BERKSHIRE HILLS BANCORP INC
Form 10-Q
November 09, 2011

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, 2011

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _________ to __________

Commission File Number: 000-51584

BERKSHIRE HILLS BANCORP, INC.

(Exact name of registrant as specified in its charter)

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

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

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

Yes x No ¨

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

Yes x No ¨

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 x 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 x

The Registrant had 21,144,011 shares of common stock, par value $0.01 per share, outstanding as of November 6, 2011.

BERKSHIRE HILLS BANCORP, INC.
FORM 10-Q

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PART I
ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

BERKSHIRE HILLS BANCORP, INC.
CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)	September 30, 2011	December 31, 2010
Assets		
Cash and due from banks	$ 40,070	$ 24,643
Short-term investments	94,428	19,497
Total cash and cash equivalents	134,498	44,140
Trading security	17,501	16,155
Securities available for sale, at fair value	395,546	310,242
Securities held to maturity (fair values of $60,224 and $57,594)	58,262	56,436
Federal Home Loan Bank stock and other restricted securities	37,148	23,120
Total securities	508,457	405,953
Loans held for sale	475	1,043
Residential mortgages	1,045,363	644,973
Commercial mortgages	1,158,140	925,573
Commercial business loans	382,159	286,087
Consumer loans	368,898	285,529
Total loans	2,954,560	2,142,162
Less: Allowance for loan losses	(32,181)	(31,898)
Net loans	2,922,379	2,110,264
Premises and equipment, net	58,652	38,546
Other real estate owned	2,200	3,386
Goodwill	202,100	161,725
Other intangible assets	22,288	11,354
Cash surrender value of bank-owned life insurance policies	74,381	46,085
Other assets	98,737	58,907
Assets from discontinued operations	63,033	-
Total assets	$ 4,087,200	$ 2,881,403
Liabilities		
Demand deposits	$ 434,719	$ 297,502
NOW deposits	269,668	212,143
Money market deposits	896,004	716,078
Savings deposits	450,976	237,594
Time deposits	986,979	741,124
Total deposits	3,038,346	2,204,441
Short-term debt	-	47,030
Long-term Federal Home Loan Bank advances	221,996	197,807
Junior subordinated debentures	15,464	15,464

Total borrowings	237,460	260,301
Other liabilities	54,382	28,014
Liabilities from discontinued operations	210,319	-
Total liabilities	3,540,507	2,492,756
Stockholders’ equity		
Common stock ($.01 par value; 50,000,000 shares authorized; 22,860,368 shares issued and 21,133,868 shares outstanding in 2011; 26,000,000 shares authorized; 15,848,825 shares issued and 14,076,148 shares outstanding in 2010)	229	158
Additional paid-in capital	494,096	337,537
Unearned compensation	(3,047)	(1,776)
Retained earnings	104,287	103,972
Accumulated other comprehensive loss	(5,540)	(6,410)
Treasury stock, at cost (1,726,500 shares in 2011 and 1,772,677 shares in 2010)	(43,332)	(44,834)
Total stockholders' equity	546,693	388,647
Total liabilities and stockholders' equity	$ 4,087,200	$ 2,881,403

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

BERKSHIRE HILLS BANCORP, INC.
CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Interest and dividend income				
Loans	$35,719	$24,917	$88,932	$73,354
Securities and other	3,547	3,546	10,300	10,554
Total interest and dividend income	39,266	28,463	99,232	83,908
Interest expense				
Deposits	6,097	6,512	17,580	20,195
Borrowings and junior subordinated debentures	2,131	2,267	6,267	6,861
Total interest expense	8,228	8,779	23,847	27,056
Net interest income	31,038	19,684	75,385	56,852
Non-interest income				
Loan related fees	934	549	2,305	2,261
Deposit related fees	3,885	2,730	9,792	8,009
Insurance commissions and fees	2,431	2,316	8,943	8,986
Wealth management fees	1,607	1,090	4,188	3,406
Total fee income	8,857	6,685	25,228	22,662
Other	(158)	(122)	(355)	(342)
Gain on sale of securities, net	-	-	6	-
Non-recurring income	1,975	-	2,099	-
Total non-interest income	10,674	6,563	26,978	22,320
Total net revenue	41,712	26,247	102,363	79,172
Provision for loan losses	2,200	2,000	5,300	6,526
Non-interest expense				
Compensation and benefits	13,195	10,870	36,373	32,827
Occupancy and equipment	3,883	2,988	10,864	8,986
Technology and communications	1,996	1,458	4,993	4,214
Marketing and professional services	1,873	1,253	4,643	3,666
Supplies, postage and delivery	545	520	1,506	1,635
FDIC premiums and assessments	923	893	2,691	2,540
Other real estate owned	541	100	1,850	127
Amortization of intangible assets	1,271	768	2,922	2,304
Non-recurring expenses	9,091	-	16,250	21
Other	1,392	1,244	4,430	3,994
Total non-interest expense	34,710	20,094	86,522	60,314
Income from continuing operations before income taxes	4,802	4,153	10,541	12,332
Income tax expense	405	699	1,432	2,104
Net income from continuing operations	4,397	3,454	9,109	10,228
Loss from discontinued operations, net of tax	(5)	-	(5)	-
Net income	$4,392	$3,454	$9,104	$10,228
Basic and diluted earnings per share:				
Continuing operations	$0.22	$0.25	$0.54	$0.74
Discontinued operations	$-	$-	$-	$-

Weighted average common shares outstanding:				
Basic	20,009	13,865	16,863	13,852
Diluted	20,105	13,893	16,915	13,883

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

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

(In thousands)	Common stock Shares	Common stock Amount	Additional paid-in capital	Unearned compen-sation	Retained earnings	Accumulated other comp-rehensive loss	Treasury stock	Total
Balance at December 31, 2009	13,916	$ 158	$ 338,822	$ (1,318)	$ 99,597	$ (2,968)	$ (49,146)	$ 385,145
Comprehensive income:								
Net income	-	-	-	-	10,228	-	-	10,228
Other net comprehensive loss	-	-	-	-	-	(6,236)	-	(6,236)
Total comprehensive income								3,992
Cash dividends declared ($0.48 per share)	-	-	-	-	(6,741)	-	-	(6,741)
Forfeited shares	(13)	-	4	254	-	-	(258)	-
Exercise of stock options	24	-	-	-	(206)	-	609	403
Restricted stock grants	132	-	(1,160)	(2,201)	-	-	3,361	-
Stock-based compensation	-	-	4	1,151	-	-	-	1,155
Other, net	(23)	-	-	-	16	-	(431)	(415)
Balance at September 30, 2010	14,036	$ 158	$ 337,670	$ (2,114)	$ 102,894	$ (9,204)	$ (45,865)	$ 383,539
Balance at December 31, 2010	14,076	$ 158	$ 337,537	$ (1,776)	$ 103,972	$ (6,410)	$ (44,834)	$ 388,647
Comprehensive income:								
Net income	-	-	-	-	9,104	-	-	9,104
Other net comprehensive income	-	-	-	-	-	870	-	870
Total comprehensive income								9,974
Acquisition of Legacy Bancorp, Inc.	4,351	44	101,639	-	-	-	-	101,683
Acquisition of Rome Bancorp, Inc.	2,661	27	55,463	-	-	-	-	55,490

Rome ESOP loan repayment	(44)	-	-	-	-	-	(943)	(943)
Cash dividends declared ($0.48 per share)	-	-	-	-	(8,313)	-	-	(8,313)
Forfeited shares	(23)	-	40	463	-	-	(503)	-
Exercise of stock options	13	-	-	-	(112)	-	326	214
Restricted stock grants	125	-	(404)	(2,730)	-	-	3,134	-
Stock-based compensation	-	-	2	996	-	-	-	998
Net tax benefit related to stock-based compensation	-	-	68	-	-	-		68
Other, net	(25)	-	(249)	-	(364)	-	(512)	(1,125)
Balance at September 30, 2011	21,134	$ 229	$ 494,096	$ (3,047)	$ 104,287	$ (5,540)	$ (43,332)	$ 546,693

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

BERKSHIRE HILLS BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	Nine Months Ended September 30, 2011	2010
Cash flows from operating activities:		
Net income	$ 9,104	$ 10,228
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	5,300	6,526
Net amortization of securities	893	1,942
Change in unamortized net loan costs and premiums	519	872
Premises depreciation and amortization expense	3,498	2,832
Stock-based compensation expense	998	1,155
Write down of other real estate owned	1,700	-
Amortization of other intangibles	2,922	2,304
Income from cash surrender value of bank-owned life insurance policies	(1,492)	(884)
Loss on sales of securities, net	(2,229)	-
Net decrease in loans held for sale	568	701
Loss on sale of real estate	94	-
Net change in other	10,269	(1,177)
Net cash provided by operating activities	32,144	24,499
Cash flows from investing activities:		
Trading security:		
Proceeds from maturities, calls and prepayments	(1,346)	327
Securities available for sale:		
Sales	12,521	3,159
Proceeds from maturities, calls and prepayments	92,258	88,626
Purchases	(152,633)	(82,653)
Securities held to maturity:		
Proceeds from maturities, calls and prepayments	7,618	15,967
Purchases	(9,444)	(15,823)
Loan originations, net	(42,890)	(102,854)
Acquisitions, net of cash paid	179,458	-
Proceeds from surrender of bank-owned life insurance	-	2,217
Purchase of bank-owned life insurance	-	(2,599)
Proceeds from sale of Federal Home Loan Bank stock	3,571	-
Purchase of Federal Home Loan Bank stock	(1,387)	-
Proceeds from sale of other real estate	1,086	-
Purchase of premises and equipment, net	(4,542)	(3,347)
Net cash provided (used) by investing activities	84,270	(96,980)
Cash flows from financing activities:		
Net increase in deposits	153,657	81,985
Proceeds from Federal Home Loan Bank advances and other borrowings	115,480	212,505
Repayments of Federal Home Loan Bank advances and other borrowings	(286,190)	(209,897)
Net proceeds from reissuance of treasury stock	214	403

Excess tax loss from stock based payment arrangements	68	-
Common stock cash dividends paid	(8,313)	(6,741)
Net cash (used) provided by financing activities	(25,084)	78,255
Net change in cash and cash equivalents	91,330	5,774
Cash and cash equivalents at beginning of period	44,140	32,608
Cash and cash equivalents at end of period	$ 135,470	$ 38,382
Supplemental cash flow information:		
Interest paid on deposits	17,807	20,626
Interest paid on borrowed funds	6,202	6,888
Income taxes(refunded) paid, net	138	(117)
Acquisition of non-cash assets and liabilities:		
Assets acquired	1,241	-
Liabilities assumed	(1,044)	-
Rome stock owned by the Company	6,284	-
Other non-cash changes:		
Other net comprehensive loss	870	-

The accompanying notes are an integral part of these consolidated financial statements.
Note: The Consolidated Statements of Cash Flows for the nine months ended September 30, 2011 and 2010 include the
cash flows from operating, investing and financing activities associated with discontinued operations.

1. GENERAL

Basis of presentation and consolidation

The consolidated financial statements (the "financial statements") of Berkshire Hills Bancorp, Inc. (the "Company" or "Berkshire") have been prepared in conformity with U.S. generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Form 10-Q adopted by the Securities and Exchange Commission ("SEC"). Accordingly, these financial statements, including year-end consolidated balance sheet data presented, do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments necessary for a fair presentation are reflected in the interim financial statements and consist of normal recurring entries. These financial statements include the accounts of the Company and its wholly-owned subsidiaries, Berkshire Insurance Group, Inc. ("BIG") and Berkshire Bank (the "Bank"), together with the Bank's consolidated subsidiaries. One of the Bank's consolidated subsidiaries is Berkshire Bank Municipal Bank, a New York chartered limited-purpose commercial bank. All significant inter-company transactions have been eliminated in consolidation. The results of operations for the three and nine months ended September 30, 2011 are not necessarily indicative of the results which may be expected for the year. Assets and liabilities related to discontinued operations are carried at the lower of cost or estimated market value in the aggregate and present in a separate line item on the consolidated balance sheets Revenue and expense related to discontinued operations are not reported, and net income related to these operations is presented in a separate line item on the consolidated statements of income. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2010.

Business

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

Business segments

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

Use of estimates

In preparing the financial statements in conformity with GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated balance sheets and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses; the valuation of deferred tax assets; the estimates related to the initial measurement of goodwill and intangible assets and subsequent impairment analyses; the determination of other-than-temporary impairment of securities; estimates for acquired impaired loans; and the determination of fair value of financial instruments and subsequent impairment analysis.

Significant accounting policies

The Company's significant accounting policies are described in Note 1 to the consolidated financial statements in the 2010 Form 10-K. The following policies have since been refined or added and are described below:

Allowance for Loan Losses

The allowance for loan losses is established based upon the level of estimated probable losses in the current loan portfolio. Loan losses are charged against the allowance when management believes the collectability of a loan balance is doubtful. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is allocated to loan types using both a formula-based approach applied to groups of loans and an analysis of certain individual loans for impairment. The formula-based approach emphasizes loss factors derived from actual historical and industry portfolio loss rates, which are combined with an assessment of certain qualitative factors to determine the allowance amounts allocated to the various loan categories. Allowance amounts are determined based on an estimate of historical average annual percentage rate of loan loss for each loan segment, a temporal estimate of the incurred loss emergence and confirmation period for each loan category, and certain qualitative risk factors considered in the computation of the allowance for loan losses.

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

- National and local economic and business conditions
- Level and trend of delinquencies
- Level and trend of charge-offs and recoveries
- Trends in volume and terms of loans
- Risk selection, lending policy and underwriting standards
- Experience and depth of management
- Banking industry conditions and other external factors
- Concentration risk

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

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

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

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

Management chose to increase the loan loss provision in the third quarter in an effort to indirectly build a reserve for the Bank's purchased loan portfolios into our allowance for loan loss. A provision of $300 thousand was taken in the third quarter of 2011. While each purchased portfolio of loans is thoroughly reviewed and, when applicable, adequately marked down to an observable market price the Bank's management team is cognizant that further market fluctuations are a distinct possibility given the present state of the economy.

Acquired Loans

Loans that we acquire in acquisitions subsequent to January 1, 2009 are initially recorded at fair value with no carryover of the related allowance for credit losses. Determining the fair value of the loans involves estimating the amount and timing of principal and interest cash flows initially expected to be collected on the loans and discounting those cash flows at an appropriate market rate of interest.

For loans that meet the criteria stipulated in ASC 310-30, "Loans and Debt Securities Acquired with Deteriorated Credit Quality", the Company shall recognize the accretable yield, which is defined as the excess of all cash flows expected at acquisition over the initial fair value of the loan, as interest income on a level-yield basis over the expected remaining life of the loan. This accretable yield shall not be recorded on the balance sheet. The excess of the loan's contractually required payments over the cash flows expected to be collected is the nonaccretable difference. The nonaccretable difference shall not be recognized as an adjustment of yield, a loss accrual, or a valuation allowance. Going forward, the Company shall continue to evaluate whether the timing and the amount of cash to be collected are reasonably expected. Subsequent significant increases in cash flows we expect to collect will first reduce previously recognized valuation allowance and then be reflected prospectively as an increase to the level yield. Subsequent decreases in expected cash flows may result in the loan being considered impaired. Interest income shall not be recognized to the extent that the net investment in the loan would increase to an amount greater than the payoff amount.

For loans that do not meet the ASC 310-30 criteria, the Company shall accrete interest income on a level yield basis using the contractually required cash flows.

The expected prepayments used to determine the accretable yield shall be consistent between the cash flows expected to be collected and projections of contractual cash flows so as to not affect the nonaccretable difference. Differences in the actual and expected prepayments impact the accretable yield but not the nonaccretable difference.

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

Recent accounting pronouncements

FASB ASU No. 2010-20, "Receivables (Topic 310), Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses". In July 2010, the FASB issued ASU 2010-20 which requires an entity to provide disclosures that facilitate financial statement users' evaluation of (1) the nature of credit risk inherent in the entity's loan portfolio (2) how that risk is analyzed and assessed in arriving at the allowance for loan and lease losses and (3) the changes and reasons for those changes in the allowance for loan and lease losses. For public entities, the disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The adoption of this guidance resulted in significant additional loan disclosures included in Note 7.

FASB ASU No. 2010-29, "Business Combinations (Topic 805), Disclosure of Supplementary Pro Forma Information for Business Combinations". In December 2010, the FASB issued ASU 2010-29 which clarifies the presentation of pro forma information required for business combinations when a public company presents comparative financial information. The amendments in this guidance are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. The adoption of this guidance required addition disclosures included in Note 3.

FASB ASU No. 2011-02, "A Creditor's Determination of Whether Restructuring Is a Troubled Debt Restructuring". In April 2011, the FASB issued ASU 2011-02 which clarifies when a loan modification or restructuring is considered a troubled debt restructuring. The guidance is effective for the first interim or annual period beginning on or after June 15, 2011, and is to be applied retrospectively to modifications occurring on or after the beginning of the annual period of adoption. The adoption of this guidance resulted in additional loan disclosures included in Note 7.

FASB ASU No. 2011-05, "Presentation of Comprehensive Income". In June 2011, the FASB issued ASU 2011-05 which requires that all nonowner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, and is to be applied retrospectively. The adoption of this guidance will require additional disclosures.

FASB ASU No. 2011-08, "Testing Goodwill for Impairment". In September 2011, the FASB issued ASU 2011-08 which will allow an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Under these amendments, an entity would not be required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount.. The guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted.

FASB ASU No. 2011-09, “Disclosures about an Employer's Participation in a Multiemployer Plan”. In September 2011, the FASB issued ASU 2011-09 which requires that employers provide additional separate disclosures for multiemployer pension plans and multiemployer other postretirement benefit plans. The guidance is effective for fiscal years beginning after December 15, 2011, with early adoption permitted. The adoption of this guidance will require additional disclosures.

2. CORRECTION OF IMMATERIAL ERROR

During the second quarter of 2011, the Company corrected an immaterial error in its prior period accounting treatment for certain tax credit investment limited partnership interests. These interests primarily relate to low income housing, community development, and solar energy related investments. As a result of this error, the Company's non-interest income and income tax expense were overstated in 2010 and in the first quarter of 2011. On the corresponding balance sheets, the Company's tax credit investment limited partnership interests were overstated in 2010 and in the first quarter of 2011. The overstatement of the tax credit investment balance in each period was more than offset by an understatement of the Company's deferred tax asset balance. These balances are included as components of other assets in the accompanying consolidated balance sheets.

The Company assessed the materiality of this error for each previously issued quarterly and annual period that was effected in accordance with generally accepted accounting principles, and determined that the error was immaterial. The Company determined that the cumulative error is immaterial to our estimated income for the full fiscal year ending December 31, 2011 but was material to our trend in earnings. Accordingly, the Company has revised its consolidated balance sheet as of December 31, 2010 and the consolidated statement of operations for the three-month and nine-month periods ended September 30, 2010. The Company intends to revise its consolidated financial statements for certain quarterly and annual periods through subsequent periodic filings. The effect of correcting this immaterial error in the consolidated statement of operations for the year ended December 31, 2010, the consolidated balance sheet as of December 31, 2010, and for the fiscal 2010 and 2011 quarterly periods to be reported in subsequent periodic filings is as follows:

	For the Quarter Ended September 30, 2010		For the Nine Months Ended September 30, 2010	
(in thousands, except per share data)	As Reported	As Revised	As Reported	As Revised
Consolidated statement of operations information:				
Non-interest income	$6,915	$6,563	$ 23,376	$ 22,320
Income tax expense	1,081	699	3,220	2,074
Net income	3,424	3,454	10,168	10,228
Basic earnings per share	0.25	0.25	0.74	0.74
Diluted earnings per share	0.25	0.25	0.74	0.74
Consolidated balance sheet information:				
Other assets	68,408	69,065	68,408	69,065
Retained earnings	102,270	102,927	102,270	102,927

	For the Quarter Ended December 31, 2010		For the Year Ended December 31, 2010		For the Quarter Ended March 31, 2011	
(in thousands, except per share data)	As Reported	As Revised	As Reported	As Revised	As Reported	As Revised
Consolidated statement of operations information:						
Non-interest income	$7,783	$7,431	$31,159	$29,751	$8,502	$8,134
Income tax expense	893	511	4,113	2,585	1,061	656
Net income	3,570	3,600	13,378	13,858	2,798	2,835
Basic earnings per share	0.26	0.26	0.99	1.00	0.20	0.20

Diluted earnings per share	0.26	0.26	0.99	1.00	0.20	0.20
Consolidated balance sheet information:						
Other assets	58,220	58,907	58,220	58,907	59,122	59,846
Retained earnings	103,285	103,972	103,285	103,972	103,720	104,444

3. ACQUISITIONS

Legacy Bancorp, Inc.

On July 21, 2011, the Company acquired all of the outstanding common shares of Legacy Bancorp, Inc. ("Legacy"), the parent company of Legacy Banks. Concurrently, Legacy Bancorp merged into Berkshire Hills Bancorp and Legacy Banks merged into Berkshire Bank. Legacy had nineteen banking offices serving Western Massachusetts and Northeastern New York. This business combination was substantially an in-market merger for Berkshire and the goodwill recognized results from the expected synergies and earnings accretion from this combination, including future cost savings related to Legacy operations. The combination was negotiated between the companies and was approved unanimously by their boards of directors.

In order to resolve any anticompetitive issues, the merger was conditioned on the divestiture of four Legacy Berkshire County branches. These branches were designated as discontinued operations and the divestiture was concluded on October 21, 2011. Additionally, the Company contracted to sell four Legacy New York branches. This sale is expected to be completed early in 2012 and these branches are also designated as discontinued operations in the financial statements. Please see the Discontinued Operations footnote for further discussion of these divestitures.

On the acquisition date, Legacy had 7.717 million shares of common stock outstanding, net of 392 thousand shares held by Berkshire. Legacy shareholders received 4.351 million shares of the Company's common stock based on an exchange ratio of 0.56385 Berkshire shares for each Legacy share. This common stock consideration was valued at $100.3 million based on the $23.06 closing price of Berkshire common stock on July 20, 2011. Based on the closing price of Legacy stock on July 20, the 392 thousand shares owned by Berkshire were valued at $5.6 million, and the value in excess of carrying value for these shares was recorded as a $2.0 million non-recurring gain in the statement of income. Legacy shareholders also received $10.0 million in cash based on an exchange of $1.30 in cash for each Legacy share. Additionally, Legacy shareholders of record on the merger date are scheduled to receive a divestiture dividend in the fourth quarter of 2011 related to the divestiture of four Berkshire County branches. The fair value of this contingent consideration at merger date was estimated at $1.1 million, or $0.15 per share, contingent on the final divestiture of the branches. In accordance with the merger agreement, Berkshire paid $1.2 million in cash consideration for certain outstanding Legacy options and issued new Berkshire options valued at $1.3 million for the remaining outstanding Legacy options.

The results of Legacy's operations are included in the Consolidated Statements of Income from the date of acquisition. In connection with the merger, the consideration paid, the assets acquired, and the liabilities assumed were recorded at fair value on the date of acquisition, as summarized in the following table in thousands, as of July 21, 2011.

Consideration Paid:	
Berkshire Hills Bancorp common stock issued to Legacy common stockholders	$100,334
Cash consideration paid to Legacy common shareholders	10,043
Value of Legacy stock previously purchased by Berkshire Hills	5,616
Cash consideration paid for Legacy employee stock options	1,237
Option consideration paid for Legacy employee stock options	1,349
Contingent divestiture consideration recorded to Legacy common shareholders	1,146
Total consideration paid	119,725
Recognized Amounts of Identifiable Assets Aquired and (Liabilities Assumed), At Fair Value:	
Cash and short term investments	180,996
Investment securities	52,837
Loans	565,849
Bank owned life insurance	16,896
Premises and equipment	18,003
Core deposit intangibles	9,060
Other intangibles	3,712
Other assets	25,367
Deposits	(661,173)
Borrowings	(117,869)
Other liabilities	(4,067)
Total identifiable net assets	89,611
Goodwill	$30,114

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

Information about the acquired loan portfolio as of July 21, 2011 is as follows (in thousands):

Contractually required principal and interest at acquisition	$584,216
Contractual cash flows not expected to be collected (nonaccretable discount)	(8,371)
Expected cash flows at acquisition	575,845
Interest component of expected cash flows (accretable discount)	(9,996)
Fair value of acquired loans	$565,849

The core deposit intangible asset recognized as part of the Legacy merger is being amortized over its estimated useful life of approximately ten years utilizing an accelerated method. Other intangibles consist primarily of the wealth management contract intangible which is being amortized over its estimated useful life of ten years utilizing an accelerated method.

The goodwill, which is not amortized for book purposes, was assigned to our banking segment and is not deductible for tax purposes. Legacy had no significant insurance related operations, so no goodwill was recognized in connection with the insurance segment of Berkshire. Legacy goodwill related to discontinued operations has been included in assets from discontinued operations on the balance sheet.

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

Rome Bancorp, Inc.

On April 1, 2011, the Company acquired all of the outstanding common shares of Rome Bancorp, Inc. ("Rome"), the parent company of The Rome Savings Bank. Concurrently, Rome Bancorp merged into Berkshire Hills Bancorp and The Rome Savings Bank merged into Berkshire Bank. Rome had five banking offices serving Rome, Lee, and New Hartford, New York. This business combination is an extension of the Berkshire franchise and the goodwill recognized results from the expected synergies and earnings accretion from this combination, including future cost savings related to the Rome operations. The combination was negotiated between the companies and was approved unanimously by their boards of directors.

Rome shareholders received 2.7 million shares of the Company's common stock and $22.7 million in cash. On the acquisition date, Rome had 6.7 million outstanding common shares. Through a cash/stock election procedure, the Company paid $11.25 per share for 30% of the outstanding common shares and for 70% of the outstanding shares, the Company exchanged its stock in a ratio of 0.5658 shares of the Company's common stock for each share of Rome stock. The 2.7 million shares of Company common stock issued in this exchange were valued at $20.83 per share based on the closing price of Berkshire posted on March 31, 2011. In addition to the above consideration, the Company owned 59 thousand shares of Rome stock which had been previously acquired at an average cost of $9.22 per share. Berkshire recorded a $124 thousand gain on these shares which was recorded as non-recurring gain in the statement of income on the date of acquisition. Berkshire paid $0.4 million in cash to retire outstanding Rome stock options.

The results of Rome's operations are included in the Consolidated Statements of Income from the date of acquisition. In connection with the merger, the consideration paid, the assets acquired, and the liabilities assumed were recorded at fair value on the date of acquisition, as summarized in the following tables in thousands, as of April 1, 2011.

Consideration Paid:	
Berkshire Hills Bancorp common stock issued to Rome common stockholders	$55,419
Cash consideration paid to Rome common shareholders	22,683
Value of Rome stock previously purchased by Berkshire Hills	668
Cash consideration paid for Rome employee stock options	354
Total consideration paid	79,124
Recognized Amounts of Identifiable Assets Aquired and (Liabilities Assumed), At Fair Value:	
Cash and short term investments	33,533
Investment securities	418
Loans	257,604
Federal Home Loan Bank common stock	3,571
Bank owned life insurance	9,908
Premises and equipment	4,732
Core deposit intangibles	4,820
Other assets	7,719
Deposits	(229,390)
Borrowings	(30,000)

Other liabilities	(134)
Total identifiable net assets	62,781
Goodwill	$ 16,343

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

Information about the acquired loan portfolio as of April 1, 2011 is as follows (in thousands):

Contractually required principal and interest at acquisition	$262,718
Contractual cash flows not expected to be collected (nonaccretable discount)	(4,880)
Expected cash flows at acquisition	257,838
Interest component of expected cash flows (accretable discount)	(234)
Fair value of acquired loans	$257,604

The core deposit intangible asset recognized as part of the Rome merger is being amortized over its estimated useful life of approximately ten years utilizing an accelerated method. The goodwill, which is not amortized for book purposes, was assigned to our banking segment and is not deductible for tax purposes. Rome had no insurance related operations, so no goodwill was recognized in connection with the insurance segment of Berkshire.

The fair value of savings and transaction deposit accounts acquired from Rome was assumed to approximate the carrying value as these accounts have no stated maturity and are payable on demand. The fair value of time deposits was estimated by discounting the contractual future cash flows using market rates offered for time deposits of similar remaining maturities. The fair value of borrowings assumed was equal to carrying value, since these were overnight borrowings at the time of the merger.

Financial Information

The following table presents selected pro forma financial information reflecting the Rome and Legacy acquisitions assuming they were completed as of January 1, 2010. The pro forma financial information is presented for illustrative purposes only and is not necessarily indicative of the financial results of the combined companies had these acquisitions actually been completed at the beginning of the periods presented, nor does it indicate future results for any other interim or full-year period. Pro forma basic and diluted earnings per common share were calculated using Berkshire's actual weighted-average shares outstanding for the periods presented, plus the incremental shares issued, assuming the Rome and Legacy acquisitions occurred at the beginning of the periods presented. The pro forma information is based on the actual financial statements of Berkshire for the periods shown, and on the actual financial statements of Rome and Legacy for the 2010 period shown and in 2011 until the date of acquisition, at which time their operations became included in Berkshire's financial statements.

This pro forma information gives effect to pro forma estimates of certain adjustments, including purchase accounting fair value adjustments, amortization of core deposit and other intangibles and related income tax effects. Merger related costs recorded by Berkshire are included in the Company's consolidated financial statements, and these costs are also included on a pro forma basis in the 2010 pro forma financial information below. Planned cost savings are not reflected in the unaudited pro forma amounts for the periods shown. Pro forma results in 2011 include certain non-routine charges recorded by Rome and Legacy in 2011 prior to the time of the merger. The Company has determined that it is impracticable to report the amounts of revenue and earnings of Rome and Legacy since their

acquisition dates included in the consolidated statement of income due to the integration of their operations with those of the Company subsequent to their acquisitions. The Company has also determined that it is impracticable to adjust pro forma net interest income and non-interest income for Legacy discontinued operations prior to the date of the Legacy merger on July 21, 2011. Legacy financial records do not provide a consistent and separate financial history for these operations which would provide a suitable basis for these pro forma financial disclosures. Net income results of these operations are included in pro forma net income for the periods shown. Pro forma net income for the first nine months of 2010 is adjusted by non-recurring items consisting of an $8.9 million credit representing the reversal of the Rome and Legacy loan loss provisions in 2010, the additional $2.1 million in gains recorded on Rome and Legacy stock in 2011, and $16.7 million in charges representing merger related expenses for Rome and Legacy recorded by Berkshire in 2010 and 2011, net of tax effects. Pro forma net income for the first nine months of 2011 is adjusted by non-recurring items consisting of a $0.1 million credit representing the reversal of the Rome and Legacy loan loss provisions in 2011and the reversal of the $2.1 million in gains on Rome and Legacy stock and the $16.2 million in merger and systems charges recorded by Berkshire in 2011, net of tax effects.

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

	Pro Forma Nine months ended September 30,	
	2011	2010
Net interest income	$ 97,965	$ 93,402
Non-interest income	31,020	32,653
Net income	16,557	7,760
Pro forma earnings per share:		
Basic	$ 0.86	$ 0.48
Diluted	$ 0.86	$ 0.48

4. DISCONTINUED OPERATIONS

In order to minimize potential anti-competitive effects of the Legacy acquisition, the Company agreed to sell four Legacy Berkshire branches in conjunction with the Legacy merger agreement dated July 21, 2011. On October 21, 2011, the Company completed the divestiture of four Massachusetts bank branches in Berkshire County to NBT Bank, NA (“NBT”), a subsidiary of NBT Bancorp Inc. The Company continued to operate these branches until the divestiture was completed on October 21, 2011. Berkshire received a 6% deposit premium on these branches and will pay a related divestiture dividend to former Legacy shareholders for a portion of these proceeds pursuant to the Legacy merger agreement. Further information on the divestiture is provided in Note 15 to the consolidated financial statements. The above actions and subsequent divestiture have resulted in the discontinuance of these operations, which were included in discontinued operations as of September 30, 2011. As of September 30, 2011, the Bank reclassified $55.9 million of assets and $152.6 million of liabilities to discontinued operations.

Additionally, Berkshire made a separate determination to sell four former Legacy New York branches that were not within its financial performance objectives. In the third quarter of 2011, management committed to a plan to sell the four branches and initiated the process to locate a buyer. Berkshire has entered into an agreement to divest these branches for a 2.5% deposit premium, and plans to complete the divestiture in the first quarter of 2012. These branches are also designated as discontinued operations in Berkshire’s financial statements. As of September 30, 2011, the Bank reclassified $7.1 million of assets and $57.7 million of liabilities to discontinued operations.

Assets and liabilities of discontinued operations, all of which are classified as held-for-sale, were estimated as follows as of September 30, 2011, in thousands:

(In thousand)		2011
Assets		
Loans	$	48,581
Cash		972
Goodwill		6,082
Intangibles		2,714
Other		4,684
Total assets		63,033
Liabilities		
Deposits		210,314
Other		5
Total liabilities		210,319
Net liabilities	$	147,286

The following table provides financial information for the discontinued operations for the quarter and nine months ended September 30, 2011.

(In thousands)		2011
Net Interest Income	$	513
Non-interest Income		91
Total Net Revenue		604
Non-Interest Expense		612
Loss from discontinued operations		(8)
Income tax benefit		3
Loss from discontinued operations, net of tax	$	(5)

5. TRADING ACCOUNT SECURITY

The Company holds a tax advantaged economic development bond that is being accounted for at fair value. The security had an amortized cost of $14.2 million and $14.6 million, and a fair value of $17.5 million and $16.2 million, at September 30, 2011 and December 31, 2010, respectively. As discussed further in Note 13 - Derivative Financial Instruments and Hedging Activities, the Company has entered into a swap contract to swap-out the fixed rate of the security in exchange for a variable rate. The Company does not purchase securities with the intent of selling them in the near term, and there are no other securities in the trading portfolio at September 30, 2011.

6. 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, 2011				
Securities available for sale				
Debt securities:				
Municipal bonds and obligations	$74,392	$3,645	$-	$78,037
Government guaranteed residential mortgage-backed securities	47,759	1,079	-	48,838
Government-sponsored residential mortgage-backed securities	218,910	4,252	(77)	223,085
Corporate bonds	9,996	-	(364)	9,632
Trust preferred securities	20,092	2	(2,526)	17,568
Other bonds and obligations	660	1	-	661
Total debt securities	371,809	8,979	(2,967)	377,821
Equity securities:				
Marketable equity securities	18,412	773	(1,460)	17,725
Total securities available for sale	390,221	9,752	(4,427)	395,546
Securities held to maturity				
Municipal bonds and obligations	9,427	-	-	9,427
Government-sponsored residential mortgage-backed securities	80	4	-	84
Tax advantaged economic development bonds	48,140	1,958	-	50,098
Other bonds and obligations	615	-	-	615
Total securities held to maturity	58,262	1,962	-	60,224
Total	$448,483	$11,714	$(4,427)	$455,770
December 31, 2010				
Securities available for sale				
Debt securities:				
Municipal bonds and obligations	$79,292	$1,008	$(394)	$79,906
Government guaranteed residential mortgage-backed securities	25,801	370	(7)	26,164
Government-sponsored residential mortgage-backed securities	144,493	2,806	(580)	146,719
Corporate bonds	18,307	73	(90)	18,290
Trust preferred securities	22,222	316	(2,683)	19,855
Other bonds and obligations	402	2	(1)	403
Total debt securities	290,517	4,575	(3,755)	291,337
Equity securities:				
Marketable equity securities	15,756	3,217	(68)	18,905
Total securities available for sale	306,273	7,792	(3,823)	310,242

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

The amortized cost and estimated fair value of available for sale ("AFS") and held to maturity ("HTM") securities, segregated by contractual maturity at September 30, 2011 are presented below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations. Mortgage-backed securities are shown in total, as their maturities are highly variable. Equity securities have no maturity and are also shown in total.

	Available for sale		Held to maturity	
(In thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Within 1 year	$307	$308	$5,603	$5,603
Over 1 year to 5 years	8,297	7,977	2,073	2,073
Over 5 years to 10 years	18,092	18,609	31,435	32,634
Over 10 years	78,443	79,004	19,071	19,830
Total bonds and obligations	105,139	105,898	58,182	60,140
Marketable equity securities	18,412	17,725	-	-
Residential mortgage-backed securities	266,670	271,923	80	84
Total	$390,221	$395,546	$58,262	$60,224

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

	Less Than Twelve Months		Over Twelve Months		Total	
(In thousands)	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
September 30, 2011						
Securities available for sale						
Debt securities:						
Government-sponsored residential mortgage-backed securities	$ 71	$ 30,098	$ 6	$ 2,255	$ 77	$ 32,353
Corporate bonds	322	6,678	42	2,954	364	9,632
Trust preferred securities	20	10,300	2,506	3,133	2,526	13,433
Other bonds and obligations	-	-	-	72	-	72
Total debt securities	413	47,076	2,554	8,414	2,967	55,490
Marketable equity securities	1,460	8,036	-	-	1,460	8,036
Total securities available for sale	1,873	55,112	2,554	8,414	4,427	63,526
December 31, 2010						
Securities available for sale						
Debt securities:						
Municipal bonds and obligations	$ 335	$ 15,630	$ 59	$ 1,195	$ 394	$ 16,825
	7	5,125	-	-	7	5,125

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

Debt Securities

The Company expects to recover its amortized cost basis on all debt securities in its AFS and HTM portfolios. Furthermore, the Company does not intend to sell nor does it anticipate that it will be required to sell any of its securities in an unrealized loss position as of September 30, 2011, prior to this recovery. The Company’s ability and intent to hold these securities until recovery is supported by the Company’s strong capital and liquidity positions as well as its historical low portfolio 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, 2011:

AFS municipal bonds and obligations

At September 30, 2011, 0 out of a total of 132 securities in the Company’s portfolio of AFS municipal bonds and obligations were in unrealized loss positions. There were no material underlying credit downgrades during 2011. All securities are considered performing.

AFS and HTM residential mortgage-backed securities

At September 30, 2011, 9 out of a total of 151 securities in the Company’s portfolios of AFS residential mortgage-backed and 1 out of a total of 4 securities in the Company’s portfolios of HTM residential mortgage-backed were in unrealized loss positions. Aggregate unrealized losses represented less than 1% of the amortized cost of securities in unrealized loss positions within both portfolios. 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 2011. All securities are considered performing.

AFS corporate bonds

At September 30, 2011, 3 out of a total of 3 securities in the Company’s portfolio of AFS corporate bonds were in an unrealized loss position. The aggregate unrealized loss represented 4% of the amortized cost of the securities. The securities are investment grade rated, and there was no material underlying credit downgrade during 2011. The securities are considered performing.

AFS trust preferred securities

At September 30, 2011, 4 out of a total of 6 securities in the Company’s portfolio of AFS trust preferred securities were in unrealized loss positions. Aggregate unrealized losses represented 16% 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 bases.

At September 30, 2011, $2.1 million of the total unrealized losses was attributable to a $2.6 million investment in a Mezzanine Class B tranche of a $360 million pooled trust preferred security issued by banking and insurance entities. The Company evaluated the security, with a Level 3 fair value of $0.5 million, for potential other-than-temporary-impairment (“OTTI”) at September 30, 2011 and determined that OTTI was not evident based on both the Company’s more likely than not ability to hold the security until the recovery of its remaining amortized cost and the protection from credit loss afforded by $32 million in excess subordination above current and projected losses. The security is considered performing.

AFS other bonds and obligations

At September 30, 2011, 2 out of a total of 8 securities in the Company’s portfolio of other bonds and obligations were in unrealized loss positions. Aggregate unrealized losses represented less than 1% of the book value of the securities in unrealized loss positions. The securities are investment grade rated and there were no material underlying credit downgrades during 2011. All securities are considered performing.

HTM tax advantaged economic development bonds

At September 30, 2011, none of the 10 securities in the Company's portfolio of tax advantaged economic development bonds were in an unrealized loss position.

Marketable Equity Securities

In evaluating its marketable equity securities portfolio for OTTI, the Company considers its more likely than not ability to hold an equity security to recovery of its cost basis. In addition, various other factors are considered, 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, 2011, 6 out of a total of 19 securities in the Company's portfolio of marketable equity securities were in an unrealized loss position. The unrealized loss represented 15% of the cost of the impaired securities. The Company has the intent and ability to hold the securities until a recovery of their cost bases and does not consider the securities other-than-temporarily impaired at September 30, 2011. 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.

7. LOANS

Loans consist of the following:

(In thousands)	September 30, 2011		December 31, 2010	
Residential mortgages				
1-4 family	$	1,012,100	$	619,969
Construction		33,263		25,004
Total residential mortgages		1,045,363		644,973
Commercial mortgages:				
Construction		113,855		126,824
Single and multifamily		112,657		86,925
Commercial real estate		931,628		711,824
Total commercial mortgages		1,158,140		925,573
Commercial business loans				
Asset based lending		151,062		98,239
Other commercial business loans		231,097		187,848
Total commercial business loans		382,159		286,087
Total commercial loans		1,540,299		1,211,660
Consumer loans:				
Home equity		302,553		226,458
Other		66,345		59,071
Total consumer loans		368,898		285,529
Total loans	$	2,954,560	$	2,142,162

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The following table presents the outstanding principal balance and the related carrying amount of the acquired loans included in our Consolidated Balance Sheet:

(In thousands)	September 30, 2011
Outstanding principal balance	$ 752,558
Carrying amount	730,723

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)	2011
Three months ended September 30, 2011	
Balance at beginning of period	$314
Acquisitions	3,142
Reclassification from nonaccretable difference for loans with improved cash flows	-
Changes in expected cash flows that do not affect nonaccretable difference	-
Accretion	(1,159)
Balance at end of period	$2,297

(In thousands)	2011
Nine months ended September 30, 2011	
Balance at beginning of period	$-
Acquisitions	3,553
Reclassification from nonaccretable difference for loans with improved cash flows	-
Changes in expected cash flows that do not affect nonaccretable difference	-
Accretion	(1,256)
Balance at end of period	$2,297

The following is a summary of past due loans at September 30, 2011 and December 31, 2010:

Historical 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, 2011							
Residential mortgages:							
1-4 family	$ 1,732	$ 6,065	$ 4,648	$ 12,445	$ 645,138	$ 657,583	$ 215
Construction	-	-	132	132	25,682	25,814	-
Total	1,732	6,065	4,780	12,577	670,820	683,397	215
Commercial mortgages:							
Construction	428	-	6,760	7,188	99,252	106,440	-
Single and multi-family	176	-	202	378	94,881	95,259	-
Commercial real estate	6,535	1,512	6,292	14,339	735,056	749,395	1,947
Total	7,139	1,512	13,254	21,905	929,189	951,094	1,947
Commercial business loans:							
Asset based lending	-	-	-	-	151,062	151,062	-
Other commercial business loans	222	296	1,234	1,752	178,447	180,199	212
Total	222	296	1,234	1,752	329,509	331,261	212
Consumer loans:							
Home equity	50	-	1,712	1,762	225,691	227,453	17
Other	290	459	135	884	29,748	30,632	65
Total	340	459	1,847	2,646	255,439	258,085	82
Total	$ 9,433	$ 8,332	$ 21,115	$ 38,880	$ 2,184,957	$ 2,223,837	$ 2,456

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, 2011							
Residential mortgages:							
1-4 family	$ 2,639	$ 389	$ 1,406	$ 4,434	$ 350,083	$ 354,517	$ 1,221
Construction	-	-	-	-	7,449	7,449	-
Total	2,639	389	1,406	4,434	357,532	361,966	1,221
Commercial mortgages:							
Construction	-	214	299	513	6,902	7,415	299
Single and multi-family	110	-	687	797	16,601	17,398	687
Commercial real estate	955	279	3,987	5,221	177,012	182,233	1,573
Total	1,065	493	4,973	6,531	200,515	207,046	2,559
Commercial business loans:							
Asset based lending	-	-	-	-	3,009	3,009	-
	328	96	608	1,032	46,857	47,889	212

Other commercial business loans							
Total	328	96	608	1,032	49,866	50,898	212
Consumer loans:							
Home equity	426	25	53	504	74,596	75,100	53
Other	404	40	155	599	35,114	35,713	86
Total	830	65	208	1,103	109,710	110,813	139
Total	$ 4,862	$ 1,043	$ 7,195	$ 13,100	$ 717,623	$ 730,723	$ 4,150

(in thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total Loans	Past Due > 90 days and Accruing
December 31, 2010							
Residential mortgages:							
1-4 family	$ 2,103	$ 1,598	$ 1,936	$ 5,637	$ 614,332	$ 619,969	$ -
Construction	-	104	237	341	24,663	25,004	-
Total	2,103	1,702	2,173	5,978	638,995	644,973	-
Commercial mortgages:							
Construction	-	-	1,962	1,962	124,862	126,824	-
Single and multi-family	-	-	1,514	1,514	85,411	86,925	88
Commercial real estate	389	74	6,442	6,905	704,919	711,824	342
Total	389	74	9,918	10,381	915,192	925,573	430
Commercial business loans - other	111	128	1,617	1,856	284,231	286,087	312
Consumer loans:							
Home equity	119	20	856	995	225,463	226,458	147
Other	780	245	202	1,227	57,844	59,071	165
Total	899	265	1,058	2,222	283,307	285,529	312
Total	$ 3,502	$ 2,169	$ 14,766	$ 20,437	$ 2,121,725	$ 2,142,162	$ 1,054

There were no acquired loans as of December 31, 2010 to disclose.

Activity in the allowance for loan losses for the nine months ended September 30, 2011 and 2010 was as follows:

Historical Loans (In thousands)	Residential mortgages	Commercial mortgages	Commercial business	Consumer	Unallocated	Total
Balance at December 31, 2010	$ 3,077	$ 19,461	$ 6,038	$ 2,099	$ 1,223	$ 31,898
Charged-off loans	794	2,701	1,144	744	-	5,383
Recoveries on charged-off loans	152	42	54	118	-	366
Provision for loan losses	400	6,182	(1,106)	656	(1,132)	5,000
Balance at September 30, 2011	2,835	22,984	3,842	2,129	91	31,881
Ending balance: individually evaluated for impairment	136	1,553	388	428	-	2,505
Ending balance: collectively evaluated for impairment	$ 2,699	$ 21,431	$ 3,454	$ 1,701	$ 91	$ 29,376

Acquired Loans (In thousands)	Residential mortgages	Commercial mortgages	Commercial business	Consumer	Unallocated	Total
Balance at December 31, 2010	$ -	$ -	$ -	$ -	$ -	$ -
Charged-off loans	-	-	-	-	-	-
Recoveries on charged-off loans	-	-	-	-	-	-
Provision for loan losses	99	158	13	30	-	300

Balance at September 30, 2011		99		158		13		30		-		300
Ending balance: individually evaluated for impairment		-		-		-		-		-		-
Ending balance: collectively evaluated for impairment	$	99	$	158	$	13	$	30	$	-	$	300

(In thousands)	Total
Balance at December 31, 2009	$31,816
	-
Charged-off loans	(8,468)
Recoveries on charged-off loans	1,962
Net loans charged-off	(6,506)
Provision for loan losses	6,526
Balance at September 30, 2010	$31,836

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The following is a summary of impaired loans at September 30, 2011 and for the nine months then ended:

	At September 30, 2011			Nine Months Ended September 30, 2011	
Historical Loans (in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Cash Basis Interest Income Recognized
With no related allowance:					
Residential mortgages - 1-4 family	$2,498	$ 2,498	$-	$ 1,487	$ 39
Residential mortgages - construction	50	50	-	52	-
Commercial-construction	-	-	-	105	-
Commercial mortgages - single and multifamily	164	164	-	89	1
Commercial mortgages - real estate	2,148	2,148	-	7,470	248
Commercial business loans	-	-	-	31	1
Consumer-home equity	473	473	-	361	5
With an allowance recorded:					
Residential mortgages - 1-4 family	$484	$ 619	$136	$ 568	$ 20
Residential mortgages - construction	-	-	-	21	-
Commercial business loans	34	423	388	429	3
Commercial-construction	5,630	6,760	1,130	3,504	-
Commercial mortgages - single and multifamily	-	-	-	365	11
Commercial mortgages - real estate	1,256	1,678	423	2,077	20
Consumer-home equity	417	845	428	154	-
Total					
Residential mortgages	$3,032	$ 3,168	$136	$ 2,129	$ 59
Commercial mortgages	9,198	10,750	1,553	13,611	280
Commercial business loans	34	423	388	460	4
Consumer loans	890	1,318	428	515	5
Total impaired loans	$13,154	$ 15,659	$2,505	$ 16,715	$ 348

Acquired Loans (in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Cash Basis Interest Income Recognized
With no related allowance:					
Commercial mortgages - real estate	$2,414	$ 2,414	$-	$1,064	$ -
Commercial business loans	364	364	-	161	-
Total					
Commercial mortgages	$2,414	$ 2,414	$-	$1,064	$ -
Commercial business loans	364	364	-	161	-
Total impaired loans	$2,778	$ 2,778	$-	$1,225	$ -

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

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

The following is summary information pertaining to non-accrual loans at September 30, 2011 and December 31, 2010:

(In thousands)	September 30, 2011			December 31, 2010
	Historical loans	Acquired loans	Total	
Residential mortgages:				
1-4 family	$4,433	$ 185	$4,618	$ 1,936
Construction	132	-	132	237
Total	4,565	185	4,750	2,173
Commercial mortgages:				
Construction	6,760	-	6,760	1,962
Single and multi-family	202	-	202	1,426
Other	4,345	2,414	6,759	6,100
Total	11,307	2,414	13,721	9,488
Commercial business loans - other	1,022	377	1,399	1,305
Consumer loans:				
Home equity	1,695	-	1,695	709

Other	70	69	139	37
Total	1,765	69	1,834	746
Total non-accrual loans	$18,659	$ 3,045	$21,704	$ 13,712

Credit Quality Information

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

1 Substantially Risk Free

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

2 Minimal Risk

A relationship which provides an adequate return on investment to the Company, have been stable during the last three years and have 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 their long-term financial performance.

3 Moderate Risk

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

4 Better than Average Risk

A relationship which possesses most of the characteristics found in the Moderate Risk category and range from definitely sound to those with minor risk characteristics. 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 their 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 i.e. sales and earnings, leverage, etc. may be negative. Management's ability may be questionable, or perhaps untested. The industry may be experiencing either temporary or long term pressures. Collateral values are seen as more important in assessing risk 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.

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 liquation of the debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. Substandard loans will be evaluated on at least a quarterly basis to determine if an additional allocation of the Company's allowance for loan loss is warranted.

9 Substandard – Non-Performing

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

10 Doubtful

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

11 Loss

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

100 Small Business Express

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

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

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

The following table presents the Company's loans by risk rating at September 30, 2011 and December 31, 2010:

Historical Loans

Residential Mortgages
Credit Risk Profile by Internally Assigned Grade

	1-4 family		Construction		Total residential mortgages	
(In thousands)	Sept. 30, 2011	Dec. 31, 2010	Sept. 30, 2011	Dec. 31, 2010	Sept. 30, 2011	Dec. 31, 2010
Grade:						
Pass	$ 646,870	$ 616,435	$ 25,682	$ 24,663	$ 672,552	$ 641,098
Special mention	6,065	1,598	-	104	6,065	1,702
Substandard	4,648	1,936	132	237	4,780	2,173
Total	$ 657,583	$ 619,969	$ 25,814	$ 25,004	$ 683,397	$ 644,973

Commercial Mortgages
Credit Risk Profile by Creditworthiness Category

	Construction		Single and multi-family		Real estate		Total commercial mortgages	
(In thousands)	Sept. 30, 2011	Dec. 31, 2010	Sept. 30, 2011	Dec. 31, 2010	Sept. 30, 2011	Dec. 31, 2010	Sept. 30, 2011	Dec. 31, 2010
Grade:								
Pass	$ 84,194	$ 100,737	$ 90,980	$ 82,017	$ 662,847	$ 626,571	$ 838,021	$ 809,325
Special mention	4,436	10,803	592	381	29,121	27,377	34,149	38,561
Substandard	14,061	15,095	3,687	4,527	57,309	57,752	75,057	77,374
Doubtful	3,749	189	-	-	118	124	3,867	313
Total	$ 106,440	$ 126,824	$ 95,259	$ 86,925	$ 749,395	$ 711,824	$ 951,094	$ 925,573

Commercial Business Loans
Credit Risk Profile by Creditworthiness Category

	Asset based lending		Other		Total commercial business loans	
(In thousands)	Sept. 30, 2011	Dec. 31, 2010	Sept. 30, 2011	Dec. 31, 2010	Sept. 30, 2011	Dec. 31, 2010
Grade:						
Pass	$ 149,580	$ 98,239	$ 168,925	$ 180,321	$ 318,505	$ 278,560
Special mention	-	-	4,343	1,281	4,343	1,281
Substandard	1,482	-	6,543	6,164	8,025	6,164
Doubtful	-	-	388	82	388	82
Total	$ 151,062	$ 98,239	$ 180,199	$ 187,848	$ 331,261	$ 286,087

Consumer Loans
Credit Risk Profile Based on Payment Activity

	Home equity		Other		Total consumer loans	
(In thousands)	Sept. 30, 2011	Dec. 31, 2010	Sept. 30, 2011	Dec. 31, 2010	Sept. 30, 2011	Dec. 31, 2010
Performing	$ 225,758	$ 225,749	$ 30,562	$ 59,034	$ 256,320	$ 284,783
Nonperforming	1,695	709	70	37	1,765	746
Total	$ 227,453	$ 226,458	$ 30,632	$ 59,071	$ 258,085	$ 285,529

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Acquired Loans

Residential Mortgages
Credit Risk Profile by Internally Assigned Grade

	1-4 family		Construction		Total residential mortgages	
(In thousands)	Sept. 30, 2011	Dec. 31, 2010	Sept. 30, 2011	Dec. 31, 2010	Sept. 30, 2011	Dec. 31, 2010
Grade:						
Pass	$ 353,910	$ -	$ 6,261	$ -	$ 360,171	$ -
Special mention	-	-	389	-	389	-
Substandard	607	-	799	-	1,406	-
Total	$ 354,517	$ -	$ 7,449	$ -	$ 361,966	$ -

Commercial Mortgages
Credit Risk Profile by Creditworthiness Category

	Construction		Single and multi-family		Real estate		Total commercial mortgages	
(In thousands)	Sept. 30, 2011	Dec. 31, 2010	Sept. 30, 2011	Dec. 31, 2010	Sept. 30, 2011	Dec. 31, 2010	Sept. 30, 2011	Dec. 31, 2010
Grade:								
Pass	$ 3,625	$ -	$ 15,737	$ -	$ 163,612	$ -	$ 182,974	$ -
Special mention	2,911	-	792	-	8,266	-	11,969	-
Substandard	879	-	869	-	10,355	-	12,103	-
Total	$ 7,415	$ -	$ 17,398	$ -	$ 182,233	$ -	$ 207,046	$ -

Commercial Business Loans
Credit Risk Profile by Creditworthiness Category

	Asset based lending		Other		Total commercial business loans	
(In thousands)	Sept. 30, 2011	Dec. 31, 2010	Sept. 30, 2011	Dec. 31, 2010	Sept. 30, 2011	Dec. 31, 2010
Grade:						
Pass	$ 3,009	$ -	$ 39,896	$ -	$ 42,905	$ -
Special mention	-	-	4,214	-	4,214	-
Substandard	-	-	3,779	-	3,779	-
Total	$ 3,009	$ -	$ 47,889	$ -	$ 50,898	$ -

Consumer Loans
Credit Risk Profile Based on Payment Activity

	Home equity		Other		Total consumer loans	
(In thousands)	Sept. 30, 2011	Dec. 31, 2010	Sept. 30, 2011	Dec. 31, 2010	Sept. 30, 2011	Dec. 31, 2010
Performing	$ 75,100	$ -	$ 35,644	$ -	$ 110,744	$ -
Nonperforming	-	-	69	-	69	-
Total	$ 75,100	$ -	$ 35,713	$ -	$ 110,813	$ -

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

The following table includes the recorded investment and number of modifications for modified loans. The Company reports the recorded investment in the loans prior to a modification and also the recorded investment in the loans after the loans were restructured.

	Modifications by Class As of September 30, 2011		
	Number of Modifications	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings			
Commercial - Other	1	$ 726	$ 177

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As of September 30, 2011, there were no loans that were restructured within the last 12 months that have subsequently defaulted.

8. DEPOSITS

A summary of time deposits is as follows:

(In thousands)	September 30, 2011	December 31, 2010
Time less than $100,000	$ 489,389	$ 368,770
Time $100,000 or more	497,590	372,354
Total time deposits	$ 986,979	$ 741,124

9. STOCKHOLDERS' EQUITY

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

	September 30, 2011	December 31, 2010	FDIC Minimum to be Well Capitalized
Total capital to risk weighted assets	10.6 %	10.6 %	10.0 %
Tier 1 capital to risk weighted assets	9.6	9.3	6.0
Tier 1 capital to average assets	8.3	8.0	5.0

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

10. EARNINGS PER SHARE

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

(In thousands, except per share data)	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Net income	$4,392	$3,454	$9,104	$10,228
Less: Cumulative preferred stock dividends and accretion	-	-	-	-
Less: Deemed dividend resulting from preferred stock repayment	-	-	-	-
Net income available to common stockholders	$4,392	$3,454	$9,104	$10,228
Average number of common shares outstanding	20,201	14,037	17,034	14,020
Less: average number of unvested stock award shares	(192)	(172)	(171)	(168)
Average number of basic shares outstanding	20,009	13,865	16,863	13,852
Plus: average number of dilutive unvested stock award shares	90	22	49	20
Plus: average number of dilutive stock options	6	6	3	11
Average number of diluted shares outstanding	20,105	13,893	16,915	13,883
Basic and diluted earnings per share:				
Continuing operations	$0.22	$0.25	$0.54	$0.74
Discontinued operations	$-	$-	$-	$-

For the quarter ended September 30, 2011, 102 thousand shares of restricted stock and 170 thousand options were anti-dilutive and therefore excluded from the earnings per share calculations. For the quarter ended September 30, 2010, 145 thousand shares of restricted stock and 117 thousand options were anti-dilutive and therefore excluded from the earnings per share calculations.

11. STOCK-BASED COMPENSATION PLANS

A combined summary of activity in the Company's stock award and stock option plans for the nine months ended September 30, 2011 is presented in the following table:

(Shares in thousands)	Non-vested Stock Awards Outstanding: Number of Shares	Non-vested Stock Awards Outstanding: Weighted-Average Grant Date Fair Value	Stock Options Outstanding: Number of Shares	Stock Options Outstanding: Weighted-Average Exercise Price
Balance as of December 31, 2010	171	$18.42	152	$24.41
Granted	124	21.91	-	-
Acquired	-	-	195	23.19
Stock options exercised	-	-	(13)	16.75
Stock awards vested	(66)	19.62	-	-
Forfeited	(23)	19.55	-	-
Expired	-	-	(36)	19.80

Balance as of September 30, 2011	206	$ 20.02	298	$ 24.48

During the nine months ended September 30, 2011 and 2010, proceeds from stock option exercises totaled $624 thousand and $403 thousand, respectively. During the nine months ended September 30, 2011, there were 66 thousand shares issued in connection with vested stock awards. During the nine months ended September 30, 2010, there were 49 thousand shares issued in connection with vested stock awards. All of these shares were issued from available treasury stock. Stock-based compensation expense totaled $1.1 million and $1.2 million during the nine months ended September 30, 2011 and 2010, respectively. Stock-based compensation expense is recognized ratably over the requisite service period for all awards.

12. OPERATING SEGMENTS

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

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

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

(In thousands)	Banking	Insurance	Parent	Eliminations	Total Consolidated
Three months ended September 30, 2011					
Net interest income (expense)	$31,253	$-	$(215)	$ -	$ 31,038
Provision for loan losses	2,200	-	-	-	2,200
Non-interest income	8,248	2,426	3,570	(3,570)	10,674
Non-interest expense	34,163	2,148	(1,602)	1	34,710
Income before income taxes	3,138	278	4,957	(3,571)	4,802
Income tax expense (benefit)	(272)	114	569	(1)	410
Net income	$3,410	$164	$4,388	$ (3,570)	$ 4,392
Average assets (in millions)	$3,827	$30	$479	$ (475)	$ 3,861
Three months ended September 30, 2010					
Net interest income (expense)	$19,897	$-	$(213)	-	$ 19,684
Provision for loan losses	2,000	-	-	-	2,000
Non-interest income	4,232	2,331	3,678	(3,678)	6,563
Non-interest expense	17,558	2,323	212	1	20,094
Income before income taxes	4,571	8	3,253	(3,679)	4,153
Income tax expense (benefit)	866	5	(172)	-	699
Net income	$3,705	$3	$3,425	$ (3,679)	$ 3,454
Average assets (in millions)	$2,724	$33	$360	$ (349)	$ 2,768
Nine months ended September 30, 2011					
Net interest income (expense)	$76,017	$-	$(631)	$ (1)	$ 75,385
Provision for loan losses	5,300	-	-	-	5,300
Non-interest income	18,035	8,938	7,068	(7,068)	26,973
Non-interest expense	76,893	6,598	3,031	-	86,522
Income before income taxes	11,859	2,340	3,406	(7,069)	10,536
Income tax expense (benefit)	1,968	958	(1,494)	-	1,432
Net income	$9,891	$1,382	$4,900	$ (7,069)	$ 9,104
Average assets (in millions)	$3,281	$32	$413	$ (411)	$ 3,315
Nine months ended September 30, 2010					
Net interest income (expense)	$57,495	$-	$(643)	$ -	$ 56,852
Provision for loan losses	6,526	-	-	-	6,526
Non-interest income	13,292	9,028	11,012	(11,012)	22,320
Non-interest expense	52,601	6,933	778	2	60,314
Income before income taxes	11,660	2,095	9,591	(11,014)	12,332
Income tax expense (benefit)	1,822	860	(579)	1	2,104
Net income	$9,838	$1,235	$10,170	$ (11,015)	$ 10,228
Average assets (in millions)	$2,667	$32	$362	$ (350)	$ 2,711

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13. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

As of September 30, 2011, the Company held derivatives with a total notional amount of $624 million. Of this total, interest rate swaps with a combined notional amount of $200 million were designated as cash flow hedges and $333 million have been designated as economic hedges. The remaining $91 million notional amount represents commitments to originate residential mortgage loans for sale and commitments to sell residential mortgage loans, which are also accounted for as derivative financial instruments. At September 30, 2011, no derivatives were designated as hedges of net investments in foreign operations. Additionally, the Company does not use derivatives for trading or speculative purposes.

As part of the Company's risk management strategy, the Company enters into interest rate swap agreements to mitigate the interest rate risk inherent in certain of the Company's assets and liabilities. Interest rate swap agreements involve the risk of dealing with both Bank customers and institutional derivative counterparties and their ability to meet contractual terms. The agreements are entered into with counterparties that meet established credit standards and contain master netting and collateral provisions protecting the at-risk party. The derivatives program is overseen by the Risk Management Committee of the Company's Board of Directors. Based on adherence to the Company's credit standards and the presence of the netting and collateral provisions, the Company believes that the credit risk inherent in these contracts was not significant at September 30, 2011.

The Company pledged collateral to derivative counterparties in the form of cash totaling $1.6 million and securities with an amortized cost of $36.4 million and a fair value of $37.6 million as of September 30, 2011. The Company does not typically require its Commercial customers to post cash or securities collateral on its program of back-to-back economic hedges, however certain language is written into the ISDA and loan documents where, in default situations, the Bank is allowed to access collateral supporting the loan relationship to recover any losses suffered on the derivate asset or liability. The Company may need to post additional collateral in the future in proportion to potential increases in unrealized loss positions.

Information about interest rate swap agreements and non-hedging derivative assets and liabilities at September 30, 2011, follows:

	Notional Amount (In thousands)	Weighted Average Maturity (In years)	Weighted Average Rate Received	Weighted Average Rate Paid	Estimated Fair Value Asset (Liability) (In thousands)
Cash flow hedges:					
Interest rate swaps on FHLBB borrowings	$ 105,000	1.9	0.29 %	4.00 %	$ (7,081)
Forward-starting interest rate swaps on FHLBB borrowings	80,000	3.8	-	2.56	(1,805)
Interest rate swaps on junior subordinated debentures	15,000	2.6	2.15	5.54	(1,204)
Total cash flow hedges	200,000				(10,090)
Economic hedges:					
Interest rate swap on industrial revenue bond	14,214	18.2	0.59	5.09	(3,473)
Interest rate swaps on loans with commercial loan customers	159,444	5.9	2.67	5.58	(14,447)
Reverse interest rate swaps on loans with commercial loan customers	159,444	5.9	5.58	2.67	14,015

Total economic hedges		333,102			(3,905	)
Non-hedging derivatives:						
Commitments to originate residential mortgage loans to be sold		45,358	0.2		(182	)
Commitments to sell residential mortgage loans		45,358	0.2		182	
Total non-hedging derivatives		90,716			-	
Total	$	623,818		$	(13,995	)

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

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

Cash flow hedges

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

The Company has entered into several interest rate swaps with an aggregate notional amount of $105 million to convert the LIBOR based floating interest rates on a $105 million portfolio of FHLBB advances to fixed rates, with the objective of fixing the Company’s monthly interest expense on these borrowings. In the third quarter of 2010, the Company terminated $40 million notional amount of interest rate swaps that were used to convert floating based

FHLBB advances to a fixed rate. The Company has retained the floating rate advances and fully anticipates holding these advances until maturity. Net gains and losses for terminated cash flow hedges remain in accumulated other comprehensive income and are amortized into earnings in the same period or periods during which the originally hedged forecasted transaction affects earnings. Management's decision to terminate the swaps was based on its assessment that these hedges were no longer needed to execute management's balance sheet management strategy.

The Company has also entered into eight forward-starting interest rate swaps each with a notional value of $80 million, including $40 million of swaps which were entered into in the third quarter of 2011 nd which have durations exceeding one year. These swaps become effective in sets of two at a time with the first set becoming effective in April 2012, the second in June 2012, the third in January 2013 and the final set becoming effective in April 2013. Four of these swaps have a one year duration while two have a four year duration and the remaining two swaps have a five year duration. This hedge strategy converts the LIBOR based rate of interest on certain FHLB advances to fixed interest rates, thereby protecting the Company from floating interest rate variability.

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

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

(In thousands)	Three Months Ended September 30,	Nine Months Ended September 30,