branches at the start of the year due to the New York branch purchase. The proposed acquisition of Hamden will add another 7 branches in the Springfield area, net of three Hampden branches targeted for consolidation shortly after the merger. Excluding acquired and consolidated branches, deposit growth was generally flat in existing branches open more than one year as of mid-year 2014. Growth was strongest in new markets in Massachusetts and the Albany area, including de novo branches and commercial relationship growth. Deposits in certain branches in Western Massachusetts and Central New York decreased as a result of the strategic changes previously discussed for municipal and higher cost accounts. The Company s market share increased in most of the MSA s in which it operates based on this June data. In most of these MSA s the Company had a leading position among regional banks servicing these markets as of that measurement date. The average branch size at mid-year was approximately $45 million in deposits, which was down from $48 million a year earlier. This decrease was due to the smaller branches acquired in New York, which have lower deposit costs and higher fee income in mostly rural markets. Deposit growth of 4% in the second half of 2014 drove an increase in average branch size to approximately $47 million by year-end.

Borrowings and Other Liabilities. Berkshire utilizes borrowings to manage short term liquidity, to provide overnight funding for targeted asset classes, as medium term funding for portions of the loan portfolio, and for qualifying regulatory capital to support overall balance sheet soundness. Most outstanding borrowings are from the Federal Home Loan Bank of Boston, but the Bank and the holding company also utilize other established short term funding sources. The Company balances the flexibility and cost advantage of short term borrowed funds with strategic objectives for deposit funding and liquidity. All FHLBB borrowings are variable rate (within one year), and Berkshire uses interest rate swaps to fix the interest rate on a portion of this indebtedness.

The Company also used acquired and brokered deposits to fund asset growth in 2014. Brokered deposits have been used as an alternative wholesale source of funds, sometimes offering more attractive short term fixed rate funding compared to borrowings from the Federal Home Loan Bank. Total borrowings decreased by $12 million, or 1%, to $1.052 billion during the year. The $440 million in funds received for acquired deposits was initially utilized to reduce FHLBB borrowings, including $235 million in three month revolving advances that the Company elected to extinguish. With this extinguishment, the Company terminated all of its cash flow interest rate swaps which were related to these three month revolving advances and which had a total notional balance of $410 million including both currently effective and forward starting swaps. During the first quarter, the Company borrowed new short term

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advances to fund growth in earning assets, and short term advances and brokered deposits were further utilized in the second quarter to fund loan growth. Including the benefit of the borrowings and hedges restructuring, interest expense for borrowings decreased by to $9.2 million in 2014 from $14.1 million in the prior year. The cost of borrowings decreased to 0.85% in the fourth quarter of 2014, compared to 1.69% in the same quarter of 2013.

Other liabilities increased slightly to $86 million at year-end 2014, compared to $82 million at the start of the year. Liabilities were reduced by the aforementioned reclassification of the Tennessee branch from held for sale. This was mostly offset by an increase in balances due on purchased commercial loan participations which were settled shortly after year-end. Additionally, there was an increase on the fair value liability of derivative financial instruments due primarily to the impact of lower interest rates on the value of the Company s fixed payment interest rate swap contracts.

Derivative Financial Instruments and Hedging Activities. Berkshire utilizes derivative financial instruments to manage the interest rate risk of its borrowings, to offer these instruments to commercial loan customers for similar purposes, and as part of its residential mortgage banking activities. The instruments sold to commercial and residential mortgage customers are an important source of fee income. Demand for these products tends to vary inversely with the direction of interest rates, and they are more popular when interest rates are decreasing and customers wish to lock in long term fixed interest rates that the Company cannot offer directly based on its own funding sources.

The notional value of derivatives totaled $1.035 billion at year-end 2014, which was up from $905 million at the start of the year. Cash flow hedges decreased by $125 million as a result of the hedge restructuring implemented in the first quarter of the year. At the start of the year, the Company had $410 million in FHLBB borrowings hedges averaging a 3.8 year maturity, a 1.4 year forward start, and a 2.15% forward pay rate. At year-end, the Company had $300 million in forward starting FHLBB borrowings hedges averaging a 4.3 year maturity, a 1.3 year forward start, and a 2.29% forward pay rate. These swaps lock-in higher future borrowing costs and they provide protection in the event that interest rates rise more than anticipated. The $2.1 million fair value liability on FHLBB borrowings swaps at year-end 2013 was a component of the loss recorded in the first quarter for the termination of hedges. At year-end 2014, there was a $3.3 million fair value liability on outstanding FHLBB borrowings swaps due to the unanticipated decrease in long term interest rates near the end of the year.

Changes in economic hedges related to commercial loan interest rate swaps and in hedges related to mortgage banking operations reflected increased business volumes during the year. Total commercial loan interest rate swaps increased by $90 million, or 43%, to $297 million during 2014 and were a component that contributed to the strong commercial loan growth during the year. The Company recorded $46 million in risk participations with dealer banks in the final quarter of 2014 representing interest rate swaps associated with purchased commercial loan participations acquired during the period. The notional value of derivative financial instruments related to residential mortgage banking increased by $29 million, or 35%, to $82 million at year-end 2014 compared to the start of the year due to higher pipeline volume.

The net fair value liability associated with derivative financial instruments increased to $6 million at year-end 2014 from $4 million at year-end 2013 due primarily to the liability on cash flow hedges as a result of the decrease in interest rates near year-end.

Stockholders Equity. Berkshire pursues a balance of capital to maintain financial soundness while using common equity efficiently with the goal to produce a strong return on equity and book value growth as a basis for shareholder value creation. A sound capital structure reduces risk and enhances shareholder return and access to capital markets to support the Company s banking activities and the markets that it serves. In its payment of dividends, management of treasury shares, issuance of equity compensation, and balancing of capital sources, the Company strives to achieve a capital structure that is attractive to the investment community and which satisfies the policy and supervision purposes of the Company s regulators. When Berkshire negotiates business combinations, it generally expects to use its common shares as a significant component of merger consideration and to balance the mix of cash and stock to arrive at a targeted capital ratio based on the characteristics of the combined banks. All of the Company s equity is owned by common stockholders and its stock is listed on the New York Stock Exchange.

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Stockholders equity increased by $31 million, or 5%, to $709 million in 2014. The charge to first quarter income for the swap terminations was offset by an equivalent credit to other comprehensive income and therefore resulted in no net impact to stockholders equity. The increase in equity included the benefit of retained earnings as well as other comprehensive income resulting from unrealized securities gains due to the decrease in medium term interest rates during the year to date.

Due to the deposit acquisition and loan growth, the ratio of equity to assets decreased to 10.9% from 12.0% during the year. The ratio of tangible equity to assets decreased to 7.0% from 7.5%. Tangible equity is a non-GAAP financial measure commonly used by investors and it excludes goodwill and other intangible assets. The Company was within the range of 7 8% that it generally targets for this measure and also considers its return on tangible equity as a source of capital strength for improving its condition and supporting its growth.

Berkshire s total shares outstanding increased by 1% to 25.2 million in 2014 as issuances for option exercises and equity compensation were partially offset by treasury stock repurchases. Book value per share increased by 4% to $28.17, while tangible book value per share increased by 6% to $17.19. The Company paid out $0.72 in dividends in 2014, which equated to a 3% return on beginning book value per share and a 5% return on beginning tangible book value. Shortly after year-end, the Board voted to increase the quarterly shareholder dividend by 6% to $0.19 per share. The 2014 dividend equated to a 53% payout of earnings, which were net of non-operating charges primarily related to the branch acquisition.

In 2014, Berkshire Bank s total risk based capital ratio decreased to 10.8% from 11.6% and its Tier 1 risk based capital ratio decreased to 9.2%. The Company converted its holding company status to a bank holding company after midyear and began reporting consolidated holding company capital measures for the first time as of September 30, 2014. At year-end 2014, the Company s consolidated total risk based capital ratio measured 11.4% and the Tier 1 risk based capital ratio measured 9.0%. For both the Bank and the Company, the regulatory capital ratios exceeded the regulatory minimums for the Well-Capitalized designation.

Beginning in the first quarter of 2015, new regulatory capital measures are being phased in by federal regulatory authorities for both the Bank and the Company. The Company expects to maintain its Well-Capitalized designation as determined by these measures as they become effective. At year-end 2014, the Company had a pending agreement to acquire Hampden Bancorp which is intended to be funded with 100% common stock consideration. The Company plans that this acquisition will be accretive to its capital ratios and return on equity.

COMPARISON OF OPERATING RESULTS FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

Summary: Berkshire s results in 2014 included the New York branch operations acquired on January 17, 2014. As a result, many measures of revenue, expense, income, and average balances increased compared to prior periods.

As noted previously, Berkshire uses a non-GAAP measure of adjusted net income to supplement its evaluation of its operating results. Adjusted net income excludes certain amounts not viewed as related to ongoing operations. These non-operating items consist primarily of merger, conversion, and restructuring expenses, together with gains recorded on securities and investments in acquired banks. Berkshire views its net merger related costs as part of the economic investment for its acquisitions. Conversion expenses were primarily related to changes following the core systems conversion in 2012 which is a long term investment in the Company s operating infrastructure. These investments are intended to contribute to long term earnings growth and franchise value.

In 2013, changes in market conditions resulted in a downturn in mortgage banking revenue and accelerated runoff of acquired impaired and non-relationship loans. Quarterly earnings per share decreased to $0.33 in the third quarter of 2013 from $0.48 in the second quarter of 2013. Management reorganized and restructured its expenses in the second half of the 2013, and quarterly earnings improved to $0.42 per share in the fourth quarter of 2013. Berkshire leveraged its expanded footprint in 2014 with the New York branch purchase and strong loan growth, and earnings per share improved further to $0.46 in the fourth quarter of 2014. Adjusted earnings per share advanced to $0.48 in this quarter, which was a 20% improvement from $0.40 per share in the fourth quarter of 2013. In 2014, the Company developed revenue synergies, operating efficiencies, and improved product and service capabilities based on the combination of its larger footprint and enhanced infrastructure.

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Full year net income totaled $33.7 million, or $1.36 per share, in 2014 compared to $41.1 million, or $1.65 per share, in the prior year. These full year changes were the result of the quarterly changes discussed above. Berkshire s adjusted net income measured $1.80 per share in 2014, which was down slightly from $1.87 in the prior year. As noted above, quarterly operating results had rebounded significantly by the end of 2014 while not yet fully recovering to the level of earnings prior to the revenue decline around midyear 2013. The return on equity in the final quarter of 2014 improved to 6.5% and the return on assets improved to 0.71%.

The Company targets to continue earnings growth based on positive operating leverage resulting from organic volume growth, disciplined expense management, and the targeted accretive benefits of the pending acquisition of Hampden Bancorp. Berkshire plans to benefit from market share growth based on the contribution of recruited commercial banking teams as well as expanded sales teams and cross sale activity in most of its business lines.

Total Net Revenue. Berkshire evaluates its top line with the measure of net revenue, which is the sum of net interest income and non-interest income. The Company also evaluates net revenue before non-operating security gains/losses and nonrecurring items in order to evaluate the success of its operations. A critical focus of Berkshire s strategy is to produce positive operating leverage by growing operating revenue at a higher pace than operating expenses. Berkshire also measures revenue per share to assess the accretion to shareholder value potential based on the Company s growth initiatives.

Total net revenue was approximately $226 million in both 2014 and 2013. Annualized net revenue improved to $243 million in the final quarter of 2014, or $9.77 per share. Excluding net securities gains, this represented an increase of 17%, or $35 million, from annualized net revenue in the final quarter of 2013 and was also a 3% increase over the similar measure in 2012. The growth in 2014 included approximately $16 million in anticipated revenue benefit from the acquired New York branches as well as approximately $5 million in benefit from lower borrowing costs related to the hedge termination. Management estimates that fourth quarter revenue increased by approximately 8% from organic growth and business expansion in 2014 from 2013 including volume related increases in both net interest income and fee revenue.

Net Interest Income. Berkshire targets growth in net interest income based on increased business volumes related to market share gains in its markets. The Company also regularly evaluates the use of securities investments to contribute to income and profitability. The Company evaluates changes in balances and average balances of interest bearing assets and liabilities, along with changes in yields and costs, in evaluating its net interest income. Because of changes in interest rates, the Company primarily focuses on year over year fourth quarter changes in yields and costs in evaluating the results of changes in condition and operating results related to the net interest margin. Net interest income increased by $10 million, or 6%, in 2014 compared to 2013 due to the benefit of growth, which was partially offset by a lower net interest margin including the impact of lower purchased loan accretion.

Gross interest income increased by $3 million, or 2%, in 2014 compared to 2013. The average balance of earning assets increased by 18%, which was mostly offset by a decrease in the net interest margin to 3.26% in 2014 from 3.63% in 2013. Total loan interest income decreased by $12 million, or 6%, but this was more than offset by a $15 million, or 85%, increase in securities and other interest income as acquired New York deposits were initially used to fund growth in the securities portfolio. The decrease in loan interest income was due to lower average yields. While average loan balances increased by 11%, the average loan yield decreased to 3.98% in 2014 from 4.69% in 2013. By the fourth quarter, yield compression had decreased and based on ongoing volume growth, fourth quarter loan interest income increased by 5% over the same period in 2013.

Net interest income includes purchased loan accretion on loans acquired in business combinations. This consists primarily of recoveries of accretable and nonaccretable yield arising from the collection of acquired impaired loans, together with amortization of accretable yield.

Purchased loan accretion totaled $6.7 million in 2014, which was down significantly from $18.1 million in 2013 due to the seasoning of the portfolio. Purchased impaired loans totaled $14 million at year-end 2014, which was 54% of the contractual balance of $26 million of these loans. The unamortized balance of net accretable yield on impaired loans was $2.5 million at year-end 2014 compared to $2.6 million at the start of the year. The prospect for additional recoveries of accretable and/or non-accretable yield on future collections of acquired impaired loans is unpredictable but is expected to contribute positively to net interest income due to

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ongoing favorable conditions for resolving these loans. At year-end 2013, the carrying amount of purchased credit impaired loans totaled $30 million, which was 57% of the contractual balance of these loans. Based on its initial analysis of the pending Hampden Bancorp portfolio to be acquired, the Company estimated that purchased impaired loans would be recorded with a $14 million credit related discount (2.8% of outstanding loans) of which approximately half would be accretable and half nonaccretable. The actual amount to be recorded will depend on conditions at the time this acquisition is completed.

Changes in the yields and costs of earning assets and funding liabilities were discussed previously in the discussion of changes in financial condition. The overall yield on earning assets decreased to 3.73% in the fourth quarter of 2014 from 3.97% in the fourth quarter of 2013. Excluding purchased loan accretion, the yield decreased to 3.62% from 3.73%. The cost of funds decreased to 0.52% from 0.73% including the benefit of the hedge terminations in the first quarter. Through its balance sheet management, Berkshire was able to offset the earning asset yield compression so that the fourth quarter 2014 net interest margin of 3.23% was only down by 0.03% compared to 3.26% in 2013. Excluding purchased loan accretion, the fourth quarter margin improved to 3.12% from 3.07% in those same periods. The Company expects that the net interest margin will decline in 2015 due to the further run-off of purchased loan accretion, but its goal is to avoid further compression of the margin before accretion and to continue to pursue shifts in the asset mix to benefit the margin. Additionally, the Company s goal is that both the Hampden acquisition and any future interest rate increases will benefit the net interest margin. The Company is also monitoring the expected increase to interest expense when its forward starting interest rate swaps become effective in the first half of 2016, with the goal of continuing to support overall earnings growth through the combination of its business activities.

Non-Interest Income. Most of Berkshire s non-interest income is fee income, which generally represents business conducted with customers in Berkshire s markets. The Company pursues growth in market share and wallet share across its business lines, including banking, insurance, and wealth management. In commercial banking, Berkshire pursues commercial and industrial loans with relationships that provide non-interest bearing demand deposit balances and that utilize fee services including electronic banking and cash management services.

Fee income increased by $3 million, or 6%, in 2014 compared to 2013. Fourth quarter fee income increased by $2 million, or 17%, from year to year. This included an estimated $1 million related to the branch purchase and $1 million related to all other factors. All major categories of fee income were up year-over-year in the fourth quarter due to Berkshire s growth. For the full year, most categories were up except for mortgage banking fee income and other loan related fee income. Due to a spike in interest rates, mortgage banking revenues declined sharply around midyear 2013 from elevated levels that have not recurred and are not expected to recur.

Deposit related fees increased by $6 million, or 34%, to $25 million in 2014, including an estimated $4 million related to the New York branch acquisition. These branches acquired from a national bank had a higher rate of fee income generation compared to the Company s existing deposits. Accordingly, the annualized ratio of deposit fee income to average deposits increased to 0.54% in the fourth quarter of 2014 compared to 0.48% in the same quarter of the prior year. Deposit fees in 2014 included $10 million in overdraft income, $8 million in card fee income, and $7 million in service charge income.

Mortgage banking income decreased by 51% to $2.6 million in 2014 from $5.2 million in the prior year. Berkshire s mortgage banking revenue is recorded on interest rate lock commitments related to loans originated for sale. The volume of these commitments was $304 million in 2014. The Company recorded 2.12% in gross revenue on these commitments and 0.84% net of direct costs of origination in 2014. Wealth management revenue increased by 10% in 2014 to $9.5 million from $8.7 million, including the benefit of higher market prices for assets under management. Total wealth assets under management increased to $1.4 billion from $1.3 billion in 2014.

In addition to fee revenues, non-interest income included an $8.8 million loss recorded on the termination of hedges in 2014 and net securities gains totaling $4.8 million in 2013. The securities gains in 2013 were primarily related to the sale of bank equity securities to realize strong market appreciation on these securities. The hedge termination loss in 2014 was a result of the branch aquisition and is further described in the notes to the financial statements. This loss was the recognition of a fair value loss already recorded in equity and therefore had no direct impact on shareholders equity when it was recorded.

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All other non-interest income totaled $2.6 million in 2014 and $2.9 million in 2013. Results in 2014 included $3.1 million recorded for the accrual of earnings on bank owned life insurance and were net of $1.5 million in charges representing the book loss on tax shelter investments. These losses are more than offset by tax credit benefits as described in the later section on income tax expense.

Provision for Loan Losses. The provision for loan losses is a charge to earnings in an amount sufficient to maintain the allowance for loan losses at a level deemed adequate by the Company. The level of the allowance is a critical accounting estimate, which is subject to uncertainty. The level of the allowance was included in the discussion of financial condition. The provision for loan losses totaled $15.0 million in 2014, compared to $11.4 million in 2013. The provision for loan losses exceeded net loan charge-offs in both years, and resulted in an increase in the allowance for loan losses related to growth in the loan portfolio during the year.

Non-Interest Expense. Berkshire s goal is to generate positive operating leverage, growing revenues through market share expansion and maintaining expense management disciplines. Non-interest expense increases have generally been related to the Company s growth, including the impact of acquisitions. Expense results also include merger and systems conversion costs that the Company views as economic investments in franchise expansion and infrastructure development and not related to current operations. Non-operating expenses have also included restructuring costs to write-off contracted costs related to operations scaled back following the revenue decrease in 2013 as well as ongoing costs to optimize the branch network in light of market changes for branch services based on the emergence of mobile banking as well as changes in customer access patterns. The Company also incurs current costs for team recruitment, de novo branch expansion, and technology and process development as part of its long term strategy to occupy a leading position as a regional provider in its footprint.

Total non-interest expense increased by $9 million, or 5%, in 2014. The Company estimated that it added approximately $13 million in annual expense related to the New York branch purchase. Total merger, restructuring, and conversion expense decreased by $6 million to $8 million in 2014. The Company estimated that total non-interest expense increased approximately 2% before the impacts of the branch purchase and the changes in merger, restructuring, and conversion expense. The Company measures its non-interest expense in relation to average assets. Total non-interest expense decreased to 2.69% of average assets in 2014 from 2.97% in 2013. The Company s non-GAAP measure of operating non-interest expense decreased to 2.55% of assets from 2.68% for these respective periods, and decreased further to 2.49% in the fourth quarter of 2014.

Expense growth was mostly in the primary operating expense components of compensation, occupancy, and technology. In total, these costs increased by $17 million, or 16%, in 2014. Excluding the costs related to the acquired branches, these costs were up an estimated 3% for the year. All other operating costs were down $1.3 million in 2014 compared to 2013 due to a $2.4 million decrease in professional services from elevated levels in 2013.

Merger, restructuring and conversion expense totaling $8.5 million in 2014 included $5.4 million in merger charges related primarily to the branch acquisition, including professional fees and integration costs with related compensation. Restructuring and conversion expenses totaled $3.1 million and included charges related to the Bank s charter change in the third quarter, together with costs for financial systems and certain branch closings and property liquidations. The higher $14.8 million in costs in 2013 were due primarily to the integration of the acquired operations of Beacon Federal Bancorp and the enterprise expense restructuring project that was initiated in the third quarter of that year.

Full time equivalent staff totaled 1,091 at year-end 2014, compared to 939 at the prior year-end. This increase included an estimated 92 positions related to the acquired New York branch operations and an additional 6% increase in total staff related to the Company s business growth and expansion, including targeted investment in commercial, retail, and wealth management market teams.

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Income Tax Expense. Berkshire utilizes several tax strategies which allow the Company to operate in a tax effective manner and deliver tax savings. As a result, the Company s effective tax rate is lower than the 40% statutory rate based on the federal and state income taxes in its market area. The Company participates in federal and state tax credit programs and other tax advantaged investment opportunities which are encouraged under the Internal Revenue Code. The Company has also established security corporation subsidiaries and, through its subsidiaries, purchases tax exempt bonds. In 2014, the Company increased its resources in its tax management function and is pursuing additional opportunities to develop tax effective strategies which will deliver additional tax benefits and tax savings based on its expanded footprint and operating activities.

The effective income tax rate was 26% in 2014 and 29% in 2013. Of note, the 29% effective tax rate in 2013 included a 3% benefit from the reduction of a valuation allowance which was not recurring in 2014. The 2013 effective tax rate was 32% before this benefit. The reduction in the effective tax rate to 26% in 2014 was primarily due to the lower pre-tax income related to branch acquisition costs and the related hedge termination costs. As a result, the Company had greater proportionate benefit related to tax exempt investment income, income on bank owned life insurance, and tax credit benefits. The Company also benefited from further investment in these tax advantaged items during the year.

The Company reports adjusted earnings per share excluding items deemed non-operating during the year. The effective tax rate on these adjusted earnings per share was estimated to be 30% and is viewed by the Company as the effective rate related to its operating activities. This rate was higher than the 26% GAAP tax rate due to the lower proportionate benefit of tax advantaged items compared to the estimated operating pretax income.

The planned acquisition of Hampden Bancorp in 2015 is targeted to increase adjusted operating income which could potentially lead to a higher effective tax rate as a result of a lower proportionate benefit from tax advantaged items. The planned acquisition is also expected to generate non-operating merger costs which will reduce GAAP pre-tax income compared to adjusted operating income and therefore is expected to result in a GAAP tax rate which will be less than the operating tax rate.

The Company views investment tax credits as an increasingly important aspect of its overall operating and financial strategy for building customer relationships and contributing to profitability. The Company s effective tax rate in 2014 included a $1.7 million (3.6%) benefit from investment tax credits. This credit more than offset the $1.5 million non-cash charge against non-interest income previously discussed regarding book losses on tax credit investments. The Company estimated that its net after-tax benefit to earnings related to its tax credit investments was $0.8 million in 2014. During the year, the recorded balance of tax credit investments increased to $9.0 million from $5.8 million due primarily to one new investment in a New York rehabilitation project financed by the Company. This project is expected to provide additional benefit to the Company s tax rate beginning in 2015. The average balance of assets related to tax credit investments was $12.6 million in 2014, including$5.8 million in related deferred tax assets. These assets are expected to be realized based on operating income and capital gains activities in future years.

Pro Forma Earnings. For purposes of illustration, the notes to the consolidated financial statements include selected unaudited pro forma financial information reflecting the New York branch acquisition assuming it was completed as of January 1, 2013. This information is qualified by the assumptions presented in the financial statement notes. . Pro forma results include estimated after-tax benefits of the acquired branch operations, including additional operating revenues and net of related expenses. In 2014, actual results include the effect of acquired operations since the January 17, 2014 acquisition date and pro forma results include estimated effects of acquired operations for the full year. Management believes that the pro forma results generally reflect the estimated benefit of these acquired branches to ongoing operations.

The pro forma earnings per share were estimated at $1.67 in 2014 compared to actual results of $1.36. Pro forma earnings exclude approximately $0.31 per share in net after-tax merger related costs which were recorded in 2014 (including related hedge termination costs) as well as estimated operating results for the period in 2014 prior to the January 17 acquisition date. Pro forma earnings per share in 2013 were estimated at $1.74 compared to actual results of $1.65 and include the estimated benefit of acquired branch operations including the benefit of two branch consolidations which were specified in the acquisition agreement

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Results of Segment and Parent Operations. Berkshire Hills Bancorp (the Parent) has two subsidiary operating segments banking and insurance. Results in the banking segment generally followed the levels and trends of consolidated results, which have been previously discussed. In the insurance segment, net income increased by 11% to $1.3 million as a result of a 4% revenue increase on a flat expense base. The pretax profit margin was 22% in this segment in 2014.

The Parent s net interest income included dividends from the banking and insurance segments as well as undistributed earnings of these segments. Parent non-interest expense included administrative expense and professional fees related to acquisitions. Most of the Parent s revenues are non-taxable revenues from subsidiaries, and the Parent therefore receives a tax benefit related to the taxable loss generated by its expenses.

Total Comprehensive Income. Berkshire s total comprehensive income in 2014 was $49 million, which was the highest level recorded in the last three years. The $7 million decrease in net income was more than offset by the $22 million improvement in total other comprehensive income which resulted from the impact of market interest rate changes on the prices of available for sale securities and derivative financial instruments. In 2013, interest rates increased, as evidenced by the increase in the ten year U.S. treasury interest rate from 1.78% at the start of the year to 3.04% at the end of the year. As a result, securities prices decreased, which was partially offset by a reduction in the net fair value liability on the Company s fixed payment interest rate swap contracts. In 2014, the ten year treasury declined to 2.17% at year end. The above pricing impacts were reversed, which benefited comprehensive income. At current low interest rates, total comprehensive income is highly sensitive to interest rate changes, and the market remains volatile. Berkshire manages its overall interest rate risk which includes numerous factors beyond those measured by comprehensive income. Berkshire has positioned itself to benefit net income from expected future interest rate increases. However, such increases may offset the net income benefit as a result of the same kinds of pricing changes that were observed in 2013.

Quarterly Results. Quarterly results for 2014 and 2013 are presented in a note to the consolidated financial statements. Quarterly results were affected by the revenue downturn in 2013 and subsequent actions to improve profitability. Quarterly results have also been affected by purchased loan accretion and by revenues and expenses that the Company views as non-operating. As a result, quarterly results have been unusually volatile. The Company also evaluates adjusted earnings on a quarterly basis to supplement its understanding of operating trends. Based on these evaluations, the Company believed that its operating results were lowest in the fourth quarter of 2013 and that operations have been more profitable on an adjusted basis sequentially in each quarter of 2014 although not yet back to levels prevailing at the start of 2013.

In 2014, revenue and expense increased in the first quarter due to the addition of the acquired New York branches. First quarter non-interest income and expense were significantly affected by merger related net charges. As a result, the Company recorded a net loss in the first quarter. Total revenue increased sequentially in each of the next three quarters as business volume growth more than offset a gradual tightening in the net interest margin due to changes in purchased loan accretion and ongoing asset yield compression. The net interest margin increased to 3.23% from 3.20% in the final quarter. Excluding non-operating charges, non-interest expense was generally flat through mid-year. Operating expenses increased due to growth in the fourth quarter, and the Company also recorded merger charges related to the pending acquisition of Hampden Bancorp. As a result, net income decreased slightly in the final quarter after rising in the second and third quarters. Fourth quarter net income of $0.46 per share was 10% higher in 2014 compared to 2013 due to the ongoing benefit of positive operating leverage generated by revenue growth driven by higher volumes.

In 2013, quarterly income reached $0.48 per share in the second quarter following a result of $0.42 per share in the first quarter which included merger related charges for the integration of Beacon Federal Bancorp (which was acquired in the fourth quarter of the prior year). A revenue decline emerged around midyear due to falling demand for residential mortgages and runoff of higher yielding acquired impaired loans. Third quarter total revenues nonetheless increased due to unusually high recoveries on the collection of acquired impaired loans, but fourth quarter revenues were down from quarterly revenues in the first half of the year due to the ongoing decline in mortgage revenue and acquired loan income. The Company promptly undertook an expense restructuring project in the third quarter, although total non-interest expense increased due to the non-operating charges recorded for this program. The benefit of this program was

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seen in the fourth quarter, when non-interest expense was the lowest quarterly result of the year. The restructuring charges in the third quarter drove net income down to $0.33 per share, and results rebounded to $0.40 per share in the final quarter of the year as volume growth and expense restructuring began to offset the impacts of the revenue decline.

COMPARISON OF OPERATING RESULTS FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

Summary. Net income increased by $8.0 million (24%) to $41.1 million in 2013. Earnings per share increased by $0.16 (11%) to $1.65. Berkshire s results in 2013 included a full year of operations for Beacon Federal (acquired in October 2012) and CBT The Connecticut Bank and Trust Company (acquired in April 2012). As a result, most categories of revenue, expense, income, and average balances increased due to these acquisitions in addition to organic growth from business activities.

During 2013, results were adversely affected by events in the first half of the year. An industry-wide downturn in mortgage banking revenues began near midyear due to a sharp increase in long term interest rates. Additionally, commercial lending revenues were adversely impacted by accelerated outplacements of acquired impaired and non-relationship loans due to institutional demand for these lower quality assets. The near term impact of these events was partially offset by recoveries recorded to interest income through purchased loan accretion for collections of acquired impaired loans. In response to these events, management initiated a restructuring program in the second half of the year, recording restructuring charges and lowering operating expenses. As a result of these events, net income decreased by 17% to $18.6 million in the second half of the year from $22.5 million in the first half of the year. Earnings per share decreased to $0.75 from $0.90 for these respective periods. Operating results in both years were also affected by merger, conversion, and restructuring expenses, together with gains recorded on securities and investments in acquired banks. Berkshire views its net merger related costs as part of the economic investment for its acquisitions. Conversion expenses were primarily related to the core systems conversion in 2012 which is a long term investment in the Company s operating infrastructure.

Total Net Revenue. Total net revenue increased by $29.5 million (15%) to a record level of $227.0 million in 2013 due to the benefit of business combinations and organic growth. Net revenue per share increased by 3% to $9.09 in 2013 from $8.84 in 2012. Fee income decreased to 22% of net revenue in 2013 from 26% in the prior year due to the decrease in mortgage banking income. Net revenue ended the year at a fourth quarter annualized run rate of approximately $222 million, which was a 7% decrease from the fourth quarter of the previous year due to a 10% impact from the decrease in mortgage revenues from the record level achieved in the fourth quarter of 2012. Annualized fourth quarter revenue per share decreased by 9% to $8.94 from $9.78.

Net Interest Income. Total net interest income increased by $25.4 million (18%) to $168.8 million in 2013 due to the growth in average earning assets. Interest income in 2013 also included a $1.3 million credit for an out of period adjustment. The full year net interest margin increased slightly to 3.63% in 2013 from 3.62% in the prior year. Fourth quarter net interest income decreased by 5% from year to year, measuring $159 million on an annualized basis in the final quarter of 2013. The fourth quarter net interest margin decreased to 3.26% from 3.67%.due to the aforementioned yield compression in 2013.

In 2013, total loans increased by 5%, which was below the Company s targets. This was due in part to the 26% runoff of higher yielding loans acquired in business combinations which was addressed in the previous discussion of changes in financial condition. This affected net interest income, together with Berkshire s increased use of lower yielding investment securities as well as changes in loan mix and yield in the ongoing low interest rate environment. Total average earning assets increased by 17% in 2013 compared to 2012, including the full year benefit of business combinations.

Due to the Company s workout activities and the premium market values for lower grade assets in 2013, total purchased loan accretion increased to $18.1 million in 2013 from $6.3 million in 2012. Accretion in 2013 included $17.2 million related to commercial loans and $2.4 million for consumer loans, less a charge of $1.5 million for residential mortgages. The unamortized balance of net accretable yield on impaired loans decreased by $5.7 million to $2.6 million at the end of 2013. At year-end 2013, the carrying amount of purchased credit impaired loans totaled $30

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million, which was 57% of the contractual balance of these loans. At year-end 2012, the carrying amount was $62 million, which was also 57% of the contract balance of $108 million at that date. These balances decreased during 2013 due to active collection activities on these loans.

The yield on loans decreased to 4.26% in the fourth quarter of 2013 from 4.73% in the fourth quarter of 2012. The loan yield was 4.02% in the fourth quarter of 2013 excluding the benefit of purchased loan accretion, which totaled $2.4 million during that quarter, compared to $3.2 million in the same quarter of 2012. The fourth quarter yield on investment securities decreased to 2.72% from 3.17% from year to year, reflecting portfolio growth in the low rate environment. The cost of funds decreased to 0.73% from 0.84% including the impact of greater utilization of low cost short term borrowings together with ongoing reductions in deposit costs to 0.53% from 0.59%. The quarterly net interest margin excluding loan accretion measured 3.07% in the final quarter of the year.

Non-Interest Income. Non-interest income increased by $4.2 million (8%) to $58.2 million in 2013, including a $0.5 million out-of-period credit. Fee income decreased by 1% and the increase in non-interest income was due to gains on equity securities and increased income from bank owned life insurance. The small decrease in fee income resulted from the 58% reduction in mortgage banking revenue, which was mostly offset by other revenue, including a full year benefit from acquired operations.

The sharp industry-wide contraction in mortgage demand near mid-year was discussed in earlier sections. This followed record volumes in the prior year. The Company had anticipated a more gradual return to normalized market volumes and planned a gradual expansion of future operations to partially offset gradual market changes. The sharp spike in rates depressed revenues more than the Company anticipated. Mortgage banking revenue decreased by $7.2 million in 2013 to $5.2 million due to lower volume and margins. Mortgage operations were restructured in the third quarter, and the Company expanded its recruitment of sales teams in the final quarter and continuing into 2014. In the final quarter of 2013, the gross gain on sale margin was approximately 2.02%, compared to 2.21% in the prior quarter. Mortgage banking revenues also varied from quarter to quarter depending on the volume of mortgages retained for portfolio. In the second half of the year, due to the rise in rates on 30 year fixed rate mortgages, the Company promoted 10/1 adjustable rate mortgages which were retained for the portfolio.

Loan and deposit fee income increased in 2013, including the benefit of the acquired Beacon operations. Loan fee income increased by $3.1 million (60%) to $8.2 million, including $3.9 million in loan servicing revenues, $1.6 million in commercial loan interest rate swap fees, and $1.5 million in revenue from seasoned loan sales. Deposit fees increased by $2.7 million (18%) to $18.3 million. These fees measured 0.47% of average deposits in 2013, compared to 0.45% in the prior year. Included in these fees were overdraft fees which measured 0.20% of average deposits, compared to 0.18% in the prior year. Wealth management fees increased by $1.4 million (19%) to $8.7 million in 2013, including the benefit of improved securities market prices together with organic account growth. Total wealth and investment assets under management increased in 2013 to $1.3 billion at year-end. Insurance revenues decreased by $0.8 million (7%) to $10.0 million due to volume and pricing conditions.

The Company recorded $4.8 million in securities gains in 2013 due to the sale of community bank common stock to realize gains as a result of strong market price appreciation in 2013. The category of other non-interest income increased by $1.6 million to $2.9 million in 2013. This category included $3.6 million in 2013 for bank owned life insurance and $0.7 million in book losses on tax credit limited partnerships with an offsetting $0.9 million credit to income tax expense.

Provision for Loan Losses. The provision for loan losses totaled $11.4 million in 2013, compared to $9.6 million in 2012. The provision for loan losses exceeded net loan charge-offs in both years, and resulted in an increase in the allowance for loan losses that was generally related to higher reserves on loans acquired in prior year business combinations as previously reported in the loan loss allowance discussion.

Non-Interest Expense. Total non-interest expense increased by $16.6 million to $157.4 million in 2013 including the full year impact of operations acquired in 2012. This 12% increase was lower than the 15% revenue increase. As a result of the restructuring program, the total of compensation/occupancy/technology expense decreased by 7% in the fourth quarter compared to the second quarter, and by 9% compared to the fourth quarter of 2012. Fourth quarter annualized non-interest expense decreased to 2.70% of average assets in 2013 compared to 3.40% in the prior year.

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Expense included total merger, conversion, and restructuring expense totaling $14.8 million in 2013 and $18.0 million in the prior year. The Company does not view this expense as relating to future ongoing operating expense. Net of this expense, total fourth quarter annualized non-interest expense was 2.52% of average assets in 2013, compared to 2.83% in the prior year. Most major categories of expense increased due to acquired operations. All other expense totaling $17.3 million in 2013 included $3.4 million lending expense, $3.3 million loan workout expense, and $10.6 million in other expense. Full time equivalent staff totaled 939 at year-end 2013 compared to 1,012 at the prior year-end as a result of positions that were consolidated through integration and restructuring activities. An additional 92 full time equivalent staff were added with the purchase of 20 New York branches that was completed in January 2014.

Income Tax Expense. The effective income tax rate was 29% in both 2013 and 2012. Due to growth in pretax income, there was generally lower proportionate benefit related to tax advantaged income, including income from investments and bank owned life insurance. The impact of these changes would have been to increase the effective tax rate, but this was offset by a decline in merger related disallowances compared to 2012, as well as a significant reduction in the valuation allowance on deferred tax assets due to the realization of securities gains in 2013. State income tax expense in 2013 included a $1.0 million charge related to an out-of-period adjustment.

Total Comprehensive Income. While net income increased by 24% in 2013, total comprehensive income was unchanged at $35.1 million in 2013 compared to 2012. The Company recorded a $6.1 million other comprehensive loss in 2013 compared to a $1.9 million gain in 2012. Due to higher interest rates at year-end 2013, available for sale securities changed from an unrealized gain to an unrealized loss, resulting in a $20.0 million net change in the unrealized securities gain/loss position as a result of lower market values for fixed rate investment securities. The Company had a partially offsetting impact related to its fixed rate interest rate swaps recorded as cash flow derivative hedges. The unrealized loss on these hedges decreased by $8.7 million in 2013. Total other comprehensive loss in 2013 also included small changes in other components and was net of a $6.1 million tax benefit.

LIQUIDITY AND CASH FLOWS

Liquidity is the ability to meet cash needs at all times with available cash and from established external liquidity sources or by conversion of other assets to cash at a reasonable price and in a timely manner. At year-end 2014, the parent company had $31 million in cash and equivalents, which was down from $40 million at the start of the year as the Bank reduced its dividends to the Parent in the first half of the year while absorbing the capital impacts of the branch acquisition. The Parent s cash is held on deposit in the Bank. The primary ongoing sources of funding for the parent company are dividend payments from the Bank and from Berkshire Insurance Group. These subsidiaries paid $12 million in dividends to the parent in 2014, compared to $30 million in 2013. This change primarily reflected a decision in the first half of 2014 to retain more earnings at the Bank due to the capital impact of branch acquisition charges and to support the increase in assets related to this acquisition. The Company has a $10 million unsecured line of credit for working capital purposes; this line was fully utilized at each of the last two year-ends. The main uses of liquidity are the payment of common stockholder dividends, routine operating expenses, debt service on outstanding borrowings and debentures, purchases of treasury stock, and bank acquisitions. The Company generally expects to maintain cash on hand equivalent to normal cash uses, including common stock dividends, for at least a one year period. Sources and uses of cash at the parent are reported in the condensed financial statements of the parent company included in the notes to the consolidated financial statements. There are certain restrictions on the payment of dividends by the Bank as discussed in the Stockholders Equity note to the consolidated financial statements. As of year-end 2014, the statutory limit on future dividend payments by the Bank totaled $42 million. This amount is based on retained earnings of the Bank and is expected to be supplemented by future bank earnings in accordance with the statutory formula.

The Bank s primary ongoing source of liquidity is customer deposits and the main use of liquidity is the funding of loans and lending commitments. Additional routine sources are borrowings, repayments of loans and investment securities, and the sale of investment securities. In 2014, the primary uses of funds were loan growth, purchases of investment securities, and targeted reductions of non-relationship deposits. The primary sources of funds were deposits from acquired branches and brokered deposits. The Bank closely monitors its liquidity position on a daily basis. Sources of borrowings include advances from the FHLBB and borrowings at the Federal Reserve Bank of Boston. During 2014, the Bank shifted some collateral away from FHLBB custodianship based on market conditions. As of

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year-end 2014, based on its arrangements and collateral amounts, the Bank had potential borrowing capacity totaling $246 million with the Federal Home Loan Bank of Boston, compared to $416 million at the start of the year. The Bank expects to shift some collateral custodianship back to FHLBB and to increase its related borrowing capacity based on further changes in conditions. The Bank has also expanded its relationships with correspondent banks and securities firms to maintain availability for overnight borrowings and repurchase agreements. The Bank also utilizes national bank counterparties for derivative instruments that it uses in conjunction with its borrowing and mortgage banking activities.

The Bank utilizes the mortgage secondary market as a source of funds for residential mortgages which are sold into that market. Secondary market counterparties include federal mortgage agencies and national financial institutions. The secondary market for jumbo mortgages has been limited in recent years and these mortgages have become more prevalent in the Bank s originations mix. The majority of these loan originations were retained on the Bank s books in 2014. The Bank has also increased its wholesale purchases and sales of loans including residential mortgages, consumer loans, and commercial loans. Commercial loan growth has also included purchases of participations in syndicated loan transactions. These participations are variable rate and the Company views these assets as more liquid and saleable through secondary market channels.

In 2014, the Bank began utilizing brokered deposits as an alternative to the Federal Home Loan Bank as a source of wholesale funding. The Bank views such deposits as a funding source for a limited portion of its total deposits, and it monitors market conditions and maintains contingency plans in case sources of brokered deposits become less available in certain circumstances. Brokered deposits are mostly time deposits sourced in national markets through certain brokers selected and managed by the Bank. These deposits are sometimes lower cost than equivalent funds from the Federal Home Loan Bank and they do not require collateralization. Most of the deposits acquired by the Bank have had maturities under one year and have been a component of the laddering of the funding maturities targeted by the Bank. The Bank has also expanded its participation in the CDARS program (Certificate of Deposit Account Registry Service) which allows large depositors to maintain balances that are fully insured across a number of banks while making equivalent funds available to the Bank to fund its assets. With the termination of the Bank s participation in DIF, the CDARS program allows multi-million dollar deposit accounts to continue to have 100% insurance protection on balances that exceed standard FDIC insurance limits.

Under the Enhanced Prudential Standards which became effective under federal regulation at midyear in 2014, the largest banks are required to adopt a number of practices to manage and reduce liquidity risk. These standards do not apply directly to Berkshire but may affect the future operations of the U.S. deposit market. In some circumstances, these standards increase the attractiveness of retail deposits and decrease the attractiveness of large commercial deposits for the largest banks, and these changes may affect the competitive conditions that evolve based on these new standards.

The greatest sources of uncertainty affecting liquidity are deposit withdrawals and usage of loan commitments, which are influenced by interest rates, economic conditions, and competition. Due to the unusual and prolonged low interest rate environment, there is uncertainty about the behavior of deposits if interest rates increase at some future time as is anticipated. The Company believes that its market positioning and relationship focus will generally enhance the stability of its deposits, and it also models various scenarios for the purpose of contingency liquidity planning. The Bank relies on competitive rates, customer service, and long-standing relationships with customers to manage deposit and loan liquidity. Based on its historical experience, management believes that it has adequately provided for deposit and loan liquidity needs. Both liquidity and capital resources are managed according to policies approved by the Board of Directors and executive management and the Board reviews liquidity metrics and contingency plans on a regular basis.

CAPITAL RESOURCES

The Bank and the Company must satisfy various regulatory capital requirements. Regulatory capital requirements are discussed in the Regulation and Supervision section of Item 1, in the Risk Factors discussion, and in the Stockholders Equity note to the consolidated financial statements. Please also see management s discussion of financial condition for additional information about liquidity and capital at year-end 2014. In November, 2012, the Company renewed a universal shelf registration with the Securities and Exchange Commission for the issuance of up to $150 million in securities, including debt securities, common stock, or preferred stock. The Company does not have any specific plans for issuances under this registration. The Company maintains capital projections as part of its strategic planning process in order to monitor trends and expectations for capital sources, uses, and condition. In 2014, the Company enhanced its capital stress testing models to include multiple stressed scenarios together with an evaluation of related contingency plans.

In 2014, the Bank changed its charter from a Massachusetts chartered savings bank to a state chartered trust company, which is used by commercial banks chartered in the Commonwealth. There were no significant impacts on the Bank s capital regulation as a result of this charter change. Coincident with the Bank charter change, the Company changed its status with the Federal Reserve Board to a bank holding company, choosing the financial services company designation. As a result of this change, the Company became subject to bank holding company capital requirements beginning in the third quarter of 2014. The Company had been scheduled to become subject to these requirements in its previous status as a savings and loan holding company and therefore there was no impact on the Company s plans for holding company regulatory capital management. As a savings and loan holding Company, the payment of dividends from the Bank to the holding company was subject to notice and non-objection from the Federal Reserve Board. This requirement was eliminated as a result of the Company s status change.

New regulatory capital standards were finalized for the Bank and the Company in June 2013 under federal interagency guidelines, and these standards became effective at the beginning of 2015, with some standards subject to gradual implementation under a transition period to be completed in 2019. The Company continues to place primary emphasis on maintaining a Well Capitalized status, including a 10% risk based capital ratio, as the primary focus of its regulatory capital policy for both the Bank and the Company. Under the new capital standards, certain categories of assets have higher risk based designations beginning immediately in 2015 with no phase-in period. Among these assets, the Company has focused on its investment in equity securities and in the deferred tax asset as being the most sensitive to these designations. The Company expects to maintain its Well Capitalized status in accordance with the risk weighting standards.

Berkshire views its earnings and related internal capital generation as a primary source of capital to support dividends and growth of the franchise. Additionally, the Company generally uses the issuance of common stock as the primary source of consideration for bank acquisitions, and such acquisitions may result in net increases or decreases in its capital ratios. Berkshire s long term objective is to generate a double digit annual return on equity, and the Company evaluates lending, investment, and acquisition decisions with this objective as a benchmark. The Capital Committee of Berkshire s Board of Directors is responsible for assisting the Board in planning for future capital needs and for ensuring compliance with regulations pertaining to capital structure and levels. The Company believes that the market for its stock is an additional capital resource over the long run. Additionally, the Company continues to monitor market conditions for various forms of capital in order to have a competitive and efficient capital structure that meets its needs, provides flexibility, provides appropriate support to regulatory capital, and maximizes the benefits to common shareholders. The Company also provides equity compensation to its executives and other members of management to better align management and investor interests.

At year-end 2014, Berkshire had a pending agreement to acquire Hampden Bancorp for 100% stock consideration, subject to receipt of customary regulatory approvals. Under this agreement, the Company expects to issue approximately 4 million additional shares as merger consideration. A proxy statement/prospectus with further information about this planned capital issuance was filed with the SEC on February 2, 2015.

AVERAGE BALANCES, INTEREST, AVERAGE YIELDS/COST AND RATE/VOLUME ANALYSIS

Tables with the above information are presented in Item 6 of this report.

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CONTRACTUAL OBLIGATIONS

The year-end 2014 contractual obligations were as follows:

Item 7-7A - Table 1 - Contractual Obligations

(In thousands)	Total	Less than One Year	One to Three Years	Three to Five Years	After Five Years
FHLBB borrowings (1)	$ 952,576	$ 940,900	$ 1,519	$ 5,000	$ 5,157
Subordinated notes	89,747				89,747
Operating lease obligations (2)	50,008	7,166	9,430	6,408	27,004
Purchase obligations (3)	105,964	19,142	35,194	26,014	25,614
Total Contractual Obligations	$ 1,198,295	$ 967,208	$ 46,143	$ 37,422	$ 147,522

Acquisition related obligations are not included.

(1) Consists of borrowings from the Federal Home Loan Bank. The maturities extend through 2027 and the rates vary by borrowing.

(2) Consists of leases, bank branches and ATMs through 2039.

(3) Consists of obligations with multiple vendors to purchase a broad range of services.

Further information about borrowings and lease obligations is in the notes on borrowings and commitments to the financial statements.

OFF-BALANCE SHEET ARRANGEMENTS

In the normal course of operations, Berkshire engages in a variety of financial transactions that, in accordance with generally accepted accounting principles are not recorded in the Company s financial statements. These transactions involve, to varying degrees, elements of credit, interest rate and liquidity risk. Such transactions are used primarily to manage customers requests for funding and take the form of loan commitments and lines of credit. A further presentation of the Company s off-balance sheet arrangements is presented in the notes to the consolidated financial statements and in the above discussion relating to payments due under contractual obligations. Information about derivative financial instruments and hedging activities is reported in the related note to the consolidated financial statements, and was included in management s discussion of changes in financial condition. In addition to the contractual arrangements discussed above, at year-end 2014 the Company had a pending agreement to purchase Hampden Bancorp subject to customary regulatory approvals. The Company plans to complete this acquisition in the second quarter of 2015.

FAIR VALUE MEASUREMENTS

The most significant fair value measurements recorded by the Company are those related to assets and liabilities acquired in business combinations. These measurements are discussed further in the mergers and acquisitions note to the consolidated financial statements.

The Company makes further measurements of fair value of certain assets and liabilities, as described in the related note in the financial statements. Recurring fair values of financial instruments primarily relate to the trading security, securities available for sale, loans held for sale, and derivative instruments. A valuation hierarchy is utilized based on generally accepted accounting principles. Measurements based on Level 3 inputs rely the most on subjective management judgments. Level 3 recurring measurements relate primarily to the trading security and derivative instruments. Non-recurring fair value measurements primarily relate to impaired loans, capitalized mortgage servicing

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rights, and other real estate owned. When measurement is required, these measures are generally based on Level 3 inputs.

The Company also provides a summary of estimated fair values of financial instruments at each quarter-end. The category of financial assets with the most significant difference historically between carrying value and fair value is the net loan category, which is valued based entirely on Level 3 analysis. The fair value of loans is estimated to be at a $50 million (1.1%) premium to carrying value at year-end 2014, compared to a $7 million (0.2%) dollar premium to carrying value at year-end 2013 and compared to a $49 million (1.2%) premium to carrying value at year-end 2012. The premium value of loans improved in 2014 due to the decrease in market yields and spreads and a related improvement in loan prices.   This was partially offset by the impact of higher expected prepayment speeds as a result of the decrease in rates near year-end. In addition to retained earnings, the increase in the premium value of loans in 2014 was the major factor contributing to an improvement in the net economic value of equity, based solely on the measures used for the purpose of this fair value analysis. These measures do not take into account the non-interest income generated by these customer relationships or the long term intangible value of the Company s franchise in its markets.

IMPACT OF INFLATION AND CHANGING PRICES

The financial statements and related financial data presented in this Form 10-K have been prepared in conformity with accounting principles generally accepted in the United States of America, which require the measurement of financial position and operating results in terms of historical dollars, without considering changes in the relative purchasing power of money over time due to inflation. Unlike many industrial companies, substantially all of the assets and liabilities of the Bank are monetary in nature. As a result, interest rates have a more significant impact on the Bank s performance than the general level of inflation. Interest rates may be affected by inflation, but the direction and magnitude of the impact may vary. A sudden change in inflation (or expectations about inflation), with a related change in interest rates, would have a significant impact on our operations.

IMPACT OF NEW ACCOUNTING PRONOUNCEMENTS

Please refer to the notes on Recently Adopted Accounting Principles and Future Application of Accounting Pronouncements in Note 1 to the consolidated financial statements for a detailed discussion of new accounting pronouncements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

MANAGEMENT OF INTEREST RATE RISK AND MARKET RISK ANALYSIS

Qualitative Aspects of Market Risk. The Company s most significant form of market risk is interest rate risk. The Company seeks to avoid fluctuations in its net interest income and to maximize net interest income within acceptable levels of risk through periods of changing interest rates. The Company maintains an Asset/Liability Committee that is responsible for reviewing its asset/liability policies and interest rate risk position. This Committee meets monthly and reports trends and interest rate risk position to the Risk Management Committee and Board of Directors on a quarterly basis. The extent of the movement of interest rates is an uncertainty that could have a negative impact on the Company s earnings.

The Company has managed interest rate risk by emphasizing assets with shorter-term repricing durations and promoting low cost core deposits. The Company purchases and sells investments and loans as part of its active balance sheet management of interest rate risk and other strategic objectives. The Company uses derivative financial instruments as part of its balance sheet management, as well as to provide loan products to its customers that do not conform to its balance sheet capacities. The Company actively manages brokerage and secondary market relationships in support of its purchases and sales of assets. When the Company enters into business combinations, it integrates existing and acquired operations as appropriate to achieve its objectives for the combined businesses.

Quantitative Aspects of Market Risk. Berkshire has a targeted position to maintain an asset sensitive interest rate risk profile, as measured by the sensitivity of net interest income to market interest rate changes. The Company measures

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this sensitivity primarily by evaluating the impact of ramped interest rate changes on net interest income in the 12 month and 24 month time horizons, compared to modeled net interest income if rates remain unchanged. The primary focus is on a two year scenario where interest rates ramp up by 200 basis points in the first year. The Bank also evaluates its equity at risk from interest rate changes through discounted cash flow analysis. This measure assesses the present value changes to equity based on long term impacts of rate changes beyond the time horizons evaluated for net interest income at risk.

The Company uses a simulation model to measure the potential change in net interest income that would result from both an instantaneous or ramped change in market interest rates assuming a parallel shift along the entire yield curve. The chart below shows the analysis of a ramped change. Loans, deposits and borrowings were expected to reprice at the repricing or maturity date. Pricing caps and floors are included in the simulation model. The Company uses prepayment guidelines set forth by market sources as well as Company generated data where applicable. Cash flows from loans and securities are assumed to be reinvested based on current operating conditions and strategies. Other assumptions about balance sheet mix are generally held constant. No material changes have been made to the methodologies used in the model.

Item 7-7A - Table 2 - Qualitative Aspects of Market Risk

Change in Interest Rates-Basis Points (Rate Ramp) (In thousands)	**1- 12 Months $ Change**	**1- 12 Months % Change**	**13- 24 Months $ Change**	**13- 24 Months % Change**
At December 31, 2014				
+ 300	$ 1,370	0.77%	$ (742)	(0.43)
+ 200	757	0.43	(80)	(0.05)
+ 100	1,832	1.03	4,696	2.74
- 100	(1,649)	(0.93)	(9,059)	(5.29)
At December 31, 2013				
+ 300	$ (3,395)	(2.13)%	$ (1,872)	(1.19)%
+ 200	(2,398)	(1.51)	(937)	(0.59)
+ 100	1,165	0.73	6,312	4.00
- 100	(3,664)	(2.30)	(9,262)	(5.87)

With interest rates near historic lows and an expected tapering of accommodation measures by the Federal Reserve Bank, the Company s focus is on the sensitivity of interest income to current low rates, to gradual increases in short term rates, and to volatility of long term rates in either direction. The Company has positioned itself to benefit from expected increases in interest rates and also seeks to monitor and manage risks associated with possible interest rate spikes if conditions revert suddenly from recent years affected by ongoing interventions from the monetary authorities. The Company s long term target is to flexibly balance its growth, deposit funding, net interest margin, and interest rate risk management as it pursues its goals of expanding its footprint, increasing its market share, and improving its profitability.

Modeled net interest income is close to neutral in the first two years of a 200 basis point upward parallel ramp in interest rates, compared to a flat rate scenario. This is the base case in the Company s modeling protocols. Loans tied to LIBOR and prime are expected to be immediately responsive to increased market rates, with similar responsiveness in LIBOR based borrowings and some lag in deposit pricing adjustments, particularly for the first 100 basis points increase in rates.

Berkshire has $300 million in forward starting interest rate swaps which become effective in the first half of 2016 and provide fixed payment hedge protection for a portion of the Company s short term Federal Home Loan Bank borrowings. These hedges were restructured in the first quarter of 2014 following the New York branch acquisition and they are a significant component of the Company s interest rate management strategies. These contracts are priced approximately 200 basis points higher than short term borrowing rates as of the end of 2014, but once they become effective, they are expected to make the Company s net interest income approximately 6% positively correlated with upward movements in interest rates. The Company therefore views itself as asset sensitive when these swaps become

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effective. In the case of a 200 basis point increase in interest rates, the benefit of this asset sensitivity is targeted to more than offset the increased interest cost associated with these swaps over their effective lives, which is estimated at approximately 2.5% of net interest income. The interest rate swaps provide additional benefit if interest rates were to spike higher than a 200 basis point ramp.

The Company s static simulation model indicates further potential pressure on net interest income during the modeling period if interest rates remain unchanged based on the asset/liability mix as of year-end 2014 and taking into account the contracted payment rates on the interest rate swaps, further expected decreases in purchased loan accretion, and ongoing impacts on rates and spreads in the current low rate environment. Through its pricing disciplines and mix of business, Berkshire is targeting to maintain its net interest margin (before purchased loan accretion and impact of interest rate swap pricing) at current levels or better in the event that interest rates remain unchanged from current levels. For much of the industry, ongoing yield compression has pressured margins, with an inflection from this trend viewed as tied to future short term rate increases. Additionally, expected increases in long term interest rates did not materialize in 2014 and instead rates declined in the second half of the year. Industry net interest income is viewed as positively associated with a steeper yield curve. The Company evaluates various scenarios with twists in the yield curve as well as changes in the correlations of current interest rate basis indicators. Interest income may be negatively affected by a flattening yield curve compared to the modeled scenario of a parallel shift in the yield curve. The Company s goal is to actively manage its balance sheet including components related to interest rate risk, pricing bases and spreads, relationship cross sales, duration risk, and credit risk in order to anticipate trends and risks and adjust to support current and planned income, growth, and expansion.

The Company s market risk management is focused on interest rate risk impacts on net interest income, but management also evaluates other aspects of revenue and expenses that might be affected by changes in interest rates. Sources of fee income that are particularly sensitive to interest rate changes include mortgage banking revenues and loan and swap fee income. Additionally, wealth management revenue and service charge income may be affected by interest rate changes and other market changes that can affect interest rates. Credit underwriting criteria and loan performance can be affected by interest rate and market changes, and overall business volumes and expenses tied to those volumes may be affected. The Company considers a range of factors in the overall enterprise risk management related to market risk.

The Company has a pending agreement to acquire Hampden Bancorp with approximately $700 million in assets. The Company estimates that Hampden s interest rate risk, based on the Company s modeling, is liability sensitive and that net interest income would decline in scenarios with rising interest rates. This sensitivity has a modest impact on the modeled net interest income of the combined entities due to the larger size of Berkshire. The Company estimates that the modeled net interest income of the combined entities would decrease approximately 1% in the second year of an upward 200 basis point parallel increase in interest rates, compared to the generally neutral position of Berkshire alone. After Berkshire s interest rate swaps are fully effective by midyear 2016, the Company estimates that its net interest income would increase by approximately 3.5% in an upward 200 basis point scenario, compared to 6% for Berkshire alone. The Company may adjust the interest rate sensitivity of acquired Hampden assets and liabilities when the acquisition is completed and integrated based on its overall strategic objectives for the combined operations.

The Company also estimates the sensitivity of the economic value of its equity to interest rate shocks. The Company believes that it is a strategic strength to avoid excess long term earnings at risk when interest rates rise in the future, as anticipated. At year-end 2014, the Company estimated that the economic value of equity would decrease by approximately 9% in the event of a 200 basis point upward interest rate shock, which was within the Company s policy limits. This reflected the impact of fixed rate assets on medium and long term modeled net interest income if interest rates increase. This estimate is subject to numerous assumptions and uncertainties and is not intended as a projection of future operating results. This sensitivity was slightly lower than the 10% sensitivity at the end of 2013 including the benefit of the acquired New York deposits which was mostly offset by the impact of growth in longer duration assets funded with shorter term brokered deposits. Including the pending Hampden acquisition, the Company estimated that the economic value of equity in the combined operations as of year-end 2014 would decrease by approximately 10% in the event of the modeled 200 basis point upward interest rate shock.

In the unusual current economic and financial circumstances in the national markets, modeling assumptions depend significantly on subjective judgment which cannot be readily verified by historic data. Additionally, due to the

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Company s expansion into new markets, it has more revenues dependent on customer behaviors in products and markets where it has less historic background for its modeling assumptions. The most significant modeling assumption relates to expectations for the interest sensitivity of non-maturity deposit accounts in a rising rate environment. The model assumes that deposit rate sensitivity will be a percentage of the market interest rate change. The rate sensitivity depends on the underlying amount of market rate change and the type of deposit account. The percentage rate movements are as follows: NOW accounts ranging between 0% and 35%; money market accounts ranging between 15% and 60%; and savings accounts ranging between 15% and 40%. The total impact of deposit sensitivity assumptions in the model results in approximately an 80 basis point upward move in deposit costs at the end of two years in the Company s model of a 200 basis point upward shift in interest rates.

In 2014, the Company discontinued its participation in the Depositors Insurance Fund, subject to a transition period generally continuing through midyear 2015. The Company does not anticipate a material impact on its interest rate risk profile from this change (which will also include the termination of this supplemental insurance on acquired Hampden deposits). Certain large balance money market deposit relationships are anticipated to decrease and the Company offers reciprocal deposit programs as alternative deposit solutions for some relationships. Changes in deposit protection may result in additional sensitivity to the interest rate structure and demand for the Company s deposit products, and this sensitivity could increase when interest rates rise above the current low levels.

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements and supplementary data required by this item are presented elsewhere in this report beginning on page F-1, in the order shown below:

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

The Company s management, including the Company s Principal Executive Officer and Principal Financial Officer, has evaluated the effectiveness of the Company s disclosure controls and procedures, as such term is defined in Rule 13a and 15(d) -15(e) promulgated under the Securities Exchange Act of 1934, as amended, (the Exchange Act) as of December 31, 2014. Based upon their evaluation, the Principal Executive Officer and Principal Financial Officer concluded that, as of that date, the Company s disclosure controls and procedures were effective for the purpose of ensuring that the information required to be disclosed in the reports that the Company files or submits under the Exchange Act with the Securities and Exchange Commission (the SEC): (1) is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms; and (2) is accumulated and communicated to

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the Company s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company evaluated changes in its internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) that occurred during the last fiscal quarter. The Company determined that there were no changes that materially affected, or were reasonably likely to materially affect, the Company s internal control over financial reporting. Management s report on internal control over financial reporting and the independent registered public accounting firm s report on the Company s internal control over financial reporting are contained in Item 8 Financial Statements and Supplementary Data.

ITEM 9B. OTHER INFORMATION

None.

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PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

For information concerning the directors of the Company, the information contained under the sections captioned Proposals to be Voted on by Stockholders Proposal 1 - Election of Directors in Berkshire s Proxy Statement for the 2015 Annual Meeting of Stockholders (Proxy Statement) is incorporated by reference.

The following table sets forth certain information regarding the executive officers of the Company.

Name	Age	Position
Michael P. Daly	53	President, Chief Executive Officer
George F. Bacigalupo	60	Executive Vice President, Commercial Banking
Sean A. Gray	38	Executive Vice President, Retail Banking
Josephine Iannelli	42	Executive Vice President, Chief Financial Officer
Linda A. Johnston	62	Executive Vice President, Human Resources
Richard M. Marotta	56	Executive Vice President, Chief Risk & Administrative Officer

The executive officers are elected annually and hold office until their successors have been elected and qualified or until they are removed or replaced. Mr. Daly is employed pursuant to a three-year employment agreement which renews automatically if not otherwise terminated pursuant to its terms.

BIOGRAPHICAL INFORMATION

Michael P. Daly has served as President and Chief Executive Officer since October 2002. Before these appointments, Mr. Daly served as Executive Vice President and Senior Loan Officer of the Bank. He has been an employee since 1986. He has served as a Director of the Company and the Bank since 2002.

George F. Bacigalupo was promoted to Executive Vice President, Commercial Banking in October 2013 having previously served as Senior Vice President, Chief Credit Officer since 2011. Mr. Bacigalupo is responsible for business banking, including the asset based lending and leasing business lines. Previously, Mr. Bacigalupo was EVP of Specialty Lending at TD Banknorth, where he established the ABL and other middle-market lending groups and oversaw commercial banking relationships with $5 billion in total committed credit. Subsequently, at TD Bank, he was the Senior Lender for New England.

Sean A. Gray was promoted to Executive Vice President, Retail Banking in 2010, having previously served as Senior Vice President, Retail Banking since April 2008. Mr. Gray manages retail banking (including deposits, lending, fee services, branches, and call center) along with mortgage banking, small business banking, marketing, deposit operations and facilities. Mr. Gray joined the Company in January 2007 as First Vice President, Retail Banking. Prior to joining the Bank, Mr. Gray was Vice President and Consumer Market Manager at Bank of America, in Waltham, Massachusetts.

Josephine Iannelli was promoted to Executive Vice President, Chief Financial Officer in January 2014 having previously served as Senior Vice President, Chief Accounting Officer since March 2013. In her current role, she manages the Company s accounting and finance functions. Ms. Iannelli has 20 years of financial experience beginning with accounting policy roles at KPMG and KeyCorp. She joined National City Corporation in 2002 leading the accounting policy group and served in various roles at the bank through their acquisition and integration into PNC Financial. She has also provided independent accounting consulting services for top ten national banks.

Linda A. Johnston was promoted to Executive Vice President, Human Resources in 2010, having previously served as Senior Vice President since November 2002. Ms. Johnston manages the Company s human resources functions and serves as a key advisor to the Compensation Committee of the Company s Board of Directors. She is also a Director of the Company s Foundations. Ms. Johnston has been with the Company for more than 30 years.

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Richard M. Marotta joined the Company as Executive Vice President and Chief Risk Officer in January, 2010 and was promoted to Chief Administrative Officer in July 2013. He is responsible for overall risk management, commercial credit underwriting, loan workout, loan review, loan documentation, commercial loan servicing, compliance, information technology, and project management. Mr. Marotta was previously Executive Vice President and Group Head, Asset Recovery at KeyBank. He has extensive career experience in credit and risk management, including asset based lending portfolios.

Reference is made to the cover page of this report and to the section captioned Other Information Relating to Directors and Executive Officers - Section 16(a) Beneficial Ownership Reporting Compliance in the Proxy Statement for information regarding compliance with Section 16(a) of the Exchange Act. For information concerning the audit committee and the audit committee financial expert, reference is made to the section captioned Corporate Governance Committees of the Board of Directors and Audit Committee in the Proxy Statement.

For information concerning the Company s code of ethics, the information contained under the section captioned Corporate Governance Code of Business Conduct in the Proxy Statement is incorporated by reference. A copy of the Company s code of ethics is available to shareholders on the Company s website at www.berkshirebank.com.

ITEM 11. EXECUTIVE COMPENSATION

For information regarding executive compensation, the sections captioned Director Compensation , Compensation Discussion and Analysis, and Executive Compensation in the Proxy Statement are incorporated herein by reference.

For information regarding the Compensation Committee Report, the section captioned Compensation Committee Report in the Proxy Statement is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

(a) Security Ownership of Certain Beneficial Owners

Information required by this item is incorporated herein by reference to the section captioned Stock Ownership in the Proxy Statement.

(b) Security Ownership of Management

Information required by this item is incorporated herein by reference to the section captioned Stock Ownership in the Proxy Statement.

(c) Changes in Control

Management of Berkshire knows of no arrangements, including any pledge by any person of securities of Berkshire, the operation of which may at a subsequent date result in a change in control of the registrant.

(d) Equity Compensation Plan Information

The following table sets forth information, as of December 31, 2014, about Company common stock that may be issued upon exercise of options under stock-based benefit plans maintained by the Company, as well as the number of securities available for issuance under equity compensation plans:

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Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column)
Equity compensation plans approved by security holders	282,000	$ 20.70	967,557
Equity compensation plans not approved by security holders			
Total	282,000	$ 20.70	967,557

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item is incorporated herein by reference to the sections captioned Other Information Relating to Directors and Executive Officers Transactions with Related Persons and Procedures Governing Related Persons Transactions in the Proxy Statement.

Information regarding director independence is incorporated herein by reference to the section captioned Proposals to be Voted on by Stockholders Proposal 1 Election of Directors in the Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this item is incorporated herein by reference to the section captioned Proposals to be Voted on by Stockholders Proposal 3 Ratification of the Independent Registered Public Accounting Firm in the Proxy Statement.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) [1] **Financial Statements**

The consolidated financial statements required to be filed in our Annual Report on Form 10-K are included in Part II, Item 8 hereof.

[2] **Financial Statement Schedules**

All financial statement schedules are omitted because the required information is either included or is not applicable.

[3] **Exhibits**

2.1 Agreement and Plan of Merger by and between Berkshire Hills Bancorp, Inc. and Hampden Bancorp, Inc. (1)
3.1 Certificate of Incorporation of Berkshire Hills Bancorp, Inc. (2)
3.2 Amended and Restated Bylaws of Berkshire Hills Bancorp, Inc. (3)
4.1 Form of Common Stock Certificate of Berkshire Hills Bancorp, Inc. (2)
4.2

	Note Subscription Agreement by and among Berkshire Hills Bancorp, Inc. and certain subscribers dated September 20, 2012 (4)
10.1	Amended and Restated Employment Agreement by and among Berkshire Bank, Berkshire Hills Bancorp, Inc. and Michael P. Daly (5)
10.2	Amended and Restated Supplemental Executive Retirement Agreement between Berkshire Bank and Michael P. Daly (6)
10.3	Three Year Executive Change in Control Agreement by and among Berkshire Bank, Berkshire Hills Bancorp, Inc. and George F. Bacigalupo (7)
10.4	Three-Year Executive Change in Control Agreement by and among Berkshire Bank, Berkshire Hills Bancorp, Inc. and Josephine Iannelli (7)
10.5	Amended and Restated Three Year Change in Control Agreement by and among Berkshire Bank, Berkshire Hills Bancorp, Inc. and Richard M. Marotta (8)
10.6	Amended and Restated Three Year Change in Control Agreement by and among Berkshire Bank, Berkshire Hills Bancorp, Inc. and Sean A. Gray (9)
10.7	Form of Split Dollar Agreement entered into with Michael P. Daly, Sean A. Gray, and Richard M. Marotta (10)
10.8	Endorsement Agreement by and among Berkshire Hills Bancorp, Inc. and Geno Auriemma dated as of May 14, 2012 (11)
10.9	Berkshire Hills Bancorp, Inc. 2011 Equity Incentive Plan (12)
10.10	Berkshire Hills Bancorp, Inc. 2013 Equity Incentive Plan (13)
10.11	Legacy Bancorp, Inc. Amended and Restated 2006 Equity Incentive Plan (14)
10.12	Berkshire Bank 2014 Executive Short Term Incentive Plan
11.0	Statement re: Computation of Per Share Earnings is incorporated herein by reference to Part II, Item 8, Financial Statements and Supplementary Data
21.0	Subsidiary Information

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23.1	Consent of PricewaterhouseCoopers, LLP
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Statements of Condition, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Changes in Stockholders Equity, (v) the Consolidated Statements of Cash Flows, and (vi) the Notes to Consolidated Financial Statements tagged as blocks of text and in detail

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(1) Incorporated herein by reference from the Exhibits to the Form 8-K as filed on November 4, 2014.
(2) Incorporated herein by reference from the Exhibits to Form S-1, Registration Statement and amendments thereto, initially filed on March 10, 2000, Registration No. 333-32146.
(3) Incorporated herein by reference from the Exhibits to the Form 8-K as filed on December 18, 2012.
(4) Incorporated by reference from the Exhibits to the Form 8-K as filed on September 26, 2012.
(5) Incorporated herein by reference from the Exhibits to the Form 8-K as filed on January 6, 2009.
(6) Incorporated herein by reference from the Exhibits to Form 10-K as filed on March 16, 2009.
(7) Incorporated herein by reference from the Exhibit to the Form 10-K as filed on March 17, 2014.
(8) Incorporated herein by reference from the Exhibits to the Form 10-K as filed on March 16, 2010.
(9) Incorporated herein by reference from the Exhibits to the Form 10-K as filed on March 16, 2011.
(10) Incorporated herein by reference from the Exhibit to the Form 8-K as filed on January 19, 2011.
(11) Incorporated by reference from Exhibit 10.16 to the Form 10-Q as filed on August 16, 2012.
(12) Incorporated herein by reference from the Appendix to the Proxy Statement as filed on March 24, 2011.
(13) Incorporated herein by reference from the Appendix to the Proxy Statement as filed on April 2, 2013.
(14) Incorporated herein by reference from the Exhibits to the Form 8-K filed by Legacy Bancorp, Inc. on December 22, 2010.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	Berkshire Hills Bancorp, Inc.	
Date: March 16, 2015	By:	/s/ Michael P. Daly
		Michael P. Daly
		President & Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ Michael P. Daly Michael P. Daly	President & Chief Executive Officer (principal executive officer)	March 16, 2015
/s/ Josephine Iannelli Josephine Iannelli	Executive Vice President, Chief Financial Officer (principal financial and accounting officer)	March 16, 2015
/s/ William J. Ryan William J. Ryan	Non-Executive Chairman	March 16, 2015
/s/ John W. Altmeyer John W. Altmeyer	Director	March 16, 2015
/s/ Robert M. Curley Robert M. Curley	Director	March 16, 2015
/s/ John B. Davies John B. Davies	Director	March 16, 2015
/s/ Rodney C. Dimock Rodney C. Dimock	Director	March 16, 2015
/s/ J. Williar Dunlaevy J. Williar Dunlaevy	Director	March 16, 2015
/s/ Susan M. Hill Susan M. Hill	Director	March 16, 2015
/s/ Cornelius D. Mahoney Cornelius D. Mahoney	Director	March 16, 2015

/s/ Laurie Norton Moffatt Laurie Norton Moffatt	Director	March 16, 2015
/s/ Richard J. Murphy Richard J. Murphy	Director	March 16, 2015
/s/ Barton D. Raser Barton D. Raser	Director	March 16, 2015
/s/ D. Jeffrey Templeton D. Jeffrey Templeton	Director	March 16, 2015

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

MANAGEMENT S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. The Company s internal control over financial reporting is a process designed under the supervision of the Company s Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company s financial statements for external reporting purposes in accordance with generally accepted accounting principles.

As of December 31, 2014, management conducted an assessment of the effectiveness of the Company s internal control over financial reporting based on the framework established in Internal Control Integrated Framework issued in 2013, by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has determined that the Company s internal control over financial reporting as of December 31, 2014 was effective.

The Company s internal control over financial reporting includes policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company s assets that could have a material effect on the financial statements.

The effectiveness of the Company s internal control over financial reporting as of December 31, 2014 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report, which follows. This report expresses an unqualified opinion on the effectiveness of the Company s internal control over financial reporting as of December 31, 2014.

/s/ Michael P. Daly	/s/ Josephine Iannelli
Michael P. Daly	Josephine Iannelli
President & Chief Executive Officer	Executive Vice President & Chief Financial Officer
March 16, 2015	March 16, 2015

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

Berkshire Hills Bancorp, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, comprehensive income, shareholders equity and cash flows present fairly, in all material respects, the financial position of Berkshire Hills Bancorp, Inc. and its subsidiaries (the Company) at December 31, 2014 and December 31, 2013, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company s internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/PricewaterhouseCoopers LLP

Boston, Massachusetts

March 16, 2015

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BERKSHIRE HILLS BANCORP, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)	**December 31, 2014**	**2013**
Assets		
Cash and due from banks	$ 54,179	$ 56,841
Short-term investments	17,575	18,698
Total cash and cash equivalents	71,754	75,539
Trading security	14,909	14,840
Securities available for sale, at fair value	1,091,818	760,048
Securities held to maturity (fair values of $44,997 and $45,764)	43,347	44,921
Federal Home Loan Bank stock and other restricted securities	55,720	50,282
Total securities	1,205,794	870,091
Loans held for sale, at fair value	19,493	15,840
Residential mortgages	1,496,204	1,384,274
Commercial real estate	1,611,567	1,417,120
Commercial and industrial loans	804,366	687,293
Consumer loans	768,463	691,836
Total loans	4,680,600	4,180,523
Less: Allowance for loan losses	(35,662)	(33,323)
Net loans	4,644,938	4,147,200
Premises and equipment, net	87,279	84,459
Other real estate owned	2,049	2,758
Goodwill	264,742	256,871
Other intangible assets	11,528	13,791
Cash surrender value of bank-owned life insurance	104,588	101,530
Deferred tax assets, net	28,776	50,711
Other assets	61,090	54,009
Total assets	$ 6,502,031	$ 5,672,799
Liabilities		
Demand deposits	$ 869,302	$ 677,917
NOW deposits	426,108	353,612
Money market deposits	1,407,179	1,383,856
Savings deposits	496,344	431,496
Time deposits	1,455,746	1,001,648
Total deposits	4,654,679	3,848,529
Short-term debt	900,900	872,510
Long-term Federal Home Loan Bank advances	61,676	101,918
Subordinated notes	89,747	89,679
Total borrowings	1,052,323	1,064,107
Other liabilities	85,742	82,101
Total liabilities	5,792,744	4,994,737
Commitments and contingencies (See note 17)		
Stockholders equity		
	265	265

Common stock ($.01 par value; 50,000,000 shares authorized and 26,525,466 shares issued and 25,182,566 shares outstanding in 2014; 50,000,000 shares authorized; 26,525,466 shares issued and 25,036,169 shares outstanding in 2013)				
Additional paid-in capital		585,289		587,247
Unearned compensation		(6,147)		(5,563)
Retained earnings		156,446		141,958
Accumulated other comprehensive income (loss)		6,579		(9,057)
Treasury stock, at cost (1,342,900 shares in 2014 and 1,489,297 shares in 2013)		(33,145)		(36,788)
Total stockholders equity		709,287		678,062
Total liabilities and stockholders equity	$	6,502,031	$	5,672,799

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

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BERKSHIRE HILLS BANCORP, INC.

cONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)	Years Ended December 31, 2014	2013	2012
Interest and dividend income			
Loans	$ 174,467	$ 186,115	$ 160,936
Securities and other	32,575	17,626	15,003
Total interest and dividend income	207,042	203,741	175,939
Interest expense			
Deposits	19,185	20,859	22,482
Borrowings and subordinated notes	9,166	14,130	10,069
Total interest expense	28,351	34,989	32,551
Net interest income	178,691	168,752	143,388
Non-interest income			
Loan related income	6,328	8,247	5,152
Mortgage banking income	2,561	5,235	12,403
Deposit related fees	24,635	18,340	15,593
Insurance commissions and fees	10,364	10,020	10,821
Wealth management fees	9,546	8,683	7,296
Total fee income	53,434	50,525	51,265
Other	2,646	2,949	1,306
Gain on securities, net	482	4,758	300
Non-recurring gain, net			1,185
Loss on termination of hedges	(8,792)		
Total non-interest income	47,770	58,232	54,056
Total net revenue	226,461	226,984	197,444
Provision for loan losses	14,968	11,378	9,590
Non-interest expense			
Compensation and benefits	81,768	71,134	64,081
Occupancy and equipment	26,905	22,540	19,469
Technology and communications	14,764	12,944	9,467
Marketing and promotion	2,572	2,596	2,031
Professional services	4,211	6,569	5,785
FDIC premiums and assessments	4,284	3,473	3,377
Other real estate owned and foreclosures	801	700	281
Amortization of intangible assets	4,812	5,268	5,339
Merger, restructuring and conversion related expenses	8,491	14,848	18,019
Other	17,378	17,287	12,957
Total non-interest expense	165,986	157,359	140,806
Income from continuing operations before income taxes	45,507	58,247	47,048
Income tax expense	11,763	17,104	13,223
Net income from continuing operations	33,744	41,143	33,825
Loss from discontinued operations before income taxes (including gain on disposals $63 in 2012)			(261)
Income tax expense from discontinued operations			376
Net loss from discontinued operations			(637)
Net income	$ 33,744	$ 41,143	$ 33,188
Basic earnings per share:			
Continuing Operations	$ 1.36	$ 1.66	$ 1.52
Discontinued operations			(0.03)
Total basic earning per share	$ 1.36	$ 1.66	$ 1.49

Diluted earnings per share:						
Continuing Operations	$	1.36	$	1.65	$	1.52
Discontinued operations						(0.03)
Total diluted earnings per share	$	1.36	$	1.65	$	1.49
Weighted average common shares outstanding:						
Basic		24,730		24,802		22,201
Diluted		24,854		24,965		22,329

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

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BERKSHIRE HILLS BANCORP, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31,		
(In thousands)	**2014**	**2013**	**2012**
Net income	$ 33,744	$ 41,143	$ 33,188
Other comprehensive income (loss), before tax:			
Changes in unrealized gains and losses on securities available-for-sale	25,287	(20,012)	4,419
Changes in unrealized gains and losses on derivative hedges	(1,010)	8,666	(2,072)
Changes in unrealized gains and losses on terminated swaps	3,237	942	942
Changes in unrealized gains and losses on pension	(2,308)	1,282	(136)
Total other comprehensive income (loss), before tax	25,206	(9,122)	3,153
Income taxes related to other comprehensive income (loss):			
Changes in unrealized gains and losses on securities available-for-sale	(9,595)	7,524	(1,667)
Changes in unrealized gains and losses on derivative hedges	407	(3,474)	688
Changes in unrealized gains and losses on terminated swaps	(1,312)	(489)	(324)
Changes in unrealized gains and losses on pension	930	(517)	56
Total income tax (expense) benefit related to other comprehensive income (loss)	(9,570)	3,044	(1,247)
Total other comprehensive income (loss)	15,636	(6,078)	1,906
Total comprehensive income	$ 49,380	$ 35,065	$ 35,094

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

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BERKSHIRE HILLS BANCORP, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

(In thousands, except per share data)	Common stock Shares	Common stock Amount	Additional paid-in capital	Unearned compensation	Retained earnings	Accumulated other comprehensive (loss) income	Treasury stock	Total
Balance at January 1, 2012	21,148	$ 229	$ 494,304	$ (2,790)	$ 107,920	$ (4,885)	$ (42,970)	$ 551,808
Comprehensive income:								
Net income					33,188			33,188
Other net comprehensive income						1,906		1,906
Total comprehensive income								35,094
Acquisition of Connecticut Bank & Trust Company	965	9	21,981					21,990
Acquisition of Beacon Federal Bancorp, Inc	2,700	27	67,978					68,005
Cash dividends declared ($0.69 per share)					(15,634)			(15,634)
Forfeited shares	(8)		11	169			(180)	
Exercise of stock options	254				(3,460)		6,504	3,044
Restricted stock grants	108		(280)	(2,434)			2,714	
Stock-based compensation			240	2,020				2,260
Net tax benefit related to stock-based compensation			1,126					1,126
Other, net	(19)						(428)	(428)
Balance at December 31, 2012	25,148	$ 265	$ 585,360	$ (3,035)	$ 122,014	$ (2,979)	$ (34,360)	$ 667,265
Comprehensive income:								
Net income					41,143			41,143
Other net comprehensive loss						(6,078)		(6,078)
Total comprehensive income								35,065
Cash dividends declared ($0.72 per share)					(18,118)			(18,118)
Treasury stock purchased	(480)						(12,249)	(12,249)
Forfeited shares	(58)		224	1,330			(1,554)	
Exercise of stock options	237				(3,081)		6,126	3,045
Restricted stock grants	243		(634)	(5,958)			6,592	
Stock-based compensation			860	2,100				2,960
Net tax benefit related to stock-based compensation			1,451					1,451
Other, net	(54)		(14)				(1,343)	(1,357)
Balance at December 31, 2013	25,036	$ 265	$ 587,247	$ (5,563)	$ 141,958	$ (9,057)	$ (36,788)	$ 678,062
Comprehensive income:								
Net income					33,744			33,744
Other net comprehensive income						15,636		15,636
Total comprehensive income								49,380
Cash dividends declared ($0.72 per share)					(18,075)			(18,075)
Treasury stock purchased	(100)						(2,468)	(2,468)
Forfeited shares	(9)		(3)	221			(218)	
Exercise of stock options	90				(1,181)		2,245	1,064
Restricted stock grants	187		(19)	(4,604)			4,623	
Stock-based compensation			41	3,799				3,840
Net tax benefit related to stock-based compensation			(1,971)					(1,971)
Other, net	(21)		(6)				(539)	(545)

Balance at December 31, 2014	25,183	$ 265	$ 585,289	$ (6,147)	$ 156,446	$ 6,579	$ (33,145)	$ 709,287

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

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BERKSHIRE HILLS BANCORP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years ended December 31,		
(In thousands)	**2014**	**2013**	**2012**
Cash flows from operating activities:			
Net income	$ 33,744	$ 41,143	$ 33,188
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	14,968	11,378	9,590
Net amortization of securities	2,447	1,635	1,937
Unamortized net loan costs and premiums	(2,237)	(8,350)	(1,377)
Premises and equipment depreciation and amortization expense	8,292	7,120	6,045
Stock-based compensation expense	3,839	2,960	2,260
Accretion of purchase accounting entries, net	(6,938)	(20,313)	(9,281)
Amortization of other intangibles	4,812	5,268	5,339
Write down of other real estate owned	196	135	45
Excess tax loss from stock-based payment arrangements	(102)	(1,451)	(1,126)
Income from cash surrender value of bank-owned life insurance policies	(3,058)	(3,518)	(2,716)
Gain on sales of securities, net	(482)	(4,758)	(1,655)
Net (increase) decrease in loans held for sale	(3,653)	69,528	(35,451)
Loss on disposition of assets	662	4,232	2,124
Loss (gain) on sale of real estate	231	(2)	128
Loss on termination of hedges	3,237		
Net change in other	(135)	22,404	19,604
Net cash provided by operating activities	55,823	127,411	28,654
Cash flows from investing activities:			
Net decrease in trading security	541	512	486
Proceeds from sales of securities available for sale	143,488	19,386	85,711
Proceeds from maturities, calls and prepayments of securities available for sale	131,202	113,749	102,590
Purchases of securities available for sale	(575,504)	(443,906)	(124,183)
Proceeds from maturities, calls and prepayments of securities held to maturity	4,800	8,991	30,282
Purchases of securities held to maturity	(3,227)	(2,888)	(21,965)
Net change in loans	(481,846)	(181,039)	(160,204)
Acquisitions, net of cash paid	423,416		(111,328)
Net cash used for divestiture			(48,890)
Proceeds from surrender of bank-owned life insurance		186	766
Purchase of bank-owned life insurance		(10,000)	
Proceeds from sale of Federal Home Loan Bank stock	5,340	2,434	6,781
Purchase of Federal Home Loan Bank stock	(10,778)	(12,932)	
Proceeds of premises and equipment	2,315		260
Purchase of premises and equipment, net	(8,451)	(13,103)	(18,890)
Net investment in limited partnership tax credits	(5,384)		(565)
Proceeds from sale of other real estate	4,784	3,416	3,626
Net cash used in investing activities	(369,304)	(515,194)	(255,523)

(continued)

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

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BERKSHIRE HILLS BANCORP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONCLUDED)

(In thousands)	**Years ended December 31,** **2014**	**2013**	**2012**
Cash flows from financing activities:			
Net increase (decrease) in deposits	$ 340,856	$ (225,070)	$ 167,002
Proceeds from Federal Home Loan Bank advances and other borrowings	5,432,069	1,488,182	485,625
Repayments of Federal Home Loan Bank advances and other borrowings	(5,443,853)	(872,163)	(465,970)
Issuance of long term debt, net			74,138
Purchase of treasury stock			3,044
Net proceeds from reissuance of treasury stock	(2,467)	(12,249)	
Exercise of stock options	1,064	3,045	
Excess tax loss from stock-based payment arrangements	102	1,451	1,126
Common stock cash dividends paid	(18,075)	(18,118)	(15,634)
Net cash provided by financing activities	309,696	365,078	249,331
Net change in cash and cash equivalents	(3,785)	(22,705)	22,462
Cash and cash equivalents at beginning of year	75,539	98,244	75,782
Cash and cash equivalents at end of year	$ 71,754	$ 75,539	$ 98,244
Supplemental cash flow information:			
Interest paid on deposits	$ 18,439	$ 20,967	$ 22,921
Interest paid on borrowed funds	9,988	14,056	9,376
Income taxes (refunded) paid, net	746	(3,729)	8,869
Acquisition of non-cash assets and liabilities:			
Assets acquired	18,064		1,185,957
Liabilities assumed	(441,550)	(1,672)	(969,598)
Acquisition s stock owned by the Company			5,193
Other non-cash changes:			
Other net comprehensive income (loss)	15,636	(6,078)	1,906
Real estate owned acquired in settlement of loans	4,500	4,378	2,243

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

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Notes to consolidated financial statements

Years Ended December 31, 2014, 2013, and 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Consolidation

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

Discontinued Operations

Assets and liabilities related to discontinued operations are carried at the lower of cost or estimated fair value in the aggregate and presented in a separate line item on the consolidated balance sheets. Revenue and expense related to discontinued operations are not reported separately, and net income related to these operations is presented in a separate line item on the consolidated statements of operations.

Reclassifications

Certain items in prior financial statements have been reclassified to conform to the current presentation. The Company has evaluated subsequent events for potential recognition and/or disclosure through the date these consolidated financial statements were issued.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses; the valuation of deferred tax assets; the estimates related to the initial measurement of goodwill and intangible assets and subsequent impairment analyses; the determination of other-than-temporary impairment of securities; and the determination of fair value of financial instruments and subsequent impairment analysis.

Business Combinations

Business combinations are accounted for using the acquisition method of accounting. Under this method, the accounts of an acquired entity are included with the acquirer s accounts as of the date of acquisition with any excess of purchase price over the fair value of the net assets acquired (including identifiable intangibles) capitalized as goodwill.

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Notes to consolidated financial statements

To consummate an acquisition, the Company will typically issue common stock and/or pay cash, depending on the terms of the acquisition agreement. The value of common shares issued is determined based upon the market price of the stock as of the closing of the acquisition.

Cash and Cash equivalents

Cash and cash equivalents include cash, balances due from banks, and short-term investments, all of which mature within ninety days. Due to the nature of cash and cash equivalents and the near term maturity, the Company estimated that the carrying amount of such instruments approximated fair value. The nature of the Bank s business requires that it maintain amounts due from banks which at times, may exceed federally insured limits. The Bank has not experienced any losses on such amounts and all amounts are maintained with well-capitalized institutions.

Trading Security

The Company elected the fair value option permitted by Financial Accounting Standards Board s (FASB) Accounting Standards Codification (ASC) Topic 820, Fair Value Measurements and Disclosures , on a tax advantaged economic development bond originated in 2008. The bond has been designated as a trading account security and is recorded at fair value, with changes in unrealized gains and losses recorded through earnings each period as part of non-interest income.

Securities

Debt securities that management has the intent and ability to hold to maturity are classified as held to maturity and carried at amortized cost. All other securities, including equity securities with readily determinable fair values, are classified as available for sale and carried at fair value, with unrealized gains and losses reported as a component of other net comprehensive income. Management determines the appropriate classification of securities at the time of purchase. Restricted equity securities, such as stock in the Federal Home Loan Bank of Boston (FHLBB) are carried at cost. There are no quoted market prices for the Company s restricted equity securities. The Bank is a member of the FHLBB, which requires that members maintain an investment in FHLBB stock, which may be redeemed based on certain conditions. The Bank reviews for impairment based on the ultimate recoverability of the cost bases in the FHLBB stock.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

The Company evaluates debt and equity securities within the Company s available for sale and held to maturity portfolios for other-than-temporary impairment (OTTI), at least quarterly. If the fair value of a debt security is below the amortized cost basis of the security, OTTI is required to be recognized if any of the following are met: (1) the Company intends to sell the security; (2) it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis; or (3) for debt securities, the present value of expected cash flows is not sufficient to recover the entire amortized cost basis. For all impaired debt securities that the Company intends to sell, or more likely than not will be required to sell, the full amount of the depreciation is recognized as OTTI through earnings. Credit-related OTTI for all other impaired debt securities is recognized through earnings. Non-credit related OTTI for such debt securities is recognized in other comprehensive income, net of applicable taxes. In evaluating its marketable equity securities portfolios for OTTI, the Company considers its intent and ability to hold an equity security to recovery of its cost basis in addition to various other factors, including

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Notes to consolidated financial statements

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.

Loans Held for Sale

Loans originated with the intent to be sold in the secondary market are accounted for under the fair value option. Non-refundable fees and direct loan origination costs related to residential mortgage loans held for sale are recognized in noninterest income or noninterest expense as earned or incurred. Fair value is primarily determined based on quoted prices for similar loans in active markets. Gains and losses on sales of residential mortgage loans (sales proceeds minus carrying value) are recorded in noninterest income.

Loans that were previously held for investment that the Company has an active plan to sell are transferred to loans held for sale at fair value. Fair value is primarily determined based on quoted prices for similar loans in active markets or agreed upon sales prices. Gains are recorded in noninterest income to the extent that the fair value exceeds the carrying value of the loans transferred. Any reduction in the loan s value, prior to being transferred to loans held for sale, is reflected as a charge-off of the recorded investment in the loan resulting in a new cost basis, with a corresponding reduction in the allowance for loan losses. Further changes in the fair value of the loan are recognized in noninterest income or expense, accordingly.

Loans

Loans are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, the unamortized balance of any deferred fees or costs on originated loans and the unamortized balance of any premiums or discounts on loans purchased or acquired through mergers. Interest income is accrued on the unpaid principal balance. Interest income includes net accretion or amortization of deferred fees or costs and of premiums or discounts. Interest income is also net of recoveries or losses recorded on acquired impaired loans. Direct loan origination costs, net of any origination fees, in addition to premiums and discounts on loans, are deferred and recognized as an adjustment of the related loan yield using the interest method. Interest on loans, excluding automobile loans, is generally not accrued on loans which are ninety days or more past due unless the loan is well-secured and in the process of collection. Past due status is based on contractual terms of the loan. Automobile loans generally continue accruing until one hundred and twenty days delinquent, at which time they are charged off. All interest accrued but not collected for loans that are placed on non-accrual or charged-off is reversed against interest income, except for certain loans designated as well-secured. The interest on non-accrual loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. All payments received on non-accrual loans are applied against the principal balance of the loan. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Acquired Loans

Loans that the Company acquired in acquisitions 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.

For loans that meet the criteria stipulated in ASC 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*, the Company recognizes the accretable yield, which is defined as the

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Notes to consolidated financial statements

excess of all cash flows expected at acquisition over the initial fair value of the loan, as interest income on a level-yield basis over the expected remaining life of the loan. The excess of the loan s contractually required payments over the cash flows expected to be collected is the nonaccretable difference. The nonaccretable difference is not recognized as an adjustment of yield, a loss accrual, or a valuation allowance. Going forward, the Company continues to evaluate whether the timing and the amount of cash to be collected are reasonably expected. Subsequent significant increases in cash flows the Company expects to collect will first reduce any previously recognized valuation allowance and then be reflected prospectively as an increase to the level yield. Subsequent decreases in expected cash flows may result in the loan being considered impaired. Interest income is not recognized to the extent that the net investment in the loan would increase to an amount greater than the estimated payoff amount.

For ASC 310-30 loans, the expected cash flows reflect anticipated prepayments, determined on a loan by loan basis according to the anticipated collection plan of these loans. The expected prepayments used to determine the accretable yield are consistent between the cash flows expected to be collected and projections of contractual cash flows so as to not affect the nonaccretable difference. For ASC 310-30 loans, prepayments result in the recognition of the nonaccretable balance as current period yield. Changes in prepayment assumptions may change the amount of interest income and principal expected to be collected.

For loans that do not meet the ASC 310-30 criteria, the Company accretes interest income based on the contractually required cash flows. The Company subjects loans that do not meet the ASC 310-30 criteria to ASC Topic 450, Contingencies by collectively evaluating these loans for an allowance for loan loss.

Acquired loans that met the criteria for nonaccrual of interest prior to the acquisition are considered performing upon acquisition, regardless of whether the customer is contractually delinquent, if the Company can reasonably estimate the timing and amount of the expected cash flows on such loans and if the Company expects to fully collect the new carrying value of the loans. As such, the Company may no longer consider the loan to be nonaccrual or nonperforming and may accrue interest on these loans, including the impact of any accretable yield. The Company has determined that the Company can reasonably estimate future cash flows on the Company s current portfolio of acquired loans that are past due 90 days or more and on which the Company is accruing interest and the Company expects to fully collect the carrying value of the loans.

Allowance for Loan Losses

The allowance for loan losses is established based upon the level of estimated probable losses in the current loan portfolio. Loan losses are charged against the allowance when management believes the collectability of a loan balance is doubtful. Subsequent recoveries, if any, are credited to the allowance. The allowance for loan losses includes allowance allocations calculated in accordance with Accounting Standards Codification (ASC) Topic 310, Receivables and allowance allocations calculated in accordance with ASC Topic 450, Contingencies. The allowance for loan losses is allocated to loan types using both a formula-based approach applied to groups of loans and an analysis of certain individual loans for impairment. The formula-based approach emphasizes loss factors derived from actual historical and industry portfolio loss rates, which are combined with an assessment of certain qualitative factors to determine the allowance amounts allocated to the various loan categories. Allowance amounts are based on an estimate of historical average annual percentage rate of loan loss for each loan segment, a temporal estimate of the incurred loss emergence and confirmation period for each loan category, and certain qualitative risk factors considered in the computation of the allowance for loan losses.

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Notes to consolidated financial statements

Qualitative risk factors impacting the inherent risk of loss within the portfolio include the following:

- National and local economic conditions, regulatory/legislative changes, or other competitive factors affecting the collectability of the portfolio
- Trends in underwriting characteristics, composition of the portfolio, and/or asset quality
- Changes in underwriting standards and/or collection, charge off, recovery, and account management practices
- The existence and effect of any concentrations of credit

Risk characteristics relevant to each portfolio segment are as follows:

Residential mortgage The Company generally does not originate loans with a loan-to-value ratio greater than 80 percent and does not grant subprime loans. The Company requires private mortgage insurance (PMI) in cases when the loan-to-value ratio exceeds 80 percent. All loans in this segment are collateralized by residential real estate and repayment is dependent on the credit quality of the individual borrower. The overall health of the economy, including unemployment rates and housing prices, will have an effect on the credit quality in this segment.

Commercial real estate Loans in this segment are primarily owner-occupied or income-producing properties throughout New England and Northeastern New York. The underlying cash flows generated by the properties are adversely impacted by a downturn in the economy, which in turn, will have an effect on the credit quality in this segment. Management monitors the cash flows of these loans. In addition, construction loans in this segment primarily include real estate development loans for which payment is derived from sale of the property or long term financing at completion. Credit risk is affected by cost overruns, time to sell at an adequate price, and market conditions.

Commercial and industrial loans Loans in this segment are made to businesses and are generally secured by assets of the business. Repayment is expected from the cash flows of the business. Loans in this segment include asset based loans which generally have no scheduled repayment and which are closely monitored against formula based collateral advance ratios. A weakened economy, and resultant decreased consumer spending, will have an effect on the credit quality in this segment.

Consumer loans   Loans in this segment are primarily home equity lines of credit and second mortgages, together with automobile loans and other consumer loans. The overall health of the economy, including unemployment rates and housing prices, will have an effect on the credit quality in this segment.

The Company utilizes a blend of historical and industry portfolio loss rates for commercial mortgage and commercial business loans that are assessed by internal risk rating. Historical loss rates for residential mortgages, home equity and other consumer loans are not risk graded but are assessed based on the total of each loan segment. This approach incorporates qualitative adjustments based upon management s assessment of various market and portfolio specific risk factors into its formula-based estimate. Due to the imprecise nature of the loan loss estimation process and ever changing conditions, the qualitative risk attributes may not adequately capture amounts of incurred loss in the formula-based loan loss components used to determine allocations in the Company s analysis of the adequacy of the allowance for loan losses.

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Notes to consolidated financial statements

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

Bank-Owned Life Insurance

Bank-owned life insurance policies are reflected on the consolidated balance sheets at cash surrender value. Changes in the net cash surrender value of the policies, as well as insurance proceeds received, are reflected in non-interest income on the consolidated statements of operations and are not subject to income taxes.

Foreclosed and Repossessed Assets

Assets acquired through, or in lieu of, loan foreclosure or repossession are held for sale and are initially recorded at the lower of the investment in the loan or fair value less estimated costs to sell at the date of foreclosure or repossession, establishing a new cost basis. Subsequently, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less estimated costs to sell. Revenue and expenses from operations, changes in the valuation allowance, any direct write-downs and gains or losses on sales are included in other real estate owned expense.

Capitalized Mortgage Servicing Rights

Capitalized mortgage servicing rights are included in other assets in the consolidated balance sheet. Servicing assets are initially recognized as separate assets at fair value when rights are acquired through purchase or through sale of financial assets with servicing retained. The Company uses the amortization method to subsequently measure servicing assets. Under that method, capitalized mortgage servicing rights are charged to expense in proportion to and over the period of estimated net servicing income. Fair value of the mortgage servicing rights is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, prepayment speeds and default rates and losses. Impairment is recognized through a valuation allowance for an individual tranche, to the extent that fair value is less than the capitalized amount for the tranches. If the Company later determines that all or a portion of the impairment no longer exists for a particular tranche, a reduction of the allowance may be recorded as an increase to income.

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Premises and Equipment

Land is carried at cost. Buildings, improvements and equipment are carried at cost, less accumulated depreciation and amortization computed on the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the initial term of the lease, plus optional terms if certain conditions are met.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of the net assets acquired in a business combination. Goodwill is assigned to reporting units, which are operating segments or one level below an operating segment. Goodwill is assigned to the Company s reporting units that are expected to benefit from the business combination. Goodwill is assessed annually for impairment, and more frequently if events or changes in circumstances indicate that there may be an impairment. Adverse changes in the economic environment, declining operations, unanticipated competition, loss of key personnel, or other factors could result in a decline in the implied fair value of goodwill. If the implied fair value of goodwill is less than the carrying amount, a loss would be recognized in other noninterest expense to reduce the carrying amount to the implied fair value of goodwill. A goodwill impairment analysis is comprised of two steps. Step 1, used to identify instances of potential impairment, compares the fair value of a reporting unit with its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying amount, including goodwill, the reporting unit s goodwill is not considered impaired. If the carrying amount of a reporting unit, including goodwill, exceeds its fair value, the second step of the goodwill impairment analysis is performed to measure the amount of impairment loss, if any. Step 2 of the goodwill impairment analysis compares the implied fair value of reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of goodwill for that reporting unit exceeds the implied fair value of that reporting unit s goodwill, an impairment loss is recognized in an amount equal to that excess. Subsequent reversals of goodwill impairment are prohibited.

Other Intangibles

Intangible assets are acquired assets that lack physical substance but can be distinguished from goodwill because of contractual or other legal rights or the asset is capable of being sold or exchanged either on its own or in combination with a related contract, asset or liability.

The fair values of these assets are generally determined based on appraisals and are subsequently amortized on a straight-line basis or an accelerated basis over their estimated lives. Management assesses the recoverability of these intangible assets whenever events or changes in circumstances indicate that their carrying value may not be recoverable. If the carrying amount exceeds fair value, an impairment charge is recorded to income.

Transfers of Financial Assets

Transfers of an entire financial asset, group of entire financial assets, or a participating interest in an entire financial asset are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets.

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Income Taxes

Deferred income taxes are recognized for the tax consequences of temporary differences by applying enacted statutory tax rates applicable for future years to differences between financial statement and tax bases of existing assets and liabilities. The effect of tax rate changes on deferred taxes is recognized in the income tax provision in the period that includes the enactment date. A tax valuation allowance is established, as needed, to reduce net deferred tax assets to the amount expected to be realized. In the event it becomes more likely than not that some or all of the deferred tax asset allowances will not be needed, the valuation allowance will be adjusted.

In the ordinary course of business there is inherent uncertainty in quantifying the Company s income tax positions. Income tax positions and record tax benefits assessed for all years subject to examination based upon management s evaluation of the facts, circumstances, and information available at the reporting date. For those tax positions where it is more likely than not that a tax benefit will be sustained, we have determined the amount of the tax benefit to be recognized by estimating the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. For those income tax positions where it is not more-likely-than-not that a tax benefit will be sustained, no tax benefit has been recognized in the financial statements. Where applicable, associated interest and penalties has also been recognized. We recognize accrued interest and penalties related to unrecognized tax benefits as a component of income tax expense.

Insurance Commissions

Commission revenue is recognized as of the effective date of the insurance policy or the date the customer is billed, whichever is later, net of return commissions related to policy cancellations. In addition, the Company may receive additional performance commissions based on achieving certain sales and loss experience measures. Such commissions are recognized when determinable, which is generally when such commissions are received or when the Company receives data from the insurance companies that allows the reasonable estimation of these amounts.

Advertising Costs

Advertising costs are expensed as incurred.

Stock-Based Compensation

The Company measures and recognizes compensation cost relating to share-based payment transactions based on the grant-date fair value of the equity instruments issued. The fair value of restricted stock is recorded as unearned compensation. The deferred expense is amortized to compensation expense based on one of several permitted attribution methods over the longer of the required service period or performance period. For performance-based restricted stock awards, the Company estimates the degree to which performance conditions will be met to determine the number of shares that will vest and the related compensation expense. Compensation expense is adjusted in the period such estimates change.

Income tax benefits related to stock compensation in excess of grant date fair value, less any proceeds on exercise, are recognized as an increase to additional paid-in capital upon vesting or exercising and delivery of the stock. Any income tax benefits that are less than grant date fair value less any proceeds on exercise would be recognized as a reduction of additional paid-in capital to the extent of previously recognized income tax benefits and then as compensation expense for the remaining amount.

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Earnings per Common Share

Basic earnings per share represents income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. If rights to dividends on unvested options/awards are non-forfeitable, these unvested awards/options are considered outstanding in the computation of basic earnings per share. Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustments to income that would result from the assumed issuance. Potential common shares that may be issued by the Company relate to outstanding stock options and restricted stock awards and are determined using the treasury stock method. Treasury shares are not deemed outstanding for earnings per share calculations.

Wealth Management Assets

Wealth management assets held in a fiduciary or agent capacity are not included in the accompanying consolidated balance sheets because they are not assets of the Company.

Derivative Instruments and Hedging Activities

The Company enters into interest rate swap agreements as part of the Company s interest rate risk management strategy for certain assets and liabilities and not for speculative purposes. Based on the Company s intended use for the interest rate swap at inception, the Company designates the derivative as either an economic hedge of an asset or liability or a hedging instrument subject to the hedge accounting provisions of FASB ASC Topic 815, Derivatives and Hedging.

Interest rate swaps designated as economic hedges are recorded at fair value within other assets or liabilities. Changes in the fair value of these derivatives are recorded directly through earnings.

For interest rate swaps that management intends to apply the hedge accounting provisions of Topic 815, the Company formally documents at inception all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategies for undertaking the various hedges. Additionally, the Company uses dollar offset or regression analysis at the hedge s inception and for each reporting period thereafter, to assess whether the derivative used in its hedging transaction is expected to be and has been highly effective in offsetting changes in the fair value or cash flows of the hedged item. The Company discontinues hedge accounting when it is determined that a derivative is not expected to be or has ceased to be highly effective as a hedge, and then reflects changes in fair value of the derivative in earnings after termination of the hedge relationship.

The Company has characterized its interest rate swaps that qualify under Topic 815 hedge accounting as cash flow hedges. Cash flow hedges are used to minimize the variability in cash flows of assets or liabilities, or forecasted transactions caused by interest rate fluctuations, and are recorded at fair value in other assets or liabilities within the Company s balance sheets. Changes in the fair value of these cash flow hedges are initially recorded in accumulated other comprehensive loss and subsequently reclassified into earnings when the forecasted transaction affects earnings. Any hedge ineffectiveness assessed as part of the Company s quarterly analysis is recorded directly to earnings.

The Company enters into interest rate lock commitments with borrowers, and forward commitments to sell loans or to-be-announced mortgage-backed bonds to investors to hedge against the inherent interest rate and pricing risk associated with selling loans. The interest rate lock commitments generally terminate once the loan is funded, the lock period expires or the borrower decides not to contract for the loan. The forward commitments generally terminate once the loan is sold, the commitment period expires or the borrower decides not to contract for the loan. These commitments are considered derivatives which are accounted for by recognizing their estimated fair value on the Consolidated Balance Sheets as either a freestanding asset or liability. See Note 16 to the Consolidated Financial Statements for more information on interest rate lock commitments and forward commitments.

Off-Balance Sheet Financial Instruments

In the ordinary course of business, the Company enters into off-balance sheet financial instruments, consisting primarily of credit related financial instruments. These financial instruments are recorded in the financial statements when they are funded or related fees are incurred or received.

Fair Value Hierarchy

The Company groups assets and liabilities that are measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1 Valuation is based on quoted prices in active markets for identical assets or liabilities. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 Valuation is based on observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using unobservable techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Employee Benefits

The Company maintains an employer sponsored 401(k) plan to which participants may make contributions in the form of salary deferrals and the Company provides matching contributions in accordance with the terms of the plan. Contributions due under the terms of the defined contribution plans are accrued as earned by employees.

Due to the Rome Bancorp acquisition in 2011, the Company inherited a noncontributory, qualified, defined benefit pension plan for certain employees who met age and service requirements; as well as other post-retirement benefits, principally health care and group life insurance. The Rome pension plan and postretirement benefits that were acquired in connection with the whole-bank acquisition in the second quarter of 2011 were frozen prior to the close of the transaction. The pension benefit in the form of a life annuity is based on the employee s combined years of service, age, and compensation. The Company also has a long-term care post-retirement benefit plan for certain executives where upon disability, associated benefits are funded by insurance policies or paid directly by the Company.

In order to measure the expense associated with the Plans, various assumptions are made including the discount rate, expected return on plan assets, anticipated mortality rates, and expected future healthcare

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costs. The assumptions are based on historical experience as well as current facts and circumstances. The Company uses a December 31 measurement date for its Plans. As of the measurement date, plan assets are determined based on fair value, generally representing observable market prices. The projected benefit obligation is primarily determined based on the present value of projected benefit distributions at an assumed discount rate.

Net periodic pension benefit costs include interest costs based on an assumed discount rate, the expected return on plan assets based on actuarially derived market-related values, and the amortization of net actuarial losses. Net periodic postretirement benefit costs include service costs, interest costs based on an assumed discount rate, and the amortization of prior service credits and net actuarial gains. Differences between expected and actual results in each year are included in the net actuarial gain or loss amount, which is recognized in other comprehensive income. The net actuarial gain or loss in excess of a 10% corridor is amortized in net periodic benefit cost over the average remaining service period of active participants in the Plans. The prior service credit is amortized over the average remaining service period to full eligibility for participating employees expected to receive benefits.

The Company recognizes in its statement of condition an asset for a plan s overfunded status or a liability for a plan s underfunded status. The Company also measures the Plans assets and obligations that determine its funded status as of the end of the fiscal year and recognizes those changes in other comprehensive income, net of tax.

Out of Period Adjustments

In the first quarter of 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 and, therefore, no restatement was required.

Recently Adopted Accounting Principles

On January 2014, the Company 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 the Company s consolidated financial statements.

Future Application of Accounting Pronouncements

In August 2014, the FASB issued ASU No. 2014-14 related to classification of certain government-guaranteed mortgage loans upon foreclosure. The objective of this guidance is to reduce diversity in practice related to how creditors classify government-guaranteed mortgage loans, including FHA or VA guaranteed loans, upon foreclosure. Some creditors reclassify those loans to real estate consistent with other foreclosed loans that do not have guarantees; others reclassify the loans to other receivables. The amendments in this guidance require that a mortgage loan be derecognized and that a separate other receivable be recognized upon foreclosure if the following conditions are met: (1) The loan has a government guarantee that is not separable from the loan before foreclosure; (2) At the time of

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foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim; and (3) At the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. The pronouncement is effective for interim and annual reporting periods beginning after December 15, 2014. The adoption of this pronouncement is not expected to have a material impact on the consolidated financial statements.

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

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

In January 2014, the FASB issued ASU No. 2014-01, Accounting for Investments in Qualified Affordable Housing Projects. ASU No. 2014-01 permits reporting entities to make an accounting policy election to account for investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense. This new guidance also requires new disclosures for all investors in these projects. ASU No. 2014-01 is effective for interim and annual reporting periods beginning after December 15, 2014. Upon adoption, the guidance must be applied retrospectively to all periods presented. However, entities that use the effective yield method to account for investments in these projects before adoption may continue to do so for these pre-existing investments. The Company currently accounts for such investments using the effective yield method and plans to continue to do so for these pre-existing investments after adopting ASU No. 2014-01 on January 1, 2015. The Company expects investments made after January 1, 2015 to meet the criteria required for the proportional amortization method and

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plans to elect that accounting policy. The adoption of ASU No. 2014-01 is not expected to have a material impact on the Company s Consolidated Financial Statements.

Also in January 2014, the FASB issued ASU No. 2014-04, Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure. The objective of this guidance is to clarify when an in substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. ASU No. 2014-04 states that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, ASU No. 2014-04 requires interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. ASU No. 2014-04 is effective for interim and annual reporting periods beginning after December 15, 2014. The adoption of ASU No. 2014-04 is not expected to have a material impact on the Company s 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 $17.1 million cash consideration paid and $0.3 million in other costs, and assumed certain related deposit liabilities associated with these branches (the branch acquisition). Consideration paid included a 2.25% premium on deposits received. The branch acquisition increased the Bank s customer base and lending opportunities, and enhanced the Bank s geographical market presence between Albany and Syracuse, New York. In addition, the acquired deposits augmented the Bank s sources of liquidity.

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

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

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(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	2,381	1,290(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	$ 6,936	$ 2,269	$ 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 driven by 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):

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

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

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

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

Direct acquisition costs including swap termination fees and integration costs of the branch acquisition were expensed as incurred, and totaled $4.0 million and $1.6 million for the years ending December 31, 2014 and 2013, respectively.

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 years ended December 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; (c) estimated adjustments to interest income and expense due to the additional acquired deposits and additional investments and borrowings reductions as a result of the branch acquisition; (d) estimated non-interest income and expenses from branch operations; and (e) an estimated tax rate of 40.5 percent. Direct acquisition expenses incurred by the Company during 2014 and 2013 are reversed for the purposes of this unaudited pro forma information. Furthermore, the unaudited pro forma information does not reflect management s estimate of any revenue-enhancing opportunities beyond investment of cash received from deposits, or anticipated cost-savings.

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

	Pro Forma (unaudited) Years ended December 31, 2014	2013
Net interest income	$ 179,249	$ 180,220
Non-interest income	56,750	62,452
Net income	41,443	43,552
Pro forma earnings per share:		
Basic	$ 1.68	$ 1.76
Diluted	$ 1.67	$ 1.74

NOTE 3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand, amounts due from banks, and short-term investments with original maturities of three months or less. Short-term investments included $9.9 million and $1.8 million pledged as collateral support for derivative financial contracts at year-end 2014 and 2013, respectively. The Federal Reserve Bank requires the Bank to maintain certain reserve requirements of vault cash and/or deposits. The reserve requirement, included in cash and equivalents, was $2.9 million and $17.2 million at year-end 2014 and 2013, respectively.

NOTE 4. TRADING SECURITY

The Company holds a tax advantaged economic development bond that is being accounted for at fair value. The security had an amortized cost of $12.6 million and $13.1 million and a fair value of $14.9 million and $14.8 million at year-end 2014 and 2013, respectively. Unrealized gains (losses) recorded through income on this security totaled $0.6 million, ($1.5) million, and ($15) thousand for 2014, 2013, and 2012, respectively. As discussed further in Note 16 - Derivative 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 year-end 2014 and 2013.

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NOTE 5. SECURITIES

The following is a summary of securities available for sale (AFS) and securities held to maturity (HTM):

(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2014				
Securities available for sale				
Debt securities:				
Municipal bonds and obligations	$ 127,014	$ 6,859	$ (174)	$ 133,699
Government guaranteed residential mortgage-backed securities	68,972	702	(206)	69,468
Government-sponsored residential mortgage-backed securities	755,893	7,421	(3,130)	760,184
Corporate bonds	55,134	120	(1,103)	54,151
Trust preferred securities	16,607	820	(1,212)	16,215
Other bonds and obligations	3,211		(52)	3,159
Total debt securities	1,026,831	15,922	(5,877)	1,036,876
Marketable equity securities	48,993	7,322	(1,373)	54,942
Total securities available for sale	1,075,824	23,244	(7,250)	1,091,818
Securities held to maturity				
Municipal bonds and obligations	4,997			4,997
Government-sponsored residential mortgage-backed securities	70	4		74
Tax advantaged economic development bonds	37,948	1,680	(34)	39,594
Other bonds and obligations	332			332
Total securities held to maturity	43,347	1,684	(34)	44,997
Total	$ 1,119,171	$ 24,928	$ (7,284)	$ 1,136,815
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

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At year-end 2014 and 2013, accumulated net unrealized gains/(losses) on AFS securities included in accumulated other comprehensive income were $16.0 million and $(9.3) million, respectively. The year-end 2014 and 2013 related income tax liability/(benefit) of $6.1 million and $(3.5) million, respectively, was also included in accumulated other comprehensive income.

The amortized cost and estimated fair value of available for sale (AFS) and held to maturity (HTM) securities, segregated by contractual maturity at year-end 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	$ 30,732	$ 29,738	$ 1,047	$ 1,047
Over 1 year to 5 years	1,257	1,271	17,248	18,139
Over 5 years to 10 years	17,687	17,944	12,360	12,524
Over 10 years	152,290	158,271	12,622	13,213
Total bonds and obligations	201,966	207,224	43,277	44,923
Marketable equity securities	48,993	54,942		
Residential mortgage-backed securities	824,865	829,652	70	74
Total	$ 1,075,824	$ 1,091,818	$ 43,347	$ 44,997

At year-end 2014 and 2013, the Company had pledged securities as collateral for certain municipal deposits and for interest rate swaps with certain counterparties. The total amortized cost and fair values of these pledged securities follows. Additionally, there is a blanket lien on certain securities to collateralize borrowings from the FHLBB, as discussed further in Note 12 - Borrowed Funds.

	2014		2013	
(In thousands)	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**
Securities pledged to swap counterparties	$ 25,875	$ 26,083	$ 26,227	$ 26,442
Securities pledged for municipal deposits	41,281	42,098	44,777	44,438
Total	$ 67,156	$ 68,181	$ 71,004	$ 70,880

Proceeds from the sale of AFS securities in 2014, 2013, and 2012 were $143.5 million, $19.4 million, and $85.5 million, respectively. The components of net realized gains and losses on the sale of AFS securities are as follows. These amounts were reclassified out of accumulated other comprehensive loss and into earnings:

(In thousands)	2014	2013	2012
Gross realized gains	$ 2,601	$ 4,758	$ 820
Gross realized losses	(2,119)		(520)
Net realized gain/(losses)	$ 482	$ 4,758	$ 300

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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
December 31, 2014						
Securities available for sale						
Debt securities:						
Municipal bonds and obligations	$ 8	$ 1,001	$ 166	$ 7,206	$ 174	$ 8,207
Government guaranteed residential mortgage-backed securities	46	7,122	160	16,727	206	23,849
Government-sponsored residential mortgage-backed securities	236	30,672	2,894	167,473	3,130	198,145
Corporate bonds	1,103	39,571			1,103	39,571
Trust preferred securities	65	935	1,147	2,408	1,212	3,343
Other bonds and obligations			52	3,035	52	3,035
Total debt securities	1,458	79,301	4,419	196,849	5,877	276,150
Marketable equity securities	1,039	9,902	334	4,755	1,373	14,657
Total securities available for sale	$ 2,497	$ 89,203	$ 4,753	$ 201,604	$ 7,250	$ 290,807
Securities held to maturity						
Tax advantaged economic development bonds			34	7,972	34	7,972
Total securities held to maturity			34	7,972	34	7,972
Total	$ 2,497	$ 89,203	$ 4,787	$ 209,576	$ 7,284	$ 298,779
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

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Debt Securities

The Company expects to recover its amortized cost basis on all debt securities in its AFS and HTM portfolios. Furthermore, the Company does not intend to sell nor does it anticipate that it will be required to sell any of its securities in an unrealized loss position as of December 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 historical 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 year-end 2014:

AFS municipal bonds and obligations

At year-end 2014, 14 of the 178 securities in the Company s portfolio of AFS municipal bonds and obligations were in unrealized loss positions. Aggregate unrealized losses represented 2% of the amortized cost of securities in unrealized loss positions. The 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 that the bonds in this portfolio carry minimal risk of default and that the Company is appropriately compensated for that risk. The bonds are investment grade rated, and there were no material underlying credit downgrades during 2014. All securities are performing.

AFS residential mortgage-backed securities

At year-end 2014, 46 out of a total of 196 securities in the Company s portfolio of AFS residential mortgage-backed securities were in unrealized loss positions. Aggregate unrealized losses represented 1.5% of the amortized cost of securities in unrealized loss positions. The Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC) and Government National Mortgage Association (GNMA) guarantees the contractual cash flows of the Company s residential mortgage-backed securities. The securities are investment grade rated and there were no material underlying credit downgrades during 2014. All securities are performing.

AFS corporate bonds

At year-end 2014, 4 out of 6 securities in the Company s portfolio of AFS corporate bonds were in an unrealized loss position. The aggregate unrealized loss represents 2.7% of the amortized cost of bonds in unrealized loss positions. Of the 4 securities, 1 security is investment grade rated. The Company reviews the financial strength of all of these bonds and has concluded that the amortized cost remains supported by the expected future cash flows of these securities.

At year-end 2014, $1.0 million of the total unrealized losses was attributable to a $30.7 million investment. The Company evaluated these securities, with a Level 2 fair value of $29.7 million, for potential other-than-temporary impairment (OTTI) at December 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.

AFS trust preferred securities

At year-end 2014, 3 out of 6 securities in the Company s portfolio of AFS trust preferred securities were in unrealized loss positions. Aggregate unrealized losses represented 27% of the amortized cost of

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securities in unrealized loss positions. The Company s evaluation of the present value of expect cash flows on these securities supports its conclusions about the recoverability of the securities amortized cost basis. Of the 3 securities, 2 securities have investment grade ratings. The Company reviews the financial strength of all of the single issue trust issuers and has concluded that the amortized cost remains supported by the market value of these securities and they are performing.

At year-end 2014, $1.0 million of the total unrealized losses was attributable to a $2.6 million investment in a Mezzanine Class B tranche of a $360 million pooled trust preferred security collateralized by banking and insurance entities. The Company evaluated the security, with a Level 3 fair value of $1.5 million, for potential other-than-temporary impairment (OTTI) at December 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 $50 million in excess subordination above current and projected losses. The security is performing.

AFS other bonds and obligations

At year-end 2014, 5 of the 8 securities in the Company s portfolio of other bonds and obligations were in unrealized loss positions. Aggregate unrealized losses represented 1.7% of the amortized cost of securities in unrealized loss positions. The securities are all investment grade rated, and there were no material underlying credit downgrades during 2014. All securities are performing.

HTM tax advantaged economic development bonds

At year-end 2014, 1 of the 7 securities in the Company s portfolio of tax advantaged economic development bonds were in an unrealized loss position. Aggregate unrealized losses represented 0.4% of the amortized cost of securities in unrealized loss positions. The Company has the ability and intent of maintaining these bonds to the recovery. These securities are performing. The Company expects to receive all future cash flows associated with these securities.

Marketable Equity Securities

In evaluating its marketable equity securities portfolio for OTTI, the Company considers its ability to more likely than not hold an equity security to recovery. The Company additionally considers other various factors including 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 year-end 2014, 7 out of a total of 30 securities in the Company s portfolio of marketable equity securities were in an unrealized loss position. The unrealized loss represented 9% 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 year-end 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.

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NOTE 6. 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 consumer loan classes. 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 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:

	2014			2013		
(In thousands)	**Business Activities**	**Acquired Loans**	**Total**	**Business Activities**	**Acquired Loans**	**Total**
Residential mortgages:						
1-4 family	$ 1,199,408	$ 268,734	$ 1,468,142	$ 1,027,737	$ 333,367	$ 1,361,104
Construction	27,044	1,018	28,062	18,158	5,012	23,170
Total residential mortgages	1,226,452	269,752	1,496,204	1,045,895	338,379	1,384,274
Commercial real estate:						
Construction	169,189	4,201	173,390	125,247	13,770	139,017
Single and multi-family	140,050	53,168	193,218	63,493	64,827	128,320
Commercial real estate	1,030,837	214,122	1,244,959	871,271	278,512	1,149,783
Total commercial real estate	1,340,076	271,491	1,611,567	1,060,011	357,109	1,417,120
Commercial and industrial loans:						
Asset based lending	341,246		341,246	294,241	3,130	297,371
Other commercial and industrial loans	411,945	51,175	463,120	323,196	66,726	389,922

Total commercial and industrial loans	753,191	51,175	804,366	617,437	69,856	687,293
Total commercial loans	2,093,267	322,666	2,415,933	1,677,448	426,965	2,104,413
Consumer loans:						
Home equity	252,681	65,951	318,632	232,677	74,154	306,831
Auto and other	346,480	103,351	449,831	213,171	171,834	385,005
Total consumer loans	599,161	169,302	768,463	445,848	245,988	691,836
Total loans	$ 3,918,880	$ 761,720	$ 4,680,600	$ 3,169,191	$ 1,011,332	$ 4,180,523

Total unamortized net costs and premiums included in the year-end total loans for business activity loans were the following:

(In thousands)	**2014**	**2013**
Unamortized net loan origination costs	$ 14,268	$ 13,898
Unamortized net premium on purchased loans	4,604	3,652
Total unamortized net costs and premiums	$ 18,872	$ 17,550

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company occasionally transfers a portion of its originated commercial loans to participating lending partners. The amounts transferred have been accounted for as sales and are therefore not included in the Company s accompanying consolidated balance sheets. The Company and its lending partners share ratably in any gains or losses that may result from a borrower s lack of compliance with contractual terms of the loan. The Company continues to service the loans, collects cash payments from the borrowers, remits payments (net of servicing fees), and disburses required escrow funds to relevant parties. At year-end 2014 and 2013, the Company was servicing loans for participants totaling $95.4 million and $84.7 million, respectively.

In 2014, the Company purchased loans aggregating $50.2 million and sold loans aggregating $290.1 million. In 2013, the Company purchased loans aggregating $178.6 million and sold loans aggregating $932.5 million. Net gains (losses) on sales of loans were $4 million, ($1) million, and $11.8 million for the years 2014, 2013, and 2012, respectively.

Most of the Company s lending activity occurs within its primary markets in Western Massachusetts, Southern Vermont, and Northeastern New York. Most of the loan portfolio is secured by real estate, including residential mortgages, commercial mortgages, and home equity loans. Year-end loans to operators of non-residential buildings totaled $691.3 million, or 14.8%, and $556.75 million, or 13.3% of total loans in 2014 and 2013, respectively. There were no other concentrations of loans related to any one industry in excess of 10% of total loans at year-end 2014 or 2013.

At year-end 2014, the Company had pledged loans totaling $100 million to the Federal Reserve Bank of Boston as collateral for certain borrowing arrangements. Also, residential first mortgage loans are subject to a blanket lien for FHLBB advances. See Note 12 - Borrowings & Subordinated Notes.

At year-end 2014 and 2013, the Company s commitments outstanding to related parties totaled $3.3 million and $2.8 million, respectively, and the loans outstanding against these commitments totaled $2.0 million and $1.2 million, respectively. Related parties include directors and executive officers of the Company and its subsidiaries and their respective affiliates in which they have a controlling interest, and immediate family members. For the years 2014 and 2013, all related party loans were performing.

The carrying amount of the acquired loans at December 31, 2014 totaled $762 million. A subset of these loans was determined to have evidence of credit deterioration at acquisition date, which is accounted for in accordance with ASC 310-30. These purchased credit-impaired loans presently maintain a carrying value of $13.8 million. These loans are evaluated for impairment through the periodic reforecasting of expected cash flows. Of the 13.8 million, $375 thousand are Residential Mortgages, $12.3 million are Commercial Real Estate, $986 thousand are Commercial and Industrial loans, and $171 thousand are Consumer loans.

The carrying amount of the acquired loans at December 31, 2013 totaled $1.01 billion. A subset of these loans was determined to have evidence of credit deterioration at acquisition date, which is accounted for in accordance with ASC 310-30. These purchased credit-impaired loans presently maintain a carrying value of $29.9 million. These loans are evaluated for impairment through the periodic reforecasting of expected cash flows. Of the 29.9 million, $329 thousand are Residential Mortgages, $26.5 million are Commercial Real Estate, and $3.0 million are Commercial and Industrial loans.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table summarizes activity in the accretable yield for the acquired loan portfolio that falls under the purview of ASC 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*.

(In thousands)	**2014**	**2013**
Balance at beginning of period	$ 2,559	$ 8,247
Acquisitions		
Sales		(301)
Reclassification from nonaccretable difference for loans with improved cash flows	2,644	2,252
Changes in expected cash flows that do not affect nonaccretable difference		
Accretion	(2,662)	(7,639)
Balance at end of period	$ 2,541	$ 2,559

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following is a summary of past due loans at December 31, 2014 and 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
December 31, 2014							
Residential mortgages:							
1-4 family	$ 5,580	$ 146	$ 4,053	$ 9,779	$ 1,189,629	$ 1,199,408	$ 1,527
Construction	666	410		1,076	25,968	27,044	
Total	6,246	556	4,053	10,855	1,215,597	1,226,452	1,527
Commercial real estate:							
Construction		2,000	720	2,720	166,469	169,189	
Single and multi-family	178	156	458	792	139,258	140,050	
Commercial real estate	692	705	9,383	10,780	1,020,057	1,030,837	621
Total	870	2,861	10,561	14,292	1,325,784	1,340,076	621
Commercial and industrial loans							
Asset based lending					341,246	341,246	
Other commercial and industrial loans	1,040	498	856	2,394	409,551	411,945	6
Total	1,040	498	856	2,394	750,797	753,191	6
Consumer loans:							
Home equity	333	1,000	1,387	2,720	249,961	252,681	230
Auto and other	831	65	315	1,211	345,269	346,480	10
Total	1,164	1,065	1,702	3,931	595,230	599,161	240
Total	$ 9,320	$ 4,980	$ 17,172	$ 31,472	$ 3,887,408	$ 3,918,880	$ 2,394

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
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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Acquired Loans

(in thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Acquired Credit Impaired	Total Loans	Past Due > 90 days and Accruing
December 31, 2014							
Residential mortgages:							
1-4 family	$ 1,133	$ 638	$ 1,651	$ 3,422	$ 375	$ 268,734	$ 269
Construction						1,018	
Total	1,133	638	1,651	3,422	375	269,752	269
Commercial real estate:							
Construction			691	691	1,296	4,201	
Single and multi-family	277		572	849	5,477	53,168	
Commercial real estate		715	2,004	2,719	5,504	214,122	329
Total	277	715	3,267	4,259	12,277	271,491	329
Commercial and industrial loans							
Asset based lending							
Other commercial and industrial loans	202	32	855	1,089	986	51,175	
Total	202	32	855	1,089	986	51,175	
Consumer loans:							
Home equity	176	95	1,049	1,320	171	65,951	466
Auto and other	1,170	944	1,363	3,477		103,351	194
Total	1,346	1,039	2,412	4,797	171	169,302	660
Total	$ 2,958	$ 2,424	$ 8,185	$ 13,567	$ 13,809	$ 761,720	$ 1,258

Acquired Loans

(in thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Acquired Credit Impaired	Total Loans	Past Due > 90 days and Accruing
December 31, 2013							
Residential mortgages:							
1-4 family	$ 1,891	$ 437	$ 2,507	$ 4,835	$ 329	$ 333,367	$ 735
Construction	134	32	625	791		5,012	501

Total	2,025	469	3,132	5,626	329	338,379	1,236
Commercial real estate:							
Construction					6,616	13,770	
Single and multi-family	350	188	823	1,361	9,666	64,827	
Commercial real estate	537	518	3,455	4,510	10,252	278,512	272
Total	887	706	4,278	5,871	26,534	357,109	272
Commercial and industrial loans							
Asset based lending						3,130	
Other commercial and industrial loans	440	135	1,074	1,649	3,036	66,726	153
Total	440	135	1,074	1,649	3,036	69,856	153
Consumer loans:							
Home equity	425	545	637	1,607		74,154	35
Auto and other	2,606	641	1,641	4,888		171,834	82
Total	3,031	1,186	2,278	6,495		245,988	117
Total	$ 6,383	$ 2,496	$ 10,762	$ 19,641	$ 29,899	$ 1,011,332	$ 1,778

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following is summary information pertaining to non-accrual loans at year-end 2014 and 2013:

(In thousands)	2014 Business Activities Loans	2014 Acquired Loans	2014 Total	2013 Business Activities Loans	2013 Acquired Loans	2013 Total
Residential mortgages:						
1-4 family	$ 2,526	$ 1,382	$ 3,908	$ 5,931	$ 1,772	$ 7,703
Construction				41	123	164
Total	2,526	1,382	3,908	5,972	1,895	7,867
Commercial real estate:						
Construction	720		720	3,176		3,176
Single and multi-family	458	141	599	511	823	1,334
Other commerical real estate	8,762	1,675	10,437	6,047	3,183	9,230
Total	9,940	1,816	11,756	9,734	4,006	13,740
Commercial and industrial loans:						
Asset based lending						
Other commercial and industrial loans	850	811	1,661	1,434	921	2,355
Total	850	811	1,661	1,434	921	2,355
Consumer loans:						
Home equity	1,157	583	1,740	1,083	602	1,685
Auto and other	305	1,169	1,474	249	1,559	1,808
Total	1,462	1,752	3,214	1,332	2,161	3,493
Total non-accrual loans	$ 14,778	$ 5,761	$ 20,539	$ 18,472	$ 8,983	$ 27,455

At year end 2014, Acquired credit impaired loans account for $1.2 million of non-accrual loans that are not presented in the above table.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Business Activities Loans

(In thousands) 2014	Residential mortgages	Commercial real estate	Commercial and industrial	Consumer	Total
Loans receivable:					
Balance at end of year					
Individually evaluated for impairment	$ 3,238	$ 22,015	$ 743	$ 452	$ 26,448
Collectively evaluated	1,223,214	1,318,061	752,448	598,709	3,892,432
Total	$ 1,226,452	$ 1,340,076	$ 753,191	$ 599,161	$ 3,918,880

Business Activities Loans

(In thousands) 2013	Residential mortgages	Commercial real estate	Commercial and industrial	Consumer	Total
Loans receivable:					
Balance at end of year					
Individually evaluated for impairment	$ 6,237	$ 22,429	$ 1,380	$ 515	$ 30,561
Collectively evaluated	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) 2014	Residential mortgages	Commercial real estate	Commercial and industrial	Consumer	Total
Loans receivable:					
Balance at end of year					
Individually evaluated for impairment	$ 695	$ 5,637	$ 39	$ 199	$ 6,570
Collectively evaluated	269,057	265,854	51,136	169,103	755,150
Total	$ 269,752	$ 271,491	$ 51,175	$ 169,302	$ 761,720

Acquired Loans

[redacted]

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following is a summary of impaired loans at year-end 2014 and 2013 and for the years then ended:

Business Activities Loans

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

Acquired Loans

(In thousands)	Recorded Investment	At December 31, 2014 Unpaid Principal Balance	Related Allowance
With no related allowance:			
Residential mortgages - 1-4 family	$ 189	$ 189	$
Other commercial real estate loans	5,206	5,206	
Other commercial and industrial loans	39	39	
Consumer - home equity			
With an allowance recorded:			

Residential mortgages - 1-4 family		458		506	$	48
Other commercial real estate loans		383		431		48
Other commercial and industrial loans						
Consumer - home equity		124		199		75
Total						
Residential mortgages	$	647	$	695	$	48
Commercial real estate		5,589		5,637		48
Commercial and industrial		39		39		
Consumer		124		199		75
Total impaired loans	$	6,399	$	6,570	$	171

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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	$ 3,406	$ 3,406	$
Commercial real estate - construction	3,176	3,176	
Commercial real estate - single and multifamily			
Other commercial real estate loans	18,909	18,909	
Other commercial and industrial loans	811	811	
Consumer - home equity	270	270	
With an allowance recorded:			
Residential mortgages - 1-4 family	$ 1,926	$ 2,831	$ 905
Commercial real estate - construction			
Commercial real estate - single and multifamily			
Other commercial real estate loans	125	344	219
Other commercial and industrial loans	514	569	55
Consumer - home equity	142	245	103
Total			
Residential mortgages	$ 5,332	$ 6,237	$ 905
Commercial real estate	22,210	22,429	219
Commercial and industrial loans	1,325	1,380	55
Consumer	412	515	103
Total impaired loans	$ 29,279	$ 30,561	$ 1,282

Acquired Loans

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Business Activities Loans

	For the Year Ended December 31, 2014		For the Year Ended December 31, 2013	
(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	$ 3,807	$ 141	$ 4,208	$ 150
Commercial real estate - construction	18,218	704	3,997	30
Commercial real estate - single and multifamily	519			
Other commercial real estate	9		22,653	885
Commercial and industrial	1,877	70	1,833	61
Consumer-home equity	234	3	1,008	9
Consumer-other			129	5
With an allowance recorded:				
Residential mortgages - 1-4 family	$ 648	$ 31	$ 2,359	$ 44
Commercial mortages - construction	2,837	84		
Commercial real estate - single and multifamily	1,213			
Other commercial real estate			103	
Commercial and industrial			14	3
Consumer-home equity	207	6	103	3
Consumer - other	120	4		
Total				
Residential mortgages	$ 4,455	$ 172	$ 6,567	$ 194
Commercial real esate	22,796	788	26,753	915
Commercial and industrial	1,877	70	1,847	64
Consumer loans	561	13	1,240	17
Total impaired loans	$ 29,689	$ 1,043	$ 36,407	$ 1,190

Acquired Loans

	For the Year Ended December 31, 2014		For the Year Ended December 31, 2013	
(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	$ 841	$ 8	$ 736	$ 5
Commercial real estate - construction	5,484	227		
Other commercial real estate			2,864	111

Commercial and industrial		356		13		231		6
Consumer-home equity		41						
With an allowance recorded:								
Residential mortgages - 1-4 family	$	241	$	14	$	414	$	23
Commercial real estate - construction		108		4				
Commercial real estate - single and multifamily								
Other commercial real estate						1,997		67
Commercial and industrial								
Consumer-home equity		51		6		38		3
Total								
Residential mortgages	$	1,082	$	22	$	1,150	$	28
Commercial real esate		5,592		231		4,861		178
Commercial and industrial		356		13		231		6
Consumer loans		92		6		38		3
Total impaired loans	$	7,122	$	272	$	6,280	$	215

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No additional funds are committed to be advanced in connection with impaired loans.

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 for modified loans identified during the years-ended December 31, 2014, 2013, and 2012 respectively. The table includes the recorded investment in the loans prior to a modification and also the recorded investment in the loans after the loans were restructured. The modifications for the year-ended December 31, 2014 were attributable to interest rate concessions, debt consolidations, and changes to payment terms. The modifications for the year-ended December 31, 2013 were attributable to interest rate concessions, debt consolidations, and maturity date extensions. The modifications for the year ended December 31, 2012 were attributable to maturity date extensions.

	Modifications by Class For the twelve months ending December 31, 2014				
	Number of Modifications		Pre-Modification Outstanding Recorded Investment (In thousands)		Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings					
Residential- 1-4 Family	5	$	600	$	598
Residential- Construction	1		102		102
Commercial - Single and multifamily	1		623		623
Commercial - Other	10		9,190		9,190
	17	$	10,515	$	10,513

	Modifications by Class For the twelve months ending December 31, 2013				
	Number of Modifications		Pre-Modification Outstanding Recorded Investment (In thousands)		Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings					
Residential- 1-4 Family	7	$	1,152	$	1,152
Commercial - Single and multifamily	1		320		320
Commercial - Other	2		2,366		2,406
Commercial and industrial- Other	10		3,882		3,450
Consumer- Auto and other	7		443		442
	27	$	8,163	$	7,770

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	Modifications by Class For the twelve months ending December 31, 2012		
	Number of Modifications	Pre-Modification Outstanding Recorded Investment (In thousands)	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings			
Residential- 1-4 Family	3	$ 468	$ 467
Commercial - Single and multifamily	4	225	225
Commercial - Other	3	2,493	2,493
Commercial and industrial- Other	3	1,308	1,308
Consumer- Auto and other	1	133	133
	14	$ 4,627	$ 4,626

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

	Modifications that Subsequently Defaulted For the twelve months ending December 31, 2014	
	Number of Contracts	Recorded Investment
Troubled Debt Restructurings		
Commercial and industrial- Other	2	$ 101

	Modifications that Subsequently Defaulted For the twelve months ending December 31, 2013	
	Number of Contracts	Recorded Investment
Troubled Debt Restructurings		
Residential- 1-4 Family	1	$ 201
Commercial - Single and multifamily	5	261
Commercial - Other	7	1,961
Commercial and industrial- Other	1	55
	14	$ 2,478

For twelve months ended December 31, 2012, there were no loans that were restructured within the last twelve months that have subsequently defaulted.

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The following table presents the Company s TDR activity in 2014 and 2013:

(In thousands)	2014	2013
Balance at beginning of year	$ 10,822	$ 4,626
Principal payments	(2,651)	(118)
TDR status change (1)	(52)	(1,164)
Other reductions (2)	(1,918)	(292)
Newly identified TDRs	10,513	7,770
Balance at end of year	$ 16,714	$ 10,822

(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, charge-offs to loans, and other loan sale payoffs.

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

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NOTE 7. LOAN LOSS ALLOWANCE

Activity in the allowance for loan losses for 2014, 2013, and 2012 was as follows:

Business Activities Loans

(In thousands) 2014	**Residential mortgages**	**Commercial real estate**	**Commercial and industrial**	**Consumer**	**Unallocated**	**Total**
Balance at beginning of year	$ 6,937	$ 13,705	$ 5,173	$ 3,644	$ 68	$ 29,527
Charged-off loans	1,455	4,207	2,500	1,308		9,470
Recoveries on charged-off loans	186	9	193	285		673
Provision for loan losses	1,168	5,183	2,340	3,307	67	12,065
Balance at end of year	$ 6,836	$ 14,690	$ 5,206	$ 5,928	$ 135	$ 32,795
Individually evaluated for impairment	155	922		66		1,143
Collectively evaluated	6,681	13,768	5,206	5,862	135	31,652
Total	$ 6,836	$ 14,690	$ 5,206	$ 5,928	$ 135	$ 32,795

Acquired Loans

(In thousands) 2014	**Residential mortgages**	**Commercial real estate**	**Commercial and industrial**	**Consumer**	**Unallocated**	**Total**
Balance at beginning of year	$ 625	$ 2,339	$ 597	$ 235	$	$ 3,796
Charged-off loans	1,141	1,477	510	1,255		4,383
Recoveries on charged-off loans	179	261	35	76		551
Provision for loan losses	952	(333)	971	1,313		2,903
Balance at end of year	$ 615	$ 790	$ 1,093	$ 369	$	$ 2,867
Individually evaluated for impairment	48	48		75		171
Collectively evaluated	567	742	1,093	294		2,696
Total	$ 615	$ 790	$ 1,093	$ 369	$	$ 2,867

Business Activities Loans

[redacted]

Balance at beginning of year	$ 5,928	$ 18,863	$ 5,605	$ 1,466	$ 29	$ 31,891
Charged-off loans	1,761	3,378	2,046	917		8,102

Recoveries on charged-off loans	398	540	121	270		1,329
Provision for loan losses	2,372	(2,320)	1,493	2,825	39	4,409
Balance at end of year	$ 6,937	$ 13,705	$ 5,173	$ 3,644	$ 68	$ 29,527
Individually evaluated for impairment	905	219	55	103		1,282
Collectively evaluated	6,032	13,486	5,118	3,541	68	28,245
Total	$ 6,937	$ 13,705	$ 5,173	$ 3,644	$ 68	$ 29,527

Acquired Loans

Balance at beginning of year	$ 509	$ 390	$ 96	$ 314	$ 8	$ 1,317
Charged-off loans	636	1,748	771	1,580		4,735
Recoveries on charged-off loans	1	15	84	145		245
Provision for loan losses	751	3,682	1,188	1,356	(8)	6,969
Balance at end of year	$ 625	$ 2,339	$ 597	$ 235	$	$ 3,796
Individually evaluated for impairment	230	488		39		757
Collectively evaluated	395	1,851	597	196		3,039
Total	$ 625	$ 2,339	$ 597	$ 235	$	$ 3,796

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Business Activities Loans

[redacted]						
Balance at beginning of year	$ 3,150	$ 22,095	$ 4,540	$ 2,203	$ (90)	$ 31,898
Charged-off loans	2,604	4,229	697	1,537		9,067
Recoveries on charged-off loans	103	52	96	165		416
Provision for loan losses	5,279	945	1,666	635	119	8,644
Balance at end of year	$ 5,928	$ 18,863	$ 5,605	$ 1,466	$ 29	$ 31,891
Individually evaluated for impairment	287	1,444	1,205	273		3,209
Collectively evaluated	5,641	17,419	4,400	1,193	29	28,682
Total	$ 5,928	$ 18,863	$ 5,605	$ 1,466	$ 29	$ 31,891

Acquired Loans

[redacted]						
Balance at beginning of year	$ 281	$ 158	$ 38	$ 87	$ (18)	$ 546
Charged-off loans	43			340		383
Recoveries on charged-off loans				208		208
Provision for loan losses	271	232	58	359	26	946
Balance at end of year	$ 509	$ 390	$ 96	$ 314	$ 8	$ 1,317
Individually evaluated for impairment	55					55
Collectively evaluated	454	390	96	314	8	1,262
Total	$ 509	$ 390	$ 96	$ 314	$ 8	$ 1,317

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 weaknesses 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 annual, 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.

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Acquired Loans Credit Quality Analysis

Upon acquiring a loan portfolio, the Company s Internal Loan Review function undertakes the same process of assigning risk ratings as historical loans. This may differ from the risk rating policy of the predecessor company. Loans which are rated Substandard or lower according to the rating process outlined below are deemed to be credit impaired loans accounted for under ASC 310-30, regardless of whether they are classified as performing or non-performing.

The Bank utilizes an eleven grade internal loan rating system for each of its acquired commercial real estate, construction and commercial loans. 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 originated loans, which includes the application of environmental factors to each category of loans. The methodology to collectively evaluate the acquired loans outside the scope of ASC 310-30 includes the application of a number of environmental factors that reflect management s best estimate of the level of incremental credit losses that might be recognized given current conditions. This is reviewed as part of the allowance for loan loss adequacy analysis. As the loan portfolio matures and environmental factors change, the loan portfolio will be reassessed each quarter to determine an appropriate reserve allowance.

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

A decrease in the expected cash flows in subsequent periods requires the establishment of an allowance for loan losses at that time for ASC 310-30 loans. At December 31, 2013, there had not been such a decrease and therefore there was no allowance for losses on acquired loans under Subtopic ASC 310-30.

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

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The following table presents the Company s loans by risk rating at year-end 2014 and 2013:

Business Activities Loans

Residential Mortgages

Credit Risk Profile by Internally Assigned Grade

	1-4 family		Construction		Total residential mortgages	
(In thousands)	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Grade:						
Pass	$ 1,195,209	$ 1,019,732	$ 26,634	$ 18,117	$ 1,221,843	$ 1,037,849
Special mention	146	623	410		556	623
Substandard	4,053	7,382		41	4,053	7,423
Total	$ 1,199,408	$ 1,027,737	$ 27,044	$ 18,158	$ 1,226,452	$ 1,045,895

Commercial Mortgages

Credit Risk Profile by Creditworthiness Category

	Construction		Single and multi-family		Other		Total commercial real estate	
(In thousands)	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Grade:								
Pass	$ 166,295	$ 120,071	$ 137,533	$ 59,636	$ 959,836	$ 800,672	$ 1,263,664	$ 980,379
Special mention				140	6,933	8,150	6,933	8,290
Substandard	2,894	5,176	2,517	3,717	63,995	61,807	69,406	70,700
Doubtful					73	642	73	642
Total	$ 169,189	$ 125,247	$ 140,050	$ 63,493	$ 1,030,837	$ 871,271	$ 1,340,076	$ 1,060,011

Commercial Business Loans

Credit Risk Profile by Creditworthiness Category

	Asset based lending		Other		Total comm. and industrial	
(In thousands)	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Grade:						
Pass	$ 341,246	$ 294,241	$ 404,846	$ 313,984	$ 746,092	$ 608,225

Special mention						560		884		560		884
Substandard						6,539		7,725		6,539		7,725
Doubtful								603				603
Total	$	341,246	$	294,241	$	411,945	$	323,196	$	753,191	$	617,437

Consumer Loans

Credit Risk Profile Based on Payment Activity

	Home equity				Auto and other				Total consumer			
(In thousands)		**2014**		**2013**		**2014**		**2013**		**2014**		**2013**
Performing	$	251,524	$	231,594	$	346,175	$	212,922	$	597,699	$	444,516
Nonperforming		1,157		1,083		305		249		1,462		1,332
Total	$	252,681	$	232,677								