

BERKSHIRE HILLS BANCORP INC
Form 10-Q
November 12, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended: September 30, 2013

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

For the transition period from to

Commission File Number: 001-15781

BERKSHIRE HILLS BANCORP, INC.

(Exact name of registrant as specified in its charter)

Delaware

04-3510455

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(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

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

01201
(Zip Code)

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

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

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

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

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller Reporting Company

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

The Registrant had 25,037,224 shares of common stock, par value \$0.01 per share, outstanding as of November 6, 2013.

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FORM 10-Q

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Table of Contents**PART I****ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****BERKSHIRE HILLS BANCORP, INC.****CONSOLIDATED BALANCE SHEETS**

| (In thousands, except share data) | September 30, 2013 | December 31, 2012 |
|--|-------------------------------|------------------------------|
| Assets | | |
| Cash and due from banks | \$ 61,149 | \$ 63,382 |
| Short-term investments | 15,710 | 34,862 |
| Total cash and cash equivalents | 76,859 | 98,244 |
| Trading security | 15,330 | 16,893 |
| Securities available for sale, at fair value | 684,716 | 466,169 |
| Securities held to maturity (fair values of \$48,080 and \$52,490) | 46,925 | 51,024 |
| Federal Home Loan Bank stock and other restricted securities | 42,342 | 39,785 |
| Total securities | 789,313 | 573,871 |
| Loans held for sale, at fair value | 27,064 | 85,368 |
| Residential mortgages | 1,313,609 | 1,324,251 |
| Commercial mortgages | 1,366,104 | 1,413,544 |
| Commercial business loans | 668,983 | 600,126 |
| Consumer loans | 675,147 | 650,733 |
| Total loans | 4,023,843 | 3,988,654 |
| Less: Allowance for loan losses | (33,248) | (33,208) |
| Net loans | 3,990,595 | 3,955,446 |
| Premises and equipment, net | 83,136 | 86,461 |
| Other real estate owned | 3,561 | 1,929 |
| Goodwill | 256,871 | 255,199 |
| Other intangible assets | 15,030 | 19,059 |
| Cash surrender value of bank-owned life insurance policies | 100,299 | 88,198 |
| Deferred tax assets, net | 61,617 | 57,729 |
| Other assets | 45,911 | 75,305 |
| Total assets | \$ 5,450,256 | \$ 5,296,809 |
| Liabilities | | |
| Demand deposits | \$ 669,878 | \$ 673,921 |
| NOW deposits | 352,762 | 379,880 |
| Money market deposits | 1,357,201 | 1,439,632 |
| Savings deposits | 438,135 | 436,387 |
| Time deposits | 1,064,049 | 1,170,589 |
| Total deposits | 3,882,025 | 4,100,409 |
| Short-term debt | 590,000 | 163,150 |
| Long-term Federal Home Loan Bank advances | 150,022 | 195,321 |

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| | | |
|--------------------|-----------|-----------|
| Subordinated notes | 89,663 | 89,617 |
| Total borrowings | 829,685 | 448,088 |
| Other liabilities | 65,351 | 81,047 |
| Total liabilities | 4,777,061 | 4,629,544 |

Stockholders equity

| | | |
|---|--------------|--------------|
| Common stock (\$.01 par value; 50,000,000 shares authorized and 26,525,466 shares issued and 24,952,204 shares outstanding in 2013; 26,525,466 shares issued and 25,148,522 shares outstanding in 2012) | 265 | 265 |
| Additional paid-in capital | 587,041 | 585,360 |
| Unearned compensation | (4,211) | (3,035) |
| Retained earnings | 135,991 | 122,014 |
| Accumulated other comprehensive loss | (7,029) | (2,979) |
| Treasury stock, at cost (1,573,262 shares in 2013 and 1,376,944 shares in 2012) | (38,862) | (34,360) |
| Total stockholders equity | 673,195 | 667,265 |
| Total liabilities and stockholders equity | \$ 5,450,256 | \$ 5,296,809 |

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

Table of Contents**BERKSHIRE HILLS BANCORP, INC.****CONSOLIDATED STATEMENTS OF INCOME**

| (In thousands, except per share data) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|-----------|------------------------------------|------------|
| | 2013 | 2012 | 2013 | 2012 |
| Interest and dividend income | | | | |
| Loans | \$ 50,025 | \$ 39,497 | \$ 142,549 | \$ 113,335 |
| Securities and other | 4,479 | 3,626 | 12,533 | 11,116 |
| Total interest and dividend income | 54,504 | 43,123 | 155,082 | 124,451 |
| Interest expense | | | | |
| Deposits | 5,278 | 5,628 | 15,693 | 16,612 |
| Borrowings and junior subordinated notes | 3,357 | 2,270 | 10,479 | 6,416 |
| Total interest expense | 8,635 | 7,898 | 26,172 | 23,028 |
| Net interest income | 45,869 | 35,225 | 128,910 | 101,423 |
| Non-interest income | | | | |
| Loan related income | 1,308 | 1,340 | 6,669 | 3,990 |
| Mortgage banking income | 444 | 4,306 | 4,790 | 6,553 |
| Deposit related fees | 4,559 | 3,775 | 13,623 | 11,238 |
| Insurance commissions and fees | 2,473 | 2,742 | 7,877 | 8,256 |
| Wealth management fees | 2,137 | 1,774 | 6,471 | 5,431 |
| Total fee income | 10,921 | 13,937 | 39,430 | 35,468 |
| Other | 832 | 375 | 1,722 | 885 |
| Gain on sale of securities, net | 361 | | 1,366 | 7 |
| Non-recurring gain | | 1 | | 43 |
| Total non-interest income | 12,114 | 14,313 | 42,518 | 36,403 |
| Total net revenue | 57,983 | 49,538 | 171,428 | 137,826 |
| Provision for loan losses | 3,178 | 2,500 | 8,278 | 6,750 |
| Non-interest expense | | | | |
| Compensation and benefits | 18,506 | 15,992 | 54,398 | 45,219 |
| Occupancy and equipment | 5,614 | 4,599 | 17,119 | 13,484 |
| Technology and communications | 3,304 | 2,302 | 9,775 | 6,518 |
| Marketing and promotion | 590 | 419 | 1,831 | 1,548 |
| Professional services | 1,757 | 1,327 | 5,011 | 4,185 |
| FDIC premiums and assessments | 856 | 907 | 2,574 | 2,458 |
| Other real estate owned and foreclosures | 138 | 42 | 445 | 215 |
| Amortization of intangible assets | 1,307 | 1,314 | 4,029 | 3,982 |
| Merger, restructuring and conversion related expenses | 6,516 | 2,214 | 12,355 | 10,522 |
| Other | 4,196 | 3,046 | 12,665 | 8,409 |
| Total non-interest expense | 42,784 | 32,162 | 120,202 | 96,540 |
| Income from continuing operations before income taxes | 12,021 | 14,876 | 42,948 | 34,536 |
| Income tax expense | 3,917 | 4,847 | 12,342 | 10,040 |
| Net income from continuing operations | 8,104 | 10,029 | 30,606 | 24,496 |
| Loss from discontinued operations before income taxes (including gain on disposal of \$63 in 2012) | | | | (261) |
| Income tax expense | | | | 376 |
| Net loss from discontinued operations | | | | (637) |
| Net income | \$ 8,104 | \$ 10,029 | \$ 30,606 | \$ 23,859 |

Basic earnings per share:

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| | | | | | | | | |
|--|----|--------|----|--------|----|--------|----|--------|
| Continuing operations | \$ | 0.33 | \$ | 0.46 | \$ | 1.23 | \$ | 1.14 |
| Discontinued operations | | | | | | | | (0.03) |
| Total basic earnings per share | \$ | 0.33 | \$ | 0.46 | \$ | 1.23 | \$ | 1.11 |
| Diluted earnings per share: | | | | | | | | |
| Continuing operations | \$ | 0.33 | \$ | 0.46 | \$ | 1.22 | \$ | 1.13 |
| Discontinued operations | | | | | | | | (0.03) |
| Total diluted earnings per share | \$ | 0.33 | \$ | 0.46 | \$ | 1.22 | \$ | 1.10 |
| Weighted average common shares outstanding: | | | | | | | | |
| Basic | | 24,748 | | 21,921 | | 24,835 | | 21,541 |
| Diluted | | 24,873 | | 22,031 | | 25,001 | | 21,635 |

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

Table of Contents**BERKSHIRE HILLS BANCORP, INC.****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

| (In thousands) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|-----------|------------------------------------|-----------|
| | 2013 | 2012 | 2013 | 2012 |
| Net income | \$ 8,104 | \$ 10,029 | \$ 30,606 | \$ 23,859 |
| Other comprehensive income, before tax: | | | | |
| Changes in unrealized gains and losses on securities available-for-sale | (443) | 2,103 | (13,141) | 4,790 |
| Changes in unrealized gains and losses on derivative hedges | (1,152) | (1,015) | 6,446 | (3,219) |
| Changes in unrealized gains and losses on terminated swaps | 236 | 235 | 707 | 706 |
| Changes in unrealized gains and losses on pension | | | | (257) |
| Income taxes related to other comprehensive income: | | | | |
| Changes in unrealized gains and losses on securities available-for-sale | 163 | (765) | 4,920 | (1,729) |
| Changes in unrealized gains and losses on derivative hedges | 472 | 413 | (2,584) | 1,358 |
| Changes in unrealized gains and losses on terminated swaps | (95) | (97) | (398) | (226) |
| Total other comprehensive (loss) income | (819) | 874 | (4,050) | 1,423 |
| Total comprehensive income | \$ 7,285 | \$ 10,903 | \$ 26,556 | \$ 25,282 |

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

Table of Contents**BERKSHIRE HILLS BANCORP, INC.****CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**

| (In thousands) | Common stock Shares | Common stock Amount | Additional paid-in capital | Unearned compensation | Retained earnings | Accumulated other comprehensive loss | Treasury stock | Total |
|---|------------------------|------------------------|----------------------------------|--------------------------|----------------------|--|-------------------|----------|
| Balance at December 31, 2011 | 21,148 | \$ 229 | \$ 494,304 | \$ (2,790) | \$ 109,477 | \$ (4,885) | \$ (42,970) | 553,365 |
| Comprehensive income: | | | | | | | | |
| Net income | | | | | 23,859 | | | 23,859 |
| Other comprehensive income | | | | | | 1,423 | | 1,423 |
| Total comprehensive income | | | | | | | | 25,282 |
| Acquisition of The Connecticut Bank and Trust Company | 965 | 9 | 21,981 | | | | | 21,990 |
| Cash dividends declared (\$0.34 per share) | | | | | (11,147) | | | (11,147) |
| Forfeited shares | (8) | | 11 | 169 | | | (180) | |
| Exercise of stock options | 18 | | | | (82) | | 458 | 376 |
| Restricted stock grants | 108 | | (280) | (2,434) | | | 2,714 | |
| Stock-based compensation | | | | 1,410 | | | | 1,410 |
| Net tax benefit related to stock-based compensation | | | 40 | | | | | 40 |
| Other, net | (18) | | | | | | (395) | (395) |
| Balance at September 30, 2012 | 22,213 | \$ 238 | \$ 516,056 | \$ (3,645) | \$ 122,107 | \$ (3,462) | \$ (40,373) | 590,921 |
| Balance at December 31, 2012 | 25,148 | \$ 265 | \$ 585,360 | \$ (3,035) | \$ 122,014 | \$ (2,979) | \$ (34,360) | 667,265 |
| Comprehensive income: | | | | | | | | |
| Net income | | | | | 30,606 | | | 30,606 |
| Other comprehensive loss | | | | | | (4,050) | | (4,050) |
| Total comprehensive income | | | | | | | | 26,556 |
| Cash dividends declared (\$0.54 per share) | | | | | (13,587) | | | (13,587) |
| Treasury stock purchased | (480) | | | | | | (12,249) | (12,249) |
| Forfeited shares | (55) | | 218 | 1,256 | | | (1,474) | |
| Exercise of stock options | 235 | | | | (3,042) | | 6,063 | 3,021 |
| Restricted stock grants | 159 | | (677) | (3,817) | | | 4,494 | |
| Stock-based compensation | | | 726 | 1,385 | | | | 2,111 |
| Net tax benefit related to stock-based compensation | | | 1,428 | | | | | 1,428 |
| Other, net | (55) | | (14) | | | | (1,336) | (1,350) |
| Balance at September 30, 2013 | 24,952 | \$ 265 | \$ 587,041 | \$ (4,211) | \$ 135,991 | \$ (7,029) | \$ (38,862) | 673,195 |

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

Table of Contents**BERKSHIRE HILLS BANCORP, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

| (In thousands) | Nine months ended September 30, | |
|---|---------------------------------|-----------|
| | 2013 | 2012 |
| Cash flows from operating activities: | | |
| Net income | \$ 30,606 | \$ 23,859 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for loan losses | 8,278 | 6,750 |
| Net amortization of securities | 1,199 | 1,496 |
| Change in unamortized net loan costs and premiums | (7,152) | (849) |
| Premises and equipment depreciation and amortization expense | 5,382 | 4,553 |
| Stock-based compensation expense | 2,111 | 1,410 |
| Accretion of purchase accounting entries, net | (17,732) | (5,303) |
| Amortization of other intangibles | 4,029 | 4,182 |
| Excess tax loss from stock-based payment arrangements | (1,428) | (40) |
| Income from cash surrender value of bank-owned life insurance policies | (2,101) | (1,895) |
| Gain on sales of securities, net | (1,366) | (50) |
| Net decrease (increase) in loans held for sale | 58,304 | (64,979) |
| Loss on disposition of assets | 3,880 | 1,753 |
| (Gain) loss on sale of real estate | (48) | 197 |
| Net change in other | 21,640 | 16,924 |
| Net cash provided by (used in) operating activities | 105,602 | (11,992) |
| Cash flows from investing activities: | | |
| Net decrease in trading security | 381 | 361 |
| Proceeds from sales of securities available for sale | 8,592 | 32,473 |
| Proceeds from maturities, calls and prepayments of securities available for sale | 91,153 | 70,499 |
| Purchases of securities available for sale | (331,269) | (108,281) |
| Proceeds from maturities, calls and prepayments of securities held to maturity | 6,857 | 28,569 |
| Purchases of securities held to maturity | (2,758) | (20,384) |
| Net increase in loans | (23,930) | (255,657) |
| Net cash used for divestiture | | (48,890) |
| Purchase of bank owned life insurance | (10,000) | |
| Proceeds from sale of Federal Home Loan Bank stock | 2,361 | 1,900 |
| Purchase of Federal Home Loan Bank stock | (4,918) | |
| Purchase of premises and equipment, net | (8,916) | (15,542) |
| Acquisitions, net of cash paid | | (58,150) |
| Proceeds from sale of other real estate | 1,790 | 2,265 |
| Net cash used in investing activities | (270,657) | (370,837) |

(continued)

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

Table of Contents**BERKSHIRE HILLS BANCORP, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS (CONCLUDED)**

| (In thousands) | Nine months ended September 30, | |
|--|---------------------------------|--------------|
| | 2013 | 2012 |
| Cash flows from financing activities: | | |
| Net (decrease) increase in deposits | (216,539) | 139,265 |
| Proceeds from Federal Home Loan Bank advances and other borrowings | 935,656 | 433,618 |
| Issuance of long-term debt, net | | 74,138 |
| Repayments of Federal Home Loan Bank advances and other borrowings | (554,060) | (247,195) |
| Net proceeds from reissuance of treasury stock | | 376 |
| Purchase of treasury stock | (12,249) | |
| Exercise of stock options | 3,021 | |
| Excess tax loss from stock-based payment arrangements | 1,428 | 40 |
| Common stock cash dividends paid | (13,587) | (11,147) |
| Net cash provided by financing activities | 143,670 | 389,095 |
| Net change in cash and cash equivalents | (21,385) | 6,266 |
| Cash and cash equivalents at beginning of year | 98,244 | 75,782 |
| Cash and cash equivalents at end of year | \$ 76,859 | \$ 82,048 |
| Supplemental cash flow information: | | |
| Interest paid on deposits | \$ 15,707 | \$ 17,113 |
| Interest paid on borrowed funds | 10,550 | 5,664 |
| Income taxes (refunded) paid, net | (4,023) | 4,761 |
| Acquisition of non-cash assets and liabilities: | | |
| Assets acquired | | 343,114 |
| Liabilities assumed | (1,672) | (253,155) |
| Other non-cash changes: | | |
| Other net comprehensive (loss) income | (4,050) | 1,423 |
| Real estate owned acquired in settlement of loans | 3,374 | (1,453) |

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

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NOTE 1. BASIS OF PRESENTATION

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

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

The results for any interim period are not necessarily indicative of results for the full year. These consolidated financial statements should be read in conjunction with the audited financial statements and note disclosures for Berkshire Hills Bancorp, Inc. (the Company) previously filed with the Securities and Exchange Commission in the Company s Annual Report on Form 10-K for the year ended December 31, 2012.

Reclassifications

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

Out of Period Adjustments

For the quarter ended September 30, 2013, the Company recorded a correction of an error to recognize \$2.2 million in prior period interest income earned on loans acquired in bank acquisitions, of which \$1.3 million relates to prior years. Additionally, the Company recorded a correction of an error related to its accounting for a state income tax credit. The correction increased other income by \$613 thousand and increased the income tax provision by \$1.2 million during the quarter. The adjustment relating to prior years included \$505 thousand in other income and \$998 thousand in the income tax provision. 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.

NOTE 2. RECENT ACCOUNTING PRONOUNCEMENTS

Offsetting Assets and Liabilities

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In December 2011, the Financial Accounting Standards Board (the FASB) issued Accounting Standards Update (ASU) No. 2011-11, Disclosures About Offsetting Assets and Liabilities. This project began as an attempt to converge the offsetting requirements under U.S. GAAP and International Financial Reporting Standards (IFRS). However, as the FASB and International Accounting Standards Board were not able to reach a converged solution with regards to offsetting requirements, they each developed convergent disclosure requirements to assist in reconciling differences in the offsetting requirements under U.S. GAAP and IFRS. The new disclosure requirements mandate that entities disclose both gross and net information about instruments and transactions eligible for offset in the statement of financial position as well as instruments and transactions subject to an agreement similar to a master netting arrangement. ASU No. 2011-11 also requires disclosure of collateral received and posted in connection with master netting agreements or similar arrangements. In January 2013, the FASB issued ASU No. 2013-01, Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities. The provisions of ASU No. 2013-01 limit the scope of the new balance sheet offsetting disclosures to the following financial instruments, to the extent they are offset in the financial statements or subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in the statement of financial position: (1) derivative financial instruments; (2) repurchase agreements and reverse repurchase agreements; and (3) securities borrowing and securities lending transactions. The Company adopted the provisions of ASU No. 2011-11 and ASU No. 2013-01 effective January 1, 2013. As the provisions of ASU No. 2011-11 and ASU No. 2013-01 only impacted the disclosure requirements related to the offsetting of assets and liabilities and information about instruments and transactions eligible for offset in the statement of financial position, the adoption had no impact on the Company s consolidated statements of income and condition. See Note 12 to the Consolidated Financial Statements for the disclosures required by ASU No. 2011-11 and ASU No. 2013-01.

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Reclassifications Out of Accumulated Other Comprehensive Income

In February 2013, the FASB issued ASU No. 2013-02, Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income, to improve the transparency of reporting these reclassifications. ASU No. 2013-02 does not amend any existing requirements for reporting net income or other comprehensive income in the financial statements. ASU No. 2013-02 requires an entity to disaggregate the total change of each component of other comprehensive income and separately present reclassification adjustments and current period other comprehensive income. The provisions of ASU No. 2013-02 also require that entities present either in a single note or parenthetically on the face of the financial statements, the effect of significant amounts reclassified from each component of accumulated other comprehensive income based on its source and the income statement line item affected by the reclassification. If a component is not required to be reclassified to net income in its entirety, entities would instead cross reference to the related note to the financial statements for additional information. The Company adopted the provisions of ASU No. 2013-02 effective January 1, 2013. As the Company provided these required disclosures in the notes to the Consolidated Financial Statements, the adoption of ASU No. 2013-02 had no impact on the Company's consolidated statements of income and condition. See Note 8 to the Consolidated Financial Statements for the disclosures required by ASU No. 2013-02.

Future Application of Accounting Pronouncements

In July 2013, the FASB issued ASU No. 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. The provisions of ASU No. 2013-11 require an entity to present an unrecognized tax benefit, or portion thereof, in the statement of financial position as a reduction to a deferred tax asset for a net operating loss carryforward or a tax credit carryforward, with certain exceptions related to availability. ASU No. 2013-11 is effective for interim and annual reporting periods beginning after December 15, 2013. The adoption of ASU No. 2013-11 is not expected to have a material impact on the Company's Consolidated Financial Statements.

NOTE 3. TRADING SECURITY

The Company holds a tax advantaged economic development bond that is being accounted for at fair value. The security had an amortized cost of \$13.2 million and \$13.6 million, and a fair value of \$15.3 million and \$16.9 million, at September 30, 2013 and December 31, 2012, respectively. As discussed further in Note 12 - Derivative Financial Instruments and Hedging Activities, the Company has entered into a swap contract to swap-out the fixed rate of the security in exchange for a variable rate. The Company does not purchase securities with the intent of selling them in the near term, and there are no other securities in the trading portfolio at September 30, 2013.

Table of Contents**NOTE 4. SECURITIES AVAILABLE FOR SALE AND HELD TO MATURITY**

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

| (In thousands) | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|--|-------------------|------------------------------|-------------------------------|-------------------|
| September 30, 2013 | | | | |
| Securities available for sale | | | | |
| <i>Debt securities:</i> | | | | |
| Municipal bonds and obligations | \$ 80,961 | \$ 2,328 | \$ (1,901) | \$ 81,388 |
| Government-guaranteed residential mortgage-backed securities | 74,261 | 452 | (458) | 74,255 |
| Government-sponsored residential mortgage-backed securities | 443,058 | 2,415 | (5,732) | 439,741 |
| Corporate bonds | 40,973 | 50 | (1,791) | 39,232 |
| Trust preferred securities | 16,946 | 1,124 | (1,766) | 16,304 |
| Other bonds and obligations | 3,257 | | (131) | 3,126 |
| Total debt securities | 659,456 | 6,369 | (11,779) | 654,046 |
| <i>Equity securities:</i> | | | | |
| Marketable equity securities | 27,683 | 3,367 | (380) | 30,670 |
| Total securities available for sale | 687,139 | 9,736 | (12,159) | 684,716 |
| Securities held to maturity | | | | |
| Municipal bonds and obligations | 5,885 | | | 5,885 |
| Government-sponsored residential mortgage-backed securities | 74 | 4 | | 78 |
| Tax advantaged economic development bonds | 40,620 | 1,463 | (312) | 41,771 |
| Other bonds and obligations | 346 | | | 346 |
| Total securities held to maturity | 46,925 | 1,467 | (312) | 48,080 |
| Total | \$ 734,064 | \$ 11,203 | \$ (12,471) | \$ 732,796 |
| December 31, 2012 | | | | |
| Securities available for sale | | | | |
| <i>Debt securities:</i> | | | | |
| Municipal bonds and obligations | \$ 79,498 | \$ 5,359 | \$ (100) | \$ 84,757 |
| Government-guaranteed residential mortgage-backed securities | 42,305 | 805 | (18) | 43,092 |
| Government-sponsored residential mortgage-backed securities | 275,940 | 2,732 | (79) | 278,593 |
| Corporate bonds | 9,998 | 117 | (108) | 10,007 |
| Trust preferred securities | 21,784 | 1,089 | (1,916) | 20,957 |
| Other bonds and obligations | 3,459 | 17 | (4) | 3,472 |
| Total debt securities | 432,984 | 10,119 | (2,225) | 440,878 |
| Marketable equity securities | 22,467 | 3,187 | (363) | 25,291 |
| Total securities available for sale | 455,451 | 13,306 | (2,588) | 466,169 |
| Securities held to maturity | | | | |
| Municipal bonds and obligations | 8,295 | | | 8,295 |
| | 76 | 7 | | 83 |

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Government-sponsored residential
mortgage-backed securities

| | | | | |
|---|-------------------|------------------|-------------------|-------------------|
| Tax advantaged economic development bonds | 41,678 | 1,837 | (378) | 43,137 |
| Other bonds and obligations | 975 | | | 975 |
| Total securities held to maturity | 51,024 | 1,844 | (378) | 52,490 |
| Total | \$ 506,475 | \$ 15,150 | \$ (2,966) | \$ 518,659 |

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The amortized cost and estimated fair value of available for sale (AFS) and held to maturity (HTM) securities, segregated by contractual maturity at September 30, 2013 are presented below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations. Mortgage-backed securities are shown in total, as their maturities are highly variable. Equity securities have no maturity and are also shown in total.

| (In thousands) | Available for sale | | Held to maturity | |
|--|--------------------|-------------------|------------------|------------------|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| Within 1 year | \$ 2,999 | \$ 3,038 | \$ 2,606 | \$ 2,606 |
| Over 1 year to 5 years | 7,681 | 7,728 | 3,485 | 3,532 |
| Over 5 years to 10 years | 53,747 | 52,338 | 27,256 | 28,196 |
| Over 10 years | 77,710 | 76,946 | 13,504 | 13,668 |
| Total bonds and obligations | 142,137 | 140,050 | 46,851 | 48,002 |
| Marketable equity securities | 27,683 | 30,670 | | |
| Residential mortgage-backed securities | 517,319 | 513,996 | 74 | 78 |
| Total | \$ 687,139 | \$ 684,716 | \$ 46,925 | \$ 48,080 |

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

| (In thousands) | Less Than Twelve Months | | Over Twelve Months | | Total | |
|--|-------------------------|-------------------|-------------------------|------------------|-------------------------|-------------------|
| | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value |
| September 30, 2013 | | | | | | |
| Securities available for sale | | | | | | |
| <i>Debt securities:</i> | | | | | | |
| Municipal bonds and obligations | \$ 1,901 | \$ 15,076 | \$ | \$ | \$ 1,901 | \$ 15,076 |
| Government-guaranteed residential mortgage-backed securities | 458 | 51,678 | | | 458 | 51,678 |
| Government-sponsored residential mortgage-backed securities | 5,732 | 262,285 | | | 5,732 | 262,285 |
| Corporate bonds | 1,791 | 29,183 | | | 1,791 | 29,183 |
| Trust preferred securities | | | 1,766 | 1,837 | 1,766 | 1,837 |
| Other bonds and obligations | 131 | 2,937 | | | 131 | 2,937 |
| Total debt securities | 10,013 | 361,159 | 1,766 | 1,837 | 11,779 | 362,996 |
| Marketable equity securities | 66 | 1,704 | 314 | 1,686 | 380 | 3,390 |
| Total securities available for sale | 10,079 | 362,863 | 2,080 | 3,523 | 12,159 | 366,386 |
| Securities held to maturity | | | | | | |
| <i>Tax advantaged economic development bonds</i> | | | | | | |
| | 33 | 9,513 | 279 | 8,042 | 312 | 17,555 |
| Total securities held to maturity | 33 | 9,513 | 279 | 8,042 | 312 | 17,555 |
| Total | \$ 10,112 | \$ 372,376 | \$ 2,359 | \$ 11,565 | \$ 12,471 | \$ 383,941 |
| December 31, 2012 | | | | | | |
| Securities available for sale | | | | | | |
| <i>Debt securities:</i> | | | | | | |
| Municipal bonds and obligations | \$ 100 | \$ 4,140 | \$ | \$ | \$ 100 | \$ 4,140 |
| Government guaranteed residential mortgage-backed securities | 18 | 5,108 | | | 18 | 5,108 |
| Government-sponsored residential mortgage-backed securities | 69 | 31,433 | 10 | 5,366 | 79 | 36,799 |
| Corporate bonds | | | 108 | 6,892 | 108 | 6,892 |
| Trust preferred securities | 1 | 2,754 | 1,915 | 1,686 | 1,916 | 4,440 |
| Other bonds and obligations | 4 | 2,055 | | | 4 | 2,055 |
| Total debt securities | 192 | 45,490 | 2,033 | 13,944 | 2,225 | 59,434 |
| Marketable equity securities | 90 | 1,410 | 273 | 1,727 | 363 | 3,137 |
| Total securities available for sale | 282 | 46,900 | 2,306 | 15,671 | 2,588 | 62,571 |

| Securities held to maturity | | | | | | | | | | | | |
|---|----|-----|----|--------|----|-------|----|--------|----|-------|----|--------|
| Tax advantaged economic development bonds | | 378 | | 8,129 | | | | 378 | | 8,129 | | |
| Total securities held to maturity | | 378 | | 8,129 | | | | 378 | | 8,129 | | |
| Total | \$ | 660 | \$ | 55,029 | \$ | 2,306 | \$ | 15,671 | \$ | 2,966 | \$ | 70,700 |

Debt Securities

The Company expects to recover its amortized cost basis on all debt securities in its AFS and HTM portfolios. Furthermore, the Company does not intend to sell nor does it anticipate that it will be required to sell any of its securities in an unrealized loss position as of September 30, 2013, prior to this recovery. The Company's ability and intent to hold these securities until recovery is supported by the Company's strong capital and liquidity positions as well as its historically low portfolio turnover. The following summarizes, by investment security type, the basis for the conclusion that the debt securities in an unrealized loss position within the Company's AFS and HTM portfolios were not other-than-temporarily impaired at September 30, 2013:

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AFS municipal bonds and obligations

At September 30, 2013, 24 of the total 139 securities in the Company's portfolio of AFS municipal bonds and obligations were in unrealized loss positions. Aggregate unrealized losses represented 11.2% of the amortized cost of securities in unrealized loss positions. The Company continually monitors the municipal bond sector of the market carefully and periodically evaluates the appropriate level of exposure to the market. At this time, the Company feels the bonds in this portfolio carry minimal risk of default and the Company is appropriately compensated for that risk. There were no material underlying credit downgrades during the third quarter of 2013. All securities are performing.

AFS residential mortgage-backed securities

At September 30, 2013, 65 out of the total 207 securities in the Company's portfolios of AFS residential mortgage-backed securities were in unrealized loss positions. Aggregate unrealized losses represented 1.93% of the amortized cost of securities in unrealized loss positions within the AFS portfolio. The Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC) and Government National Mortgage Association (GNMA) guarantee the contractual cash flows of all of the Company's residential mortgage-backed securities. The securities are investment grade rated and there were no material underlying credit downgrades during the past quarter. All securities are performing.

AFS corporate bonds

At September 30, 2013, 6 out of the total 9 securities in the Company's portfolio of AFS corporate bonds were in an unrealized loss position. The aggregate unrealized loss represented 5.8% of the amortized cost of the securities. All 6 securities remain investment grade rated and the market value of the securities supports the Company's amortized value. All securities are performing.

AFS trust preferred securities

At September 30, 2013, 2 out of the total 6 securities in the Company's portfolio of AFS trust preferred securities were in unrealized loss positions. Aggregate unrealized losses represented 49% of the amortized cost of securities in unrealized loss positions. The Company's evaluation of the present value of expected cash flows on these securities supports its conclusions about the recoverability of the securities amortized cost basis. Of the 6 securities, 4 securities contain at least one below investment grade rating by the three major rating agencies. 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 September 30, 2013, \$1.6 million of the total unrealized losses was attributable to a \$2.8 million investment in a Mezzanine Class B tranche of a \$360 million pooled trust preferred security collateralized by banking and insurance entities. The Company evaluated the security, with a Level 3 fair value of \$1 million, for potential other-than-temporary-impairment (OTTI) at September 30, 2013 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 \$46 million in excess subordination above current and projected losses. The security is performing.

AFS other bonds and obligations

At September 30, 2013, 4 of the total 8 securities in the Company's portfolio of other bonds and obligations were in unrealized loss positions. Aggregate unrealized losses represented 4.3% of the amortized cost of securities in unrealized loss positions. The securities are investment grade rated and there were no material underlying credit downgrades during the second quarter of 2013. All securities are performing.

HTM tax advantaged economic development bonds

At September 30, 2013, 2 of the total 8 securities in the Company's portfolio of tax advantaged economic development bonds were in an unrealized loss position. Aggregate unrealized losses represented 1.7% of the

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amortized cost of securities in unrealized loss positions. The Company has the intent of maintaining these bonds to recovery. These securities are performing.

Marketable Equity Securities

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

At September 30, 2013, 3 out of the total 21 securities in the Company's portfolio of marketable equity securities were in an unrealized loss position. The unrealized loss represented 10.1% 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 September 30, 2013. As new information becomes available in future periods, changes to the Company's assumptions may be warranted and could lead to a different conclusion regarding the OTTI of these securities.

NOTE 5. LOANS

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

A substantial portion of the loan portfolio is secured by real estate in western Massachusetts, southern Vermont, northeastern New York, and in the Bank's 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 Beacon Federal Bancorp, Inc., The Connecticut Bank and Trust Company, Legacy Bancorp, Inc., and Rome Bancorp, Inc. The following is a summary of total loans:

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| (In thousands) | Business Activity Loans | | September 30, 2013 | | Total |
|-----------------------------------|-------------------------|-----------|--------------------|-----------|--------------|
| | | | Acquired Loans | | |
| Residential mortgages | | | | | |
| 1-4 family | \$ | 940,626 | \$ | 347,788 | \$ 1,288,414 |
| Construction | | 19,813 | | 5,382 | 25,195 |
| Total residential mortgages | | 960,439 | | 353,170 | 1,313,609 |
| Commercial mortgages: | | | | | |
| Construction | | 89,240 | | 15,298 | 104,538 |
| Single and multi-family | | 63,718 | | 67,987 | 131,705 |
| Commercial real estate | | 842,163 | | 287,698 | 1,129,861 |
| Total commercial mortgages | | 995,121 | | 370,983 | 1,366,104 |
| Commercial business loans: | | | | | |
| Asset based lending | | 275,776 | | 3,341 | 279,117 |
| Other commercial business loans | | 312,572 | | 77,294 | 389,866 |
| Total commercial business loans | | 588,348 | | 80,635 | 668,983 |
| Total commercial loans | | 1,583,469 | | 451,618 | 2,035,087 |
| Consumer loans: | | | | | |
| Home equity | | 228,345 | | 76,181 | 304,526 |
| Other | | 169,901 | | 200,720 | 370,621 |
| Total consumer loans | | 398,246 | | 276,901 | 675,147 |
| Total loans | \$ | 2,942,154 | \$ | 1,081,689 | \$ 4,023,843 |

| (In thousands) | Business Activity Loans | | December 31, 2012 | | Total |
|-----------------------------------|-------------------------|-----------|-------------------|-----------|--------------|
| | | | Acquired Loans | | |
| Residential mortgages: | | | | | |
| 1-4 family | \$ | 870,322 | \$ | 427,210 | \$ 1,297,532 |
| Construction | | 20,344 | | 6,375 | 26,719 |
| Total residential mortgages | | 890,666 | | 433,585 | 1,324,251 |
| Commercial mortgages: | | | | | |
| Construction | | 150,694 | | 17,131 | 167,825 |
| Single and multi-family | | 43,332 | | 80,488 | 123,820 |
| Commercial real estate | | 768,867 | | 353,032 | 1,121,899 |
| Total commercial mortgages | | 962,893 | | 450,651 | 1,413,544 |
| Commercial business loans: | | | | | |
| Asset based lending | | 255,265 | | 2,830 | 258,095 |
| Other commercial business loans | | 234,662 | | 107,369 | 342,031 |
| Total commercial business loans | | 489,927 | | 110,199 | 600,126 |
| Total commercial loans | | 1,452,820 | | 560,850 | 2,013,670 |
| Consumer loans: | | | | | |
| Home equity | | 205,892 | | 119,509 | 325,401 |
| Other | | 76,258 | | 249,074 | 325,332 |
| Total consumer loans | | 282,150 | | 368,583 | 650,733 |
| Total loans | \$ | 2,625,636 | \$ | 1,363,018 | \$ 3,988,654 |

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The carrying amount of the acquired loans at September 30, 2013 totaled \$1.08 billion. These loans consisted of loans determined to be impaired at the time of acquisition, which are accounted for in accordance with ASC Topic 310-30, with a carrying amount of \$35.1 million and loans that were considered not impaired at the acquisition date with a carrying amount of \$1.04 billion.

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

| (In thousands) | Three months ended September 30, | |
|---|----------------------------------|----------|
| | 2013 | 2012 |
| Balance at beginning of period | \$ 3,328 | \$ 2,554 |
| Acquisitions | | |
| Sales | | |
| Reclassification from nonaccretable difference for loans with improved cash flows | 2,125 | |
| Changes in expected cash flows that do not affect nonaccretable difference | | |
| Accretion | (1,547) | (806) |
| Balance at end of period | \$ 3,906 | \$ 1,748 |

| (In thousands) | Nine months ended September 30, | |
|---|---------------------------------|----------|
| | 2013 | 2012 |
| Balance at beginning of period | \$ 8,247 | \$ 1,277 |
| Acquisitions | | 2,816 |
| Sales | (301) | |
| Reclassification from nonaccretable difference for loans with improved cash flows | 2,125 | |
| Changes in expected cash flows that do not affect nonaccretable difference | | |
| Accretion | (6,165) | (2,345) |
| Balance at end of period | \$ 3,906 | \$ 1,748 |

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The following is a summary of past due loans at September 30, 2013 and December 31, 2012:

Business Activity 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 |
|-----------------------------------|------------------------|------------------------|--|-------------------|---------------------|---------------------|---------------------------------------|
| September 30, 2013 | | | | | | | |
| Residential mortgages: | | | | | | | |
| 1-4 family | \$ 3,006 | \$ 380 | \$ 8,751 | \$ 12,137 | \$ 928,489 | \$ 940,626 | \$ 2,379 |
| Construction | 51 | | 152 | 203 | 19,610 | 19,813 | |
| Total | 3,057 | 380 | 8,903 | 12,340 | 948,099 | 960,439 | 2,379 |
| Commercial mortgages: | | | | | | | |
| Construction | | | 3,176 | 3,176 | 86,064 | 89,240 | |
| Single and multi-family | 194 | 150 | 513 | 857 | 62,861 | 63,718 | |
| Commercial real estate | 2,174 | | 6,302 | 8,476 | 833,687 | 842,163 | 393 |
| Total | 2,368 | 150 | 9,991 | 12,509 | 982,612 | 995,121 | 393 |
| Commercial business loans: | | | | | | | |
| Asset based lending | | | | | 275,776 | 275,776 | |
| Other commercial business loans | 642 | 392 | 1,805 | 2,839 | 309,733 | 312,572 | 1 |
| Total | 642 | 392 | 1,805 | 2,839 | 585,509 | 588,348 | 1 |
| Consumer loans: | | | | | | | |
| Home equity | 462 | 13 | 1,939 | 2,414 | 225,931 | 228,345 | 757 |
| Other | 556 | 179 | 415 | 1,150 | 168,751 | 169,901 | 233 |
| Total | 1,018 | 192 | 2,354 | 3,564 | 394,682 | 398,246 | 990 |
| Total | \$ 7,085 | \$ 1,114 | \$ 23,053 | \$ 31,252 | \$ 2,910,902 | \$ 2,942,154 | \$ 3,763 |

Business Activity 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, 2012 | | | | | | | |
| Residential mortgages: | | | | | | | |
| 1-4 family | \$ 4,105 | \$ 1,291 | \$ 8,061 | \$ 13,457 | \$ 856,865 | \$ 870,322 | \$ 1,563 |
| Construction | | 210 | 48 | 258 | 20,086 | 20,344 | 48 |
| Total | 4,105 | 1,501 | 8,109 | 13,715 | 876,951 | 890,666 | 1,611 |
| Commercial mortgages: | | | | | | | |
| Construction | | | 4,668 | 4,668 | 146,026 | 150,694 | |
| Single and multi-family | 616 | | 27 | 643 | 42,689 | 43,332 | |
| Commercial real estate | 1,183 | 1,727 | 8,231 | 11,141 | 757,726 | 768,867 | 1,195 |
| Total | 1,799 | 1,727 | 12,926 | 16,452 | 946,441 | 962,893 | 1,195 |
| Commercial business loans | | | | | | | |
| Asset based lending | | | | | 255,265 | 255,265 | |

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| | | | | | | | |
|---------------------------------|-----------------|-----------------|------------------|------------------|---------------------|---------------------|-----------------|
| Other commercial business loans | 745 | 372 | 3,427 | 4,544 | 230,118 | 234,662 | 159 |
| Total | 745 | 372 | 3,427 | 4,544 | 485,383 | 489,927 | 159 |
| Consumer loans: | | | | | | | |
| Home equity | 828 | 300 | 1,856 | 2,984 | 202,908 | 205,892 | 424 |
| Other | 546 | 55 | 248 | 849 | 75,409 | 76,258 | 69 |
| Total | 1,374 | 355 | 2,104 | 3,833 | 278,317 | 282,150 | 493 |
| Total | \$ 8,023 | \$ 3,955 | \$ 26,566 | \$ 38,544 | \$ 2,587,092 | \$ 2,625,636 | \$ 3,458 |

Table of Contents**Acquired Loans**

| (in thousands) | 30-59 Days Past Due | 60-89 Days Past Due | Greater Than 90 Days Past Due | Total Past Due | Current | Total Loans | Past Due > 90 days and Accruing |
|-----------------------------------|------------------------|------------------------|--|-------------------|---------------------|---------------------|---------------------------------------|
| September 30, 2013 | | | | | | | |
| Residential mortgages: | | | | | | | |
| 1-4 family | \$ 1,618 | \$ 228 | \$ 2,562 | \$ 4,408 | \$ 343,380 | \$ 347,788 | \$ 599 |
| Construction | 164 | 78 | 465 | 707 | 4,675 | 5,382 | 465 |
| Total | 1,782 | 306 | 3,027 | 5,115 | 348,055 | 353,170 | 1,064 |
| Commercial mortgages: | | | | | | | |
| Construction | 90 | | 1,360 | 1,450 | 13,848 | 15,298 | 1,360 |
| Single and multi-family | 414 | 190 | 1,806 | 2,410 | 65,577 | 67,987 | 499 |
| Commercial real estate | 217 | 524 | 5,832 | 6,573 | 281,125 | 287,698 | 2,938 |
| Total | 721 | 714 | 8,998 | 10,433 | 360,550 | 370,983 | 4,797 |
| Commercial business loans: | | | | | | | |
| Asset based lending | | | | | 3,341 | 3,341 | |
| Other commercial business loans | 571 | 222 | 2,147 | 2,940 | 74,354 | 77,294 | 1,198 |
| Total | 571 | 222 | 2,147 | 2,940 | 77,695 | 80,635 | 1,198 |
| Consumer loans: | | | | | | | |
| Home equity | 417 | 188 | 707 | 1,312 | 74,869 | 76,181 | 326 |
| Other | 2,918 | 778 | 1,826 | 5,522 | 195,198 | 200,720 | 345 |
| Total | 3,335 | 966 | 2,533 | 6,834 | 270,067 | 276,901 | 671 |
| Total | \$ 6,409 | \$ 2,208 | \$ 16,705 | \$ 25,322 | \$ 1,056,367 | \$ 1,081,689 | \$ 7,730 |

Acquired Loans

| (in thousands) | 30-59 Days Past Due | 60-89 Days Past Due | Greater Than 90 Days Past Due | Total Past Due | Current | Total Loans | Past Due > 90 days and Accruing |
|-----------------------------------|------------------------|------------------------|--|-------------------|------------|-------------|---------------------------------------|
| December 31, 2012 | | | | | | | |
| Residential mortgages: | | | | | | | |
| 1-4 family | \$ 1,817 | \$ 585 | \$ 2,523 | \$ 4,925 | \$ 422,285 | \$ 427,210 | \$ 1,555 |
| Construction | | | | | 6,375 | 6,375 | |
| Total | 1,817 | 585 | 2,523 | 4,925 | 428,660 | 433,585 | 1,555 |
| Commercial mortgages: | | | | | | | |
| Construction | | | 1,056 | 1,056 | 16,075 | 17,131 | 1,056 |
| Single and multi-family | 194 | 1,328 | 746 | 2,268 | 78,220 | 80,488 | 746 |
| Commercial real estate | 1,532 | 2,024 | 11,062 | 14,618 | 338,414 | 353,032 | 10,176 |
| Total | 1,726 | 3,352 | 12,864 | 17,942 | 432,709 | 450,651 | 11,978 |
| Commercial business loans: | | | | | | | |
| Asset based lending | | | | | 2,830 | 2,830 | |
| Other commercial business loans | 422 | 577 | 2,177 | 3,176 | 104,193 | 107,369 | 1,764 |
| Total | 422 | 577 | 2,177 | 3,176 | 107,023 | 110,199 | 1,764 |

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| Consumer loans: | | | | | | | |
|------------------------|----------|----------|-----------|-----------|--------------|--------------|-----------|
| Home equity | 1,689 | 169 | 89 | 1,947 | 117,562 | 119,509 | 52 |
| Other | 2,624 | 365 | 271 | 3,260 | 245,814 | 249,074 | 171 |
| Total | 4,313 | 534 | 360 | 5,207 | 363,376 | 368,583 | 223 |
| Total | \$ 8,278 | \$ 5,048 | \$ 17,924 | \$ 31,250 | \$ 1,331,768 | \$ 1,363,018 | \$ 15,520 |

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The following is summary information pertaining to non-accrual loans at September 30, 2013 and December 31, 2012:

| (In thousands) | September 30, 2013 | | | |
|-----------------------------------|-------------------------|-----------------|-----------|---------------|
| | Business Activity Loans | Acquired Loans | Total | |
| Residential mortgages: | | | | |
| 1-4 family | \$ 6,525 | \$ 1,962 | \$ | 8,487 |
| Total | 6,525 | 1,962 | | 8,487 |
| Commercial mortgages: | | | | |
| Construction | 3,176 | | | 3,176 |
| Single and multi-family | 513 | 1,308 | | 1,821 |
| Other | 5,909 | 2,894 | | 8,803 |
| Total | 9,598 | 4,202 | | 13,800 |
| Commercial business loans: | | | | |
| Other commercial business loans | 1,804 | 949 | | 2,753 |
| Total | 1,804 | 949 | | 2,753 |
| Consumer loans: | | | | |
| Home equity | 1,182 | 382 | | 1,564 |
| Other | 182 | 1,481 | | 1,663 |
| Total | 1,364 | 1,863 | | 3,227 |
| Total non-accrual loans | \$ 19,291 | \$ 8,976 | \$ | 28,267 |

| (In thousands) | December 31, 2012 | | | |
|-----------------------------------|-------------------------|-----------------|-----------|---------------|
| | Business Activity Loans | Acquired Loans | Total | |
| Residential mortgages: | | | | |
| 1-4 family | \$ 6,498 | \$ 968 | \$ | 7,466 |
| Total | 6,498 | 968 | | 7,466 |
| Commercial mortgages: | | | | |
| Construction | 4,668 | | | 4,668 |
| Single and multi-family | 27 | | | 27 |
| Other | 7,036 | 886 | | 7,922 |
| Total | 11,731 | 886 | | 12,617 |
| Commercial business loans: | | | | |
| Other commercial business loans | 3,268 | 413 | | 3,681 |
| Total | 3,268 | 413 | | 3,681 |
| Consumer loans: | | | | |
| Home equity | 1,432 | 37 | | 1,469 |
| Other | 179 | 100 | | 279 |
| Total | 1,611 | 137 | | 1,748 |
| Total non-accrual loans | \$ 23,108 | \$ 2,404 | \$ | 25,512 |

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Activity in the allowance for loan losses for the nine months ended September 30, 2013 and 2012 was as follows:

Business Activity Loans

| (In thousands) | Residential mortgages | Commercial mortgages | Commercial business | Consumer | Unallocated | Total |
|---------------------------------------|-----------------------|----------------------|---------------------|----------|-------------|-----------|
| September 30, 2013 | | | | | | |
| Balance at beginning of period | \$ 5,928 | \$ 18,863 | \$ 5,605 | \$ 1,466 | \$ 29 | \$ 31,891 |
| Charged-off loans | 1,180 | 3,293 | 1,631 | 815 | | 6,919 |
| Recoveries on charged-off loans | 153 | 500 | 87 | 180 | | 920 |
| Provision for loan losses | 1,827 | 779 | 1,472 | 2,309 | (339) | 6,048 |
| Balance at end of period | \$ 6,728 | \$ 16,849 | \$ 5,533 | \$ 3,140 | \$ (310) | \$ 31,940 |
| Individually evaluated for impairment | 697 | 783 | 441 | 21 | | 1,942 |
| Collectively evaluated | 6,031 | 16,066 | 5,092 | 3,119 | (310) | 29,998 |
| Total | \$ 6,728 | \$ 16,849 | \$ 5,533 | \$ 3,140 | \$ (310) | \$ 31,940 |

Business Activity Loans

| (In thousands) | Residential mortgages | Commercial mortgages | Commercial business | Consumer | Unallocated | Total |
|---------------------------------------|-----------------------|----------------------|---------------------|----------|-------------|-----------|
| September 30, 2012 | | | | | | |
| Balance at beginning of period | \$ 3,150 | \$ 22,095 | \$ 4,540 | \$ 2,203 | \$ (90) | \$ 31,898 |
| Charged-off loans | 1,590 | 3,207 | 116 | 1,297 | | 6,210 |
| Recoveries on charged-off loans | 87 | 8 | 42 | 132 | | 269 |
| Provision for loan losses | 4,922 | 731 | 267 | 2 | 95 | 6,017 |
| Balance at end of period | \$ 6,569 | \$ 19,627 | \$ 4,733 | \$ 1,040 | \$ 5 | \$ 31,974 |
| Individually evaluated for impairment | 663 | 1,653 | 342 | 107 | | 2,765 |
| Collectively evaluated | 5,906 | 17,974 | 4,391 | 933 | 5 | 29,209 |
| Total | \$ 6,569 | \$ 19,627 | \$ 4,733 | \$ 1,040 | \$ 5 | \$ 31,974 |

Acquired Loans

| (In thousands) | Residential mortgages | Commercial mortgages | Commercial business | Consumer | Unallocated | Total |
|---------------------------------------|-----------------------|----------------------|---------------------|----------|-------------|----------|
| September 30, 2013 | | | | | | |
| Balance at beginning of period | \$ 509 | \$ 390 | \$ 96 | \$ 314 | \$ 8 | \$ 1,317 |
| Charged-off loans | 437 | 933 | 200 | 886 | | 2,456 |
| Recoveries on charged-off loans | 1 | 11 | 80 | 125 | | 217 |
| Provision for loan losses | 360 | 806 | 430 | 705 | (71) | 2,230 |
| Balance at end of period | \$ 433 | \$ 274 | \$ 406 | \$ 258 | \$ (63) | \$ 1,308 |
| Individually evaluated for impairment | 233 | 374 | | | | 607 |
| Collectively evaluated | 200 | (100) | 406 | 258 | (63) | 701 |

| | | | | | | | | | | | | |
|-------|----|-----|----|-----|----|-----|----|-----|----|------|----|-------|
| Total | \$ | 433 | \$ | 274 | \$ | 406 | \$ | 258 | \$ | (63) | \$ | 1,308 |
|-------|----|-----|----|-----|----|-----|----|-----|----|------|----|-------|

Acquired Loans

| (In thousands) | Residential mortgages | Commercial mortgages | Commercial business | Consumer | Unallocated | Total |
|---------------------------------------|-----------------------|----------------------|---------------------|----------|-------------|----------|
| September 30, 2012 | | | | | | |
| Balance at beginning of period | \$ 281 | \$ 158 | \$ 38 | \$ 87 | \$ (18) | \$ 546 |
| Charged-off loans | 8 | 85 | 34 | 40 | | 167 |
| Recoveries on charged-off loans | | | 4 | | | 4 |
| Provision for loan losses | 165 | 247 | 82 | 96 | 143 | 733 |
| Balance at end of period | \$ 438 | \$ 320 | \$ 90 | \$ 143 | \$ 125 | \$ 1,116 |
| Individually evaluated for impairment | 44 | | | | | 44 |
| Collectively evaluated | 394 | 320 | 90 | 143 | 125 | 1,072 |
| Total | 438 | 320 | 90 | 143 | 125 | 1,116 |

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Loans evaluated for impairment as of September 30, 2013 and December 31, 2012 were as follows:

Business Activity Loans

| (In thousands) | Residential mortgages | Commercial mortgages | Commercial business | Consumer | Unallocated | Total |
|---------------------------------------|-----------------------|----------------------|---------------------|------------|-------------|--------------|
| September 30, 2013 | | | | | | |
| Loans receivable: | | | | | | |
| Balance at end of period | | | | | | |
| Individually evaluated for impairment | \$ 6,816 | \$ 23,796 | \$ 1,315 | \$ 1,088 | | \$ 33,015 |
| Collectively evaluated | 953,623 | 971,325 | 587,033 | 397,158 | | 2,909,139 |
| Total | \$ 960,439 | \$ 995,121 | \$ 588,348 | \$ 398,246 | | \$ 2,942,154 |

Business Activity Loans

| (In thousands) | Residential mortgages | Commercial mortgages | Commercial business | Consumer | Unallocated | Total |
|---------------------------------------|-----------------------|----------------------|---------------------|------------|-------------|--------------|
| December 31, 2012 | | | | | | |
| Loans receivable: | | | | | | |
| Balance at end of year | | | | | | |
| Individually evaluated for impairment | \$ 6,362 | \$ 30,287 | \$ 2,821 | \$ 1,218 | | \$ 40,688 |
| Collectively evaluated for impairment | 884,304 | 932,606 | 487,106 | 280,932 | | 2,584,948 |
| Total | \$ 890,666 | \$ 962,893 | \$ 489,927 | \$ 282,150 | | \$ 2,625,636 |

Acquired Loans

| (In thousands) | Residential mortgages | Commercial mortgages | Commercial business | Consumer | Unallocated | Total |
|---------------------------------------|-----------------------|----------------------|---------------------|------------|-------------|--------------|
| September 30, 2013 | | | | | | |
| Loans receivable: | | | | | | |
| Balance at end of Period | | | | | | |
| Individually evaluated for impairment | \$ 1,750 | \$ 7,256 | \$ 186 | | | \$ 9,192 |
| Collectively evaluated | 351,420 | 363,727 | 80,449 | 276,901 | | 1,072,497 |
| Total | \$ 353,170 | \$ 370,983 | \$ 80,635 | \$ 276,901 | | \$ 1,081,689 |

Acquired Loans

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| (In thousands) | Residential mortgages | Commercial mortgages | Commercial business | Consumer | Unallocated | Total |
|---------------------------------------|-----------------------|----------------------|---------------------|------------|-------------|--------------|
| December 31, 2012 | | | | | | |
| Loans receivable: | | | | | | |
| Balance at end of year | | | | | | |
| Individually evaluated for impairment | \$ 371 | \$ 886 | \$ | | | \$ 1,257 |
| Collectively evaluated for impairment | 433,214 | 449,765 | 110,199 | 368,583 | | 1,361,761 |
| Total | \$ 433,585 | \$ 450,651 | \$ 110,199 | \$ 368,583 | | \$ 1,363,018 |

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The following is a summary of impaired loans on non-accrual status at September 30, 2013:

Business Activity Loans

| (In thousands) | Recorded Investment | At September 30, 2013 | | Related Allowance |
|---|---------------------|-----------------------|-----------|-------------------|
| | | Unpaid Principal | Balance | |
| With no related allowance: | | | | |
| Residential mortgages - 1-4 family | \$ 1,359 | \$ 1,359 | \$ | |
| Commercial mortgages - single and multifamily | 198 | 198 | | |
| Commercial mortgages - real estate | 5,384 | 5,384 | | |
| Commercial mortgages - construction | 1,238 | 1,238 | | |
| Other commercial business loans | 32 | 32 | | |
| Consumer - home equity | 430 | 430 | | |
| With an allowance recorded: | | | | |
| Residential mortgages - 1-4 family | \$ 2,488 | \$ 3,185 | \$ | 697 |
| Commercial mortgages - construction | 179 | 224 | | 45 |
| Commercial mortgages - real estate | 1,320 | 1,938 | | 618 |
| Commercial mortgages - construction | | 120 | | 120 |
| Other commercial business loans | 318 | 759 | | 441 |
| Consumer - home equity | 116 | 137 | | 21 |
| Total | | | | |
| Residential mortgages | \$ 3,847 | \$ 4,544 | \$ | 697 |
| Commercial mortgages | 8,319 | 9,102 | | 783 |
| Commercial business | 350 | 791 | | 441 |
| Consumer | 546 | 567 | | 21 |
| Total impaired loans | \$ 13,062 | \$ 15,004 | \$ | 1,942 |

Acquired Loans

| (In thousands) | Recorded Investment | At September 30, 2013 | | Related Allowance |
|------------------------------------|---------------------|-----------------------|-----------|-------------------|
| | | Unpaid Principal | Balance | |
| With no related allowance: | | | | |
| Commercial mortgages - real estate | \$ 2,504 | \$ 2,504 | \$ | |
| Other commercial business loans | 186 | 186 | | |
| With an allowance recorded: | | | | |
| Residential mortgages - 1-4 family | \$ 1,132 | \$ 1,365 | \$ | 233 |
| Commercial mortgages - real estate | 1,247 | 1,621 | | 374 |
| Total | | | | |
| Residential mortgages | \$ 1,132 | \$ 1,365 | \$ | 233 |
| Commercial mortgages | 3,751 | 4,125 | | 374 |
| Commercial business | 186 | 186 | | |
| Total impaired loans | \$ 5,069 | \$ 5,676 | \$ | 607 |

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The following is a summary of impaired loans on non-accrual status at December 31, 2012:

Business Activity Loans

| (In thousands) | Recorded Investment | At December 31, 2012 | | Related Allowance |
|---|---------------------|----------------------|---------------|-------------------|
| | | Unpaid Principal | Balance | |
| With no related allowance: | | | | |
| Residential mortgages - 1-4 family | \$ 3,408 | \$ | 3,408 | \$ |
| Commercial mortgages - construction | 2,730 | | 2,730 | |
| Commercial mortgages - single and multifamily | | | | |
| Commercial mortgages - real estate | 3,450 | | 3,450 | |
| Other commercial business loans | 31 | | 31 | |
| Consumer - home equity | 602 | | 602 | |
| With an allowance recorded: | | | | |
| Residential mortgages - 1-4 family | \$ 1,056 | \$ | 1,343 | \$ 287 |
| Commercial mortgages - construction | 1,584 | | 1,938 | 354 |
| Commercial mortgages - single and multifamily | | | | |
| Commercial mortgages - real estate | 2,019 | | 3,109 | 1,090 |
| Other commercial business loans | 1,135 | | 2,340 | 1,205 |
| Consumer - home equity | 209 | | 482 | 273 |
| Total | | | | |
| Residential mortgages | \$ 4,464 | \$ | 4,751 | \$ 287 |
| Commercial mortgages | 9,783 | | 11,227 | 1,444 |
| Commercial business | 1,166 | | 2,371 | 1,205 |
| Consumer | 811 | | 1,084 | 273 |
| Total impaired loans | \$ 16,224 | \$ | 19,433 | \$ 3,209 |

Acquired Loans

| (In thousands) | Recorded Investment | At December 31, 2012 | | Related Allowance |
|------------------------------------|---------------------|----------------------|--------------|-------------------|
| | | Unpaid Principal | Balance | |
| With no related allowance: | | | | |
| Residential mortgages - 1-4 family | \$ 215 | \$ | 215 | |
| Commercial mortgages - real estate | 886 | | 886 | |
| With an allowance recorded: | | | | |
| Residential mortgages - 1-4 family | \$ 101 | \$ | 156 | \$ 55 |
| Total | | | | |
| Residential mortgages | \$ 316 | \$ | 371 | \$ 55 |
| Commercial mortgages | 886 | | 886 | |
| Total impaired loans | \$ 1,202 | \$ | 1,257 | \$ 55 |

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The following is a summary of the average recorded investment and interest income recognized on impaired loans as of September 30, 2013 and September 30, 2012:

Business Activity Loans

| (in thousands) | Nine Months Ended September 30, 2013 | | Nine Months Ended September 30, 2012 | |
|---|--------------------------------------|---------------------------------------|--------------------------------------|---------------------------------------|
| | Average Recorded Investment | Cash Basis Interest Income Recognized | Average Recorded Investment | Cash Basis Interest Income Recognized |
| With no related allowance: | | | | |
| Residential mortgages - 1-4 family | \$ 2,231 | \$ 57 | \$ 1,623 | \$ 22 |
| Commercial-construction | 2,029 | 30 | | |
| Commercial mortgages - single and multifamily | 91 | 4 | 190 | 2 |
| Commercial mortgages - real estate | 6,077 | 59 | 2,644 | 48 |
| Commercial business loans | 692 | 20 | 15 | |
| Consumer-home equity | 904 | 8 | 249 | 1 |
| With an allowance recorded: | | | | |
| Residential mortgages - 1-4 family | \$ 1,688 | \$ 21 | \$ 2,567 | \$ 27 |
| Commercial-construction | 1,938 | | 4,736 | |
| Commercial mortgages - single and multifamily | 225 | 1 | 75 | |
| Commercial mortgages - real estate | 120 | | 2,013 | 23 |
| Commercial business loans | 759 | | 169 | 5 |
| Consumer-home equity | 58 | 1 | 421 | |
| Total | | | | |
| Residential mortgages | \$ 3,919 | \$ 78 | \$ 4,190 | \$ 49 |
| Commercial mortgages | 10,480 | 94 | 9,658 | 73 |
| Commercial business loans | 1,451 | 20 | 184 | 5 |
| Consumer loans | 962 | 9 | 670 | 1 |
| Total impaired loans | \$ 16,812 | \$ 201 | \$ 14,702 | \$ 128 |

Acquired Loans

| (in thousands) | Nine Months Ended September 30, 2013 | | Nine Months Ended September 30, 2012 | |
|------------------------------------|--------------------------------------|---------------------------------------|--------------------------------------|---------------------------------------|
| | 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 | \$ 350 | \$ 0 | \$ 426 | \$ |
| Commercial mortgages - real estate | 1,761 | 24 | 274 | 15 |
| Commercial business loans | 183 | | | |
| Consumer-home equity | | | 25 | |
| With an allowance recorded: | | | | |
| Residential mortgages - 1-4 family | \$ 697 | \$ 2 | \$ 13 | \$ |
| Commercial mortgages - real estate | 962 | 6 | | |
| Total | | | | |

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| | | | | | | | | |
|-----------------------------|----|-------|----|----|----|-----|----|----|
| Residential mortgages | \$ | 1,047 | \$ | 2 | \$ | 439 | \$ | |
| Commercial mortgages | | 2,723 | | 30 | | 274 | | 15 |
| Commercial business loans | | 183 | | | | | | |
| Consumer loans | | | | | | 25 | | |
| Total impaired loans | \$ | 3,953 | \$ | 32 | \$ | 738 | \$ | 15 |

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Credit Quality Information

For the purpose of estimating the allowance for loan losses the Bank utilizes an eleven grade internal loan rating system for each of its commercial mortgage and commercial business loans as follows:

1 **Substantially Risk Free**

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

2 **Minimal Risk**

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

3 **Moderate Risk**

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

4 **Better than Average Risk**

A relationship which possesses most of the characteristics found in the Moderate Risk category and ranges from definitely sound to those with minor risk characteristics. Operates in a reasonably stable industry that may be moderately affected by the business cycle and moderately open to changes. Has a satisfactory track record and the loan is performing as agreed.

5 **Average Risk**

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

6 **Acceptable Risk**

Borrowers in this category may be more highly leveraged than their industry peers and experience moderate losses relative to net worth. Trends and performance, e.g. sales and earnings, leverage, among other factors may be negative. Management's ability may be questionable, or perhaps untested. The industry may be experiencing either temporary or long term pressures. Collateral values are seen as more important in assessing risk than in higher quality loans. Failure to meet required line clean-up periods or other terms and conditions, including some slow payments may also predicate this grade.

7 **Special Mention**

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

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8 **Substandard Performing**

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

9 **Substandard Non-Performing**

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

10 **Doubtful**

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

11 **Loss**

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

The Company risk rates its residential mortgages, including 1-4 family and residential construction loans, and home equity 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.

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

Acquired Loans Credit Quality Analysis

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

The Bank utilizes an eleven grade internal loan rating system for each of its acquired commercial real estate, construction and commercial loans as outlined in the Credit Quality Information section of this Note. The Company risk rates its residential mortgages, including 1-4 family and residential construction loans, based on a three rating system: Pass, Special Mention and Substandard. Residential mortgages that are current within 59 days are rated Pass. Residential mortgages that are 60 - 89 days delinquent are rated Special Mention. Residential mortgages delinquent for 90 days or greater are rated Substandard. Home equity loans are risk rated based on the same rating system as the Company's residential mortgages. Other consumer loans are rated based on a two rating system. Other consumer loans that are current within 119 days are rated Performing while loans delinquent for 120 days or more are rated Non-performing. Non-performing other consumer loans are deemed to be credit impaired loans accounted for under ASC 310-30.

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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.

A decrease in the expected cash flows in subsequent periods requires the establishment of an allowance for loan losses at that time for ASC 310-30 loans. At September 30, 2013, the allowance for loan losses related to acquired loans was \$1.3 million using the above mentioned criteria.

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

The following table presents the Company's loans by risk rating at September 30, 2013 and December 31, 2012:

Business Activity Loans**Residential Mortgages**

Credit Risk Profile by Internally Assigned Grade

| (In thousands) | 1-4 family | | Construction | | Total residential mortgages | |
|-----------------|----------------|---------------|----------------|---------------|-----------------------------|---------------|
| | Sept. 30, 2013 | Dec. 31, 2012 | Sept. 30, 2013 | Dec. 31, 2012 | Sept. 30, 2013 | Dec. 31, 2012 |
| Grade: | | | | | | |
| Pass | \$ 931,495 | \$ 860,970 | \$ 19,661 | \$ 20,085 | \$ 951,156 | \$ 881,055 |
| Special mention | 380 | 1,291 | | 210 | 380 | 1,501 |
| Substandard | 8,751 | 8,061 | 152 | 49 | 8,903 | 8,110 |
| Total | \$ 940,626 | \$ 870,322 | \$ 19,813 | \$ 20,344 | \$ 960,439 | \$ 890,666 |

Commercial Mortgages

Credit Risk Profile by Creditworthiness Category

| (In thousands) | Construction | | Single and multi-family | | Real estate | | Total commercial mortgages | |
|----------------|----------------|---------------|-------------------------|---------------|----------------|---------------|----------------------------|---------------|
| | Sept. 30, 2013 | Dec. 31, 2012 | Sept. 30, 2013 | Dec. 31, 2012 | Sept. 30, 2013 | Dec. 31, 2012 | Sept. 30, 2013 | Dec. 31, 2012 |
| Grade: | | | | | | | | |

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| | | | | | | | | | | | | | | | | |
|-----------------|----|--------|----|---------|----|--------|----|--------|----|---------|----|---------|----|---------|----|---------|
| Pass | \$ | 84,064 | \$ | 142,946 | \$ | 59,815 | \$ | 40,690 | \$ | 770,714 | \$ | 707,867 | \$ | 914,593 | \$ | 891,503 |
| Special mention | | | | | | 141 | \$ | 420 | | 6,980 | | 5,965 | | 7,121 | | 6,385 |
| Substandard | | 5,176 | | 7,748 | | 3,762 | | 2,222 | | 63,827 | | 54,930 | | 72,765 | | 64,900 |
| Doubtful | | | | | | | | | | 642 | | 105 | | 642 | | 105 |
| Total | \$ | 89,240 | \$ | 150,694 | \$ | 63,718 | \$ | 43,332 | \$ | 842,163 | \$ | 768,867 | \$ | 995,121 | \$ | 962,893 |

Commercial Business Loans

Credit Risk Profile by Creditworthiness Category

| (In thousands) | Asset based lending | | Other | | Total commercial business loans | | | | | | | |
|-----------------|---------------------|---------------|----------------|---------------|---------------------------------|---------------|----|---------|----|---------|----|---------|
| | Sept. 30, 2013 | Dec. 31, 2012 | Sept. 30, 2013 | Dec. 31, 2012 | Sept. 30, 2013 | Dec. 31, 2012 | | | | | | |
| Grade: | | | | | | | | | | | | |
| Pass | \$ | 275,776 | \$ | 255,265 | \$ | 300,030 | \$ | 219,172 | \$ | 575,806 | \$ | 474,437 |
| Special mention | | | | | | 888 | | 5,857 | | 888 | | 5,857 |
| Substandard | | | | | | 10,806 | | 9,541 | | 10,806 | | 9,541 |
| Doubtful | | | | | | 848 | | 92 | | 848 | | 92 |
| Total | \$ | 275,776 | \$ | 255,265 | \$ | 312,572 | \$ | 234,662 | \$ | 588,348 | \$ | 489,927 |

Consumer Loans

Credit Risk Profile Based on Payment Activity

| (In thousands) | Home equity | | Other | | Total consumer loans | | | | | | | |
|----------------|----------------|---------------|----------------|---------------|----------------------|---------------|----|--------|----|---------|----|---------|
| | Sept. 30, 2013 | Dec. 31, 2012 | Sept. 30, 2013 | Dec. 31, 2012 | Sept. 30, 2013 | Dec. 31, 2012 | | | | | | |
| Performing | \$ | 226,405 | \$ | 204,460 | \$ | 169,486 | \$ | 76,079 | \$ | 395,891 | \$ | 280,539 |
| Nonperforming | | 1,940 | | 1,432 | | 415 | | 179 | | 2,355 | | 1,611 |
| Total | \$ | 228,345 | \$ | 205,892 | \$ | 169,901 | \$ | 76,258 | \$ | 398,246 | \$ | 282,150 |

Table of Contents**Acquired Loans****Residential Mortgages**

Credit Risk Profile by Internally Assigned Grade

| (In thousands) | 1-4 family | | Construction | | Total residential mortgages | |
|-----------------|----------------|---------------|----------------|---------------|-----------------------------|---------------|
| | Sept. 30, 2013 | Dec. 31, 2012 | Sept. 30, 2013 | Dec. 31, 2012 | Sept. 30, 2013 | Dec. 31, 2012 |
| Grade: | | | | | | |
| Pass | \$ 344,998 | \$ 424,102 | \$ 4,839 | \$ 6,375 | \$ 349,837 | \$ 430,477 |
| Special mention | 228 | 585 | 78 | | 306 | 585 |
| Substandard | 2,562 | 2,523 | 465 | | 3,027 | 2,523 |
| Total | \$ 347,788 | \$ 427,210 | \$ 5,382 | \$ 6,375 | \$ 353,170 | \$ 433,585 |

Commercial Mortgages

Credit Risk Profile by Creditworthiness Category

| (In thousands) | Construction | | Single and multi-family | | Real estate | | Total commercial mortgages | |
|-----------------|----------------|---------------|-------------------------|---------------|----------------|---------------|----------------------------|---------------|
| | Sept. 30, 2013 | Dec. 31, 2012 | Sept. 30, 2013 | Dec. 31, 2012 | Sept. 30, 2013 | Dec. 31, 2012 | Sept. 30, 2013 | Dec. 31, 2012 |
| Grade: | | | | | | | | |
| Pass | \$ 8,312 | \$ 10,142 | \$ 50,324 | \$ 57,305 | \$ 262,409 | \$ 318,809 | \$ 321,045 | \$ 386,256 |
| Special mention | 821 | 1,057 | 5,967 | 10,383 | 7,638 | 6,790 | 14,426 | 18,230 |
| Substandard | 6,165 | 5,932 | 11,198 | 12,800 | 17,651 | 27,433 | 35,014 | 46,165 |
| Doubtful | | | 498 | | | | 498 | |
| Total | \$ 15,298 | \$ 17,131 | \$ 67,987 | \$ 80,488 | \$ 287,698 | \$ 353,032 | \$ 370,983 | \$ 450,651 |

Commercial Business Loans

Credit Risk Profile by Creditworthiness Category

| (In thousands) | Asset based lending | | Other | | Total commercial business loans | |
|-----------------|---------------------|---------------|----------------|---------------|---------------------------------|---------------|
| | Sept. 30, 2013 | Dec. 31, 2012 | Sept. 30, 2013 | Dec. 31, 2012 | Sept. 30, 2013 | Dec. 31, 2012 |
| Grade: | | | | | | |
| Pass | \$ 3,341 | \$ 2,830 | \$ 66,344 | \$ 87,325 | \$ 69,685 | \$ 90,155 |
| Special mention | | | 2,829 | 7,444 | 2,829 | 7,444 |
| Substandard | | | 8,121 | 12,600 | 8,121 | 12,600 |
| Total | \$ 3,341 | \$ 2,830 | \$ 77,294 | \$ 107,369 | \$ 80,635 | \$ 110,199 |

Consumer Loans

Credit Risk Profile Based on Payment Activity

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| (In thousands) | Home equity | | Other | | Total consumer loans | |
|----------------|----------------|---------------|----------------|---------------|----------------------|---------------|
| | Sept. 30, 2013 | Dec. 31, 2012 | Sept. 30, 2013 | Dec. 31, 2012 | Sept. 30, 2013 | Dec. 31, 2012 |
| Performing | \$ 75,799 | \$ 119,472 | \$ 199,239 | \$ 248,974 | \$ 275,038 | \$ 368,446 |
| Nonperforming | 382 | 37 | 1,481 | 100 | 1,863 | 137 |
| Total | \$ 76,181 | \$ 119,509 | \$ 200,720 | \$ 249,074 | \$ 276,901 | \$ 368,583 |

The following table summarizes information about total loans rated Special Mention or lower as of September 30, 2013 and December 31, 2012.

| (In thousands) | September 30, 2013 | | | December 31, 2012 | | |
|----------------------|-------------------------|----------------|------------|-------------------------|----------------|------------|
| | Business Activity Loans | Acquired Loans | Total | Business Activity Loans | Acquired Loans | Total |
| Non-Accrual | \$ 19,291 | \$ 8,976 | \$ 28,267 | \$ 23,108 | \$ 2,405 | \$ 25,513 |
| Substandard Accruing | 77,027 | 40,218 | 117,245 | 61,745 | 59,243 | 120,988 |
| Total Classified | 96,318 | 49,194 | 145,512 | 84,853 | 61,648 | 146,501 |
| Special Mention | 8,582 | 18,527 | 27,109 | 14,097 | 26,793 | 40,890 |
| Total Criticized | \$ 104,900 | \$ 67,721 | \$ 172,621 | \$ 98,950 | \$ 88,441 | \$ 187,391 |

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.

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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.

There were no modifications identified for the three months ended September 30, 2013. The following tables include the recorded investment and number of modifications identified during the nine months ended September 30, 2013 and for the three and nine months ended September 30, 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 nine months ending September 30, 2013 were attributable to interest rate concessions and maturity date extensions. The modifications for the nine months ending September 30, 2012 were attributable to maturity date extensions.

| (Dollars in thousands) | Number of Modifications | Modifications by Class Nine months ending September 30, 2013 | |
|-------------------------------------|-------------------------|---|---|
| | | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment |
| Troubled Debt Restructurings | | | |
| Residential - 1-4 Family | 5 | \$ 941 | \$ 941 |
| Residential - Construction | 1 | 320 | 320 |
| Commercial - Construction | | | |
| Commercial - Single and multifamily | 2 | 2,366 | 2,406 |
| Commercial - Other | 10 | 3,882 | 3,450 |
| Commercial business- ABL | | | |
| Commercial business - Other | 4 | 100 | 100 |
| Consumer- Home Equity | | | |
| Consumer- Other | | | |
| | 22 | \$ 7,609 | \$ 7,217 |

| (Dollars in thousands) | Number of Modifications | Modifications by Class Three months ending September 30, 2012 | |
|-------------------------------------|-------------------------|--|---|
| | | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment |
| Troubled Debt Restructurings | | | |
| Residential- 1-4 Family | 1 | \$ 70 | \$ 70 |

| (Dollars in thousands) | Number of Modifications | Modifications by Class Nine months ending September 30, 2012 | |
|-------------------------------------|-------------------------|---|---|
| | | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment |
| Troubled Debt Restructurings | | | |
| Residential- 1-4 Family | 1 | \$ 70 | \$ 70 |

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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. As of September 30, 2012, there were no loans that were restructured within the last twelve months that have subsequently defaulted.

| | Modifications that Subsequently Defaulted Three months ending September 30, 2013 | |
|-------------------------------------|---|---------------------|
| | Number of Contracts | Recorded Investment |
| Troubled Debt Restructurings | | |
| Commercial - Single and multifamily | 1 | \$ 37 |
| Commercial - Other | 5 | 929 |
| Commercial business- Other | 1 | |
| | 7 | \$ 966 |

| | Modifications that Subsequently Defaulted Nine months ending September 30, 2013 | |
|-------------------------------------|--|---------------------|
| | Number of Contracts | Recorded Investment |
| Troubled Debt Restructurings | | |
| Commercial - Single and multifamily | 5 | \$ 261 |
| Commercial - Other | 5 | 929 |
| Commercial business- Other | 1 | |
| | 11 | \$ 1,190 |

The following table presents the Company's TDR activity for the three and nine months ended September 30, 2013 and September 30, 2012:

| (In thousands) | Three months ending September 30, | |
|---|--------------------------------------|----------|
| | 2013 | 2012 |
| Balance at beginning of the period | \$ 10,160 | \$ 2,107 |
| Principal Payments | (55) | (1) |
| TDR Status Change (1) | | |
| Other Reductions (2) | 156 | |
| Newly Identified TDRs | | 70 |
| Balance at end of the period | \$ 10,261 | \$ 2,176 |

| (In thousands) | Nine months ending September 30, | |
|---|-------------------------------------|----------|
| | 2013 | 2012 |
| Balance at beginning of the period | \$ 4,626 | \$ 1,264 |
| Principal Payments | (92) | (6) |
| TDR Status Change (1) | (1,164) | (1,125) |
| Other Reductions (2) | (325) | |
| Newly Identified TDRs | 7,216 | 2,043 |
| Balance at end of the period | \$ 10,261 | \$ 2,176 |

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

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

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

NOTE 6. DEPOSITS

A summary of time deposits is as follows:

| (In thousands) | September 30, 2013 | | December 31, 2012 | |
|--------------------------|--------------------|-----------|-------------------|-----------|
| Time less than \$100,000 | \$ | 501,846 | \$ | 548,895 |
| Time \$100,000 or more | | 562,203 | | 621,694 |
| Total time deposits | \$ | 1,064,049 | \$ | 1,170,589 |

NOTE 7. BORROWED FUNDS

Borrowed funds at September 30, 2013 and December 31, 2012 are summarized, as follows:

| (in thousands, except rates) | September 30, 2013 | | December 31, 2012 | |
|-------------------------------|--------------------|-----------------------|-------------------|-----------------------|
| | Principal | Weighted Average Rate | Principal | Weighted Average Rate |
| Short-term borrowings: | | | | |
| Advances from the FHLBB | \$ 590,000 | 0.30% | \$ 153,150 | 0.28% |
| Other Borrowings | | | 10,000 | 1.96 |
| Total short-term borrowings: | 590,000 | 0.30 | 163,150 | 0.38 |
| Long-term borrowings: | | | | |
| Advances from the FHLBB | 150,022 | 1.23 | 195,321 | 1.18 |
| Subordinated notes | 74,199 | 7.00 | 74,153 | 7.00 |
| Junior subordinated notes | 15,464 | 2.11 | 15,464 | 2.16 |
| Total long-term borrowings: | 239,685 | 3.07 | 284,938 | 2.76 |
| Total | \$ 829,685 | 1.10% | \$ 448,088 | 1.89% |

The Bank also maintains a \$3.0 million secured line of credit with the FHLBB that bears a daily adjustable rate calculated by the FHLBB. There was no outstanding balance on the FHLBB line of credit for the periods ended September 30, 2013 and December 31, 2012.

The Bank is approved to borrow on a short-term basis from the Federal Reserve Bank of Boston as a non-member bank. The Bank has pledged certain loans and securities to the Federal Reserve Bank to support this arrangement. No borrowings with the Federal Reserve Bank of Boston took place for the periods ended September 30, 2013 and December 31, 2012.

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Long-term FHLBB advances consist of advances with an original maturity of more than one year. The advances outstanding at September 30, 2013 include callable advances totaling \$5.0 million, and amortizing advances totaling \$5.5 million. The advances outstanding at December 31, 2012 include callable advances totaling \$5.0 million, and amortizing advances totaling \$5.6 million. All FHLBB borrowings, including the line of credit, are secured by a blanket security agreement on certain qualified collateral, principally all residential first mortgage loans and certain securities.

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A summary of maturities of FHLBB advances as of September 30, 2013 and December 31, 2012 is as follows:

| (in thousands, except rates) | September 30, 2013 | | December 31, 2012 | |
|---|--------------------|-----------------------|-------------------|-----------------------|
| | Principal | Weighted Average Rate | Principal | Weighted Average Rate |
| Fixed rate advances maturing: | | | | |
| 2013 | \$ 518,039 | 0.33% | \$ 186,448 | 0.32% |
| 2014 | 120,082 | 0.69 | 20,280 | 3.04 |
| 2015 | | | | |
| 2016 | 1,599 | 0.79 | 1,645 | 0.80 |
| 2017 and beyond | 5,361 | 3.82 | 5,478 | 3.87 |
| Total fixed rate advances | \$ 645,081 | 0.43% | \$ 213,851 | 0.67% |
| Variable rate advances maturing: | | | | |
| 2013 | \$ 19,941 | 1.93% | \$ 59,620 | 1.33% |
| 2014 | 10,000 | | | |