BERKSHIRE HILLS BANCORP INC
Form 10-Q
August 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: June 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 21,128,868 shares of common stock, par value $0.01 per share, outstanding as of August 2, 2011.

BERKSHIRE HILLS BANCORP, INC.
FORM 10-Q

INDEX

PART I

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

BERKSHIRE HILLS BANCORP, INC.
CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)	June 30, 2011	December 31, 2010
Assets		
Cash and due from banks	$30,912	$ 24,643
Short-term investments	11,005	19,497
Total cash and cash equivalents	41,917	44,140
Trading security	16,025	16,155
Securities available for sale, at fair value	306,073	310,242
Securities held to maturity (fair values of $56,414 and $57,594)	55,061	56,436
Federal Home Loan Bank stock and other restricted securities	23,120	23,120
Total securities	400,279	405,953
Loans held for sale	-	1,043
Residential mortgages	808,225	644,973
Commercial mortgages	988,342	925,573
Commercial business loans	345,364	286,087
Consumer loans	309,758	285,529
Total loans	2,451,689	2,142,162
Less: Allowance for loan losses	(31,919)	(31,898)
Net loans	2,419,770	2,110,264
Premises and equipment, net	44,026	38,546
Other real estate owned	1,700	3,386
Goodwill	178,068	161,725
Other intangible assets	14,523	11,354
Cash surrender value of bank-owned life insurance policies	56,865	46,085
Other assets	68,406	58,907
Total assets	$3,225,554	$ 2,881,403
Liabilities		
Demand deposits	$351,249	$ 297,502
NOW deposits	216,256	212,143
Money market deposits	792,160	716,078
Savings deposits	315,161	237,594
Time deposits	810,989	741,124
Total deposits	2,485,815	2,204,441
Short-term debt	7,770	47,030
Long-term Federal Home Loan Bank advances	237,429	197,807
Junior subordinated debentures	15,464	15,464
Total borrowings	260,663	260,301

Other liabilities	34,106	28,014
Total liabilities	2,780,584	2,492,756
Stockholders’ equity		
Common stock ($.01 par value; 26,000,000 shares authorized; 18,509,376 shares issued and 16,721,075 shares outstanding in 2011; 15,848,825 shares issued and 13,916,094 shares outstanding in 2010)	185	158
Additional paid-in capital	392,864	337,537
Unearned compensation	(2,145)	(1,776)
Retained earnings	103,642	103,972
Accumulated other comprehensive loss	(4,694)	(6,410)
Treasury stock, at cost (1,788,301 shares in 2011 and 1,772,677 shares in 2010)	(44,882)	(44,834)
Total stockholders' equity	444,970	388,647
Total liabilities and stockholders' equity	$3,225,554	$ 2,881,403

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

BERKSHIRE HILLS BANCORP, INC.
CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands, except per share data)	2011	2010	2011	2010
Interest and dividend income				
Loans	$28,607	$24,490	$53,213	$48,437
Securities and other	3,446	3,473	6,753	7,008
Total interest and dividend income	32,053	27,963	59,966	55,445
Interest expense				
Deposits	5,768	6,787	11,483	13,683
Borrowings and junior subordinated debentures	2,084	2,305	4,136	4,594
Total interest expense	7,852	9,092	15,619	18,277
Net interest income	24,201	18,871	44,347	37,168
Non-interest income				
Loan related fees	780	756	1,371	1,712
Deposit related fees	3,366	2,819	5,907	5,279
Insurance commissions and fees	2,782	3,197	6,512	6,670
Wealth management fees	1,389	1,140	2,581	2,316
Total fee income	8,317	7,912	16,371	15,977
Gain on sale of securities, net	6	-	6	-
Non-recurring gain	124	-	124	-
Other	(277)	(301)	(197)	(220)
Total non-interest income	8,170	7,611	16,304	15,757
Total net revenue	32,371	26,482	60,651	52,925
Provision for loan losses	1,500	2,200	3,100	4,526
Non-interest expense				
Compensation and benefits	12,027	10,960	23,178	21,957
Occupancy and equipment	3,546	2,963	6,981	5,998
Technology and communications	1,531	1,373	2,997	2,756
Marketing and professional services	1,557	1,116	2,770	2,413
Supplies, postage and delivery	507	542	961	1,115
FDIC premiums and assessments	741	874	1,768	1,647
Other real estate owned	700	-	1,309	27
Amortization of intangible assets	935	768	1,651	1,536
Merger related expenses	5,451	-	7,159	21
Other	1,628	1,432	3,038	2,750
Total non-interest expense	28,623	20,028	51,812	40,220
Income before income taxes	2,248	4,254	5,739	8,179
Income tax expense	371	816	1,027	1,375
Net income	$1,877	$3,438	$4,712	$6,804
Basic earnings per share	$0.11	$0.25	$0.31	$0.49
Diluted earnings per share	$0.11	$0.25	$0.31	$0.49
Weighted average shares outstanding:				

Basic	16,580	13,856	15,269	13,845
Diluted	16,601	13,894	15,299	13,875

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	Preferred stock	Additional paid-in capital	Unearned compen-sation	Retained earnings	Accumulated other comp-rehensive income (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	-	-	-	-	-	6,804	-	-	6,804
Other net comprehensive loss	-	-	-	-	-	-	(3,011)	-	(3,011)
Total comprehensive income									3,794
Cash dividends declared ($0.16 per share)	-	-	-	-	-	(4,492)	-	-	(4,492)
Forfeited shares	(10)	-	-	14	190	-	-	(204)	-
Exercise of stock options	13	-	-	-	-	(108)	-	318	210
Restricted stock grants	130	-	-	(1,149)	(2,166)	-	-	3,315	-
Stock-based compensation	-	-	-	3	781	-	-	-	784
Other, net	(12)	-	-	-	-	16	-	(205)	(189)
Balance at June 30, 2010	14,037	158	-	337,690	2,513	101,818	(5,979)	(46,213)	385,252
Balance at December 31, 2010	14,076	158	-	337,537	(1,776)	103,972	(6,410)	(44,834)	388,647
Comprehensive income:									
Net income	-	-	-	-	-	4,712	-	-	4,712
Other net comprehensive income	-	-	-	-	-	-	1,716	-	1,716
Total comprehensive income									6,428

Acquisition of Rome Bancorp, Inc.	2,661	27	-	55,463	-	-	-	-	55,490
Rome ESOP loan repayment	(44)	-	-	-	-	-	-	(943)	(943)
Cash dividends declared ($0.16 per share)	-	-	-	-	-	(4,930)	-	-	(4,930)
Forfeited shares	(21)	-	-	33	426	-	-	(459)	-
Exercise of stock options	13	-	-	-	-	(112)	-	326	214
Restricted stock grants	59	-	-	(242)	(1,261)	-	-	1,503	-
Stock-based compensation	-	-	-	2	471	-	-	-	473
Net tax expense related to stock-based compensation	-	-	-	66	-	-	-	-	66
Other, net	(23)	-	-	-	-	-	-	(475)	(475)
Balance at June 30, 2011	16,721	$ 185	$ -	$ 392,859	$ (2,140)	$ 103,642	$ (4,694)	$ (44,882)	$ 444,970

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

BERKSHIRE HILLS BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	Six Months Ended June 30, 2011	2010
Cash flows from operating activities:		
Net income	$ 4,712	$ 6,804
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	3,100	4,526
Net amortization of securities	595	1,347
Change in unamortized net loan costs and premiums	475	388
Premises and equipment depreciation and amortization expense	2,159	1,848
Write down of other real estate owned	1,200	-
Stock-based compensation amortization expense	473	784
Amortization of intangible assets	1,651	1,536
Income from cash surrender value of bank-owned life insurance policies	(872)	(583)
Gain on sale of securities	(253)	-
Loss on sale of real estate	104	-
Net decrease in loans held for sale	1,043	990
Net change in other	2,324	3,371
Net cash provided by operating activities	16,711	21,011
Cash flows from investing activities:		
Trading account security:		
Proceeds from maturities, calls and prepayments	130	218
Securities available for sale:		
Sales	3,525	3,159
Proceeds from maturities, calls and prepayments	70,196	49,947
Purchases	(68,360)	(24,756)
Securities held to maturity:		
Proceeds from maturities, calls and prepayments	6,058	11,897
Purchases	(4,683)	(12,894)
Loan originations, net	(55,391)	(66,479)
Proceeds from sale of other real estate	382	-
Proceeds from sale of Federal Home Loan Bank stock	3,571	-
Acquisition of Rome Bancorp, Inc., net of cash paid	10,849	-
Additions to life insurance	-	2,217
Purchases of premises and equipment	(2,907)	(2,420)
Net cash used by investing activities	(36,630)	(39,111)
Cash flows from financing activities:		
Net increase in deposits	51,984	53,409
Proceeds from Federal Home Loan Bank advances and other borrowings	105,480	116,380
Repayments of Federal Home Loan Bank advances and other borrowings	(135,118)	(137,767)
Net proceeds from reissuance of treasury stock	214	210
Excess tax benefit from stock based payment arrangements	66	-
Common stock cash dividends paid	(4,930)	(4,492)
Net cash provided by financing activities	17,696	27,740

Net change in cash and cash equivalents	(2,223)	9,640
Cash and cash equivalents at beginning of period	44,140	32,608
Cash and cash equivalents at end of period	$ 41,917	$ 42,248
Supplemental cash flow information:		
Interest paid on deposits	11,536	13,708
Interest paid on borrowed funds	4,045	4,616
Income taxes paid, net	55	(619)
Transfers into other real estate owned	-	1,000
Acquisition of non-cash assets and liabilities:		
Assets acquired	322,305	-
Liabilities assumed	(259,524)	-
Rome stock owned by the Company	668	-
Other non-cash changes:		
Other net comprehensive loss	1,716	-

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

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 six months ended June 30, 2011 are not necessarily indicative of the results which may be expected for the year. 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; 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.

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 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.

Earnings Per Share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands, except per share data)	2011	2010	2011	2010
Net income	$1,877	$3,438	$4,712	$6,804
Average number of shares outstanding	16,730	14,033	15,425	14,012
Less: average number of unvested stock award shares	(150)	(177)	(156)	(167)
Average number of basic shares outstanding	16,580	13,856	15,269	13,845
Plus: average number of dilutive unvested stock award shares	21	25	(126)	17
Plus: average number of dilutive stock options	-	13	156	13
Average number of diluted shares outstanding	16,601	13,894	15,299	13,875
Basic earnings per share	$0.11	$0.25	$0.31	$0.49
Diluted earnings per share	$0.11	$0.25	$0.31	$0.49

For the quarter ended June 30, 2011, 129 thousand shares of restricted stock and 127 thousand options were anti-dilutive and therefore excluded from the earnings per share calculations. For the quarter ended June 30, 2010, 158 thousand shares of restricted stock and 257 thousand options were anti-dilutive and therefore excluded from the earnings per share calculations.

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 6.

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 could result in additional loans being classified as troubled debt restructurings and will require additional loan disclosures which the Company is in the process of assessing.

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 addition 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 were 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 six-month periods ended June 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 June 30, 2010		For the Six Months Ended June 30, 2010	
(in thousands, except per share data)	As Reported	As Revised	As Reported	As Revised
Consolidated statement of operations information:				
Non-interest income	$ 7,963	$ 7,611	$ 16,461	$ 15,757
Income tax expense	1,198	816	2,139	1,375
Net income	3,408	3,438	6,744	6,804
Basic earnings per share	0.25	0.25	0.49	0.49
Diluted earnings per share	0.25	0.25	0.49	0.49
Consolidated balance sheet information:				
Other assets	68,484	69,111	68,484	69,111
Retained earnings	101,193	101,820	101,193	101,820

	For the Quarter Ended September 30, 2010		For the Quarter Ended December 31, 2010		For the Year Ended December 31, 2010		For the Quarter Ende March 31, 2011	
(in thousands, except per share data)	As Reported	As Revised	As Reported	As Revised	As Reported	As Revised	As Reported	As Revis
Consolidated statement of operations information:								
Non-interest income	$6,915	$6,563	$7,783	$7,431	$31,159	$29,751	$8,502	$8,134
Income tax expense	1,081	699	893	511	4,113	2,585	1,061	656
Net income	3,424	3,454	3,570	3,600	13,378	13,858	2,798	2,835
Basic earnings per share	0.25	0.25	0.26	0.26	0.99	1.00	0.20	0.20

Diluted earnings per share	0.25	0.25	0.26	0.26	0.99	1.00	0.20	0.20
Consolidated balance sheet information:								
Other assets	68,408	69,065	58,220	58,907	58,220	58,907	59,122	59,846
Retained earnings	102,270	102,927	103,285	103,972	103,285	103,972	103,720	104,444

3. ACQUISITION

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 Hills 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 Rome common shares and exchanged its stock in a ratio of 0.5658 shares of the Company's common stock for each share of the remaining 70% outstanding Rome shares. 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 Hills 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 Hills recorded a $123 thousand gain on these shares which was recorded in non-interest income on the date of acquisition. Berkshire Hills 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

Goodwill

The fair values for most 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. To estimate the fair value of problem loans, 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 we 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 aquired 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.

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. Certificates of deposit were valued by comparing the contractual cost of the portfolio to an identical portfolio bearing current market rates. The projected cash was calculated by discounting their contractual cash flows at a market rate for a certificate of deposit with a corresponding maturity.

The fair value of borrowings assumed was equal to carrying value, since these were overnight borrowings at the time of the merger.

Rome had no insurance related operations, so no goodwill was recognized in connection with the insurance segment of Berkshire Hills.

Financial Information

The following table presents selected pro forma financial information reflecting the Rome acquisition assuming it was completed as of the beginning of the respective periods. 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 the Rome acquisition 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 Hills' actual weighted-average shares outstanding for the periods presented, plus the incremental shares issued, assuming the Rome acquisition occurred at the beginning of the periods presented. The pro forma information is based on the actual financial statements of Berkshire Hills and Rome for the periods shown. This pro forma information gives effect to 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 Hills 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 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 since the acquisition date included in the consolidated income statement due to the integration of Rome operations with those of the Company subsequent to its acquisition. Pro forma net income for the first six months of 2010 is adjusted by non-recurring items consisting of a $465 thousand credit representing the reversal of the Rome loan loss provision and a $5.498 million charge representing merger related expenses recorded by Berkshire in 2010 and 2011.

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

	Pro Forma Six months ended June 30, 2011	2010
Net interest income	$47,560	$44,158
Non-interest income	17,343	17,520
Net income	2,499	4,576
Pro forma earnings per share:		
Basic	$0.15	$0.28
Diluted	$0.15	$0.28

4. 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 $14.3 million and $14.6 million, and a fair value of $16.0 million and $16.2 million, at June 30, 2011 and December 31, 2010, respectively. As discussed further in Note 11 - Derivative Financial Instruments and Hedging Activities, the Company has entered into a swap contract to swap-out the fixed rate of the security in exchange for a variable rate. The Company does not purchase securities with the intent of selling them in the near term, and there are no other securities in the trading portfolio at June 30, 2011.

5. SECURITIES AVAILABLE FOR SALE AND HELD TO MATURITY

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

(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2011				
Securities available for sale				
Debt securities:				
Municipal bonds and obligations	$73,788	$1,860	$(123)	$75,525
Government guaranteed residential mortgage-backed securities	17,901	363	-	18,264
Government-sponsored residential mortgage-backed securities	164,113	2,905	(116)	166,902
Corporate bonds	4,995	34	(36)	4,993
Trust preferred securities	20,120	460	(2,049)	18,531
Other bonds and obligations	681	2	-	683
Total debt securities	281,598	5,624	(2,324)	284,898
Equity securities:				
Marketable equity securities	18,612	2,826	(263)	21,175
Total securities available for sale	300,210	8,450	(2,587)	306,073
Securities held to maturity				
Municipal bonds and obligations	6,069	-	-	6,069
Government-sponsored residential mortgage-backed securities	81	4	-	85
Tax advantaged economic development bonds	48,384	1,349	-	49,733
Other bonds and obligations	527	-	-	527
Total securities held to maturity	55,061	1,353	-	56,414
Total	$355,271	$9,803	$(2,587)	$362,487
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 June 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	$310	$311	$2,434	$2,434
Over 1 year to 5 years	2,996	2,959	1,792	1,792
Over 5 years to 10 years	18,167	18,569	31,488	32,216
Over 10 years	78,111	77,893	19,266	19,887
Total bonds and obligations	99,584	99,732	54,980	56,329
Marketable equity securities	18,612	21,175	-	-
Residential mortgage-backed securities	182,014	185,166	81	85
Total	$300,210	$306,073	$55,061	$56,414

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
June 30, 2011						
Securities available for sale						
Debt securities:						
Municipal bonds and obligations	$ 123	$ 7,453	$ -	$ -	$ 123	$ 7,453
Government-sponsored residential mortgage-backed securities	101	26,208	15	11,841	116	38,049
Corporate bonds	-	-	36	2,959	36	2,959
Trust preferred securities	-	-	2,049	3,591	2,049	3,591
Total debt securities	224	33,661	2,100	18,391	2,324	52,052
Marketable equity securities	263	4,236	-	-	263	4,236
Total securities available for sale	$ 487	$ 37,897	$ 2,100	$ 18,391	$ 2,587	$ 56,288
December 31, 2010						
Securities available for sale						
Debt securities:						
Municipal bonds and obligations	$ 335	$ 15,630	$ 59	$ 1,195	$ 394	$ 16,825

Government guaranteed residential mortgage-backed securities		7		5,125		-		-		7		5,125
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

16

Debt Securities

The Company expects to recover its amortized cost basis on all debt securities in its AFS and HTM portfolios. Furthermore, the Company does not intend to sell nor does it anticipate that it will be required to sell any of its securities in an unrealized loss position as of June 30, 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 sales. 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 portfolio were not other-than-temporarily impaired at June 30, 2011:

AFS municipal bonds and obligations

At June 30, 2011, 10 out of a total of 129 securities in the Company's portfolio of AFS municipal bonds and obligations were in unrealized loss positions. Aggregate unrealized losses represented less than 2% of the amortized cost of securities in unrealized loss positions. The securities are all investment grade rated, all insured except for one AAA bond, and all general obligation or water and sewer revenue bonds. The Company continually monitors the municipal bond sector of the market carefully and periodically evaluates the appropriate level of exposure to have to the market. At this time, the Company feels that the bonds in this portfolio carry minimal risk of default and that we are appropriately compensated for that risk. There were no material underlying credit downgrades during 2011. All securities are performing.

AFS residential mortgage-backed securities

At June 30, 2011, 8 out of a total of 105 securities in the Company's portfolio of AFS residential mortgage-backed securities were in unrealized loss positions. Aggregate unrealized losses represented less than 1% of the amortized cost of securities in unrealized loss positions. The Federal National Mortgage Association ("FNMA"), Federal Home Loan Mortgage Corporation ("FHLMC") and Government National Mortgage Association ("GNMA") guarantees the contractual cash flows of the Company's AFS residential mortgage-backed securities. The securities are investment grade rated and there were no material underlying credit downgrades during 2011. All securities are performing.

AFS corporate bonds

At June 30, 2011, 1 of 2 securities in the Company's portfolio of AFS corporate bonds was in an unrealized loss position. The aggregate unrealized loss represents less than 2% of the amortized cost. The security is investment grade rated, and there were no material underlying credit downgrades during 2011. The security is performing.

AFS trust preferred securities

At June 30, 2011, 3 of 6 securities in the Company's portfolio of AFS trust preferred securities were in unrealized loss positions. Aggregate unrealized losses represented 36% of the amortized cost of securities in unrealized loss positions. The Company's evaluation of the present value of expected cash flows on these securities supports its conclusions about the recoverability of the securities' amortized cost basis. Except for the security discussed below, the aggregate unrealized loss on the other securities in unrealized loss positions represented 4% of their amortized cost. All securities are performing.

At June 30, 2011, $1.9 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 $0.7 million, for potential other-than-temporary impairment ("OTTI") at June 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 $27 million in excess subordination above current defaults and deferrals.

AFS other bonds and obligations

At June 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 amortized cost 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 performing.

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 to various other factors, including the length of time and the extent to which the fair value has been less than cost and the financial condition and near term prospects of the issuer. Any OTTI is recognized immediately through earnings.

At June 30, 2011, 3 of the 18 securities in the Company's portfolio of marketable equity securities were in an unrealized loss position. The unrealized loss represented 6% of the cost of the securities in an unrealized loss position. 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 June 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.

6. LOANS

Loans consist of the following:

(In thousands)	June 30, 2011	December 31, 2010
Residential mortgages		
1-4 family	$ 782,644	$ 619,969
Construction	25,581	25,004
Total residential mortgages	808,225	644,973
Commercial mortgages:		
Construction	110,057	126,824
Single and multifamily	90,992	86,925
Commercial real estate	787,293	711,824
Total commercial mortgages	988,342	925,573
Commercial business loans		
Asset based lending	133,520	98,239
Other commercial business loans	211,844	187,848
Total commercial business loans	345,364	286,087
Total commercial loans	1,333,706	1,211,660
Consumer loans:		
Home equity	246,859	226,458

Other		62,899		59,071
Total consumer loans		309,758		285,529
Total loans	$	2,451,689	$	2,142,162

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

(In thousands)	June 30, 2011
Outstanding principal balance	$ 249,003
Carrying amount	245,040

The following table presents changes in the accretable discount on loans acquired in the Rome acquisition for the three months ended June 30, 2011:

(In thousands)	
Balance at March 31, 2011	$234
Rome Accretion	(50)
Balance at June 30, 2011	$184

The following is a summary of past due loans at June 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
June 30, 2011							
Residential mortgages:							
1-4 family	$ 1,048	$ 435	$ 3,804	$ 5,287	$ 642,793	$ 648,080	$ 1,125
Construction	1,838	-	235	2,073	23,061	25,134	103
Total	2,886	435	4,039	7,360	665,854	673,214	1,228
Commercial mortgages:							
Construction	-	-	3,011	3,011	106,880	109,891	-
Single and multi-family	160	-	327	487	88,697	89,184	327
Commercial real estate	4,514	1,209	4,213	9,936	735,345	745,281	-
Total	4,674	1,209	7,551	13,434	930,922	944,356	327
Commercial business loans:							
Asset based lending	-	-	-	-	133,520	133,520	-
Other commercial business loans	642	9	1,407	2,058	181,851	183,909	2
Total	642	9	1,407	2,058	315,371	317,429	2
Consumer loans:							
Home equity	266	50	788	1,104	225,669	226,773	-
Other	355	129	115	599	44,278	44,877	41
Total	621	179	903	1,703	269,947	271,650	41
Total	$ 8,823	$ 1,832	$ 13,900	$ 24,555	$ 2,182,094	$ 2,206,649	$ 1,598

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
June 30, 2011							
Residential mortgages:							
1-4 family	$ 213	$ 608	$ 627	$ 1,448	$ 133,116	$ 134,564	$ 627
Construction	-	-	-	-	447	447	-
Total	213	608	627	1,448	133,563	135,011	627
Commercial mortgages:							
Construction	-	-	-	-	166	166	-
Single and multi-family	-	-	-	-	1,808	1,808	-
Commercial real estate	165	192	2,904	3,261	38,751	42,012	528

Total	165	192	2,904	3,261	40,725	43,986	528
Commercial business loans - other	107	54	487	648	27,287	27,935	128
Consumer loans:							
Home equity	-	-	-	-	20,086	20,086	-
Other	120	87	11	218	17,804	18,022	11
Total	120	87	11	218	37,890	38,108	11
Total	$ 605	$ 941	$ 4,029	$ 5,575	$ 239,465	$ 245,040	$ 1,294

20

(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 six months ended June 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	501	1,569	681	570	-	3,321
Recoveries on charged-off loans	151	9	23	59	-	242
Provision for loan losses	(32)	4,749	(837)	252	(1,032)	3,100
Balance at June 30, 2011	2,695	22,650	4,543	1,840	191	31,919
Ending balance: individually evaluated for impairment	15	522	490	15	-	1,042
Ending balance: collectively evaluated for impairment	$ 2,680	$ 22,128	$ 4,053	$ 1,825	$ 191	$ 30,877

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		-		-		-		-		-		-
Balance at June 30, 2011		-		-		-		-		-		-
Ending balance: individually evaluated for impairment		-		-		-		-		-		-
Ending balance: collectively evaluated for impairment	$	-	$	-	$	-	$	-	$	-	$	-

(In thousands)	Total
Balance at December 31, 2009	$31,816
Charged-off loans	(6,348)
Recoveries on charged-off loans	1,854
Net loans charged-off	(4,494)
Provision for loan losses	4,526
Balance at June 30, 2010	$31,848

21

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

	At June 30, 2011			Six Months Ended June 30, 2011	
(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	$1,623	$ 1,623	$ -	$ 930	$ 11
Residential mortgages - construction	50	50	-	53	-
Commercial-construction	-	-	-	157	-
Commercial mortgages - single and multifamily	-	-	-	107	-
Commercial mortgages - real estate	8,588	8,588	-	7,994	84
Commercial business loans	-	-	-	46	-
Consumer-home equity	198	198	-	361	2
With an allowance recorded:					
Residential mortgages - 1-4 family	$173	$ 188	$ 15	$ 633	$ 3
Residential mortgages - construction	-	-	-	32	-
Commercial business loans	157	647	490	357	1
Commercial-construction	2,821	3,011	190	2,335	-
Commercial mortgages - single and multifamily	-	-	-	548	3
Commercial mortgages - real estate	736	1,068	332	2,484	8
Consumer-home equity	165	180	15	30	-
Total					
Residential mortgages	$1,846	$ 1,861	$ 15	$ 1,648	$ 14
Commercial mortgages	12,145	12,667	522	13,625	95
Commercial business loans	157	647	490	403	1
Consumer loans	363	378	15	391	2
Total impaired loans	$14,511	$ 15,553	$ 1,042	$ 16,067	$ 112

There were no acquired loans considered impaired at June 30, 2011.

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

	At December 31, 2010		
(In thousands)	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 June 30, 2011 and December 31, 2010:

(In thousands)	June 30, 2011			December 31, 2010
	Historical loans	Acquired loans	Total	
Residential mortgages:				
1-4 family	$2,679	$ -	$2,679	$ 1,936
Construction	132	-	132	237
Total	2,811	-	2,811	2,173
Commercial mortgages:				
Construction	3,011	-	3,011	1,962
Single and multi-family	-	2,376	2,376	1,426
Other	4,213	-	4,213	6,100
Total	7,224	2,376	9,600	9,488
Commercial business loans - other	1,405	359	1,764	1,305
Consumer loans:				
Home equity	788	-	788	709
Other	74	-	74	37
Total	862	-	862	746
Total non-accrual loans	$12,302	$ 2,735	$15,037	$ 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:

1Substantially 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 June 30, 2011 and December 31, 2010:

Historical Loans

Residential Mortgages
Credit Risk Profile by Internally Assigned Grade

(In thousands)	1-4 family June 30, 2011	1-4 family Dec. 31, 2010	Construction June 30, 2011	Construction Dec. 31, 2010	Total residential mortgages June 30, 2011	Total residential mortgages Dec. 31, 2010
Grade:						
Pass	$ 643,842	$ 616,435	$ 24,900	$ 24,663	$ 668,742	$ 641,098
Special mention	435	1,598	-	104	435	1,702
Substandard	3,803	1,936	234	237	4,037	2,173
Total	$ 648,080	$ 619,969	$ 25,134	$ 25,004	$ 673,214	$ 644,973

Commercial Mortgages
Credit Risk Profile by Creditworthiness Category

(In thousands)	Construction June 30, 2011	Construction Dec. 31, 2010	Single and multi-family June 30, 2011	Single and multi-family Dec. 31, 2010	Real estate June 30, 2011	Real estate Dec. 31, 2010	Total commercial mortgages June 30, 2011	Total commercial mortgages Dec. 31, 2010
Grade:								
Pass	$80,183	$ 100,737	$86,511	$ 82,017	$649,179	$ 626,571	$815,873	$ 809,325
Special mention	9,360	10,803	171	381	27,269	27,377	36,800	38,561
Substandard	20,348	15,095	2,502	4,527	68,709	57,752	91,559	77,374
Doubtful	-	189	-	-	124	124	124	313
Loss	-	-	-	-	-	-	-	-
Total	$109,891	$ 126,824	$89,184	$ 86,925	$745,281	$ 711,824	$944,356	$ 925,573

Commercial Business Loans
Credit Risk Profile by Creditworthiness Category

(In thousands)	Asset based lending June 30, 2011	Asset based lending Dec. 31, 2010	Other June 30, 2011	Other Dec. 31, 2010	Total commercial business loans June 30, 2011	Total commercial business loans Dec. 31, 2010
Grade:						
Pass	$ 133,520	$ 98,239	$ 174,422	$ 180,321	$ 307,942	$ 278,560
Special mention	-	-	1,895	1,281	1,895	1,281
Substandard	-	-	7,495	6,164	7,495	6,164
Doubtful	-	-	97	82	97	82
Loss	-	-	-	-	-	-
Total	$ 133,520	$ 98,239	$ 183,909	$ 187,848	$ 317,429	$ 286,087

Consumer Loans

Credit Risk Profile Based on Payment Activity

	Home equity		Other		Total consumer loans	
(In thousands)	June 30, 2011	Dec. 31, 2010	June 30, 2011	Dec. 31, 2010	June 30, 2011	Dec. 31, 2010
Performing	$ 225,985	$ 225,749	$ 44,803	$ 59,034	$ 270,788	$ 284,783
Nonperforming	788	709	74	37	862	746
Total	$ 226,773	$ 226,458	$ 44,877	$ 59,071	$ 271,650	$ 285,529

Acquired Loans

Residential Mortgages
Credit Risk Profile by Internally Assigned Grade

(In thousands)	1-4 family June 30, 2011	1-4 family Dec. 31, 2010	Construction June 30, 2011	Construction Dec. 31, 2010	Total residential mortgages June 30, 2011	Total residential mortgages Dec. 31, 2010
Grade:						
Pass	$ 133,329	$ -	$ 447	$ -	$ 133,776	$ -
Special mention	608	-	-	-	608	-
Substandard	627	-	-	-	627	-
Total	$ 134,564	$ -	$ 447	$ -	$ 135,011	$ -

Commercial Mortgages
Credit Risk Profile by Creditworthiness Category

(In thousands)	Construction June 30, 2011	Construction Dec. 31, 2010	Single and multi-family June 30, 2011	Single and multi-family Dec. 31, 2010	Real estate June 30, 2011	Real estate Dec. 31, 2010	Total commercial mortgages June 30, 2011	Total commercial mortgages Dec. 31, 2010
Grade:								
Pass	$166	$ -	$1,805	$ -	$38,606	$ -	$40,577	$ -
Special mention	-	-	-	-	310	-	310	-
Substandard	-	-	3	-	3,096	-	3,099	-
Doubtful	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-
Total	$166	$ -	$1,808	$ -	$42,012	$ -	$43,986	$ -

Commercial Business Loans
Credit Risk Profile by Creditworthiness Category

(In thousands)	Asset based lending June 30, 2011	Asset based lending Dec. 31, 2010	Other June 30, 2011	Other Dec. 31, 2010	Total commercial business loans June 30, 2011	Total commercial business loans Dec. 31, 2010
Grade:						
Pass	$ -	$ -	$ 24,897	$ -	$ 24,897	$ -
Special mention	-	-	882	-	882	-
Substandard	-	-	2,156	-	2,156	-
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total	$ -	$ -	$ 27,935	$ -	$ 27,935	$ -

Consumer Loans
Credit Risk Profile Based on Payment Activity

Home equity	Other	Total consumer loans

(In thousands)	June 30, 2011	Dec. 31, 2010	June 30, 2011	Dec. 31, 2010	June 30, 2011	Dec. 31, 2010
Performing	$ 20,086	$ -	$ 18,022	$ -	$ 38,108	$ -
Nonperforming	-	-	-	-	-	-
Total	$ 20,086	$ -	$ 18,022	$ -	$ 38,108	$ -

7. DEPOSITS

A summary of time deposits is as follows:

(In thousands)	June 30, 2011	December 31, 2010
Time less than $100,000	$ 415,693	$ 368,770
Time $100,000 or more	395,296	372,354
Total time deposits	$ 810,989	$ 741,124

8. STOCKHOLDERS' EQUITY

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

	June 30, 2011	December 31, 2010	FDIC Minimum to be Well Capitalized
Total capital to risk weighted assets	11.3 %	10.6 %	10.0 %
Tier 1 capital to risk weighted assets	10.0	9.3	6.0
Tier 1 capital to average assets	8.4	8.0	5.0

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

9. STOCK-BASED COMPENSATION PLANS

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

	Non-vested Stock Awards Outstanding		Stock Options Outstanding	
(Shares in thousands)	Number of Shares	Weighted-Average Grant Date Fair Value	Number of Shares	Weighted-Average Exercise Price
Balance as of December 31, 2010	171	$18.42	152	$24.41
Granted	59	21.24	-	-
Stock options exercised	-	-	(13)	16.75
Stock awards vested	(61)	19.51	-	-
Expired	-	-	(36)	19.80
Forfeited	(21)	19.61	-	-
Balance as of June 30, 2011	148	$18.94	103	$26.93

During the six months ended June 30, 2011 and 2010, proceeds from stock option exercises totaled $12 thousand and $210 thousand, respectively. During the six months ended June 30, 2011, there were 61 thousand shares issued in connection with vested stock awards. During the six months ended June 30, 2010, there were 43 thousand shares issued in connection with vested stock awards. All of these shares were issued from available treasury stock. Stock-based compensation expense totaled $584 thousand and $784 thousand during the six months ended June 30, 2011 and 2010, respectively. Stock-based compensation expense is recognized ratably over the requisite service period for all awards.

10. 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 June 30, 2011					
Net interest income (expense)	$24,410	$-	$(209)	$ -	$ 24,201
Provision for loan losses	1,500	-	-	-	1,500
Non-interest income	5,389	2,781	(629)	629	8,170
Non-interest expense	23,778	2,194	2,650	1	28,623
Income (loss) before income taxes	4,521	587	(3,488)	628	2,248
Income tax expense (benefit)	1,296	240	(1,165)	-	371
Net income	$3,225	$347	$(2,323)	$ 628	$ 1,877
Average assets (in millions)	$3,167	$34	$405	$ (392)	$ 3,214
Three months ended June 30, 2010					
Net interest income (expense)	$19,088	$-	$(217)	$ -	$ 18,871
Provision for loan losses	2,200	-	-	-	2,200
Non-interest income	4,396	3,213	3,685	(3,683)	7,611
Non-interest expense	17,474	2,303	252	(1)	20,028
Income (loss) before income taxes	3,810	910	3,216	(3,682)	4,254
Income tax expense (benefit)	635	373	(192)	-	816
Net income	$3,175	$537	$3,408	$ (3,682)	$ 3,438
Average assets (in millions)	$2,659	$34	$362	$ (333)	$ 2,720
Six months ended June 30, 2011					
Net interest income (expense)	$44,764	$-	$(416)	$ (1)	$ 44,347
Provision for loan losses	3,100	-	-	-	3,100
Non-interest income	9,792	6,512	3,515	(3,515)	16,304
Non-interest expense	42,731	4,449	4,632	-	51,812
Income (loss) before income taxes	8,725	2,063	(1,533)	(3,516)	5,739
Income tax expense (benefit)	2,246	844	(2,063)	-	1,027
Net income	$6,479	$1,219	$530	$ (3,516)	$ 4,712
Average assets (in millions)	$3,005	$33	$380	$ (372)	$ 3,046
Six months ended June 30, 2010					
Net interest income (expense)	$37,598	$-	$(430)	$ -	$ 37,168
Provision for loan losses	4,526	-	-	-	4,526
Non-interest income	9,057	6,698	7,334	(7,332)	15,757
Non-interest expense	35,044	4,612	566	(2)	40,220
Income (loss) before income taxes	7,085	2,086	6,338	(7,330)	8,179

Income tax expense (benefit)	926	856	(407)	-	1,375
Net income	$6,159	$1,230	$6,745	$ (7,330)	$ 6,804
Average assets (in millions)	$2,676	$31	$392	$ (400)	$ 2,699

29

11. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

As of June 30, 2011, the Company held derivatives with a total notional amount of $497 million. Of this total, interest rate swaps with a combined notional amount of $160 million were designated as cash flow hedges and $308 million have been designated as economic hedges. The remaining $29 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 June 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 June 30, 2011.

The Company pledged collateral to derivative counterparties in the form of cash totaling $6.6 million and securities with an amortized cost of $26.7 million and a fair value of $27.5 million as of June 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 June 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	2.2	0.26 %	4.00 %	$ (7,010)
Forward-starting Interest rate swaps on FHLBB borrowings	40,000				