BOISE CASCADE Co
Form 8-K
February 06, 2019

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 8-K
CURRENT REPORT
Pursuant to Section 13 OR 15(d) of The Securities Exchange Act of 1934
Date of Report (Date of Earliest Event Reported): February 6, 2019

BOISE CASCADE COMPANY
(Exact name of registrant as specified in its charter)

Delaware	1-35805	20-1496201
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

1111 West Jefferson Street, Suite 300
Boise, Idaho 83702-5389
(Address of principal executive offices) (Zip Code)

(208) 384-6161
(Registrant’s telephone number, including area code)
Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

[ ] Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

[ ] Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

[ ] Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

[ ] Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).
Emerging growth company ¨
If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

Item 7.01 Regulation FD Disclosure

On February 6, 2019, Boise Cascade Company (the “Company”) issued a press release announcing that its Board of Directors had declared a quarterly dividend of $0.09 per share to holders of its common stock, payable on March 15, 2019 to stockholders of record on March 1, 2019. The press release is furnished hereto as Exhibit 99.1 and incorporated by reference into this Item 7.01.

The information in this Item 7.01 of Form 8-K, shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

Item 9.01 Financial Statements and Exhibits

(d) Exhibits

Exhibit No.	Description of Exhibit
99.1	Press Release, dated February 6, 2019 issued by the Company

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

BOISE CASCADE COMPANY

By /s/ John T. Sahlberg
John T. Sahlberg
Senior Vice President, Human Resources and General Counsel

Date: February 6, 2019

n 0in .0001pt;">$

281

$

158

$

38

$

87

$

(18

)

$

546

Individually evaluated for impairment

Collectively evaluated for impairment	
	281
	158
	38
	87
	(18)
	546
Total	

$
281
$
158
$
38
$
87
$
(18
)
$
546

Loans receivable:

Balance at end of year

Individually evaluated for impairment	
Collectively evaluated for impairment	
	338,777
	202,803
	48,526
	104,213

	694,319
Total	
$	338,777
$	202,803
$	48,526
$	104,213
$	694,319

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The following is a summary of impaired loans at June 30, 2012:

Loans from Business Activities

	At June 30, 2012		
(In thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance:			
Residential mortgages - 1-4 family	$ 2,102	$ 2,102	$
Commercial mortgages - single and multifamily	164	164	
Commercial mortgages - real estate	4,748	4,748	
Consumer - home equity	578	578	
With an allowance recorded:			
Residential mortgages - 1-4 family	$ 2,586	$ 3,278	$ 692
Commercial mortgages - construction	4,673	5,812	1,139
Commercial mortgages - single and multifamily	124	231	107
Commercial mortgages - real estate	2,524	3,392	868
Other commercial business loans	11	153	142
Consumer - home equity			
Total			
Residential mortgages	$ 4,688	$ 5,380	$ 692
Commercial mortgages	12,233	14,347	2,114
Commercial business	11	153	142
Consumer	578	578	
Total impaired loans	$ 17,510	$ 20,458	$ 2,948

Loans Acquired from Business Combinations

	At June 30, 2012		
(In thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance:			
Residential mortgages - 1-4 family	$ 859	$ 859	$
Commercial mortgages - real estate	410	410	
Consumer - home equity	38	38	
Total			
Residential mortgages	$ 859	$ 859	$
Commercial mortgages	410	410	
Consumer	38	38	
Total impaired loans	$ 1,307	$ 1,307	$

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The following is a summary of impaired loans at December 31, 2011:

Loans from Business Activities

	At December 31, 2011		
(In thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance:			
Residential mortgages - 1-4 family	$ 2,546	$ 2,546	$
Commercial mortgages - single and multifamily	326	326	
Commercial mortgages - real estate	2,751	2,751	
Consumer - home equity	308	308	
With an allowance recorded:			
Residential mortgages - 1-4 family	$ 1,853	$ 2,302	$ 449
Commercial mortgages - construction	7,559	8,650	1,091
Commercial mortgages - real estate	1,373	2,004	631
Other commercial business loans	13	129	116
Consumer - home equity	357	845	488
Total			
Residential mortgages	$ 4,399	$ 4,848	$ 449
Commercial mortgages	12,009	13,731	1,722
Commercial business	13	129	116
Consumer	665	1,153	488
Total impaired loans	$ 17,086	$ 19,861	$ 2,775

Loans Acquired from Business Combinations

	At December 31, 2011		
(In thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance:			
Residential mortgages - 1-4 family	$ 247	$ 247	$
Consumer - home equity	37	37	
Total			
Residential mortgages	$ 247	$ 247	$
Consumer	37	37	
Total impaired loans	$ 284	$ 284	$

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The following is a summary of the average recorded investment and interest income recognized on impaired loans as of June 30, 2012 and June 30, 2011:

Loans from Business Activities

	Six Months Ended June 30, 2012		Six Months Ended June, 2011	
(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	$ 2,098	$ 21	$ 930	$ 11
Residential mortgages - construction			53	
Commercial-construction			157	
Commercial mortgages - single and multifamily	299		107	
Commercial mortgages - real estate	3,022	26	7,994	84
Commercial business loans			46	
Consumer-home equity	166	1	361	2
With an allowance recorded:				
Residential mortgages - 1-4 family	$ 3,569	$ 22	$ 633	$ 3
Residential mortgages - construction			32	
Commercial-construction	6,757		2,335	
Commercial mortgages - single and multifamily	73		548	3
Commercial mortgages - real estate	2,381	22	2,484	8
Commercial business loans	145	3	357	1
Consumer-home equity	704		30	
Total				
Residential mortgages	$ 5,667	$ 43	$ 1,648	$ 14
Commercial mortgages	12,532	48	13,625	95
Commercial business loans	145	3	403	1
Consumer loans	870	1	391	2
Total impaired loans	$ 19,214	$ 95	$ 16,067	$ 112

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Loans Acquired from Business Combinations

(in thousands)	Six Months Ended June 30, 2012 Average Recorded Investment	Six Months Ended June 30, 2012 Cash Basis Interest Income Recognized	Six Months Ended June, 2011 Average Recorded Investment	Six Months Ended June, 2011 Cash Basis Interest Income Recognized
With no related allowance:				
Residential mortgages - 1-4 family	$ 526	$	$	$
Residential mortgages - construction				
Commercial-construction				
Commercial mortgages - single and multifamily				
Commercial mortgages - real estate	274	10		
Commercial business loans				
Consumer-home equity	38			
With an allowance recorded:				
Residential mortgages - 1-4 family	$	$	$	$
Residential mortgages - construction				
Commercial-construction				
Commercial mortgages - single and multifamily				
Commercial mortgages - real estate				
Commercial business loans				
Consumer-home equity				
Total				
Residential mortgages	$ 526	$	$	$
Commercial mortgages	274	10		
Commercial business loans				
Consumer loans	38			
Total impaired loans	$ 838	$ 10	$	$

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The following is summary information pertaining to non-accrual loans at June 30, 2012 and December 31, 2011:

	June 30, 2012		
(In thousands)	Loans from Business Activities	Loans Acquired from Business Combinations	Total
Residential mortgages:			
1-4 family	$ 6,977	$ 1,548	$ 8,525
Total	6,977	1,548	8,525
Commercial mortgages:			
Construction	5,811		5,811
Single and multi-family	395		395
Other	8,704	426	9,130
Total	14,910	426	15,336
Commercial business loans:			
Other commercial business loans	1,017	30	1,047
Total	1,017	30	1,047
Consumer loans:			
Home equity	942	78	1,020
Other	48	141	189
Total	990	219	1,209
Total non-accrual loans	$ 23,894	$ 2,223	$ 26,117

	December 31, 2011		
(In thousands)	Loans from Business Activities	Loans Acquired from Business Combinations	Total
Residential mortgages:			
1-4 family	$ 6,356	$ 654	$ 7,010
Total	6,356	654	7,010
Commercial mortgages:			
Construction	8,650		8,650
Single and multi-family	362		362
Other	5,259	9	5,268
Total	14,271	9	14,280
Commercial business loans:			
Other commercial business loans	977	13	990
Total	977	13	990
Consumer loans:			
Home equity	1,692	75	1,767
Other	48	139	187
Total	1,740	214	1,954
Total non-accrual loans	$ 23,344	$ 890	$ 24,234

Credit Quality Information

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

1 **<u>Substantially Risk Free</u>**

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.

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2 **Minimal Risk**

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

3 **Moderate Risk**

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

4 **Better than Average Risk**

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

5 **Average Risk**

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

6 **Acceptable Risk**

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

7 **Special Mention**

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

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.

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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.

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

Acquired Loans Credit Quality Analysis

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

The Bank utilizes a twelve 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 originated loans, which includes the application of environmental factors to each category of loans.

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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 June 30, 2012, there had not been such a decrease and therefore there was no allowance for losses on acquired loans under Subtopic ASC 310-30.

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

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The following table presents the Company s loans by risk rating at June 30, 2012 and December 31, 2011:

Loans from Business Activities

Residential Mortgages

Credit Risk Profile by Internally Assigned Grade

	1-4 family		Construction		Total residential mortgages	
(In thousands)	**June 30, 2012**	**Dec. 31, 2011**	**June 30, 2012**	**Dec. 31, 2011**	**June 30, 2012**	**Dec. 31, 2011**
Grade:						
Pass	$ 838,669	$ 637,110	$ 28,059	$ 32,191	$ 866,728	$ 669,301
Special mention	465	877			465	877
Substandard	11,600	11,480			11,600	11,480
Total	$ 850,734	$ 649,467	$ 28,059	$ 32,191	$ 878,793	$ 681,658

Commercial Mortgages

Credit Risk Profile by Creditworthiness Category

	Construction		Single and multi-family		Real estate		Total commercial mortgages	
(In thousands)	**June 30, 2012**	**Dec. 31, 2011**	**June 30, 2012**	**Dec. 31, 2011**	**June 30, 2012**	**Dec. 31, 2011**	**June 30, 2012**	**Dec. 31, 2011**
Grade:								
Pass	$ 130,149	$ 91,452	$ 68,591	$ 85,153	$ 671,189	$ 674,814	$ 869,929	$ 851,419
Special mention	850	5,939	427	435	18,124	16,459	19,401	22,833
Substandard	15,650	17,262	2,843	3,813	58,459	55,156	76,952	76,231
Doubtful		2,839			105	116	105	2,955
Total	$ 146,649	$ 117,492	$ 71,861	$ 89,401	$ 747,877	$ 746,545	$ 966,387	$ 953,438

Commercial Business Loans

Credit Risk Profile by Creditworthiness Category

	Asset based lending		Other		Total commercial business loans	
(In thousands)	**June 30, 2012**	**Dec. 31, 2011**	**June 30, 2012**	**Dec. 31, 2011**	**June 30, 2012**	**Dec. 31, 2011**
Grade:						
Pass	$ 176,460	$ 149,741	$ 229,728	$ 200,246	$ 406,188	$ 349,987
Special mention			4,815	607	4,815	607
Substandard	1,303	1,324	9,539	9,753	10,842	11,077
Doubtful			94	95	94	95
Total	$ 177,763	$ 151,065	$ 244,176	$ 210,701	$ 421,939	$ 361,766

Consumer Loans

Credit Risk Profile Based on Payment Activity

	Home equity		Other		Total consumer loans	
(In thousands)	**June 30, 2012**	**Dec. 31, 2011**	**June 30, 2012**	**Dec. 31, 2011**	**June 30, 2012**	**Dec. 31, 2011**
Performing	$ 225,738	$ 224,677	$ 37,663	$ 38,972	$ 263,401	$ 263,649
Nonperforming	942	1,692	49	48	991	1,740
Total	$ 226,680	$ 226,369	$ 37,712	$ 39,020	$ 264,392	$ 265,389

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Loans Acquired from Business Combinations

Residential Mortgages

Credit Risk Profile by Internally Assigned Grade

	1-4 family		Construction		Total residential mortgages	
(In thousands)	**June 30, 2012**	**Dec. 31, 2011**	**June 30, 2012**	**Dec. 31, 2011**	**June 30, 2012**	**Dec. 31, 2011**
Grade:						
Pass	$ 304,066	$ 327,715	$ 8,100	$ 9,205	$ 312,166	$ 336,920
Special mention	115	242			115	242
Substandard	2,373	1,450		165	2,373	1,615
Total	$ 306,554	$ 329,407	$ 8,100	$ 9,370	$ 314,654	$ 338,777

Commercial Mortgages

Credit Risk Profile by Creditworthiness Category

	Construction		Single and multi-family		Real estate		Total commercial mortgages	
(In thousands)	**June 30, 2012**	**Dec. 31, 2011**	**June 30, 2012**	**Dec. 31, 2011**	**June 30, 2012**	**Dec. 31, 2011**	**June 30, 2012**	**Dec. 31, 2011**
Grade:								
Pass	$ 12,212	$ 3,548	$ 24,706	$ 14,802	$ 230,625	$ 161,218	$ 267,543	$ 179,568
Special mention	256	2,160	4,356	272	14,671	8,071	19,283	10,503
Substandard	1,687	1,018	3,413	1,324	22,745	10,390	27,845	12,732
Total	$ 14,155	$ 6,726	$ 32,475	$ 16,398	$ 268,041	$ 179,679	$ 314,671	$ 202,803

Commercial Business Loans

Credit Risk Profile by Creditworthiness Category

	Asset based lending		Other		Total commercial business loans	
(In thousands)	**June 30, 2012**	**Dec. 31, 2011**	**June 30, 2012**	**Dec. 31, 2011**	**June 30, 2012**	**Dec. 31, 2011**
Grade:						
Pass	$ 2,495	$ 2,206	$ 80,560	$ 39,578	$ 83,055	$ 41,784
Special mention			9,061	3,810	9,061	3,810
Substandard			5,629	2,932	5,629	2,932
Total	$ 2,495	$ 2,206	$ 95,250	$ 46,320	$ 97,745	$ 48,526

Consumer Loans

Credit Risk Profile Based on Payment Activity

	Home equity		Other		Total consumer loans	
(In thousands)	**June 30, 2012**	**Dec. 31, 2011**	**June 30, 2012**	**Dec. 31, 2011**	**June 30, 2012**	**Dec. 31, 2011**
Performing	$ 75,762	$ 71,752	$ 31,057	$ 32,248	$ 106,819	$ 104,000
Nonperforming	78	75	141	138	219	213
Total	$ 75,840	$ 71,827	$ 31,198	$ 32,386	$ 107,038	$ 104,213

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.

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The following tables include the recorded investment and number of modifications identified during the six months ended June 30, 2012. The Company reports the recorded investment in the loans prior to a modification and also the recorded investment in the loans after the loans were restructured.

		Modifications by Class Six months ending June 30, 2012			
	Number of Modifications	Pre-Modification Outstanding Recorded Investment		Post-Modification Outstanding Recorded Investment	
Troubled Debt Restructurings					
Commercial - Other	2	$	1,923	$	1,923
Commercial business- Other	1		50		50
	3	$	1,973	$	1,973

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

The following table presents the Company s TDR activity for the six months ended June 30, 2012 and 2011:

	June 30,			
(In thousands)	2012		2011	
Balance at beginning of the period	$	1,263	$	7,829
Principal Payments		(4)		(71)
TDR Status Change (1)		(1,125)		(7,041)
Other Reductions (2)				(189)
Newly Identified TDRs		1,973		
Balance at end of the period	$	2,107	$	528

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

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

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 7. DEPOSITS

A summary of time deposits is as follows:

(In thousands)		June 30, 2012		December 31, 2011 (1)
Time less than $100,000	$	511,155	$	511,592
Time $100,000 or more		534,612		491,046
Total time deposits	$	1,045,767	$	1,002,638

(1) Amounts include balances associated with discontinued operations.

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NOTE 8. STOCKHOLDERS EQUITY

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

	June 30, 2012	December 31, 2011	FDIC Minimum to be Well Capitalized
Total capital to risk weighted assets	10.3%	11.3%	10.0%
Tier 1 capital to risk weighted assets	9.3	10.2	6.0
Tier 1 capital to average assets	8.0	8.4	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.

Accumulated other comprehensive income

Components of accumulated other comprehensive loss are as follows:

(In thousands)	June 30, 2012	December 31, 2011
Net unrealized holding gain (loss) on AFS securities	$ 8,985	$ 6,298
Net loss on effective cash flow hedging derivatives	(11,087)	(8,882)
Net loss on terminated swap	(4,650)	(5,121)
Net unrealized holding gain (loss) on pension plans	(932)	(676)
Tax effects	3,348	3,496
Accumulated other comprehensive loss	$ (4,336)	$ (4,885)

The Company s accumulated other comprehensive loss totaled $4.3 million at June 30, 2012. Of this loss, $15.7 million was attributable to accumulated losses on cash flow hedges, net of deferred tax benefits of $6.6 million, $9.0 million was attributable to accumulated gains on available-for-sale securities, net of deferred tax expenses of $3.3 million, and $0.9 million was attributable to accumulated losses on pensions.

The Company s accumulated other comprehensive loss totaled $4.9 million at December 31, 2011. Of this loss, $14.0 million was attributable to accumulated losses on cash flow hedges, net of deferred tax benefits of $5.8 million, $6.3 million was attributable to accumulated gains on available-for-sale securities, net of deferred tax expenses of $2.3 million, and $0.7 million was attributable to accumulated losses on pensions.

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NOTE 9. EARNINGS PER SHARE

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

(In thousands, except per share data)	Three Months Ended June 30, 2012		Three Months Ended June 30, 2011		Six Months Ended June 30, 2012		Six Months Ended June 30, 2011	
Net income from continuing operations	$	7,986	$	1,877	$	14,467	$	4,712
Loss from discontinued operations before income taxes (including gain on disposal of $63)						(261)		
Income tax expense						376		
Net loss from discontinued operations						(637)		
Net income	$	7,986	$	1,877	$	13,830	$	4,712
Average number of common shares issued		23,623		18,509		23,242		17,187
Less: average number of treasury shares		1,660		1,779		1,672		1,762
Less: average number of unvested stock award shares		221		150		221		156
Average number of basic common shares outstanding		21,742		16,580		21,349		15,269
Plus: dilutive effect of unvested stock award shares		41		21		51		(126)
Plus: dilutive effect of stock options outstanding		23				34		156
Average number of diluted common shares outstanding		21,806		16,601		21,434		15,299
Basic and diluted earnings per share:								
Continuing operations	$	0.37	$	0.11	$	0.68	$	0.31
Discontinued operations						(0.03)		
Total basic and diluted earnings per share	$	0.37	$	0.11	$	0.65	$	0.31

For the quarter ended June 30, 2012, 181 thousand shares of restricted stock and 373 thousand options were anti-dilutive and therefore excluded from the earnings per share calculations. 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.

NOTE 10. 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, 2012 is presented in the following table:

	Non-vested Stock Awards Outstanding		Stock Options Outstanding	
		Weighted-		Weighted-

(Shares in thousands)	Number of Shares		Average Grant Date Fair Value	Number of Shares		Average Exercise Price
Balance, December 31, 2011	216	$	19.88	409	$	25.68
Granted	64		24.95			
Stock options exercised				(13)		20.88
Stock awards vested	(50)		18.51			
Forfeited	(8)		21.38			
Expired				(10)		23.44
Balance, June 30, 2012	222	$	21.61	386	$	25.79
Exercisable options, June 30, 2012				386	$	25.79

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During the six months ended June 30, 2012 and 2011, proceeds from stock option exercises totaled $271 thousand and $12 thousand, respectively. During the six months ended June 30, 2012, there were 50 thousand shares issued in connection with vested stock awards. During the six months ended June 30, 2011, there were 61 thousand shares issued in connection with vested stock awards. All of these shares were issued from available treasury stock. Stock-based compensation expense totaled $1.6 million and $473 thousand during the six months ended June 30, 2012 and 2011, respectively. Stock-based compensation expense is recognized ratably over the requisite service period for all awards.

NOTE 11. 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.

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

(In thousands)	Banking	Insurance	Parent	Eliminations	Total Consolidated
Three months ended June 30, 2012					
Net interest income (expense)	$ 35,239	$	$ (186)	$	$ 35,053
Provision for loan losses	2,250				2,250
Non-interest income	9,520	2,768	8968	(8968)	12,288
Non-interest expense	30,835	2,094	1,254	1	34,184
Income (loss) before income taxes	11,674	674	7528	(8969)	10,907
Income tax expense (benefit)	3,108	271	(458)		2,921
Net income	$ 8,566	$ 403	$ 7986	$ (8969)	$ 7,986
Average assets (in millions)	$ 4,319	$ 30	$ 508	$ (506)	$ 4,351
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
Six months ended June 30, 2012					
Net interest income (expense)	$ 66,590	$	$ (392)	$	$ 66,198
Provision for loan losses	4,250				4,250
Non-interest income	16,577	5,513	15,253	(15,253)	22,090
Non-interest expense	58,452	4,307	1,618	1	64,378
Income (loss) before income taxes	20,465	1,206	13,243	(15,254)	19,660
Income tax expense (benefit)	5,296	485	(587)	(1)	5,193
Net income from continuing operations	15,169	721	13,830	(15,253)	14,467
Income from discontinued operations berofre income taxes (including gain on disposal of $63)	(261)				(261)
Income tax expense	376				376
Net loss from discontinued operations	(637)				(637)
Net income	$ 14,532	$ 721	$ 13,830	$ (15,253)	$ 13,830
Average assets (in millions)	$ 4,137	$ 30	$ 501	$ (498)	$ 4,170
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

NOTE 12. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

As of June 30, 2012, the Company held derivatives with a total notional amount of $1 billion. That amount included $280.0 million in interest rate swap derivatives that were designated as cash flow hedges for accounting purposes. The Company also had economic hedges and non-hedging derivatives totaling $515.6 million and $215.3 million, respectively, which are not designated as accounting hedges. Economic hedges included interest rate swaps totaling $348.2 million, and $170.5 million in forward commitment contracts.

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

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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, 2012.

The Company pledged collateral to derivative counterparties in the form of cash totaling $6.2 million and securities with an amortized cost of $30.6 million and a fair value of $31.3 million as of June 30, 2012. 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 derivative 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, 2012, follows:

	Notional Amount (In thousands)	Weighted Average Maturity (In years)	Weighted Average Rate Received	Weighted Average Rate Paid	Estimated Fair Value Asset (Liability) (In thousands)
Cash flow hedges:					
Interest rate swaps on FHLBB borrowings	$ 105,000	1.3	0.38%	3.20%	$ (5,020)
Forward-starting interest rate swaps on FHLBB borrowings	160,000	4.4		2.56%	(5,313)
Interest rate swaps on junior subordinated debentures	15,000	1.9	2.32%	5.54%	(899)
Total cash flow hedges	280,000				(11,232)
Economic hedges:					
Interest rate swap on tax advantaged economic development bond	13,856	17.4	0.61%	5.09%	(3,719)
Interest rate swaps on loans with commercial loan customers	165,602	5.3	2.56%	5.73%	(15,429)
Reverse interest rate swaps on loans with commercial loan customers	165,602	5.3	5.73%	2.56%	14,919
Forward commitments	170,500	0.2			(1,446)
Total economic hedges	515,560				(5,675)
Non-hedging derivatives:					
Interest rate lock commitments	215,330	0.2			4,028
Total non-hedging derivatives	215,330				4,028
Total	$ 1,010,890				$ (12,879)

Information about interest rate swap agreements and non-hedging derivative assets and liabilities at December 31, 2011, follows:

	Notional	Weighted Average	Weighted Average Rate	Estimated Fair Value

	Amount (In thousands)	Maturity (In years)	Received	Paid	Asset (Liability) (In thousands)
Cash flow hedges:					
Interest rate swaps on FHLBB borrowings	$ 105,000	1.7	0.49%	4.00%	$ (5,888)
Forward-starting interest rate swaps on FHLBB borrowings	80,000	3.5		2.56%	(2,064)
Interest rate swaps on junior subordinated debentures	15,000	2.4	2.35%	5.54%	(1,055)
Total cash flow hedges	200,000				(9,007)
Economic hedges:					
Interest rate swap on tax advantaged economic development bond	14,096	17.9	0.64%	5.09%	(3,505)
Interest rate swaps on loans with commercial loan customers	160,389	5.6	2.73%	5.77%	(14,351)
Reverse interest rate swaps on loans with commercial loan customers	160,389	5.6	5.77%	2.73%	13,871
Forward commitments	21,538	0.2			55
Total economic hedges	356,412				(3,930)
Non-hedging derivatives:					
Interest rate lock commitments	21,538	0.2			(66)
Total non-hedging derivatives	21,538				(66)
Total	$ 577,950				$ (13,003)

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Cash flow hedges

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

The Company has entered into several interest rate swaps with an aggregate notional amount of $105.0 million to convert the LIBOR based floating interest rates on a $105.0 million portfolio of FHLBB advances to fixed rates, with the objective of fixing the Company s monthly interest expense on these borrowings.

The Company has also entered into fifteen forward-starting interest rate swaps with a combined notional value of $160.0 million, including $70.0 million of swaps which were entered into in the first quarter of 2012 and which have durations exceeding one year. Of the fifteen forward starting swaps two are set to become effective in the third quarter of 2012, with durations of five years and four years, respectively. In 2013 four of the forward starting swaps take effect, two of which have a duration of one year, one with a duration of four years, and the other with a duration of five years. 2014 will bring on seven of the remaining nine forward starting swaps; of these one has a duration of three years, four have durations of four years, and the final two have durations of five years. The last two forward starting swaps will become effective in 2015, one of which has a duration of four years and the other which has a duration of seven years. This hedge strategy converts the LIBOR based rate of interest on certain FHLB advances to fixed interest rates, thereby protecting the Company from floating interest rate variability.

The Company has entered into an interest rate swap with a notional value of $15.0 million to convert the floating rate of interest on its junior subordinated debentures to a fixed rate of interest. The purpose of the hedge was to protect the Company from the risk of variability arising from the floating rate interest on the debentures.

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

(In thousands)	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Interest rate swaps on FHLBB borrowings:				
Unrealized (loss) gain recognized in accumulated other comprehensive loss	$ (2,585)	$ (666)	$ (2,360)	$ 433
Reclassification of unrealized loss from accumulated other comprehensive loss to non-interest income for hedge ineffectiveness	10	10	20	20
Reclassification of realized gain from accumulated other comprehensive loss to other non-interest income for termination of swaps	235	235	471	470

Reclassification of unrealized deferred tax benefit from accumulated other comprehensive loss to tax expense for terminated swaps	(31)	(98)	(129)	(196)
Net tax benefit (expense) on items recognized in accumulated other	1,171	255	1,007	(196)
Interest rate swaps on junior subordinated debentures:				
Unrealized gain (loss) recognized in accumulated other comprehensive loss	97	(151)	156	3
Net tax (expense) benefit on items recognized in accumulated other	(19)	62	(61)	(2)
Other comprehensive income recorded in accumulated other comprehensive loss, net of reclassification adjustments and tax effects	$ (1,122)	$ (353)	$ (896)	$ 532
Net interest expense recognized in interest expense on hedged FHLBB borrowings	$ 1,123	$ 1,218	$ 2,206	$ 2,424
Net interest expense recognized in interest expense on junior subordinated debentures	$ 97	$ 129	$ 215	$ 256

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Hedge ineffectiveness on interest rate swaps designated as cash flow hedges was immaterial to the Company s financial statements during the six months ended June 30, 2012 and 2011. The Company does not anticipate material events or transactions within the next twelve months that are likely to result in a reclassification of unrealized gains or losses from accumulated other comprehensive loss to earnings.

Amounts reported in accumulated other comprehensive loss related to derivatives will be reclassified to interest expense as interest payments are made on the Company s variable-rate liabilities. During the next twelve months, the Company estimates that $5.1 million will be reclassified as an increase to interest expense.

Economic hedges

The Company has an interest rate swap with a $13.9 million notional amount to swap out the fixed rate of interest on an economic development bond bearing a fixed rate of 5.09%, currently within the Company s trading portfolio under the fair value option, in exchange for a LIBOR-based floating rate. The intent of the economic hedge is to improve the Company s asset sensitivity to changing interest rates in anticipation of favorable average floating rates of interest over the 21-year life of the bond. The fair value changes of the economic development bond are mostly offset by fair value changes of the related interest rate swap.

The Company also offers certain derivative products directly to qualified commercial borrowers. The Company economically hedges derivative transactions executed with commercial borrowers by entering into mirror-image, offsetting derivatives with third-party financial institutions. The transaction allows the Company s customer to convert a variable-rate loan to a fixed rate loan. Because the Company acts as an intermediary for its customer, changes in the fair value of the underlying derivative contracts mostly offset each other in earnings. Credit valuation adjustments arising from the difference in credit worthiness of the commercial loan and financial institution counterparties totaled $471 thousand as of June 30, 2012. The interest income and expense on these mirror image swaps exactly offset each other.

The Company utilizes forward commitments to sell mortgage backed bonds as economic hedges against the potential decreases in the values of the interest rate lock commitments which are discussed below under Non-hedging derivatives. The forward commitments are free-standing derivatives, which are carried at fair value with changes recorded in non-interest income in the Company s Consolidated Statements of Income.

Non-hedging derivatives

The Company enters into interest rate lock commitments (IRLCs) for residential mortgage loans, which commit the Company to lend funds to a potential borrower at a specific interest rate and within a specified period of time. IRLCs that relate to the origination of mortgage loans that will be held for sale are considered derivative financial instruments under applicable accounting guidance. Outstanding IRLCs expose the Company to the risk that the price of the mortgage loans underlying the commitments may decline due to increases in mortgage interest rates from inception of the rate lock to the funding of the loan. The IRLCs are free-standing derivatives which are carried at fair value with changes recorded in noninterest income in the Company s consolidated statements of income. Changes in the fair value of IRLCs subsequent to inception are based on changes in the fair value of the underlying loan resulting from the fulfillment of the commitment and changes in the probability that the loan will fund within the terms of the commitment, which is affected primarily by changes in interest rates and the passage of time.

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Amounts included in the Consolidated Statements of Income related to economic hedges and non-hedging derivatives were as follows:

(In thousands)	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Economic hedges				
Interest rate swap on industrial revenue bond:				
Net interest expense recognized in interest and dividend income on securities	$ (157)	$ (164)	$ (315)	$ (325)
Unrealized gain recognized in other non-interest income	(654)	(359)	(1,094)	(69)
Interest rate swaps on loans with commercial loan customers:				
Unrealized gain recognized in other non-interest income	2,149	2,511	3,260	940
Reverse interest rate swaps on loans with commercial loan customers:				
Unrealized loss recognized in other non-interest income	(2,149)	(2,511)	(3,260)	(940)
Favorable (unfavorable) change in credit valuation adjustment recognized in other non-interest income	$ (113)	$ (225)	$ 9	$ (183)
Forward Commitments:				
Unrealized gain recognized in other non-interest income	$ (2,131)	$	$ (2,131)	$
Non-hedging derivatives				
Interest rate lock commitments:				
Unrealized gain (loss) recognized in other non-interest income	$ 4,337	$ (23)	$ 4,337	$ (36)

NOTE 13. FAIR VALUE MEASUREMENTS

A description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. These valuation methodologies were applied to all of the Company s financial assets and financial liabilities that are carried at fair value.

Recurring fair value measurements

The following table summarizes assets and financial liabilities measured at fair value on a recurring basis as of June 30, 2012 and December 31, 2011, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value. There were no transfers between levels during the six months ended June 30, 2012.

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(In thousands)	June 30, 2012 Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Trading account security	$	$	$ 17,365	$ 17,365
Available-for-sale securities:				
Municipal bonds and obligations		78,908		78,908
Governmentguaranteed residential mortgage-backed securities		44,051		44,051
Government-sponsored residential mortgage-backed securities		289,635		289,635
Corporate bonds		9,566		9,566
Trust preferred securities		17,857	613	18,470
Other bonds and obligations		739		739
Marketable equity securities	29,999			29,999
Loans held for sale		59,280		59,280
Derivative assets		14,919	4,028	18,947
Derivative liabilities	1,446	30,380		31,826

(In thousands)	December 31, 2011 Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Trading account security	$	$	$ 17,395	$ 17,395
Available-for-sale securities:				
Municipal bonds and obligations		77,854		77,854
Government guaranteed residential mortgage-backed securities		45,096		45,096
Government-sponsored residential mortgage-backed securities		247,611		247,611
Corporate bonds		9,727		9,727
Trust preferred securities		17,271	544	17,815
Other bonds and obligations		644		644
Marketable equity securities	21,009			21,009
Derivative assets		13,926		13,926
Derivative liabilities		26,864	66	26,930

Trading Security at Fair Value. The Company holds one security designated as a trading security. It is a tax advantaged economic development bond issued to the Company by a local nonprofit which provides wellness and health programs. The determination of the fair value for this security is determined based on a discounted cash flow methodology. Certain inputs to the fair value calculation are unobservable and there is little to no market activity in the security; therefore, the security meets the definition of a Level 3 security. The discount rate used in the valuation of the security is sensitive to movements in the 3-month LIBOR rate.

Securities Available for Sale. AFS securities classified as Level 1 consist of publicly-traded equity securities for which the fair values can be obtained through quoted market prices in active exchange markets. AFS securities classified as Level 2 include most of the Company s debt securities. The pricing on Level 2 was primarily sourced from third party pricing services, overseen by management, and is based on models that consider standard input factors such as dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond s terms and condition, among other things. The Company holds one pooled trust preferred security. The security s fair value is based on unobservable issuer-provided financial information and discounted cash flow models derived from the underlying structured pool and therefore is classified as Level 3.

Loans held for sale. The Company elected the fair value option for all loans held for sale (HFS) originated on or after May 1, 2012. Loans HFS are classified as Level 2 as the fair value is based on input factors such as quoted prices for similar loans in active markets.

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June 30, 2012 (In thousands)		Aggregate Fair Value		Aggregate Unpaid Principal		Aggregate Fair Value Less Aggregate Unpaid Principal
Loans Held for Sale	$	59,280	$	57,973	$	1,307

Derivative Assets and Liabilities.

Interest Rate Swap. The valuation of the Company s interest rate swaps is obtained from a third-party pricing service and is determined using a discounted cash flow analysis on the expected cash flows of each derivative. The pricing analysis is based on observable inputs for the contractual terms of the derivatives, including the period to maturity and interest rate curves.

The Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty s nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Company has considered the impact of netting and any applicable credit enhancements, such as collateral postings.

Although the Company has determined that the majority of the inputs used to value its interest rate derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, as of June 30, 2012, the Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. As a result, the Company has determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

Interest Rate Lock Commitments. The Company enters into interest rate lock commitments (IRLCs) for residential mortgage loans, which commit the Company to lend funds to a potential borrower at a specific interest rate and within a specified period of time. The estimated fair value of commitments to originate residential mortgage loans for sale is based on quoted prices for similar loans in active markets. However, this value is adjusted by a factor which considers the likelihood that the loan in a lock position will ultimately close, and by the non-refundable costs of originating the loan. The closing ratio is derived from the Bank s internal data and is adjusted using significant management judgment. The costs to originate are primarily based on the Company s internal commission rates that are not observable. As such, IRLCs are classified as Level 3 measurements.

Forward Commitments. The Company utilizes forward commitments as economic hedges against the potential decreases in the values of the IRLCs. The forward commitments are classified as Level 1 and consist of publicly-traded debt securities for which identical fair values can be obtained through quoted market prices in active exchange markets.

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The table below presents the changes in Level 3 assets that were measured at fair value on a recurring basis at June 30, 2012 and 2011.

(In thousands)	Trading Account Security	Assets Securities Available for Sale	Interest Rate Lock Commitments
Balance as of December 31, 2011	$ 17,395	$ 544	$
Unrealized gain recognized in other non-interest income	(428)		
Unrealized loss included in accumulated other comprehensive loss			
Paydown of trading account security	(120)		
Balance as of March 31, 2012	$ 16,847	$ 544	$
Greenpark Acquisition			2,126
Unrealized (loss) gain recognized in other non-interest income	638		4,337
Unrealized loss included in accumulated other comprehensive loss		69	
Paydown of trading account security	(120)		
Transfers to held for sale loans			(2,435)
Balance as of June 30, 2012	$ 17,365	$ 613	$ 4,028
Unrealized gains (losses) relating to instruments still held at June 30, 2012	$ 3,509	$ (1,988)	$ 4,337

(In thousands)	Assets	
	Trading Account Security	Securities Available for Sale
Balance as of December 31, 2010	$ 16,155	$ 1,695
Unrealized (loss) gain recognized in other non-interest income	(257)	
Unrealized loss included in accumulated other comprehensive loss		498
Paydown of trading account security	(117)	
Balance as of March 31, 2011	$ 15,781	$ 2,193
Unrealized (loss) gain recognized in other non-interest income	357	
Unrealized loss included in accumulated other comprehensive loss		112
Paydown of trading account security	(113)	
Transfer out of Level 3		(1,624)
Balance as of June 30, 2011	$ 16,025	$ 681
Unrealized gains (losses) relating to instruments still held at June 30, 2011	$ 1,694	$ (1,918)

Quantitative information about the significant unobservable inputs within Level 3 recurring assets are as follows:

(In thousands)	Fair Value June 30, 2012	Valuation Techniques	Unobservable Inputs	Significant Unobservable Input Value
Assets				
Trading Account Security	$ 17,365	Discounted Cash Flow	Discount Rate	2.08%

Interest Rate Lock Commitment	4,028	Historical Trend	Closing Ratio	10.00%
		Pricing Model	Origination Costs	34.00%
Total Assets	$ 21,393			

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Non-recurring fair value measurements

The Company is required, on a non-recurring basis, to adjust the carrying value or provide valuation allowances for certain assets using fair value measurements in accordance with GAAP. The following is a summary of applicable non-recurring fair value measurements. There are no liabilities measured at fair value on a non-recurring basis.

(In thousands)	June 30, 2012 Level 3 Inputs	December 31, 2011 Level 3 Inputs	Six months ended June 30, 2012 Total Losses
Assets			
Impaired loans	$ 9,918	$ 11,155	$ 2,531
Capitalized mortgage servicing rights	2,786	3,067	290
Other real estate owned	827	1,900	
Total Assets	$ 13,531	$ 16,122	$ 2,821

Quantitative information about the significant unobservable inputs within Level 3 non-recurring assets are, as follows:

(in thousands)	Fair Value June 30, 2012	Valuation Techniques	Unobservable Inputs	Range (Weighted Average) (a)
Assets				
Impaired loans	$ 9,918	Fair value of collateral	Loss severity	3.26% to 56.08% (20.8%)
			Appraised value	$71.0 to $3,450.0 $(2,279.8)
Capitaized mortgage servicing rights	2,786	Discounted cash flow	Constant prepayment rate (CPR)	13.58% to 22.49% (16.25%)
			Discount rate	11.00% to 15.50% (11.21%)
Other real estate owned	827	Fair value of collateral	Appraised value	$0 to $320.0 $(218.9)
Total Assets	$ 13,531			

(a) Where dollar amounts are disclosed, the amounts represent the lowest and highest fair value of the respective assets in the population except for adjustments for market/property conditions, which represents the range of adjustments to individuals properties.

There were no Level 1 or Level 2 nonrecurring fair value measurements for the periods ended June 30, 2012 and December 31, 2011.

Impaired Loans. Loans are generally not recorded at fair value on a recurring basis. Periodically, the Company records non-recurring adjustments to the carrying value of loans based on fair value measurements for partial charge-offs of the uncollectible portions of those loans. Non-recurring adjustments can also include certain impairment amounts for collateral-dependent loans calculated when establishing the allowance for credit losses. Such amounts are generally based on the fair value of the underlying collateral supporting the loan and, as a result, the carrying value of the loan less the calculated valuation amount does not necessarily represent the fair value of the loan. Real estate collateral is typically valued using appraisals or other indications of value based on recent comparable sales of similar properties or assumptions generally observable in the marketplace. However, the choice of observable data is subject to significant judgment, and there are often adjustments based on judgment in order to make observable data comparable and to consider the impact of time, the condition of properties, interest rates, and other market factors on current values. Additionally, commercial real estate appraisals frequently involve discounting of projected cash flows, which relies inherently on unobservable data. Therefore, real estate collateral related nonrecurring fair value measurement adjustments have generally been classified as Level 3. Estimates of fair value used for other collateral supporting commercial loans generally are based on assumptions not observable in the marketplace and therefore such valuations have been classified as Level 3.

Capitalized mortgage loan servicing rights. A loan servicing right asset represents the amount by which the present value of the estimated future net cash flows to be received from servicing loans are expected to more than adequately compensate the Company for performing the servicing. The fair value of servicing rights is estimated using a present value cash flow model. The most important assumptions used in the valuation model are the anticipated rate of the loan prepayments and discount rates. Adjustments are only recorded when the discounted

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cash flows derived from the valuation model are less than the carrying value of the asset. Although some assumptions in determining fair value are based on standards used by market participants, some are based on unobservable inputs and therefore are classified in Level 3 of the valuation hierarchy.

Other real estate owned (OREO). OREO results from the foreclosure process on residential or commercial loans issued by the Bank. Upon assuming the real estate, the Company records the property at the fair value of the asset less the estimated sales costs. Thereafter, OREO properties are recorded at the lower of cost or fair value. OREO fair values are primarily determined based on Level 3 data including sales comparables and appraisals.

Summary of estimated fair values of financial instruments

The estimated fair values, and related carrying amounts, of the Company s financial instruments follow. Certain financial instruments and all non-financial instruments are excluded from disclosure requirements. Accordingly, the aggregate fair value amounts presented herein may not necessarily represent the underlying fair value of the Company.

	June 30, 2012					December 31, 2011	
(In thousands)	**Carrying Amount**	**Fair Value**	**Level 1**	**Level 2**	**Level 3**	**Carrying Amount**	**Fair Value**
Financial Assets							
Cash and cash equivalents	$ 66,486	$ 66,486	$ 66,486	$	$	$ 75,359	$ 75,359
Trading security	17,365	17,365			17,365	17,395	17,395
Securities available for sale	471,368	471,368	29,999	440,756	613	419,756	419,756
Securities held to maturity	41,822	43,285			43,285	58,912	60,395
Restricted equity securities	37,174	37,174		37,174		37,118	37,118
Net loans	3,332,751	3,425,000			3,425,000	2,924,126	2,990,173
Loans held for sale	59,280	59,280		59,280		1,455	1,455
Accrued interest receivable	12,462	12,462		12,462		11,350	11,350
Cash surrender value of bank-owned life insurance policies	76,290	76,290		76,290		75,009	75,009
Derivative assets	18,947	18,947		14,919	4,028	13,926	13,926
Financial Liabilities							
Total deposits	$ 3,409,705	$ 3,419,918	$	$ 3,419,918	$	$ 3,101,175	$ 3,104,204
Short-term debt	239,030	239,030		239,030		10,000	10,000
Long-term Federal Home Loan Bank advances	213,479	221,879		221,879		211,938	215,008
	15,464	12,934		12,934		15,464	11,436

Junior subordinated debentures							
Derivative liabilities	31,826	31,826	1,446	30,380		26,930	26,930

Other than as discussed above, the following methods and assumptions were used by management to estimate the fair value of significant classes of financial instruments for which it is practicable to estimate that value.

Cash and cash equivalents. Carrying value is assumed to represent fair value for cash and cash equivalents that have original maturities of ninety days or less.

Restricted equity securities. Carrying value approximates fair value based on the redemption provisions of the issuers.

Cash surrender value of life insurance policies. Carrying value approximates fair value.

Loans, net. The carrying value of the loans in the loan portfolio is based on the cash flows of the loans discounted over their respective loan origination rates. The origination rates are adjusted for substandard and special mention loans to factor the impact of declines in the loan s credit standing. The fair value of the loans is estimated by discounting future cash flows using the current interest rates at which similar loans with similar terms would be made to borrowers of similar credit quality.

Accrued interest receivable. Carrying value approximates fair value.

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Deposits. The fair value of demand, non-interest bearing checking, savings and money market deposits is determined as the amount payable on demand at the reporting date. The fair value of time deposits is estimated by discounting the estimated future cash flows using market rates offered for deposits of similar remaining maturities.

Borrowed funds. The fair value of borrowed funds is estimated by discounting the future cash flows using market rates for similar borrowings. Such funds include all categories of debt and debentures in the table above.

Junior subordinated debentures. The Company utilizes a pricing service along with internal models to estimate the valuation of its junior subordinated debentures. The junior subordinated debentures re-price every ninety days.

Off-balance-sheet financial instruments. Off-balance-sheet financial instruments include standby letters of credit and other financial guarantees and commitments considered immaterial to the Company s financial statements.

NOTE 14. NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES

Presented below is net interest income after provision for loan losses for the three and six months ended June 30, 2012 and 2011, respectively.

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	**2012**	**2011**	**2012**	**2011**
Net interest income	$ 35,053	$ 24,201	$ 66,198	$ 44,347
Provision for loan losses	2,250	1,500	4,250	3,100
Net interest income after provision for loan losses	$ 32,803	$ 22,701	$ 61,948	$ 41,247

NOTE 15. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through August 9, 2012, the date the financial statements were issued, noting no events requiring disclosure.

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

Management s discussion and analysis of financial condition and results of operations is intended to assist in understanding the financial condition and results of operations of the Company. The following discussion and analysis should be read in conjunction with the Company s consolidated financial statements and the notes thereto appearing in Part I, Item 1 of this document and with the Company s consolidated financial statements and the notes thereto and Management s Discussion and Analysis of Financial Condition and Results of Operations included in the 2011 Annual Report on Form 10-K. In the following discussion, income statement comparisons are against the same period of the previous year and balance sheet comparisons are against the previous fiscal year-end, unless otherwise noted. Operating results discussed herein are not necessarily indicative of the results for the year 2012 or any future period. In management s discussion and analysis of financial condition and results of operations, certain reclassifications have been made to make prior periods comparable. Tax-equivalent adjustments are the result of increasing income from tax-advantaged securities by an amount equal to the taxes that would be paid if the income were fully taxable based on a 40.2% marginal effective income tax rate.

Berkshire Hills Bancorp (the Company or Berkshire) is headquartered in Pittsfield, Massachusetts. It had \$4.5 billion in assets at June 30, 2012 and is the parent of Berkshire Bank America s Most Exciting BankSM (the Bank). Berkshire completed the acquisition of CBT The Connecticut Bank and Trust Company on April

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20, 2012. Including the CBT operations, Berkshire provides personal and business banking, insurance, and wealth management services through 68 full service branch offices in western Massachusetts, northeastern New York, north central Connecticut, and southern Vermont. Berkshire also operates 10 additional lending offices for commercial and residential mortgage originations in central and eastern Massachusetts. Berkshire Bank provides 100% deposit insurance protection on all deposit accounts, regardless of amount, based on a combination of FDIC insurance and membership in the Depositors Insurance Fund (DIF). For more information, visit www.berkshirebank.com or call 800-773-5601.

Berkshire is a regional financial services company that seeks to distinguish itself based on the following attributes:

- Strong growth from organic, de novo, product and acquisition strategies
- Positive operating leverage elevating long term profitability
- Solid capital, core funding and risk management culture
- Experienced executive team focused on earnings and stockholder value
- Distinctive brand and culture as America s Most Exciting BankSM
- Diversified integrated financial service revenues
- Positioned to be regional consolidator in attractive markets

FORWARD-LOOKING STATEMENTS

Certain statements contained in this document that are not historical facts may constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (referred to as the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (referred to as the Securities Exchange Act), and are intended to be covered by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. One can identify these statements from the use of the words may, will, should, could, would, pla potential, estimate, project, believe, intend, anticipate, expect, target and similar expressions. These forward-looking statements are significant risks, assumptions and uncertainties, including among other things, changes in general economic and business conditions.

Additional factors that could cause results to differ materially from those described in the forward-looking statements can be found in the Registration Statement on Form S-4 that includes a Proxy Statement/Prospectus filed by Berkshire Hills Bancorp with the SEC on July 3, 2012 related to the acquisition of Beacon Federal Bancorp. This document contains forward-looking statements about the merger of Berkshire Hills Bancorp and Beacon. Certain factors that could cause actual results to differ materially from expected results include difficulties in achieving cost savings from the merger or in achieving such cost savings within the expected time frame, difficulties in integrating Berkshire Hills Bancorp and Beacon, increased competitive pressures, changes in the interest rate environment, changes in general economic conditions, legislative and regulatory changes that adversely affect the business in which Berkshire Hills Bancorp and Beacon are engaged, changes in the securities markets and other risks and uncertainties disclosed from time to time in documents that Berkshire Hills Bancorp files with the Securities and Exchange Commission.

Other factors that could cause results to differ materially from those described in the forward-looking statements can be found in the definitive Proxy Statement/Prospectus filed by Berkshire Hills Bancorp with the SEC on February 27, 2012 for the acquisition of The Connecticut Bank and Trust Company (CBT). This document contains forward-looking statements about the merger of Berkshire Hills Bancorp and CBT. Certain factors that could cause actual results to differ materially from expected results include difficulties in achieving cost savings from the merger or in achieving such cost savings within the expected time frame, difficulties in integrating Berkshire Hills Bancorp and CBT, increased competitive pressures, changes in the interest rate environment, changes in general economic conditions, legislative and regulatory changes that adversely affect the business in which Berkshire Hills Bancorp and CBT are engaged, changes in the securities markets and other risks and uncertainties disclosed from time to time in documents that Berkshire Hills Bancorp files with the Securities and Exchange Commission.

Because of these and other uncertainties, Berkshire s actual results, performance or achievements, or industry results, may be materially different from the results indicated by these forward-looking statements. In addition, Berkshire s past results of operations do not necessarily indicate Berkshire s combined future results. You should

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not place undue reliance on any of the forward-looking statements, which speak only as of the dates on which they were made. Berkshire is not undertaking an obligation to update these forward-looking statements, even though its situation may change in the future, except as required under federal securities law. Berkshire qualifies all of its forward-looking statements by these cautionary statements.

GENERAL

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

APPLICATION OF CRITICAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES, AND NEW ACCOUNTING PRONOUNCEMENTS

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

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

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

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

Income Taxes. Significant management judgment is required in determining income tax expense and deferred tax assets and liabilities. The Company uses the asset and liability method of accounting for income taxes in which deferred tax assets and liabilities are established for the temporary differences between the financial reporting basis and the tax basis of the Company s assets and liabilities. The realization of the net deferred tax asset generally depends upon future levels of taxable income and the existence of prior years taxable income, to which carry back refund claims could be made. A valuation allowance is maintained for deferred tax assets that

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management estimates are more likely than not to be unrealizable based on available evidence at the time the estimate is made. In determining the valuation allowance, the Company uses historical and forecasted future operating results, based upon approved business plans, including a review of the eligible carry-forward periods, tax planning opportunities and other relevant considerations. These underlying assumptions can change from period to period. For example, tax law changes or variances in future projected operating performance could result in a change in the valuation allowance. Should actual factors and conditions differ materially from those considered by management, the actual realization of the net deferred tax asset could differ materially from the amounts recorded in the financial statements. If the Company is not able to realize all or part of its net deferred tax asset in the future, an adjustment to the deferred tax asset valuation allowance would be charged to income tax expense in the period such determination was made.

Goodwill and Identifiable Intangible Assets. Goodwill and identifiable intangible assets are recorded as a result of business acquisitions and combinations. These assets are evaluated for impairment annually or whenever events or changes in circumstances indicate the carrying value of these assets may not be recoverable. When these assets are evaluated for impairment, if the carrying amount exceeds fair value, an impairment charge is recorded to income. The fair value is based on observable market prices, when practicable. Other valuation techniques may be used when market prices are unavailable, including estimated discounted cash flows and market multiples analyses. These types of analyses contain uncertainties because they require management to make assumptions and to apply judgment to estimate industry economic factors and the profitability of future business strategies. In the event of future changes in fair value, the Company may be exposed to an impairment charge that could be material.

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

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

For additional information regarding critical accounting policies, refer to Note 1 Summary of Significant Accounting Policies in the notes to consolidated financial statements and the sections captioned Critical Accounting Policies and Loan Loss Allowance in Management s Discussion and Analysis of Financial Condition and Results of Operations included in the 2011 Form 10-K. There have been no significant changes in the Company s application of critical accounting policies since year-end 2011. Please refer to the note on Recent Accounting Pronouncements in Note 2 to the consolidated financial statements of this report for a detailed

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discussion of new accounting pronouncements. Please also see Note 1 in the consolidated financial statements for Election of the Use of the Fair Value Option.

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SELECTED FINANCIAL DATA

The following summary data is based in part on the consolidated financial statements and accompanying notes, and other information appearing elsewhere in this Form 10-Q.

	At or for the Three Months Ended June 30, 2012	2011	At or for the Six Months Ended June 30, 2012	2011
PER COMMON SHARE DATA				
Net earnings, diluted	$ 0.37	$ 0.11	$ 0.65	$ 0.31
Total common book value	26.31	26.61	26.31	26.61
Dividends	0.17	0.16	0.34	0.32
Common stock price:				
High	23.49	22.85	24.49	22.92
Low	20.15	20.45	20.15	20.45
Close	22.00	22.39	22.00	22.39
PERFORMANCE RATIOS (1)				
Return on average assets	0.73%	0.23%	0.66%	0.31%
Return on average common equity	5.58	1.67	4.90	2.28
Net interest margin, fully taxable equivalent	3.70	3.52	3.66	3.41
Fee income/Net interest and fee income	25.52	25.58	24.54	26.96
ASSET QUALITY RATIOS				
Net charge-offs (current period annualized)/average loans	0.25%	0.24%	0.24%	0.27%
Allowance for loan losses/total loans	0.98	1.30	0.98	1.30
CAPITAL RATIOS				
Stockholders equity to total assets	12.94%	13.80%	12.94%	13.80%
FINANCIAL DATA: *(In millions)*				
Total assets	$ 4,508	$ 3,226	$ 4,508	$ 3,226
Total loans	3,366	2,452	3,366	2,452
Allowance for loan losses	33	32	33	32
Other earning assets	649	411	649	411
Total intangible assets	240	193	240	193
Total deposits	3,410	2,486	3,410	2,486
Total borrowings and debentures	468	261	468	261
Total common stockholders equity	583	445	583	445
FOR THE PERIOD: *(In thousands)*				
Net interest income	$ 35,053	$ 24,201	$ 66,198	$ 44,347
Provision for loan losses	2,250	1,500	4,250	3,100
Non-interest income	12,288	8,170	22,090	16,304
Non-interest expense	34,184	28,623	64,378	51,812
Net income	7,986	1,877	13,830	4,712

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

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

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AVERAGE BALANCES AND AVERAGE YIELDS/RATES

The following table presents average balances and an analysis of average rates and yields on an annualized fully taxable equivalent basis for the periods included.

	Three Months Ended June 30,				Six Months Ended June 30,			
	2012		2011		2012		2011	
($ In millions)	Average Balance	Yield/Rate (FTE basis)	Average Balance	Yield/Rate (FTE basis)	Average Balance	Yield/Rate (FTE basis)	Average Balance	Yield/Rate (FTE basis)
Assets								
Loans:								
Residential mortgages	$ 1,167	4.64%	$ 802	4.97%	$ 1,112	4.64%	$ 727	5.01%
Commercial loans	1,742	5.00	1,308	4.78	1654	4.95	1,261	4.71
Consumer loans	375	3.93	311	3.97	371	3.96	296	3.80
Total loans	3,284	4.75	2,421	4.74	3,137	4.73	2,284	4.70
Securities	549	3.30	406	4.07	537	3.29	405	4.04
Short-term investments and loans held for sale	47	0.06	5	0.19	31	0.06	8	0.16
Total earning assets	3,880	4.49	2,831	4.64	3,705	4.49	2,697	4.58
Other assets	472		383		466		349	
Total assets	$ 4,352		$ 3,214		$ 4,171		$ 3,046	
Liabilities and stockholders equity								
Deposits:								
NOW	$ 297	0.30%	$ 230	0.31%	$ 285	0.28%	$ 223	0.32%
Money market	1,136	0.49	778	0.69	1,111	0.52	762	0.72
Savings	370	0.18	317	0.26	365	0.19	276	0.28
Time	1,039	1.44	810	2.00	1,011	1.47	774	2.09
Total interest-bearing deposits	2,842	0.78	2,135	1.08	2,772	0.80	2,035	1.14
Borrowings and debentures	399	2.14	270	3.10	328	2.65	250	3.36
Total interest-bearing liabilities	3,241	0.95	2,405	1.31	3,100	0.98	2,285	1.38
Non-interest-bearing demand deposits	499		334		469		314	
Other liabilities	39		25		39		26	
Total liabilities	3,779		2,764		3,608		2,625	
Total stockholders equity	573		450		563		421	
Total liabilities and stockholders equity	$ 4,352		$ 3,214		$ 4,171		$ 3,046	
Net interest spread		3.54%		3.33%		3.50%		3.20%
Net interest margin		3.70		3.52		3.66		3.41
Cost of funds		0.82		1.15		0.86		1.22
Cost of deposits		0.66		0.94		0.68		0.99
Supplementary data								

Total deposits (In millions)	$ 3,341	$ 2,469	$ 3,241	$ 2,349
Fully taxable equivalent income adj. (In thousands)	$ 638	$ 675	$ 1,307	$ 1,354

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

(2) The average balance for securities available for sale is based on amortized cost. The average balance of equity also reflects this adjustment.

(3) The above schedule includes yields associated with discontinued operations, although the related income is excluded from income from continuing operations on the income statement. The above schedule includes balances associated with discontinued operations.

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SUMMARY

During the second quarter and first half of 2012, Berkshire recorded significant growth in loans, deposits, revenues, and earnings as a result of its initiatives to build its franchise. There was general improvement of profitability, and measures of capital, asset quality, and liquidity remained favorable. Most lines of business produced larger business volumes and improved pricing spreads. Improvement has been focused in areas where Berkshire has been investing for growth, including commercial banking and regional expansion in Central/Eastern New York and Central/Eastern Massachusetts.

First half 2012 highlights were as follows (revenue and earnings growth is compared to the first half of 2011; loan and deposit growth is compared to year-end 2011):

- 46% revenue growth,
- 194% increase in net income
- 110% increase in earnings per share
- 14% loan growth
- 10% deposit growth
- 3.66% net interest margin
- 0.60% non-performing assets/total assets
- 0.24% annualized net loan charge-offs/average loans

During the most recent quarter, Berkshire completed the acquisition of CBT - The Connecticut Bank and Trust Company on April 20, 2012. Berkshire has added 8 Connecticut branch offices, increasing its full service banking offices to 68, including new offices opened in the New York region in 2012. Berkshire also completed the acquisition of the operations of Greenpark Mortgage on April 30, 2012. The Greenpark acquisition has added eight new lending offices in Central/Eastern Massachusetts. These acquisitions were completed on time and on plan. They increase Berkshire s footprint, add new opportunities for cross sales across Berkshire s business lines, and improve the diversity of revenue sources.

COMPARISON OF FINANCIAL CONDITION AT JUNE 30, 2012 AND DECEMBER 31, 2011

Summary: Berkshire maintained positive growth momentum from business development in targeted business lines, while managing other balances in connection with the acquisitions of CBT and Greenpark. Total assets increased by 13% to $4.5 billion from $4.0 billion, including approximately $0.3 billion related to CBT and $0.1 billion related to Greenpark. Total equity increased by $30 million, primarily due to $22 million in common stock issued for CBT merger consideration. Total intangible assets increased by $17 million primarily due to merger related goodwill and core deposit intangibles. Most major categories of assets, liabilities, and equity increased as a result of the business combinations. Including the acquired balances, overall measures of asset quality, capital, and liquidity remained favorable. Assets and liabilities from discontinued operations at year-end 2011 were related to four former Legacy New York branches which were divested in January 2012.

Securities: Total investment securities increased by $35 million (6%) to $568 million due to $41 million added from CBT. To conform with Berkshire s investment objectives, a significant portion of the CBT investment portfolio was sold around the time of the merger. Held to maturity securities decreased due to runoff related to refinancing by a limited number of issuers. Securities purchases consisted mainly of structured U.S. agency collateralized mortgage obligations with targeted average lives in the 2 5 year range. Berkshire also continues to invest in dividend yielding equity securities of local financial institutions. The yield on investment securities improved to 3.30% in the second quarter of 2012 compared to 3.26% in the final quarter of 2011. Berkshire continues to maintain a high quality, relatively short duration investment portfolio, and to focus on loan growth as the primary use of funds from deposit growth and the primary source of interest income. The average life of the available for sale debt securities portfolio was estimated at 3.7 years at midyear, compared to 4.2 years at the start of the year.

The unrealized gain on investment securities remained unchanged at 2% of amortized cost. The Company did not record any material losses or write-downs of investment securities in the first half of the year and none of the Company s investment securities was other-than-temporarily impaired at mid-year. Losses on securities with unrealized

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losses declined to $3 million from $4 million. Included in this total was one pooled trust preferred security with a cost of $2.6 million and an unrealized loss of $2.0 million at midyear, which was down slightly from $2.1 million at year-end 2011. Interest payments have been suspended on this security, but it is classified as performing based on the Company s financial analysis, and the impairment is viewed as temporary. This security is described more fully in the notes to the consolidated financial statements. There were several downgrades of corporate bonds and single issuer trust preferred securities during the most recent quarter, due primarily to changes in the ratings environment for large financial institutions.

Loans. Total loans increased by $409 million (14%) in the first half of the year, including $210 million in acquired CBT loans and $173 million in residential mortgage portfolio growth. An ongoing focus of Berkshire s lending program is the growth of commercial loans, with an emphasis on commercial business loans where the Company believes it has the strongest competitive advantage and which are expected to result in strong relationships and use of a variety of Berkshire s products and services. The total increase in commercial loans was $234 million, including $187 million in balances acquired with CBT. Excluding these CBT loans, the net increase in commercial loans from business activities was $47 million, or 6% on an annualized basis. This growth included a $27 million increase in the asset based lending portfolio.

Commercial loan growth in the first half of the year included contributions from Berkshire s new Central/Eastern Massachusetts commercial banking team located in Westborough, together with the contributions of its asset based lending team located in Woburn and its New York commercial lending team based in Albany. In conjunction with its second quarter acquisition of The Connecticut Bank & Trust Company, Berkshire expects to develop its commercial lending footprint in the Worcester, Springfield, Hartford triangle, as well as continuing to enhance its commercial presence in eastern Massachusetts. Berkshire continues to take commercial market share from national competitors as a result of the capabilities and responsiveness of the commercial banking teams that it has recruited in recent years. Berkshire is adhering to strong underwriting and pricing disciplines as it captures larger market share with high grade loan originations in all of its commercial lending areas. Berkshire has also enhanced its small business lending program, including servicing smaller relationships through its branch network, and these relationships are expected to contribute more to future loan growth.

The $173 million increase in the residential mortgage portfolio included $7 million in acquired CBT mortgages, and a $166 million (16%) increase in balances from business activities. This increase consisted of fixed rate mortgages which were originated in the first half of the year in the strong refinancing market that developed due to low interest rates and some firming of local real estate markets. The increase included mortgages which were purchased from Greenpark Mortgage prior to its acquisition date, together with mortgage originations by Greenpark mortgage after the acquisition date. The increase was net of certain mortgages sold in the first half of the year. Berkshire utilized forward starting interest rate swaps to maintain an overall asset sensitive interest rate risk profile as measured by the sensitivity of net interest income. Berkshire, and its new Greenpark Mortgage division, originates conforming and jumbo residential mortgages. The Company expects to increase secondary market sales of newly originated mortgages in the second half of the year, with less portfolio growth as a consequence. For mortgages targeted for sale, the Company hedges its interest rate risk on rate locked mortgage applications through the use of derivatives contracts, supplemented by best efforts forward mortgage sales.

The acquired CBT loans had a carrying value $215.8 million and a fair value of $209.6 million. The resulting $6.2 million fair value discount equated to 2.9% of the carrying value. In the two calendar quarters prior to the acquisition, CBT s net loan charge-offs totaled $2.9 million (1.3% of the carrying value at acquisition date). The nonaccretable portion of the $6.2 million discount totaled $5.6 million, which equated to 23% of the $23.7 million carrying value of the related loans. The acquired CBT loans were concentrated in commercial loans, with a fair value of $187 million, and consisting primarily of small business loans in the Greater Hartford area.

The loan yield was 4.75% in the most recent quarter, and included the 0.07% benefit of yield accretion on a loan prepayment. Excluding this benefit, the yield was 4.68% in the most recent quarter, compared to 4.74% in the fourth quarter of 2011. This decline in yield reflects the impact of the lower interest rate environment on loan prepayments and originations. The yield on loans in the most recent quarter included the benefit of acquired CBT commercial loans with higher than normal credit risk, which are assigned higher yields reflecting market yield requirements for these assets. The overall yield on the CBT loan portfolio was established at 6.0% based on the initial yield requirements as of the merger date.

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Asset Quality. Acquired loans are recorded at fair value and are categorized as performing regardless of their payment status. Therefore, some overall portfolio measures of asset performance are not comparable between periods or among institutions as a result of recent business combinations.

The level of non-performing assets was $27 million at midyear, a slight increase compared to $26 million at the start of the year. The write-down and resolution of a commercial foreclosed property and a commercial real estate loan were offset by a new non-performing commercial real estate loan and an increase in non-accruing residential mortgages. As noted above, all acquired CBT loans were classified as performing. As a result, the ratio of non-performing assets to total assets decreased to 0.60% of total assets from 0.65% at year-end 2011. The largest nonperforming asset at midyear was approximately $3 million.

Accruing loans over 90 days past due increased to 0.51% of total loans at midyear compared to 0.34% at the start of the year, primarily due to the addition of past due CBT loans which are classified as accruing under accounting principles for business combinations. Loans delinquent 30-89 days decreased to 0.41% of total loans from 0.55%. Foreclosed assets and troubled debt restructurings remained insignificant through midyear. Net loan charge-offs remained comparatively low at 0.24% of average loans in the first half of 2012.

Classified loans are loans rated substandard or lower in the Company s internal risk rating system. The ratio of classified loans/total loans remained unchanged at 4.1%, and the increase in classified loans was primarily related to acquired CBT commercial loans. Classified loans include non-accruing loans, which were unchanged at 0.8% of total loans. The remaining loans, measuring 3.3% of total loans, represent potential problem loans which could become non-performing based on known risks. Included in these loans are acquired loans with credit impairment at acquisition date. These loans were recorded at fair value at acquisition date and are generally being maintained as performing loans. The acquired classified loans were 1.1% of total loans at midyear, compared to 0.6% at the start of the year. Special mention loans are loans with higher than normal credit risk which do not warrant classification. These loans increased to 1.6% of total loans from 1.3%, primarily due to acquired CBT commercial loans.

Loan Loss Allowance. The determination of the allowance for loan losses is a critical accounting estimate. The Company considers the allowance for loan losses appropriate to cover probable losses which can be reasonably estimated and which are inherent in the loan portfolio as of the balance sheet date. Under accounting standards for business combinations, acquired loans are recorded at fair value with no loan loss allowance on the date of acquisition. A loan loss allowance is recorded by the Company for the emergence of new probable and estimable losses relating to acquired loans which were not impaired as of the acquisition date. Because of the accounting for acquired loans, some measures of the loan loss allowance are not comparable to periods prior to the acquisition date. The ratio of the allowance to non-performing loans was 126% at midyear, and the allowance measured 4.3X annualized first half net loan charge-offs.

The total amount of the loan loss allowance increased to $32.9 million from $32.4 million. The allowance related to loans from business activities was flat at $32 million, and the ratio of this allowance to loans from business activities decreased to 1.26% from 1.41%. The majority of the growth in this portfolio was in residential mortgage loans, which have lower inherent losses than other loan categories. The allowance related to impaired loans from business activities was little changed, totaling $2.9 million at midyear. The $0.5 million increase in the total allowance was related to the allowance for acquired loans and primarily reflected the emergence of new inherent losses in non-impaired loans due to the passage of time for loans acquired in bank mergers in 2011.

Other Assets. Loans held for sale increased to $59 million from $1 million due to the acquisition of the Greenpark Mortgage operations. For loans held for sale, Berkshire enters into mandatory delivery or best efforts sale contracts with institutional secondary market purchasers. Total goodwill increased by $18 million including $14 million recorded for the CBT acquisition and $4 million recorded for the Greenpark acquisition. The net deferred tax asset totaled $40.7 million at midyear, compared to $39.7 million at year end 2011.

Deposits and Borrowings. Total deposits increased by $309 million (10%) to $3.41 billion during the first half of the year, including $210 million in acquired CBT balances. Excluding the acquired balances, total deposits from business activities increased by $98 million at a 6% annualized rate. Non-maturity deposits from business activities increased at a 9% annualized rate, with increases in all major account categories. Berkshire continues to

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promote lower cost relationship oriented accounts in all of its markets, along with commercial deposits associated with its increased originations of commercial business loans and small business loans. Berkshire has also benefited from ongoing de novo branch expansion in its Albany, New York region. Time deposits from business activities were flat during the first half of the year, as the Company allowed higher cost maturing time account balances to roll off in the second quarter. The acquired CBT deposits included non-maturity accounts totaling $139 million and time deposits totaling $72 million serviced by CBT s eight branches in the Hartford region.

The cost of deposits decreased to 0.66% in the most recent quarter from 0.73% in the fourth quarter of 2011, reflecting reductions in all major categories of interest bearing accounts. Deposit costs reflect Berkshire s pricing disciplines in the current low interest rate environment, along with the impact of the acquired deposit balances. The cost of time deposits was 1.44% in the most recent quarter., compared to 1.52% in the fourth quarter of 2011. Time accounts maturing in the second half of 2012 total approximately $335 million and have an average cost of approximately 1%. Berkshire anticipates that the cost of these deposits will decrease when they are renewed. The initial cost established for the CBT time deposits based on the fair value analysis on the merger date was 0.63%.

Total borrowings increased by $230 million (97%) to $468 million, including $39 million in acquired CBT borrowings, $59 million related to the Greenpark mortgage loans held for sale, and $132 million which was combined with deposit growth to fund the $199 million increase in loans from business activities. The new borrowings all consisted of low cost overnight FHLBB advances as of June 30, 2012. Including these lower cost funds, the cost of borrowings decreased to 2.14% in the most recent quarter from 3.35% in the fourth quarter of 2011. Berkshire had approximately $440 million in additional borrowing capacity with the FHLBB at midyear. Despite the increase in borrowings, Berkshire s loan/deposit ratio remained below 100%, measuring 99% at midyear.

Derivative Financial Instruments and Hedging Activities. The total notional value of derivatives increased by $433 million (75%) to $1.011 billion at midyear from $578 million at the start of the year. The increase was primarily related to a $343 million increase in derivatives related to mortgage banking activities, together with an $80 million increase in forward starting cash flow hedges related to asset liability management and the increase in the residential mortgage portfolio.

Due to the acquisition of the Greenpark Mortgage operations, Berkshire significantly increased its residential mortgage originations and hedging activities. As a result, interest rate lock commitments for applications in process and intended for sale increased to $215 million and were 79% hedged by derivative financial instruments consisting of forward sales of mortgage backed securities totaling $170 million. For these loans, at the loan closing the Bank expects to enter into mandatory sales commitments to established institutional non-government secondary market purchasers and to terminate the offsetting financial derivative hedge at that time. The remaining $45 million balance of rate locked commitments included an estimated amount related to expected fallout, with the balance covered by best efforts forward mortgage sales to secondary market purchasers. The sale contracts to secondary market purchasers are not recorded as derivatives.

As noted above, the Company funded its $173 million net increase in residential mortgages with deposits and overnight borrowings. In order to hedge some of the interest rate risk related to the borrowings, the Company entered into forward starting hedges totaling $80 million. On average, the forward starting interest rate swaps begin in 1.5 years and have an average life of 4.4 years once swaps are started. The fair value unrealized loss on cash flow hedges increased by $2 million to $11 million during the first half of the year due to the decrease in interest rates. This unrealized loss was offset by unrealized gains in the fair value of loans due to the interest rate environment.

Stockholders Equity. Total stockholders equity increased by $30 million (5%), including $22 million in common stock issued as CBT merger consideration. Berkshire issued 965 thousand shares for the CBT acquisition at an average value of $22.80 based on the closing price of Berkshire s stock prior to the acquisition. For the first half of 2012, net income of $14 million funded cash stock dividends to our shareholders of

$7 million and contributed to a $6 million increase in retained earnings. During the first half of the year, 64 thousand restricted stock grants were recorded for $1.5 million, primarily pursuant to the Company   s equity compensation plan, with most vesting on an annual step basis over three years based on time and performance criteria.

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The ratio of tangible equity/ tangible assets decreased to 8.0% from 8.8% during the first half of the year. Tangible equity is a non-GAAP financial measure commonly used by investors and it excludes goodwill and intangible assets, which increased by $17 million to $240 million due to the CBT and Greenpark goodwill. The increase in intangibles mostly offset the increase in equity from the CBT merger consideration, and the ratio of tangible equity/tangible assets decreased due to the 13% increase in total assets. Tangible book value per share was $15.49 at midyear compared to $15.60 at the start of the year. Retained earnings mostly offset the estimated dilutive impact of business combinations for CBT and Greenpark. Total book value per share was $26.31 at midyear, compared to $26.17 at the start of the year. Berkshire Bank s risk based capital ratio measured 10.3% at midyear, compared to 11.3% at the start of the year. This reflected the business combinations, the growth in loans from business activities, and adjustments to certain risk weighting factors. The ratio of equity/assets decreased to 12.9% from 13.9% due to the asset growth.

COMPARISON OF OPERATING RESULTS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2012 AND 2011

Summary: Berkshire s results included Rome operations acquired on April 1, 2011, Legacy operations acquired on July 21, 2011, CBT operations acquired on April 20, 2012, and Greenpark Mortgage operations acquired on April 30, 2012. As a result, most categories of revenue and expense increased due to these acquisitions. Earnings per share were affected by the issuance of additional Berkshire common shares related to these acquisitions. All references to revenue and expense in this discussion exclude discontinued operations of Legacy branches, which were divested in the fourth quarter of 2011 and the first quarter of 2012.

Berkshire s second quarter net income was $8.0 million ($0.37 per share) in 2012, compared to $1.9 million ($0.11 per share) in 2011. For the first half of the year, net income totaled $13.8 million ($0.65 per share) in 2012, compared to $4.7 million ($0.31 per share) in 2011. Results in all periods included merger and conversion related charges. Most profitability measurements before these charges improved including the benefit of the business combinations and positive operating leverage related to higher revenues from business activities and disciplined expense management. The return on assets increased to 0.73% in the most recent quarter, after 0.20% in net charges related to the after-tax impact of merger and conversion related items. In this quarter, the return on equity was 5.6%, after the 1.6% impact of the above-mentioned net charges. Berkshire believes that its results show good progress towards its objectives to produce a return on assets exceeding 1% and a return on equity exceeding 10%. Including the benefit of the pending Beacon acquisition before year-end 2012, Berkshire plans to make further progress towards achieving these profitability objectives. The Company has maintained an asset sensitive net interest income profile, as management has chosen to sacrifice current yield to protect earnings in the event of future rate increases. The Company is also absorbing the costs of ongoing branch and business expansion in its cost of operations.

Revenue. Second quarter total net revenue increased by 46% to $47 million in 2012 compared to 2011. For the first half of the year, net revenue increased by 46% to $88 million. This included the benefit of organic growth as well as the business combinations. Revenue per share increased by 11% for the second quarter and by 4% for the first half of the year. Annualized revenue per share reached $8.68 in the most recent quarter. Most of the revenue growth was recorded in net interest income, since the acquired banks had a lower proportion of fee income sources. Non-interest income measured 26% of total net revenue in the most recent quarter. Berkshire targets to increase the ratio of fee income to total net revenue to 30% or higher as a result of additional cross sales in new markets along with further wallet share growth in existing markets. Additionally, the acquisition of Greenpark is targeted to increase the percentage of total annual revenue provided by fee income.

Net Interest Income. Second quarter net interest income increased by 45% to $35 million in 2012 compared to 2011. For the first half of the year, net interest income increased by 49% to $66 million. This included the benefit of organic growth as well as the business combinations. Average earning assets increased by 37% in the second quarter and first half of 2012 compared to 2011. The net interest margin improved to 3.70% from 3.52% in the second quarter and to 3.66% from 3.41% in the first half of 2012 compared to 2011. The improvement in the margin resulted from slight increases in loan yields together with significant reductions in funding costs. Acquired bank loans and deposits are marked to fair value based on market interest rates at the time of the completion of the merger. Additionally, acquired loans with higher than normal credit risk are assigned higher asset yields based on market expectations for such loans, and all non-performing acquired loans are classified as accruing based on the imputed asset yields. The benefit of these loan yields has offset the loan

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yield compression generally being experienced in the industry due to the low interest rate environment. This environment has also contributed to the reduction in funding costs. Berkshire maintains a close focus on its loan and deposit pricing disciplines to lessen the potential for margin compression. Berkshire has also balanced its portfolio growth and funding sources to support the net interest margin and to support the ongoing organic growth in market share as it continues to pursue strategic growth in its regional markets. Of note, the acquired loan portfolios are recorded at a net discount to the contractual loan balance due to the impact of loans with higher than normal risk, and this discount is accreted into interest income over the expected lives of the related loans. Net interest income from accretion on acquired loans was $0.5 million in the first quarter of 2012 and was net of charges related to accelerated prepayments of premium residential mortgages. Net interest income from accretion on acquired loans in the second quarter of 2012 was $1.2 million and included a $0.6 million credit related to the early prepayment of one discounted acquired commercial mortgage. Volatility in prepayment patterns and in the workout of acquired problem assets can introduce up to five or more basis points of volatility in the net interest margin from quarter to quarter. Berkshire maintains an asset sensitive interest rate risk profile so that any future rate increases from the current low rate environment are expected to benefit net interest income.

Non-Interest Income. Non-interest income increased by 50% to $12.3 million in the second quarter and by 35% to $22.1 million in the second half of 2012 compared to 2011. This included the benefit of organic growth as well as the business combinations. Second quarter non-interest income included a $2.2 million increase in loan related revenue due to the contribution of the new Greenpark operations, which are stated net of direct costs of loan originations. Loan fees also included higher secondary market income related to other residential mortgage sales. Second quarter deposit related fees increased by 18% from year-to-year, primarily due to a 35% increase in average balances. The second quarter ratio of annualized deposit fees to average deposits decreased to 0.47% from 0.55% due primarily to the lower fee services offered by the acquired banks. Six month insurance fees decreased due to a change in Berkshire s arrangements with its insurance carriers. Beginning in 2012, Berkshire has renegotiated its compensation arrangements with insurance carriers to substantially reduce the reliance on seasonal contingency income without reducing expected total yearly income. In previous years, Berkshire has had significant seasonality in its insurance revenues in the first two quarters of the year. Berkshire is experiencing some improvement in business volume and pricing conditions in its insurance business lines. Berkshire has also produced new business development in its wealth management business at an annualized rate in excess of 10% in 2012. Included in other non-interest income for the first half of 2012 is a $1.3 million credit for income on bank owned life insurance policies. Additionally, the Company records a loss on investment tax credit limited partnership interests which is offset by a credit to income tax expense representing the net tax benefit of these investments in renewable energy, low income housing, and other tax credit partnerships.

Loan Loss Provision. The provision for loan losses is a charge to earnings in an amount sufficient to maintain the allowance for loan losses at a level deemed adequate by the Company as an estimate of the probable and estimable loan losses inherent in the portfolio as of period-end. The level of the allowance is a critical accounting estimate, which is subject to uncertainty. The level of the allowance was included in the discussion of financial condition. The loan loss provision increased in 2012 compared to 2011 due primarily to the impact on the allowance of growth in the balance of loans from business activities, along with general reserves recorded on acquired loans based on inherent losses emerging after acquisition date. The provision exceeded the level of net loan charge-offs, resulting in an increase in the total allowance for loan losses.

Non-Interest Expense. Non-interest expense increased in 2012 primarily due to the impact of the business combinations, together with costs related to organic growth. Non-interest expense included merger and conversion related expenses in both 2012 and 2011. These charges included costs related to the business combinations and systems conversions costs related to the core systems conversion planned for later in 2012. Total annualized non-interest expense measured 3.14% of average assets in the most recent quarter, compared to 3.56% in the second quarter of 2011. Excluding merger and conversion related expenses, the total measured 2.77% compared to 2.88% for these periods, respectively. The Company believes that this demonstrates the improvement in its ongoing efficiency as a result of its growth and disciplined expense management. Of note, non-interest expense also includes noncash charges for the amortization of intangible assets, which increased as a result of the bank acquisitions, and which measured 0.12% of average assets in both of the above periods. Full time equivalent staff totaled 904 at June 30, 2012, including 51 positions added as a result of the CBT acquisition and 94 positions added as a result of the acquisition of the Greenpark operations. The Company had 760 full time equivalent positions at the start of the year, before these acquisitions. Excluding the CBT and Greenpark staff, the

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rest of the staff totaled 759 positions at midyear, decreasing by one position despite the continuing organic and de novo expansion of the Company.

Income from Continuing and Discontinued Operations. Income from continuing operations was identical to net income for all periods except the first half of 2012 as a result of the sale of four former Legacy branches in January. The $0.6 million net loss from discontinued operations included the costs of completing the sale, and a $0.4 million charge to income tax expense due to the non-deductibility of the goodwill associated with these branches.

Income from continuing operations was net of income tax expense. The effective tax rate for this income in the second quarter was 27% in 2012 and 17% in 2011. For the first half of the year, the rate was 26% in 2012 and 18% in 2011. The tax rate for the year 2011 was 25% and is expected to be approximately 32% for the remainder of 2012. The increase in rate is primarily due to the higher level of pretax income and the lower proportionate benefit of tax advantaged income from investments and bank owned life insurance. The lower rates in the first half of 2011 were calculated before the effects of the Legacy merger, which had the impact of increasing pretax income and reducing the proportionate benefit of tax advantaged items.

Results of Segment and Parent Operations. Berkshire Hills Bancorp (the Parent) has two subsidiary operating segments banking and insurance. Results in the banking segment generally followed the levels and trends of consolidated results, which have been previously discussed. In the insurance segment, first half revenues decreased from year-to-year as a result of the reduction in seasonal contingency income resulting from the renegotiation of contracts with insurance carriers. Seasonal insurance earnings were similarly reduced. Parent non-interest expense included merger related charges in both years. Most of the parent s revenues are non-taxable revenues from subsidiaries, and the Parent therefore receives a tax benefit related to the taxable loss generated by its expenses.

Total Comprehensive Income. Total comprehensive income includes net income together with other net comprehensive income. Total comprehensive income was within 10% of net income for all periods reported except for the first half of 2011. In most periods, interest rate related changes in the fair value of securities were generally offset by changes in the fair value of derivative hedges. In the first half of 2011, due to changes in the first quarter, unrealized gains on available for sale securities were the primary contributor to other net comprehensive income totaling $1.7 million, which brought total comprehensive income to $6.4 million, compared to net income of $4.7 million. Unrealized gains were recorded on several categories of instruments, including available for sale securities, due to a decrease in interest rates during that period.

Liquidity and Cash Flows. Net proceeds from FHLBB borrowings were the primary source of funds in the first half of 2012. The primary use of funds was net loan growth. Deposit growth is expected to be the primary source of funds in the second half of the year, and net loan growth is expected to continue to be the primary use of funds. FHLBB borrowings will continue to be a significant source of liquidity for daily operations and borrowings targeted for specific asset/liability purposes. The Company also uses interest rate swaps in managing its funds sources and uses. At the end of the most recent quarter, the Company had approximately $440 million in borrowing availability with the Federal Home Loan Bank. Berkshire plans to acquire Beacon Federal Bancorp in the fourth quarter, and plans to issue at least $50 million in debt in conjunction with this merger. Additionally, Berkshire plans to divest two Tennessee branches to be acquired as part of the Beacon business combination, and to receive cash proceeds from this divestiture.

Berkshire Hills Bancorp had a cash balance totaling $9 million as of June 30, 2012. The primary long run routine sources of funds for the Parent are expected to be dividends from Berkshire Bank and Berkshire Insurance Group, as well as cash from the exercise of stock options. The

Parent also has a $10 million revolving line of credit provided by a correspondent bank. The primary uses of funds by the parent include the payment of cash dividends on common stock and debt service, including debt service related to the planned debt financing for the Beacon acquisition. The Parent had a $16 million cash balance at the start of the year, which was used to pay the $9 million in cash consideration for the CBT acquisition.

Capital Resources. Please see the Stockholders Equity section of the Comparison of Financial Condition for a discussion of stockholders equity together with the Stockholders Equity note to the consolidated financial statements. At June 30, 2012, Berkshire Bank continued to be classified as Well Capitalized. Additional

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information about regulatory capital is contained in the notes to the consolidated financial statements and in the 2011 Form 10-K.

As discussed in the 2011 Form 10-K and in Item 1A of this Form, there are financial system reforms which became federal law in July 2010 and which constitute the most significant regulatory and systemic reform since the 1930s. It cannot be determined at this time what the full effects of the reforms will be. Some of the reforms are intended to increase required capital levels in the banking system.

The Company issued 965 thousand shares of common stock as partial consideration for the shares of The Connecticut Bank and Trust Company on April 20, 2012. The Company plans to issue common stock as consideration for 50% of the Beacon shares. Additionally, the debt that the Company plans to issue for 40% of the Beacon shares is expected to qualify as Tier 2 capital in accordance with regulatory guidelines.

As a Savings and Loan Holding Company, the Company is not required to meet specific required capital ratio requirements under current federal regulations, although such requirements will become effective in the future.

Off-Balance Sheet Arrangements and Contractual Obligations. In the normal course of operations, Berkshire engages in a variety of financial transactions that, in accordance with generally accepted accounting principles are not recorded in the Company s financial statements. These transactions involve, to varying degrees, elements of credit, interest rate and liquidity risk. Such transactions are used primarily to manage customers requests for funding and take the form of loan commitments and lines of credit. A further presentation of the Company s off-balance sheet arrangements is presented in the Company s 2011 Form 10-K and information relating to payments due under contractual obligations is presented in the 2011 Form 10-K. On May 30, 2012, Berkshire and Beacon entered into a merger agreement and Berkshire expects to complete the acquisition of Beacon before the end of the year and to merge Beacon Federal bank into Berkshire Bank.

In acquiring the operations of Greenpark Mortgage, Berkshire established these operations as a division of the bank and continued to operate this business line with the same management, team, and procedures. These include the Greenpark procedures for rate locking and committing to the origination of residential mortgages, the forward sale of mortgage backed securities through approved brokers to hedge interest rate risk in the mortgage pipeline, and the use of mandatory and best efforts contracts with established institutional buyers for the sale of the originated mortgages on a servicing released basis.

Fair Value Measurements. The Company records fair value measurements of certain assets and liabilities, as described in the related note in the financial statements. There were no significant changes in the fair value measurement methodologies during the first half of the year, except that the introduction of Greenpark related loans held for sale and derivatives expanded the scope of instruments requiring measurement. Acquired CBT and Greenpark assets and liabilities were recorded at fair value as of the acquisition dates and there were no significant changes in these values during the quarter. Due to continuing low interest rates, the fair value of fixed rate assets and liabilities generally increased in the first half of the year, as did prepayment rates of instruments with prepayment options. The fair value of Berkshire s loans included a $92 million premium to carrying value at midyear, compared to a $66 million premium at the start of the year. This improvement reflected the improved credit profile of the loan portfolio, along with the impact of lower medium term interest rates and market pricing spreads for loans. Of note, loans acquired in bank acquisitions were recorded at fair value at the time of acquisition, whereas the carrying value of historical loans is based on cost. Due primarily to the premium value of loans, the combined impact of the fair value estimates reflected an overall improvement in the economic value of equity related to these instruments, based solely on the measures utilized for the purpose of this analysis.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes to the way that the Company measures market risk nor in the Company s net market risk position during the first half of 2012. For further discussion about the Company s Quantitative and Qualitative Aspects of Market Risk, please review Item 7A of the Report 10-K filed for the fiscal year ended December 31, 2011.

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As discussed in Item 2, Berkshire has a targeted position to maintain a moderately asset sensitive interest rate risk profile, as measured by the sensitivity of net interest income to market interest rate changes. During the first half of the year, the primary balance sheet changes from business activities were growth in fixed rate residential mortgages and growth in overnight FHLBB borrowings. The Company also increased its use of forward starting interest rate swaps on FHLBB borrowings. The acquisitions of CBT and the Greenpark operations also affected the balance sheet but did not significantly change the overall measures of interest rate sensitivity. The net impact of these changes was a modest reduction in the Company s asset sensitive net interest income sensitivity. The Company estimates that its asset sensitivity has decreased by approximately a third as a result of the changes in the first half of the year.

Berkshire maintains a discipline to avoid undue risks to net interest income and to the economic value of equity which would result from taking on excessive fixed rate assets in the current environment. The Company s interest rate risk modeling indicates that the net interest margin could decline in the future based on the existing balance sheet and if interest rates do not change. The Company strives to seek a balance in protecting against the risks of upward interest rate movements, while also attempting to minimize margin erosion in the current low rate environment. Management believes that net interest income might increase by more than the modeled amount in the possible situation of rising interest rates. Management might decide to retain more, longer duration assets, after interest rates increase, and this would contribute additional income in the case of a parallel shift in the yield curve. Also, the Company has experienced certain market floors on deposit pricing in the current near zero short-term interest rate environment. In the case of rising rates, deposits might not increase in rate as quickly as they are modeled since they are presently above other comparable market rates in some cases. Additionally, in some scenarios, the Company s fee income might also increase as a result of improved economic and market conditions that might be related to higher market interest rates.

Berkshire has entered into an agreement to acquire Beacon Federal Bancorp and plans to issue equity and debt instruments to finance this acquisition. The assets and liabilities of Beacon will be recorded at fair value as of the acquisition date, which is expected to be prior to year-end 2012. Berkshire will have the ability to adjust Beacon s asset liability structure as of that date and it is expected that Berkshire will be able to maintain its targeted interest rate sensitivity to maintain its targeted profile.

ITEM 4. CONTROLS AND PROCEDURES

a) Disclosure controls and procedures.

The principal executive officers, including the principal financial officer, based on their evaluation of disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this Quarterly Report on Form 10-Q, have concluded that the Company s disclosure controls and procedures are effective for ensuring that information required to be disclosed in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Commission s rules and forms. Disclosure controls and procedures, include, without limitation, controls and procedures designed to ensure that information required to be disclosed in filed or submitted reports is accumulated and communicated to the Company s management, including its principal executive officer and principal financial officer as appropriate, to allow timely decisions regarding required disclosure.

(b) Changes in internal control over financial reporting.

There were no changes in the Company s internal control over financial reporting that occurred during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

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PART II

ITEM 1. LEGAL PROCEEDINGS

As of June 30, 2012, neither the Company nor the Bank was involved in any pending legal proceedings believed by management to be material to the Company s financial condition or results of operations. Periodically, there have been various claims and lawsuits involving the Bank, such as claims to enforce liens, condemnation proceedings on properties in which the Bank holds security interests, claims involving the making and servicing of real property loans and other issues incident to the Bank s business. However, neither the Company nor the Bank is a party to any pending legal proceedings that it believes, in the aggregate, would have a material adverse effect on the financial condition or operations of the Company.

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2011, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks that we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial, could adversely affect our business, financial condition and/or operating results. Additionally, the Company has reported risk factors in the stock registration and proxy/prospectus forms filed with the SEC related to the CBT and Beacon acquisitions. While the CBT and Greenpark mergers have been completed, the Company continues to recognize the risks related to integration and management of the acquired operations which were previously identified in the subject SEC filings. Additionally, the Company continues to be engaged in a process for the conversion of its core processing system in 2012. The planned changes expose the Bank to new risks with new systems and new vendors. The Bank is working closely with third parties to manage the related operating and financial risks.

Additional risk factors which have been identified in the first half of 2012 include the following:

Failure to Complete the Pending Merger with Beacon Federal Bancorp Could Negatively Impact Our Stock Price and Future Business and Financial Results.

If this merger is not completed, our ongoing business may be adversely affected. In addition, we may experience negative reactions from the financial markets and from customers and employees. We also could be subject to litigation related to any failure to complete the merger or to enforcement proceedings commenced against us to perform certain obligations under the merger agreement. If the merger is not completed, we cannot assure our stockholders that the risks described above will not materialize and will not materially affect our business, financial results and stock price. The Beacon merger is expected to be financed with the issuance of subordinated debt. If this issuance is not completed due to market conditions or regulatory factors or changes in Berkshire s condition, there could be an impact on Berkshire s ability to achieve the financial and other targets related to the merger agreement. Please see the additional discussion of Beacon merger related risk factors in the Form S-4 filed with the SEC July 3, 2012.

Derivatives and Counterparty Risks Have Increased Due to the acquired Greenpark Mortgage Operations.

The total notional amount of derivative financial instruments increased 75% to $1.0 billion in the first half of 2012, largely due to the acquisition of the Greenpark Mortgage operations. The increase includes customer interest rate lock commitments on applications for mortgages that Berkshire intends to sell, and forward sales of securities intended to hedge the interest rate risk of these rate lock commitments until the loans are closed and sold. These activities involve new derivative instruments and new broker/dealer counterparties, as well as the utilization of a new vendor which manages the hedging position. Additionally, the Greenpark division sells closed loans on a servicing released basis under mandatory and best efforts contracts to institutional secondary market purchasers, which are new counterparties for Berkshire. Berkshire could experience losses if there are

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failures in the controls or accounting for these activities or if there are performance failures by any of these new counterparties. The risk of loss is increased if interest rates change suddenly and the intended hedging objectives are not achieved as a result of market or counterparty behaviors.

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

On June 12, 2012, the Office of the Comptroller of the Currency (OCC), Board of Governors of the Federal Reserve System (Board), and the Federal Deposit Insurance Corporation (FDIC) announced that they are seeking comment on three notices of proposed rulemaking (NPRs) that would revise and replace the agencies current capital rules as these federal agencies move forward with implementing capital requirements consistent with agreements reached by the Basel Committee on Banking Supervision (Basel III). The agencies plan to issue final rules by the end of 2012. The proposed rules are currently preliminary and the Company will be assessing the potential impact of the proposed and final rules. Please see the further discussion of bank regulation and capital rules in Items I and IA in the Company s most recent filing on Form 10-K.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(a) No Company unregistered securities were sold by the Company during the quarter ended June 30, 2012.

(b) Not applicable.

(c) The following table provides certain information with regard to shares repurchased by the Company in the second quarter of 2012.

Period	Total number of shares purchased		Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares that may yet be purchased under the plans or programs
April 1-30, 2012 (1)	1,213	$	22.92		97,993
May 1-31, 2012					97,993
June 1-30, 2012					97,993
Total	1,213	$	22.92		97,993

(1) Shares represent common stock withheld by the Company to satisfy tax withholding requirements on the vesting of shares under the Company s benefit plans.

On December 14, 2007, the Company authorized the purchase of up to 300,000 additional shares, from time to time, subject to market conditions. The repurchase plan will continue until it is completed or terminated by the Board of Directors. The Company has no plans that it has elected to terminate prior to expiration or under which it does not intend to make further purchases.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

2.1 Agreement and Plan of Merger, dated as of May 31, 2012, by and between Berkshire Hills Bancorp, Inc. and Beacon Federal Bancorp, Inc. (1)

3.1 Certificate of Incorporation of Berkshire Hills Bancorp, Inc. (2)

3.2 Bylaws of Berkshire Hills Bancorp, Inc., as amended and restated(3)

4.1 Form of Common Stock Certificate of Berkshire Hills Bancorp, Inc. (2)

10.1 Amended and Restated Employment Agreement by and among Berkshire Bank, Berkshire Hills Bancorp, Inc. and Michael P. Daly (4)

10.2 Amended and Restated Three Year Change in Control Agreement by and among Berkshire Bank, Berkshire Hills Bancorp, Inc. and Kevin P. Riley (4)

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10.3 Amended and Restated Three Year Change in Control Agreement by and among Berkshire Bank, Berkshire Hills Bancorp, Inc. and Sean A. Gray(6)

10.4 Amended and Restated Three Year Change in Control Agreement by and among Berkshire Bank, Berkshire Hills Bancorp, Inc. and Richard M. Marotta (5)

10.5 Amended and Restated Three Year Change in Control Agreement by and among Berkshire Bank, Berkshire Hills Bancorp, Inc. and Linda A. Johnston (6)

10.6 Amended and Restated Supplemental Executive Retirement Agreement between Berkshire Bank and Michael P. Daly (7)

10.7 Berkshire Hills Bancorp, Inc. 2011 Equity Incentive Plan (8)

10.8 Form of Berkshire Bank Employee Severance Compensation Plan (3)

10.9 Three Year Change in Control Agreement by and among Berkshire Bank, Berkshire Hills Bancorp, Inc. and Patrick J. Sullivan, dated as of December 21, 2010 (9)

10.10 Settlement Agreement by and among Berkshire Hills Bancorp, Inc., Legacy Bancorp, Inc., Legacy Banks and Patrick J. Sullivan, dated as of December 21, 2010 (9)

10.11 Severance Agreement by and among Berkshire Bank, Berkshire Hills Bancorp, Inc. and Patrick J. Sullivan, dated as of December 21, 2010 (9)

10.12 Amended and Restated Settlement Agreement by and among Berkshire Hills Bancorp, Inc., Legacy Bancorp, Inc., Legacy Banks and J. Williar Dunlaevy, dated as of April 6, 2011 (9)

10.13 Non-Competition and Consulting Agreement by and among Berkshire Hills Bancorp, Inc., Berkshire Bank and J. Williar Dunlaevy, dated as of April 6, 2011 (9)

10.14 Legacy Bancorp, Inc. Amended and Restated 2006 Equity Incentive Plan (10)

10.15 Form of Split Dollar Agreement entered into with Michael P. Daly, Kevin P. Riley, Sean A. Gray, Richard M. Marotta and Linda A. Johnston (11)

10.16 Endorsement Agreement between Geno Auriemma and Berkshire Bank, dated as of May 17, 2012

11.0 Statement re: Computation of Per Share Earnings is incorporated herein by reference to Part I, Item I, Consolidated Financial Statements (unaudited)

31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

101 Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Statements of Condition, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Changes in Stockholders Equity, (v) the Consolidated Statements of Cash Flows, and (vi) the Notes to Consolidated Financial Statements (12)

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(1) Incorporated by reference from the Exhibits to the Form 8-K filed on June 1, 2012.

(2) Incorporated herein by reference from the Exhibits to Form S-1, Registration Statement and amendments thereto, initially filed on March 10, 2000, Registration No. 333-32146.

(3) Incorporated herein by reference from the Exhibits to the Form 8-K as filed on May 16, 2012.

(4) Incorporated herein by reference from the Exhibits to the Form 8-K as filed on January 6, 2009.

(5) Incorporated herein by reference from the Exhibits to the Form 10-K as filed on March 16, 2010.

(6) Incorporated herein by reference from the Exhibits to the Form 10-K as filed on March 16, 2011.

(7) Incorporated herein by reference from the Exhibits to Form 10-K as filed on March 16, 2009.

(8) Incorporated herein by reference from the Appendix to the Proxy Statement as filed on March 24, 2011.

(9) Incorporated herein by reference from the Exhibits to the Registration Statement on Form S-4 as filed on April 20, 2011, Registration No. 333-173404.

(10) Incorporated herein by reference from the Exhibits to the Form 8-K filed by Legacy Bancorp, Inc. on December 22, 2010.

(11) Incorporated herein by reference from the Exhibit to the Form 8-K as filed on January 19, 2011.

(12) As provided in Rule 406T of Regulation S-T, this information is furnished and not field for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

BERKSHIRE HILLS BANCORP, INC.

Dated: August 9, 2012	By:	/s/ Michael P. Daly Michael P. Daly President and Chief Executive Officer
Dated: August 9, 2012	By:	/s/ Kevin P. Riley Kevin P. Riley Executive Vice President and Chief Financial Officer