BERKSHIRE HILLS BANCORP INC
Form 10-Q
November 10, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended: September 30, 2014

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

For the transition period from to

Commission File Number: 001-15781

BERKSHIRE HILLS BANCORP, INC.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

The Registrant had 25,183,284 shares of common stock, par value $0.01 per share, outstanding as of November 6, 2014.

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BERKSHIRE HILLS BANCORP, INC.

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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, 2014	December 31, 2013
Assets		
Cash and due from banks	$ 58,624	$ 56,841
Short-term investments	12,201	18,698
Total cash and cash equivalents	70,825	75,539
Trading security	14,745	14,840
Securities available for sale, at fair value	1,058,965	760,048
Securities held to maturity (fair values of $43,771 and $45,764)	42,596	44,921
Federal Home Loan Bank stock and other restricted securities	54,646	50,282
Total securities	1,170,952	870,091
Loans held for sale, at fair value	29,091	15,840
Residential mortgages	1,445,861	1,384,274
Commercial real estate	1,595,400	1,417,120
Commercial and industrial loans	732,960	687,293
Consumer loans	778,561	691,836
Total loans	4,552,782	4,180,523
Less: Allowance for loan losses	(34,966)	(33,323)
Net loans	4,517,816	4,147,200
Premises and equipment, net	87,166	84,459
Other real estate owned	4,854	2,758
Goodwill	264,770	256,871
Other intangible assets	12,524	13,791
Cash surrender value of bank-owned life insurance policies	103,749	101,530
Deferred tax assets, net	38,503	50,711
Other assets	51,908	54,009
Total assets	$ 6,352,158	$ 5,672,799
Liabilities		
Demand deposits	$ 844,480	$ 677,917
NOW deposits	420,290	353,612
Money market deposits	1,394,558	1,383,856
Savings deposits	474,774	431,496
Time deposits	1,429,231	1,001,648
Total deposits	4,563,333	3,848,529
Short-term debt	887,000	872,510
Long-term Federal Home Loan Bank advances	64,105	101,918
Subordinated borrowings	89,730	89,679
Total borrowings	1,040,835	1,064,107

Other liabilities		51,053		82,101
Total liabilities		5,655,221		4,994,737
Stockholders equity				
Common stock ($.01 par value; 50,000,000 shares authorized and 26,525,466 shares issued and 25,172,565 shares outstanding in 2014; 26,525,466 shares issued and 25,036,169 shares outstanding in 2013)		265		265
Additional paid-in capital		585,300		587,247
Unearned compensation		(6,890)		(5,563)
Retained earnings		149,448		141,958
Accumulated other comprehensive income (loss)		2,208		(9,057)
Treasury stock, at cost (1,352,901 shares in 2014 and 1,489,297 shares in 2013)		(33,394)		(36,788)
Total stockholders equity		696,937		678,062
Total liabilities and stockholders equity	$	6,352,158	$	5,672,799

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

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BERKSHIRE HILLS BANCORP, INC.

CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Interest and dividend income				
Loans	$ 43,958	$ 50,025	$ 128,761	$ 142,549
Securities and other	8,098	4,479	24,265	12,533
Total interest and dividend income	52,056	54,504	153,026	155,082
Interest expense				
Deposits	4,877	5,278	14,076	15,693
Borrowings	2,230	3,357	6,906	10,479
Total interest expense	7,107	8,635	20,982	26,172
Net interest income	44,949	45,869	132,044	128,910
Non-interest income				
Loan related income	1,471	1,308	4,565	6,669
Mortgage banking income	994	444	2,057	4,790
Deposit related fees	6,449	4,559	18,498	13,623
Insurance commissions and fees	2,632	2,473	8,141	7,877
Wealth management fees	2,330	2,137	7,173	6,471
Total fee income	13,876	10,921	40,434	39,430
Other	520	832	1,446	1,722
Gain on sale of securities, net	245	361	482	1,366
Loss on termination of hedges			(8,792)	
Total non-interest income	14,641	12,114	33,570	42,518
Total net revenue	59,590	57,983	165,614	171,428
Provision for loan losses	3,685	3,178	11,070	8,278
Non-interest expense				
Compensation and benefits	20,665	18,506	60,803	54,398
Occupancy and equipment	6,780	5,614	20,250	17,119
Technology and communications	3,484	3,304	11,062	9,775
Marketing and promotion	659	590	1,801	1,831
Professional services	830	1,757	3,006	5,011
FDIC premiums and assessments	1,163	856	3,201	2,574
Other real estate owned and foreclosures	13	138	569	445
Amortization of intangible assets	1,236	1,307	3,816	4,029
Acquisition, restructuring and conversion related expenses	238	6,516	6,729	12,355
Other	4,619	4,196	13,072	12,665
Total non-interest expense	39,687	42,784	124,309	120,202
Income before income taxes	16,218	12,021	30,235	42,948
Income tax expense	4,230	3,917	7,888	12,342
Net income	$ 11,988	$ 8,104	$ 22,347	$ 30,606
Earnings per share:				
Basic	$ 0.48	$ 0.33	$ 0.90	$ 1.23
Diluted	$ 0.48	$ 0.33	$ 0.90	$ 1.22
Weighted average common shares outstanding:				
Basic	24,747	24,748	24,721	24,835
Diluted	24,861	24,873	24,835	25,001

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

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BERKSHIRE HILLS BANCORP, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Net income	$ 11,988	$ 8,104	$ 22,347	$ 30,606
Other comprehensive income, before tax:				
Changes in unrealized gain (loss) on securities available-for-sale	(3,858)	(443)	13,275	(13,140)
Changes in unrealized (loss) gain on derivative hedges	980	(1,152)	2,246	6,446
Changes in unrealized gain on terminated swaps		236	3,237	707
Changes in unrealized gains and losses on pension	(455)		(455)	
Income taxes related to other comprehensive income:				
Changes in unrealized gain (loss) on securities available-for-sale	1,477	163	(5,004)	4,920
Changes in unrealized (loss) gain on derivative hedges	(396)	472	(906)	(2,585)
Changes in unrealized gain on terminated swaps		(95)	(1,312)	(398)
Changes in unrealized gains and losses on pension	184		184	
Total other comprehensive income (loss)	(2,068)	(819)	11,265	(4,050)
Total comprehensive income	$ 9,920	$ 7,285	$ 33,612	$ 26,556

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

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BERKSHIRE HILLS BANCORP, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

(In thousands)	Common stock Shares	Common stock Amount	Additional paid-in capital	Unearned compensation	Retained earnings	Accumulated other comprehensive (loss) income	Treasury stock	Total
Balance at December 31, 2012	25,148	$ 265	$ 585,360	$ (3,035)	$ 122,014	$ (2,979)	$ (34,360)	$ 667,265
Comprehensive income:								
Net income					30,606			30,606
Other comprehensive loss						(4,050)		(4,050)
Total comprehensive income								26,556
Cash dividends declared ($0.54 per share)					(13,587)			(13,587)
Treasury stock purchased	(480)						(12,249)	(12,249)
Forfeited shares	(55)		218	1,256			(1,474)	
Exercise of stock options	235				(3,042)		6,063	3,021
Restricted stock grants	159		(677)	(3,817)			4,494	
Stock-based compensation			726	1,385				2,111
Net tax benefit related to stock-based compensation			1,428					1,428
Other, net	(55)		(14)				(1,336)	(1,350)
Balance at September 30, 2013	24,952	$ 265	$ 587,041	$ (4,211)	$ 135,991	$ (7,029)	$ (38,862)	$ 673,195
Balance at December 31, 2013	25,036	$ 265	$ 587,247	$ (5,563)	$ 141,958	$ (9,057)	$ (36,788)	$ 678,062
Comprehensive income:								
Net income					22,347			22,347
Other comprehensive income						11,265		11,265
Total comprehensive income								33,612
Cash dividends declared ($0.54 per share)					(13,694)			(13,694)
Treasury stock purchased	(100)						(2,468)	(2,468)
Forfeited shares	(7)		(6)	176			(170)	
Exercise of stock options	89				(1,163)		2,215	1,052
Restricted stock grants	175		(3)	(4,319)			4,322	
Stock-based compensation			41	2,816				2,857
Net tax benefit related to stock-based compensation			(1,973)					(1,973)
Other, net	(20)		(6)				(505)	(511)
Balance at September 30, 2014	25,173	$ 265	$ 585,300	$ (6,890)	$ 149,448	$ 2,208	$ (33,394)	$ 696,937

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

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BERKSHIRE HILLS BANCORP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	Nine Months Ended September 30, 2014	2013
Cash flows from operating activities:		
Net income	$ 22,347	$ 30,606
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	11,070	8,278
Net amortization of securities	1,380	1,199
Change in unamortized net loan costs and premiums	(2,260)	(7,152)
Premises and equipment depreciation and amortization expense	6,127	5,382
Stock-based compensation expense	2,855	2,111
Accretion of purchase accounting entries, net	(4,989)	(17,732)
Amortization of other intangibles	3,816	4,029
Write down of other real estate owned	160	
Excess tax loss from stock-based payment arrangements	(101)	(1,428)
Income from cash surrender value of bank-owned life insurance policies	(2,219)	(2,101)
Gain on sales of securities, net	(482)	(1,366)
Net (increase) decrease in loans held for sale	(13,251)	58,304
Loss on disposition of assets	668	3,880
Loss (gain) on sale of real estate	148	(48)
Loss on termination of hedges	3,237	
Net change in other	(7,493)	21,640
Net cash provided by operating activities	21,013	105,602
Cash flows from investing activities:		
Net decrease in trading security	403	381
Proceeds from sales of securities available for sale	143,488	8,592
Proceeds from maturities, calls and prepayments of securities available for sale	102,425	91,153
Purchases of securities available for sale	(524,809)	(331,269)
Proceeds from maturities, calls and prepayments of securities held to maturity	3,761	6,857
Purchases of securities held to maturity	(1,436)	(2,758)
Net change in loans	(374,616)	(23,930)
Purchases of bank owned life insurance		(10,000)
Proceeds from sale of Federal Home Loan Bank stock	5,213	2,361
Purchase of Federal Home Loan Bank stock	(9,576)	(4,918)
Net investment in limited partnership tax credits	(2,884)	
Proceeds from the sale of premises and equipment	2,315	
Purchase of premises and equipment, net	(6,224)	(8,916)
Acquisitions, net of cash paid	423,416	
Proceeds from sale of other real estate	1,571	1,790
Net cash (used in) provided by in investing activities	(236,953)	(270,657)

(continued)

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

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BERKSHIRE HILLS BANCORP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONCLUDED)

(In thousands)	**Nine Months Ended September 30, 2014**	**2013**
Cash flows from financing activities:		
Net increase (decrease) in deposits	249,507	(216,539)
Proceeds from Federal Home Loan Bank advances and other borrowings	4,722,052	935,656
Repayments of Federal Home Loan Bank advances and other borrowings	(4,745,324)	(554,060)
Purchase of treasury stock	(2,468)	(12,249)
Exercise of stock options	1,052	3,021
Excess tax loss from stock-based payment arrangements	101	1,428
Common stock cash dividends paid	(13,694)	(13,587)
Net cash provided by financing activities	211,226	143,670
Net change in cash and cash equivalents	(4,714)	(21,385)
Cash and cash equivalents at beginning of year	75,539	98,244
Cash and cash equivalents at end of year	$ 70,825	$ 76,859
Supplemental cash flow information:		
Interest paid on deposits	$ 13,901	$ 15,707
Interest paid on borrowed funds	7,719	10,550
Income taxes paid, net	473	(4,023)
Acquisition of non-cash assets and liabilities:		
Assets acquired	18,064	
Liabilities assumed	(441,550)	(1,672)
Other non-cash changes:		
Other net comprehensive income (loss)	8,028	(4,050)
Real estate owned acquired in settlement of loans	3,975	3,374

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

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NOTE 1. BASIS OF PRESENTATION

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

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

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

Reclassifications

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

Recently Adopted Accounting Principles

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

Future Application of Accounting Pronouncements

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

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

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

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

In January 2014, the FASB issued ASU No. 2014-04 related to reclassification of residential real estate collateralized consumer mortgage loans upon foreclosure. The objective of this guidance is to clarify when an in substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. The pronouncement states that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either: (1) The creditor obtaining legal title to the residential real estate property upon completion of a foreclosure; or (2) The borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, ASU No. 2014-04 requires interim and annual disclosure of both: (1) The amount of foreclosed residential real estate property held by the creditor; and (2) The recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The pronouncement is effective for interim and annual reporting periods beginning after December 15, 2014. The adoption of this pronouncement is not expected to have a material impact on our consolidated financial statements.

In January 2014, the FASB issued ASU No. 2014-01 related to accounting for investments in qualified affordable housing projects. The pronouncement permits reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense. This new guidance also requires new disclosures for all investors in these projects. The pronouncement is effective for interim and annual reporting periods beginning after December 15, 2014. Upon adoption, the guidance must be applied retrospectively to all periods presented. However, entities that used the effective yield method to account for investments in these projects before adoption may continue to do so for these pre-existing investments. If elected, the policy change is not expected to have a material impact on our consolidated financial statements.

NOTE 2. BRANCH ACQUISITION

New York Branch Acquisition

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

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

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

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

Explanation of Certain Fair Value Adjustments

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

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

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

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

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

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

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

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

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

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

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

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

Direct acquisition and integration costs of the branch acquisition were expensed as incurred, and totaled $3.7 million during the nine months ending September 30, 2014 and $1.1 million during the same period of 2013.

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

The unaudited pro forma information, for the nine months ended September 30, 2014 and 2013, set forth below reflects adjustments related to (a) purchase accounting fair value adjustments; (b) amortization of core deposit and other intangibles; and (c) adjustments to interest income and expense due to additional investments and borrowing reductions as a result of the branch acquisition. Direct acquisition and integration-related costs incurred by the Company during 2014 are reversed; as those expenses are assumed to have occurred prior to 2013. Furthermore, the unaudited pro forma information does not reflect management s estimate of any revenue-enhancing opportunities beyond investment of cash received from deposits, or anticipated cost-savings.

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

	Pro Forma (unaudited) Nine months ended September 30, 2014	2013
Net interest income	$ 133,170	$ 133,991
Non-interest income	33,779	46,283
Net income	24,971	30,561
Pro forma earnings per share:		
Basic	$ 1.01	$ 1.23
Diluted	$ 1.01	$ 1.22

NOTE 3. TRADING SECURITY

The Company holds a tax advantaged economic development bond that is being accounted for at fair value. The security had an amortized cost of $12.7 million and $13.1 million, and a fair value of $14.7 million and $14.8 million, at September 30, 2014 and December 31, 2013, 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, 2014.

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NOTE 4. SECURITIES AVAILABLE FOR SALE AND HELD TO MATURITY

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

(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2014				
Securities available for sale				
Debt securities:				
Municipal bonds and obligations	$ 129,981	$ 5,781	$ (238)	$ 135,524
Government-guaranteed residential mortgage-backed securities	74,127	490	(335)	74,282
Government-sponsored residential mortgage-backed securities	780,475	3,401	(6,305)	777,571
Corporate bonds	2,556			2,556
Trust preferred securities	15,620	874	(1,096)	15,398
Other bonds and obligations	3,232		(78)	3,154
Total debt securities	1,005,991	10,546	(8,052)	1,008,485
Marketable equity securities	48,993	3,684	(2,197)	50,480
Total securities available for sale	1,054,984	14,230	(10,249)	1,058,965
Securities held to maturity				
Municipal bonds and obligations	4,004			4,004
Government-sponsored residential mortgage-backed securities	71	3		74
Tax advantaged economic development bonds	38,189	1,385	(213)	39,361
Other bonds and obligations	332			332
Total securities held to maturity	42,596	1,388	(213)	43,771
Total	$ 1,097,580	$ 15,618	$ (10,462)	$ 1,102,736
December 31, 2013				
Securities available for sale				
Debt securities:				
Municipal bonds and obligations	$ 77,852	$ 1,789	$ (1,970)	$ 77,671
Government-guaranteed residential mortgage-backed securities	78,885	544	(658)	78,771
Government-sponsored residential mortgage-backed securities	531,441	2,000	(10,783)	522,658
Corporate bonds	40,945	157	(1,822)	39,280
Trust preferred securities	16,927	1,249	(1,565)	16,611
Other bonds and obligations	3,250		(166)	3,084
Total debt securities	749,300	5,739	(16,964)	738,075
Marketable equity securities	20,042	2,266	(335)	21,973
Total securities available for sale	769,342	8,005	(17,299)	760,048
Securities held to maturity				
Municipal bonds and obligations	4,244			4,244
Government-sponsored residential mortgage-backed securities	73	2		75
Tax advantaged economic development bonds	40,260	1,255	(414)	41,101

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

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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, 2014 are presented below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations. Mortgage-backed securities are shown in total, as their maturities are highly variable. Equity securities have no maturity and are also shown in total.

	Available for sale		Held to maturity	
(In thousands)	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**
Within 1 year	$ 2,556	$ 2,556	$ 1,356	$ 1,356
Over 1 year to 5 years	1,257	1,268	16,980	17,860
Over 5 years to 10 years	15,586	15,879	11,446	11,410
Over 10 years	131,990	136,929	12,743	13,071
Total bonds and obligations	151,389	156,632	42,525	43,697
Marketable equity securities	48,993	50,480		
Residential mortgage-backed securities	854,602	851,853	71	74
Total	$ 1,054,984	$ 1,058,965	$ 42,596	$ 43,771

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

	Less Than Twelve Months		Over Twelve Months		Total	
(In thousands)	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**
September 30, 2014						
Securities available for sale						
Debt securities:						
Municipal bonds and obligations	$ 6	$ 995	$ 232	$ 9,971	$ 238	$ 10,966
Government-guaranteed residential mortgage-backed securities	163	29,109	172	7,520	335	36,629
Government-sponsored residential mortgage-backed securities	1,373	222,117	4,932	158,167	6,305	380,284
Trust preferred securities			1,096	2,458	1,096	2,458
Other bonds and obligations			78	2,983	78	2,983
Total debt securities	1,542	252,221	6,510	181,099	8,052	433,320
Marketable equity securities	1,694	20,165	503	4,587	2,197	24,752
Total securities available for sale	3,236	272,386	7,013	185,686	10,249	458,072
Securities held to maturity						
Tax advantaged economic development bonds			213	7,856	213	7,856
Total securities held to maturity			213	7,856	213	7,856
Total	$ 3,236	$ 272,386	$ 7,226	$ 193,542	$ 10,462	$ 465,928
December 31, 2013						
Securities available for sale						
Debt securities:						
Municipal bonds and obligations	$ 1,657	$ 17,776	$ 313	$ 1,854	$ 1,970	$ 19,630
Government guaranteed residential mortgage-backed securities	658	35,631			658	35,631
Government-sponsored residential mortgage-backed securities	10,783	423,203			10,783	423,203
Corporate bonds	1,822	29,124			1,822	29,124
Trust preferred securities			1,565	2,039	1,565	2,039
Other bonds and obligations	166	3,082			166	3,082
Total debt securities	15,086	508,816	1,878	3,893	16,964	512,709
Marketable equity securities	117	1,653	218	1,782	335	3,435
Total securities available for sale	15,203	510,469	2,096	5,675	17,299	516,144
Securities held to maturity						
Tax advantaged economic development bonds	57	9,429	357	7,901	414	17,330

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

Debt Securities

The Company expects to recover its amortized cost basis on all debt securities in its AFS and HTM portfolios. Furthermore, the Company does not intend to sell nor does it anticipate that it will be required to sell any of its securities in an unrealized loss position as of September 30, 2014, prior to this recovery. The Company s ability and intent to hold these securities until recovery is supported by the Company s strong capital and liquidity positions as well as its historically low portfolio turnover. The following summarizes, by investment security type, the basis for the conclusion that the debt securities in an unrealized loss position within the Company s AFS and HTM portfolios were not other-than-temporarily impaired at September 30, 2014:

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AFS municipal bonds and obligations

At September 30, 2014, 17 of the total 185 securities in the Company s portfolio of AFS municipal bonds and obligations were in unrealized loss positions. Aggregate unrealized losses represented 2.1% of the amortized cost of securities in unrealized loss positions. The Company continually monitors the municipal bond sector of the market carefully and periodically evaluates the appropriate level of exposure to the market. At this time, the Company feels the bonds in this portfolio carry minimal risk of default and the Company is appropriately compensated for that risk. There were no material underlying credit downgrades during the third quarter of 2014. All securities are performing.

AFS residential mortgage-backed securities

At September 30, 2014, 65 out of the total 197 securities in the Company s portfolios of AFS residential mortgage-backed securities were in unrealized loss positions. Aggregate unrealized losses represented 1.6% 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) guarantee the contractual cash flows of all of the Company s residential mortgage-backed securities. The securities are investment grade rated and there were no material underlying credit downgrades during the past quarter. All securities are performing.

AFS trust preferred securities

At September 30, 2014, 2 out of the total 5 securities in the Company s portfolio of AFS trust preferred securities were in unrealized loss positions. Aggregate unrealized losses represented 30.8% of the amortized cost of securities in unrealized loss positions. The Company s evaluation of the present value of expected cash flows on these securities supports its conclusions about the recoverability of the securities amortized cost basis. Of the 2 securities, 1 security is investment grade rated. The Company reviews the financial strength of all of the single issue trust issuers and has concluded that the amortized cost remains supported by the market value of these securities and they are performing.

At September 30, 2014, $1.0 million of the total unrealized losses was attributable to a $2.8 million investment in a Mezzanine Class B tranche of a $360 million pooled trust preferred security collateralized by banking and insurance entities. The Company evaluated the security, with a Level 3 fair value of $1.5 million, for potential other-than-temporary-impairment (OTTI) at September 30, 2014 and determined that OTTI was not evident based on both the Company s ability and intent to hold the security until the recovery of its remaining amortized cost and the protection from credit loss afforded by $57.2 million in excess subordination above current and projected losses. The security is performing.

AFS other bonds and obligations

At September 30, 2014, 4 of the total 8 securities in the Company s portfolio of other bonds and obligations were in unrealized loss positions. Aggregate unrealized losses represented 2.5% of the amortized cost of securities in unrealized loss positions. The securities are investment grade rated and there were no material underlying credit downgrades during the third quarter of 2014. All securities are performing.

HTM tax advantaged economic development bonds

At September 30, 2014, 1 of the total 7 securities in the Company s portfolio of tax advantaged economic development bonds were in an unrealized loss position. Aggregate unrealized losses represented 2.6% of the amortized cost of securities in unrealized loss positions. The Company has the intent of maintaining these bonds to recovery. These securities are performing. The Company expects to receive all future cash flows associated with these securities.

Marketable Equity Securities

In evaluating its marketable equity securities portfolio for OTTI, the Company considers its ability to more likely than not hold an equity security to recovery. The Company additionally considers other various factors including

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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, 2014, 12 out of the total 30 securities in the Company s portfolio of marketable equity securities were in an unrealized loss position. The unrealized loss represented 8.2% of the amortized cost of the securities. The Company has the ability and intent to hold the securities until recovery of their cost basis and does not consider the securities other-than-temporarily impaired at September 30, 2014. As new information becomes available in future periods, changes to the Company s assumptions may be warranted and could lead to a different conclusion regarding the OTTI of these securities.

NOTE 5. LOANS

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

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

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

	September 30, 2014			December 31, 2013		
(In thousands)	**Business Activities Loans**	**Acquired Loans**	**Total**	**Business Activities Loans**	**Acquired Loans**	**Total**
Residential mortgages:						
1-4 family	$ 1,136,351	$ 284,966	$ 1,421,317	$ 1,027,737	$ 333,367	$ 1,361,104
Construction	23,512	1,032	24,544	18,158	5,012	23,170
Total residential mortgages	1,159,863	285,998	1,445,861	1,045,895	338,379	1,384,274
Commercial real estate:						
Construction	152,060	6,601	158,661	125,247	13,770	139,017
Single and multi-family	122,239	58,143	180,382	63,493	64,827	128,320
Other commercial real estate	1,032,612	223,745	1,256,357	871,271	278,512	1,149,783
	1,306,911	288,489	1,595,400	1,060,011	357,109	1,417,120

Total commercial real estate						
Commercial and industrial loans:						
Asset based lending	341,584		341,584	294,241	3,130	297,371
Other commercial and industrial loans	338,454	52,922	391,376	323,196	66,726	389,922
Total commercial and industrial loans	680,038	52,922	732,960	617,437	69,856	687,293
Total commercial loans	1,986,949	341,411	2,328,360	1,677,448	426,965	2,104,413
Consumer loans:						
Home equity	248,500	67,593	316,093	232,677	74,154	306,831
Auto and other	338,436	124,032	462,468	213,171	171,834	385,005
Total consumer loans	586,936	191,625	778,561	445,848	245,988	691,836
Total loans	$ 3,733,748	$ 819,034	$ 4,552,782	$ 3,169,191	$ 1,011,332	$ 4,180,523

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The carrying amount of the acquired loans at September 30, 2014 totaled $819 million. These loans consisted of loans determined to be impaired at the time of acquisition, which are accounted for in accordance with ASC Topic 310-30, with a carrying amount of $19 million (and a note balance of $34 million) and loans that were considered not impaired at the acquisition date with a carrying amount of $800 million.

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

	Three Months Ended September 30,	
(In thousands)	**2014**	**2013**
Balance at beginning of period	$ 2,440	$ 3,328
Sales		
Change in accretable difference based on re-estimation of cash flows	1,214	2,125
Accretion	(458)	(1,547)
Balance at end of period	$ 3,196	$ 3,906

	Nine months ended September 30,	
(In thousands)	**2014**	**2013**
Balance at beginning of period	$ 2,559	$ 8,247
Acquisitions		
Sales		(301)
Change in accretable difference based on re-estimation of cash flows	2,644	2,125
Accretion	(2,007)	(6,165)
Balance at end of period	$ 3,196	$ 3,906

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The following is a summary of past due loans at September 30, 2014 and December 31, 2013:

Business Activities Loans

(in thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total Loans	Past Due > 90 days and Accruing
September 30, 2014							
Residential mortgages:							
1-4 family	$ 2,290	$ 347	$ 4,720	$ 7,357	$ 1,128,994	$ 1,136,351	$ 1,524
Construction					23,512	23,512	
Total	2,290	347	4,720	7,357	1,152,506	1,159,863	1,524
Commercial real estate:							
Construction			621	621	151,439	152,060	
Single and multi-family	201	160	668	1,029	121,210	122,239	121
Other commercial real estate	2,610	340	10,084	13,034	1,019,578	1,032,612	867
Total	2,811	500	11,373	14,684	1,292,227	1,306,911	988
Commercial and industrial loans:							
Asset based lending		661		661	340,923	341,584	
Other commercial and industrial loans	390	180	1,190	1,760	336,694	338,454	6
Total	390	841	1,190	2,421	677,617	680,038	6
Consumer loans:							
Home equity	431	81	1,821	2,333	246,167	248,500	424
Auto and other	707	75	364	1,146	337,290	338,436	27
Total	1,138	156	2,185	3,479	583,457	586,936	451
Total	$ 6,629	$ 1,844	$ 19,468	$ 27,941	$ 3,705,807	$ 3,733,748	$ 2,969

Business Activities Loans

(in thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total Loans	Past Due > 90 days and Accruing
December 31, 2013							
Residential mortgages:							
1-4 family	$ 2,500	$ 623	$ 7,382	$ 10,505	$ 1,017,232	$ 1,027,737	$ 1,451
Construction			41	41	18,117	18,158	
Total	2,500	623	7,423	10,546	1,035,349	1,045,895	1,451
Commercial real estate:							
Construction	174		3,176	3,350	121,897	125,247	
Single and multi-family	139	654	679	1,472	62,021	63,493	168
Other commercial real estate	622	4,801	6,912	12,335	858,936	871,271	865
Total	935	5,455	10,767	17,157	1,042,854	1,060,011	1,033
Commercial and industrial loans:							
Asset based lending					294,241	294,241	
	1,136	386	1,477	2,999	320,197	323,196	42

Other commercial and industrial loans							
Total	1,136	386	1,477	2,999	614,438	617,437	42
Consumer loans:							
Home equity	732	54	1,655	2,441	230,236	232,677	572
Auto and other	524	231	390	1,145	212,026	213,171	142
Total	1,256	285	2,045	3,586	442,262	445,848	714
Total	$ 5,827	$ 6,749	$ 21,712	$ 34,288	$ 3,134,903	$ 3,169,191	$ 3,240

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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, 2014							
Residential mortgages:							
1-4 family	$ 1,047	$ 301	$ 2,576	$ 3,924	$ 281,042	$ 284,966	$ 962
Construction					1,032	1,032	
Total	1,047	301	2,576	3,924	282,074	285,998	962
Commercial real estate:							
Construction	686		806	1,492	5,109	6,601	806
Single and multi-family	728	267	579	1,574	56,569	58,143	508
Other commercial real estate	88	122	1,736	1,946	221,799	223,745	
Total	1,502	389	3,121	5,012	283,477	288,489	1,314
Commercial and industrial loans:							
Asset based lending							
Other commercial and industrial loans	142	97	1,199	1,438	51,484	52,922	158
Total	142	97	1,199	1,438	51,484	52,922	158
Consumer loans:							
Home equity	466	204	583	1,253	66,340	67,593	98
Auto and other	1,593	148	1,507	3,248	120,784	124,032	66
Total	2,059	352	2,090	4,501	187,124	191,625	164
Total	$ 4,750	$ 1,139	$ 8,986	$ 14,875	$ 804,159	$ 819,034	$ 2,598

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
December 31, 2013							
Residential mortgages:							
1-4 family	$ 1,891	$ 437	$ 2,577	$ 4,905	$ 328,462	$ 333,367	$ 805
Construction	134	32	625	791	4,221	5,012	501
Total	2,025	469	3,202	5,696	332,683	338,379	1,306
Commercial real estate:							
Construction			805	805	12,965	13,770	805
Single and multi-family	350	188	1,335	1,873	62,954	64,827	512
Other commercial real estate	537	518	6,108	7,163	271,349	278,512	2,925
Total	887	706	8,248	9,841	347,268	357,109	4,242
Commercial and industrial loans:							
Asset based lending					3,130	3,130	
Other commercial and industrial loans	440	135	1,239	1,814	64,912	66,726	318
Total	440	135	1,239	1,814	68,042	69,856	318
Consumer loans:							

Home equity	425	545	636	1,606	72,548	74,154	35
Auto and other	2,606	641	1,641	4,888	166,946	171,834	82
Total	3,031	1,186	2,277	6,494	239,494	245,988	117
Total	$ 6,383	$ 2,496	$ 14,966	$ 23,845	$ 987,487	$ 1,011,332	$ 5,983

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The following is summary information pertaining to non-accrual loans at September 30, 2014 and December 31, 2013:

	September 30, 2014			December 31, 2013		
(In thousands)	Business Activities Loans	Acquired Loans	Total	Business Activities Loans	Acquired Loans	Total
Residential mortgages:						
1-4 family	$ 3,196	$ 1,614	$ 4,810	$ 5,931	$ 1,772	$ 7,703
Construction				41	123	164
Total	3,196	1,614	4,810	5,972	1,895	7,867
Commercial real estate:						
Construction	621		621	3,176		3,176
Single and multi-family	547	71	618	511	823	1,334
Other commercial real estate	9,217	1,736	10,953	6,047	3,183	9,230
Total	10,385	1,807	12,192	9,734	4,006	13,740
Commercial and industrial loans:						
Other commercial and industrial loans	1,184	1,041	2,225	1,434	921	2,355
Total	1,184	1,041	2,225	1,434	921	2,355
Consumer loans:						
Home equity	1,397	485	1,882	1,083	602	1,685
Auto and other	337	1,441	1,778	249	1,559	1,808
Total	1,734	1,926	3,660	1,332	2,161	3,493
Total non-accrual loans	$ 16,499	$ 6,388	$ 22,887	$ 18,472	$ 8,983	$ 27,455

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Loans evaluated for impairment as of September 30, 2014 and December 31, 2013 were as follows:

Business Activities Loans

(In thousands)	Residential mortgages	Commercial real estate	Commercial and industrial loans	Consumer	Total
September 30, 2014					
Loans receivable:					
Balance at end of period					
Individually evaluated for impairment	$ 3,808	$ 22,018	$ 1,113	$ 749	$ 27,688
Collectively evaluated	1,156,055	1,284,893	678,925	586,187	3,706,060
Total	$ 1,159,863	$ 1,306,911	$ 680,038	$ 586,936	$ 3,733,748

Business Activities Loans

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

Acquired Loans

(In thousands)	Residential mortgages	Commercial real estate	Commercial and industrial loans	Consumer	Total
September 30, 2014					
Loans receivable:					
Balance at end of Period					
Individually evaluated for impairment	$ 934	$ 4,625	$ 60	$ 184	$ 5,803
Collectively evaluated	285,064	283,864	52,862	191,441	813,231
Total	$ 285,998	$ 288,489	$ 52,922	$ 191,625	$ 819,034

Acquired Loans

(In thousands)	Residential mortgages	Commercial real estate	Commercial and industrial loans	Consumer	Total
December 31, 2013					
Loans receivable:					

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

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The following is a summary of impaired loans at September 30, 2014:

Business Activities Loans

(In thousands)	Recorded Investment	At September 30, 2014 Unpaid Principal Balance	Related Allowance
With no related allowance:			
Residential mortgages - 1-4 family	$ 3,453	$ 3,453	$
Other commercial real estate loans	15,047	15,047	
Commercial real esate - construction	621	621	
Other commercial and industrial loans	552	552	
Consumer - home equity	630	630	
Consumer - other	119	119	
With an allowance recorded:			
Residential mortgages - 1-4 family	$ 325	$ 355	$ 30
Other commercial real estate loans	3,941	6,350	2,409
Other commercial and industrial loans	249	561	312
Total			
Residential mortgages	$ 3,778	$ 3,808	$ 30
Commercial real estate	19,609	22,018	2,409
Commercial and industrial loans	801	1,113	312
Consumer	749	749	
Total impaired loans	$ 24,937	$ 27,688	$ 2,751

Acquired Loans

(In thousands)	Recorded Investment	At September 30, 2014 Unpaid Principal Balance	Related Allowance
With no related allowance:			
Residential mortgages - 1-4 family	$ 934	$ 934	$
Other commercial real estate loans	4,625	4,625	
Other commercial and industrial loans	60	60	
Consumer - home equity	184	184	
With an allowance recorded:			
Residential mortgages - 1-4 family	$	$	$
Other commercial real estate loans			
Other commercial and industrial loans			
Total			
Residential mortgages	$ 934	$ 934	$
Commercial real estate	4,625	4,625	
Commercial and industrial loans	60	60	
Consumer	184	184	

Total impaired loans	$	5,803	$	5,803	$

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

Business Activities Loans

	At December 31, 2013		
(In thousands)	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**
With no related allowance:			
Residential mortgages - 1-4 family	$ 3,406	$ 3,406	$
Commercial real estate - construction	3,176	3,176	
Commercial real estate - single and multifamily			
Other commercial real estate loans	18,909	18,909	
Other commercial and industrial loans	811	811	
Consumer - home equity	270	270	
With an allowance recorded:			
Residential mortgages - 1-4 family	$ 1,926	$ 2,831	$ 905
Commercial real estate - construction			
Commercial real estate - single and multifamily			
Other commercial real estate loans	125	344	219
Other commercial and industrial loans	514	569	55
Consumer - home equity	142	245	103
Total			
Residential mortgages	$ 5,332	$ 6,237	$ 905
Commercial real estate	22,210	22,429	219
Commercial and industrial loans	1,325	1,380	55
Consumer	412	515	103
Total impaired loans	$ 29,279	$ 30,561	$ 1,282

Acquired Loans

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

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

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The following is a summary of the average recorded investment and interest income recognized on impaired loans as of September 30, 2014 and 2013:

Business Activities Loans

	Nine Months Ended September 30, 2014		Nine Months Ended September 30, 2013	
(in thousands)	**Average Recorded Investment**	**Cash Basis Interest Income Recognized**	**Average Recorded Investment**	**Cash Basis Interest Income Recognized**
With no related allowance:				
Residential mortgages - 1-4 family	$ 4,342	$ 140	$ 4,873	$ 64
Commercial real estate - construction	16,765	470	2,332	25
Other commercial real estate loans	2,117		23,538	547
Commercial and industrial loans	1,582	60	1,182	34
Consumer - home equity	411	9	1,145	8
Consumer - other	122	3	130	2
With an allowance recorded:				
Residential mortgages - 1-4 family	$ 396	$ 3	$ 1,569	$ 9
Commercial real estate - construction	3,776	30	1,938	
Other commercial real estate loans	593	4	86	
Commercial and industrial loans			759	
Consumer - home equity			55	
Total				
Residential mortgages	$ 4,738	$ 143	$ 6,442	$ 73
Commercial real estate	23,251	504	27,894	572
Commercial and industrial loans	1,582	60	1,941	34
Consumer loans	533	12	1,330	10
Total impaired loans	$ 30,104	$ 719	$ 37,607	$ 689

Acquired Loans

	Nine Months Ended September 30, 2014		Nine Months Ended September 30, 2013	
(in thousands)	**Average Recorded Investment**	**Cash Basis Interest Income Recognized**	**Average Recorded Investment**	**Cash Basis Interest Income Recognized**
With no related allowance:				
Residential mortgages - 1-4 family	$ 1,046	$ 8	$ 410	$ 3
Other commercial real estate loans	5,575	146	3,035	53
Commercial and industrial loans	457	13	182	
Consumer - home equity	55			
With an allowance recorded:				
Residential mortgages - 1-4 family	$ 164	$ 4	$ 566	$ 3
Other commercial real estate loans			1,163	6
Total				
Residential mortgages	$ 1,210	$ 12	$ 976	$ 6
Other commercial real estate loans	5,575	146	4,198	59

Commercial and industrial loans		457		13		182		
Consumer loans		55						
Total impaired loans	$	7,297	$	171	$	5,356	$	65

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Troubled Debt Restructuring Loans

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

The following tables include the recorded investment and number of modifications identified during the three and nine months ended September 30, 2014 and for the nine months ended September 30, 2013, respectively. There were no modifications identified for the three months ended September 30, 2013. The table includes the recorded investment in the loans prior to a modification and also the recorded investment in the loans after the loans were restructured. The modifications for the three and nine months ending September 30, 2014 were attributable to interest rate concessions, maturity date extensions and released collateral. The modifications for the nine months ending September 30, 2013 were attributable to interest rate concessions and maturity date extensions.

		Modifications by Class Three months ending September 30, 2014	
(Dollars in thousands)	**Number of Modifications**	**Pre-Modification Outstanding Recorded Investment**	**Post-Modification Outstanding Recorded Investment**
Troubled Debt Restructurings			
Residential - 1-4 Family	2	$ 231	$ 232
Commercial - Single and multifamily			
Commercial - Other	1	1,596	1,596
	3	$ 1,827	$ 1,828

		Modifications by Class Nine months ending September 30, 2014	
(Dollars in thousands)	**Number of Modifications**	**Pre-Modification Outstanding Recorded Investment**	**Post-Modification Outstanding Recorded Investment**
Troubled Debt Restructurings			
Residential - 1-4 Family	5	$ 600	$ 598
Commercial - Single and multifamily	1	623	623
Commercial - Other	7	6,400	6,400
	13	$ 7,623	$ 7,621

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

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

	Modifications that Subsequently Defaulted Three months ending September 30, 2014		
	Number of Contracts		Recorded Investment
Troubled Debt Restructurings			
Commercial and industrial - Other		$	

	Modifications that Subsequently Defaulted Nine months ending September 30, 2014		
	Number of Contracts		Recorded Investment
Troubled Debt Restructurings			
Commercial and industrial - Other	2	$	158

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

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

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The following table presents the Company s TDR activity for the three and nine months ended September 30, 2014 and 2013:

(In thousands)	Three months ending September 30, 2014	2013
Balance at beginning of the period	$ 15,113	$ 10,160
Principal Payments	(339)	(55)
TDR Status Change (1)	(245)	
Other Reductions (2)		156
Newly Identified TDRs	1,828	
Balance at end of the period	$ 16,357	$ 10,261

(In thousands)	Nine months ending September 30, 2014	2013
Balance at beginning of the period	$ 10,822	$ 4,626
Principal Payments	(1,299)	(92)
TDR Status Change (1)	(886)	(1,164)
Other Reductions (2)	99	(326)
Newly Identified TDRs	7,621	7,217
Balance at end of the period	$ 16,357	$ 10,261

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

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

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

NOTE 6. LOAN LOSS ALLOWANCE

Activity in the allowance for loan losses for the nine months ended September 30, 2014 and 2013 was as follows:

Business Activities Loans

(In thousands)	Residential mortgages	Commercial real estate	Commercial and industrial loans	Consumer	Unallocated	Total
September 30, 2014						

Balance at beginning of period	$	6,937	$	13,705	$	5,173	$	3,644	$	68	$	29,527
Charged-off loans		1,253		2,327		2,007		806				6,393
Recoveries on charged-off loans		118		8		87		229				442
Provision for loan losses		(224)		4,966		1,534		2,278		(26)		8,528
Balance at end of period	$	5,578	$	16,352	$	4,787	$	5,345	$	42	$	32,104
Individually evaluated for impairment		30		2,409		312						2,751
Collectively evaluated		5,548		13,943		4,475		5,345		42		29,353
Total	$	5,578	$	16,352	$	4,787	$	5,345	$	42	$	32,104

Business Activities Loans

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

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Acquired Loans

(In thousands)	Residential mortgages	Commercial real estate	Commercial and industrial loans	Consumer	Unallocated	Total
September 30, 2014						
Balance at beginning of period	$ 625	$ 2,339	$ 597	$ 235	$	$ 3,796
Charged-off loans	1,087	1,287	422	1,004		3,800
Recoveries on charged-off loans	171	1	101	51		324
Provision for loan losses	818	5	725	994		2,542
Balance at end of period	$ 527	$ 1,058	$ 1,001	$ 276	$	$ 2,862
Individually evaluated for impairment						
Collectively evaluated	527	1,058	1,001	276		2,862
Total	$ 527	$ 1,058	$ 1,001	$ 276	$	$ 2,862

Acquired Loans

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

Credit Quality Information

Business Activities Loans Credit Quality Analysis

The Company monitors the credit quality of its portfolio by using internal risk ratings that are based on regulatory guidance. Loans that are given a Pass rating are not considered a problem credit. Loans that are classified as Special Mention loans are considered to have potential credit problems and are evaluated closely by management. Substandard and non-accruing loans are loans for which a definitive weakness has been identified and which may make full collection of contractual cash flows questionable. Doubtful loans are those with identified weaknesses that make full collection of contractual cash flows, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. The Company assigns an internal risk rating at origination and reviews the rating annually, semiannually or quarterly depending on the risk rating. The rating is also reassessed at any point in time when management becomes aware of information that may affect the borrower s ability to fulfill their obligations.

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

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

Acquired Loans Credit Quality Analysis

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

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

The Company subjects loans that do not meet the ASC 310-30 criteria to ASC 450-20 by collectively evaluating these loans for an allowance for loan loss. The Company applies a methodology similar to the methodology prescribed for business activities loans, which includes the application of environmental factors to each category of loans. The methodology to collectively evaluate the acquired loans outside the scope of ASC 310-30 includes the application of a number of environmental factors that reflect management s best estimate of the level of incremental credit losses that might be recognized given current conditions. This is reviewed as part of the allowance for loan loss adequacy analysis. As the loan portfolio matures and environmental factors change, the loan portfolio will be reassessed each quarter to determine an appropriate reserve allowance.

A decrease in the expected cash flows in subsequent periods requires the establishment of an allowance for loan losses at that time for ASC 310-30 loans. At September 30, 2014, the allowance for loan losses related to acquired loans was $2.9 million using the above mentioned criteria.

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

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The following table presents the Company s loans by risk rating at September 30, 2014 and December 31, 2013:

Business Activities Loans

Residential Mortgages

Credit Risk Profile by Internally Assigned Grade

(In thousands)	1-4 family Sept. 30, 2014	1-4 family Dec. 31, 2013	Construction Sept. 30, 2014	Construction Dec. 31, 2013	Total residential mortgages Sept. 30, 2014	Total residential mortgages Dec. 31, 2013
Grade:						
Pass	$ 1,131,284	$ 1,019,732	$ 23,512	$ 18,117	$ 1,154,796	$ 1,037,849
Special mention	347	623			347	623
Substandard	4,720	7,382		41	4,720	7,423
Total	$ 1,136,351	$ 1,027,737	$ 23,512	$ 18,158	$ 1,159,863	$ 1,045,895

Commercial Real Estate

Credit Risk Profile by Creditworthiness Category

(In thousands)	Construction Sept. 30, 2014	Construction Dec. 31, 2013	Single and multi-family Sept. 30, 2014	Single and multi-family Dec. 31, 2013	Other Sept. 30, 2014	Other Dec. 31, 2013	Total commercial real estate Sept. 30, 2014	Total commercial real estate Dec. 31, 2013
Grade:								
Pass	$ 149,266	$ 120,071	$ 119,092	$ 59,636	$ 964,548	$ 800,672	$ 1,232,906	$ 980,379
Special mention				140	3,068	8,150	3,068	8,290
Substandard	2,794	5,176	3,147	3,717	64,923	61,807	70,864	70,700
Doubtful					73	642	73	642
Total	$ 152,060	$ 125,247	$ 122,239	$ 63,493	$ 1,032,612	$ 871,271	$ 1,306,911	$ 1,060,011

Commercial and Industrial Loans

Credit Risk Profile by Creditworthiness Category

Asset based lending	Other	Total comm. and industrial loans

(In thousands)	Sept. 30, 2014	Dec. 31, 2013	Sept. 30, 2014	Dec. 31, 2013	Sept. 30, 2014	Dec. 31, 2013
Grade:						
Pass	$ 341,584	$ 294,241	$ 329,989	$ 313,984	$ 671,573	$ 608,225
Special mention			950	884	950	884
Substandard			7,515	7,725	7,515	7,725
Doubtful				603		603
Total	$ 341,584	$ 294,241	$ 338,454	$ 323,196	$ 680,038	$ 617,437

Consumer Loans

Credit Risk Profile Based on Payment Activity

	Home equity		Auto and other		Total consumer loans	
(In thousands)	Sept. 30, 2014	Dec. 31, 2013	Sept. 30, 2014	Dec. 31, 2013	Sept. 30, 2014	Dec. 31, 2013
Performing	$ 247,103	$ 231,594	$ 338,099	$ 212,922	$ 585,202	$ 444,516
Nonperforming	1,397	1,083	337	249	1,734	1,332
Total	$ 248,500	$ 232,677	$ 338,436	$ 213,171	$ 586,936	$ 445,848

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Acquired Loans

Residential Mortgages

Credit Risk Profile by Internally Assigned Grade

(In thousands)	1-4 family Sept. 30, 2014	1-4 family Dec. 31, 2013	Construction Sept. 30, 2014	Construction Dec. 31, 2013	Total residential mortgages Sept. 30, 2014	Total residential mortgages Dec. 31, 2013
Grade:						
Pass	$ 282,089	$ 330,353	$ 1,032	$ 1,081	$ 283,121	$ 331,434
Special mention	301	437			301	437
Substandard	2,576	2,577		3,931	2,576	6,508
Total	$ 284,966	$ 333,367	$ 1,032	$ 5,012	$ 285,998	$ 338,379

Commercial Real Estate

Credit Risk Profile by Creditworthiness Category

(In thousands)	Construction Sept. 30, 2014	Construction Dec. 31, 2013	Single and multi-family Sept. 30, 2014	Single and multi-family Dec. 31, 2013	Other Sept. 30, 2014	Other Dec. 31, 2013	Total commercial real estate Sept. 30, 2014	Total commercial real estate Dec. 31, 2013
Grade:								
Pass	$ 4,357	$ 7,154	$ 45,213	$ 46,961	$ 205,393	$ 254,787	$ 254,963	$ 308,902
Special mention			625	4,799	5,650	9,034	6,275	13,833
Substandard	2,244	6,616	12,305	13,067	12,702	14,691	27,251	34,374
Total	$ 6,601	$ 13,770	$ 58,143	$ 64,827	$ 223,745	$ 278,512	$ 288,489	$ 357,109

Commercial and Industrial Loans

Credit Risk Profile by Creditworthiness Category

(In thousands)	Asset based lending Sept. 30, 2014	Asset based lending Dec. 31, 2013	Other Sept. 30, 2014	Other Dec. 31, 2013	Total comm. and industrial loans Sept. 30, 2014	Total comm. and industrial loans Dec. 31, 2013
Grade:						
Pass	$	$ 3,130	$ 46,508	$ 59,615	$ 46,508	$ 62,745
Special mention			1,981	2,396	1,981	2,396
Substandard			4,433	4,715	4,433	4,715
Total	$	$ 3,130	$ 52,922	$ 66,726	$ 52,922	$ 69,856

Consumer Loans

Credit Risk Profile Based on Payment Activity

(In thousands)	Home equity Sept. 30, 2014	Home equity Dec. 31, 2013	Auto and other Sept. 30, 2014	Auto and other Dec. 31, 2013	Total consumer loans Sept. 30, 2014	Total consumer loans Dec. 31, 2013
Performing	$ 67,108	$ 73,552	$ 122,591	$ 170,275	$ 189,699	$ 243,827
Nonperforming	485	602	1,441	1,559	1,926	2,161
Total	$ 67,593	$ 74,154	$ 124,032	$ 171,834	$ 191,625	$ 245,988

The following table summarizes information about total loans rated Special Mention or lower as of September 30, 2014 and December 31, 2013. The table below includes consumer loans that are special mention and substandard accruing that are classified in the above table as performing based on payment activity.

	September 30, 2014			December 31, 2013		
(In thousands)	Business Activities Loans	Acquired Loans	Total	Business Activities Loans	Acquired Loans	Total
Non-Accrual	$ 16,499	$ 6,388	$ 22,887	$ 18,472	$ 8,983	$ 27,455
Substandard Accruing	68,859	29,961	98,820	70,667	38,891	109,558
Total Classified	85,358	36,349	121,707	89,139	47,874	137,013
Special Mention	4,521	8,910	13,431	10,081	17,853	27,934
Total Criticized	$ 89,879	$ 45,259	$ 135,138	$ 99,220	$ 65,727	$ 164,947

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NOTE 7. DEPOSITS

A summary of time deposits is as follows:

(In thousands)	September 30, 2014	December 31, 2013
Time less than $100,000	$ 524,752	$ 490,902
Time $100,000 or more	904,479	510,746
Total time deposits	$ 1,429,231	$ 1,001,648

Included in time deposits are brokered deposits of $329.5 million and $23.4 million at September 30, 2014 and December 31, 2013, respectively. Also included are certificates of deposit through the Certificate of Deposit Account Registry Service (CDARS) network of $40.4 million at September 30, 2014. There were no CDARS deposits at December 31, 2013.

NOTE 8. BORROWED FUNDS

Borrowed funds at September 30, 2014 and December 31, 2013 are summarized, as follows:

	September 30, 2014		December 31, 2013	
(dollars in thousands)	Principal	Weighted Average Rate	Principal	Weighted Average Rate
Short-term borrowings:				
Advances from the FHLBB	$ 877,000	0.21%	$ 862,510	0.22%
Other Borrowings	10,000	1.80	10,000	1.92
Total short-term borrowings:	887,000	0.23	872,510	0.24
Long-term borrowings:				
Advances from the FHLBB	64,105	0.94	101,918	1.23
Subordinated borrowings	74,266	7.00	74,215	7.00
Junior subordinated borrowings	15,464	2.08	15,464	2.09
Total long-term borrowings:	153,835	3.98	191,597	3.53
Total	$ 1,040,835	0.77%	$ 1,064,107	0.83%

The Bank also maintains a $3.0 million secured line of credit with the FHLBB that bears a daily adjustable rate calculated by the FHLBB. There was no outstanding balance on the FHLBB line of credit for the periods ended September 30, 2014 and December 31, 2013.

The Bank is approved to borrow on a short-term basis from the Federal Reserve Bank of Boston as a non-member bank. The Bank has pledged certain loans and securities to the Federal Reserve Bank to support this arrangement. No borrowings with the Federal Reserve Bank of Boston took place for the periods ended September 30, 2014 and December 31, 2013.

Long-term FHLBB advances consist of advances with an original maturity of more than one year. The advances outstanding at September 30, 2014 include callable advances totaling $5.0 million, and amortizing advances totaling $5.3 million. The advances outstanding at December 31, 2013 include callable advances totaling $5.0 million, and amortizing advances totaling $5.5 million. All FHLBB borrowings, including the line of credit, are secured by a blanket security agreement on certain qualified collateral, principally all residential first mortgage loans and certain securities.

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A summary of maturities of FHLBB advances as of September 30, 2014 and December 31, 2013 is as follows:

(in thousands, except rates)	September 30, 2014 Principal	September 30, 2014 Weighted Average Rate	December 31, 2013 Principal	December 31, 2013 Weighted Average Rate
Fixed rate advances maturing:				
2014	$ 779,371	0.21%	$ 882,525	0.28%
2015	150,000	0.26		
2016	1,535	0.85	1,583	0.79
2017	5,000	4.33	5,000	4.33
2018 and beyond	5,199	3.84	5,320	3.83
Total fixed rate advances	$ 941,105	0.26%	$ 894,428	0.35%
Variable rate advances maturing:				
2014	$	%	$ 10,000	0.32%
2015			20,000	0.30
2016			10,000	0.30
2017				
2018 and beyond			30,000	0.30
Total variable rate advances	$	%	$ 70,000	0.30%
Total FHLBB advances	$ 941,105	0.26%	$ 964,428	0.32%

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

The Company holds 100% of the common stock of Berkshire Hills Capital Trust I (Trust I) which is included in other assets with a cost of $0.5 million. The sole asset of Trust I is $15.5 million of the Company s junior subordinated debentures due in 2035. These debentures bear interest at a variable rate equal to LIBOR plus 1.85% and had a rate of 2.08% and 2.09% at September 30, 2014 and December 31, 2013, respectively. The Company has the right to defer payments of interest for up to five years on the debentures at any time, or from time to time, with certain limitations, including a restriction on the payment of dividends to stockholders while such interest payments on the debentures have been deferred. The Company has not exercised this right to defer payments. The Company has the right to redeem the debentures at par value. Trust I is considered a variable interest entity for which the Company is not the primary beneficiary. Accordingly, Trust I is not consolidated into the Company s financial statements.

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NOTE 9. STOCKHOLDERS EQUITY

The actual and required capital ratios were as follows:

	September 30, 2014	December 31, 2013	Regulatory Minimum to be Well Capitalized
Company (consolidated)			
Total capital to risk weighted assets	11.6%	N/A%	10.0%
Tier 1 capital to risk weighted assets	9.3	N/A	6.0
Tier 1 capital to average assets	7.1	N/A	5.0
Bank			
Total capital to risk weighted assets	11.0%	11.6%	10.0%
Tier 1 capital to risk weighted assets	9.5	10.0	6.0
Tier 1 capital to average assets	7.3	8.0	5.0

At each date shown, the Company and the 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.

Accumulated other comprehensive income (loss)

Components of accumulated other comprehensive income (loss) are as follows:

(In thousands)	**September 30, 2014**	**December 31, 2013**
Other accumulated comprehensive income (loss), before tax:		
Net unrealized holding gain (loss) on AFS securities	$ 3,981	$ (9,294)
Net loss on effective cash flow hedging derivatives	(43)	(2,289)
Net loss on terminated swap		(3,237)
Net unrealized holding (loss) gain on pension plans	(438)	17
Income taxes related to items of accumulated other comprehensive income (loss):		
Net unrealized holding gain (loss) on AFS securities	(1,486)	3,518
Net loss on effective cash flow hedging derivatives	17	923
Net loss on terminated swap		1,312
Net unrealized holding (loss) gain on pension plans	177	(7)

Accumulated other comprehensive income (loss)	$	2,208	$	(9,057)

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The following table presents the components of other comprehensive income (loss) for the three and nine months ended September 30, 2014 and 2013:

(In thousands)	**Before Tax**	**Tax Effect**	**Net of Tax**
Three Months Ended September 30, 2014			
Net unrealized holding loss on AFS securities:			
Net unrealized loss arising during the period	$ (3,613)	$ 1,377	$ (2,236)
Less: reclassification adjustment for (gains) realized in net income	(245)	100	(145)
Net unrealized holding gain on AFS securities	(3,858)	1,477	(2,381)
Net gain on cash flow hedging derivatives:			
Net unrealized (gain) arising during the period	980	(396)	584
Less: reclassification adjustment for losses realized in net income			
Net gain on cash flow hedging derivatives	980	(396)	584
Net unrealized holding loss on pension plans			
Net unrealized loss arising during the period	(455)	184	(271)
Less: reclassification adjustment for gains (losses) realized in net income			
Net unrealized holding loss on pension plans	(455)	184	(271)
Other Comprehensive Loss	$ (3,333)	$ 1,265	$ (2,068)
Three Months Ended September 30, 2013			
Net unrealized holding loss on AFS securities:			
Net unrealized loss arising during the period	$ (82)	$ 17	$ (65)
Less: reclassification adjustment for (gains) realized in net income	(361)	146	(215)
Net unrealized holding loss on AFS securities	(443)	163	(280)
Net loss on cash flow hedging derivatives:			
Net unrealized loss arising during the period	(785)	324	(461)
Less: reclassification adjustment for (gains) realized in net income	(367)	148	(219)
Net gain on cash flow hedging derivatives	(1,152)	472	(680)
Net gain on terminated swap:			
Net unrealized loss arising during the period			
Less: reclassification adjustment for losses realized in net income	236	(95)	141
Net gain on terminated swap	236	(95)	141
Other Comprehensive Loss	$ (1,359)	$ 540	$ (819)

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(In thousands)	Before Tax	Tax Effect	Net of Tax
Nine Months Ended September 30, 2014			
Net unrealized holding gain on AFS securities:			
Net unrealized gain arising during the period	$ 13,757	$ (5,197)	$ 8,560
Less: reclassification adjustment for (gains) realized in net income	(482)	193	(289)
Net unrealized holding gain on AFS securities	13,275	(5,004)	8,271
Net loss on cash flow hedging derivatives:			
Net unrealized (loss) arising during the period	(3,147)	1,295	(1,852)
Less: reclassification adjustment for losses realized in net income	5,393	(2,201)	3,192
Net gain on cash flow hedging derivatives	2,246	(906)	1,340
Net loss on terminated swap:			
Net unrealized loss arising during the period			
Less: reclassification adjustment for losses realized in net income	3,237	(1,312)	1,925
Net loss on terminated swap	3,237	(1,312)	1,925
Net unrealized holding loss on pension plans			
Net unrealized loss arising during the period	(455)	184	(271)
Less: reclassification adjustment for (gains) losses realized in net income			
Net unrealized holding loss on pension plans	(455)	184	(271)
Other Comprehensive Income	$ 18,303	$ (7,038)	$ 11,265
Nine Months Ended September 30, 2013			
Net unrealized holding loss on AFS securities:			
Net unrealized (loss) arising during the period	$ (11,774)	$ 4,369	$ (7,405)
Less: reclassification adjustment for (gains) realized in net income	(1,366)	551	(815)
Net unrealized holding loss on AFS securities	(13,140)	4,920	(8,220)
Net gain on cash flow hedging derivatives:			
Net unrealized gain arising during the period	7,540	(3,025)	4,515
Less: reclassification adjustment for losses realized in net income	(1,094)	440	(654)
Net gain on cash flow hedging derivatives	6,446	(2,585)	3,861
Net gain on terminated swap:			
Net unrealized loss arising during the period			
Less: reclassification adjustment for losses realized in net income	707	(398)	309
Net gain on terminated swap	707	(398)	309
Other Comprehensive Loss	$ (5,987)	$ 1,937	$ (4,050)

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The following table presents the changes in each component of accumulated other comprehensive income (loss), for the three and nine months ended September 30, 2014 and 2013:

(in thousands)	Net unrealized holding (loss) gain on AFS Securities	Net loss on effective cash flow hedging derivatives	Net loss on terminated swap	Net unrealized holding loss on pension plans	Total
Three Months Ended September 30, 2014					
Balance at Beginning of Period	$ 4,876	$ (610)	$	$ 10	$ 4,276
Other Comprehensive Loss Before reclassifications	(2,236)	584		(271)	(1,923)
Amounts Reclassified from Accumulated other comprehensive income	(145)				(145)
Total Other Comprehensive (Loss) Income	(2,381)	584		(271)	(2,068)
Balance at End of Period	$ 2,495	$ (26)	$	$ (261)	$ 2,208
Three Months Ended September 30, 2013					
Balance at Beginning of Period	$ (1,230)	$ (2,016)	$ (2,209)	$ (755)	$ (6,210)
Other Comprehensive Loss Before reclassifications	(65)	(461)			(526)
Amounts Reclassified from Accumulated other comprehensive income	(215)	(219)	141		(293)
Total Other Comprehensive (Loss) Income	(280)	(680)	141		(819)
Balance at End of Period	$ (1,510)	$ (2,696)	$ (2,068)	$ (755)	$ (7,029)
Nine Months Ended September 30, 2014					
Balance at Beginning of Period	$ (5,776)	$ (1,366)	$ (1,925)	$ 10	$ (9,057)
Other Comprehensive Loss Before reclassifications	8,560	(1,852)		(271)	6,437
Amounts Reclassified from Accumulated other comprehensive income	(289)	3,192	1,925		4,828
Total Other Comprehensive (Loss)	8,271	1,340	1,925	(271)	11,265
Balance at End of Period	$ 2,495	$ (26)	$	$ (261)	$ 2,208
Nine Months Ended September 30, 2013					
Balance at Beginning of Period	$ 6,710	$ (6,557)	$ (2,377)	$ (755)	$ (2,979)
Other Comprehensive Loss Before reclassifications	(7,405)	4,515			(2,890)
Amounts Reclassified from Accumulated other comprehensive income	(815)	(654)	309		(1,160)
Total Other Comprehensive (Loss) Income	(8,220)	3,861	309		(4,050)
Balance at End of Period	$ (1,510)	$ (2,696)	$ (2,068)	$ (755)	$ (7,029)

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The following table presents the amounts reclassified out of each component of accumulated other comprehensive income (loss) for the three and nine months ended September 30, 2014 and 2013:

(in thousands)	Three Months Ended September 30, 2014	2013	Affected Line Item in the Statement where Net Income is Presented
Realized (gains) on AFS securities:			
	$ (245)	$ (361)	Non-interest income
	100	146	Tax expense
	(145)	(215)	Net of tax
Realized losses on cash flow hedging derivatives:			
		(367)	Non-interest income
		148	Tax expense
		(219)	Net of tax
Amortization of realized gains on terminated swap:			