BERKSHIRE HILLS BANCORP INC
Form 10-Q
August 10, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended: June 30, 2015

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

For the transition period from to

Commission File Number: 001-15781

BERKSHIRE HILLS BANCORP, INC.
(Exact name of registrant as specified in its charter)

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

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

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

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

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

Large Accelerated Filer o Accelerated Filer ý Non-Accelerated Filer o Smaller Reporting Company o

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

The Registrant had 30,895,052 shares of common stock, par value $0.01 per share, outstanding as of August 7, 2015.

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PART I
ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

BERKSHIRE HILLS BANCORP, INC.
CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)	June 30, 2015	December 31, 2014
Assets		
Cash and due from banks	$177,858	$54,179
Short-term investments	27,660	17,575
Total cash and cash equivalents	205,518	71,754
Trading security	14,378	14,909
Securities available for sale, at fair value	1,204,756	1,091,818
Securities held to maturity (fair values of $87,512 and $44,997)	86,994	43,347
Federal Home Loan Bank stock and other restricted securities	73,212	55,720
Total securities	1,379,340	1,205,794
Loans held for sale	48,514	19,493
Residential mortgages	1,637,356	1,496,204
Commercial real estate	1,907,237	1,611,567
Commercial and industrial loans	921,190	804,366
Consumer loans	818,831	768,463
Total loans	5,284,614	4,680,600
Less: Allowance for loan losses	(37,197)	(35,662)
Net loans	5,247,417	4,644,938
Premises and equipment, net	87,519	87,279
Other real estate owned	674	2,049
Goodwill	308,043	264,742
Other intangible assets	12,473	11,528
Cash surrender value of bank-owned life insurance policies	123,536	104,588
Deferred tax assets, net	39,565	28,776
Other assets	66,148	61,090
Total assets	$7,518,747	$6,502,031
Liabilities		
Demand deposits	$1,012,003	$869,302
NOW deposits	458,570	426,108
Money market deposits	1,477,770	1,407,179
Savings deposits	621,909	496,344
Time deposits	1,751,924	1,455,746
Total deposits	5,322,176	4,654,679
Short-term debt	1,058,001	900,900
Long-term Federal Home Loan Bank advances	118,483	61,676
Subordinated borrowings	89,782	89,747
Total borrowings	1,266,266	1,052,323
Other liabilities	103,154	85,742
Total liabilities	6,691,596	5,792,744
Stockholders' equity		
	307	265

Common stock ($.01 par value; 50,000,000 shares authorized and 30,879,974 shares issued and 29,521,482 shares outstanding in 2015; 26,525,466 shares issued and 25,182,566 shares outstanding in 2014)		
Additional paid-in capital	700,193	585,289
Unearned compensation	(8,220)	(6,147)
Retained earnings	164,644	156,446
Accumulated other comprehensive income (loss)	(396)	6,579
Treasury stock, at cost (1,189,561 shares in 2015 and 1,342,900 shares in 2014)	(29,377)	(33,145)
Total stockholders' equity	827,151	709,287
Total liabilities and stockholders' equity	$7,518,747	$6,502,031

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

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BERKSHIRE HILLS BANCORP, INC.
CONSOLIDATED STATEMENTS OF INOMCE

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands, except per share data)	2015	2014	2015	2014
Interest and dividend income				
Loans	$51,504	$42,309	$95,949	$84,803
Securities and other	8,899	8,866	17,205	16,167
Total interest and dividend income	60,403	51,175	113,154	100,970
Interest expense				
Deposits	5,292	4,478	10,241	9,199
Borrowings	2,474	2,368	4,783	4,676
Total interest expense	7,766	6,846	15,024	13,875
Net interest income	52,637	44,329	98,130	87,095
Non-interest income				
Loan related income	2,783	1,846	4,066	3,094
Mortgage banking income	1,546	691	2,799	1,063
Deposit related fees	6,442	6,610	12,119	12,049
Insurance commissions and fees	2,486	2,460	5,453	5,509
Wealth management fees	2,397	2,294	5,000	4,843
Total fee income	15,654	13,901	29,437	26,558
Other	(1,258)	402	(2,513)	926
Gain on sale of securities, net	2,384	203	2,418	237
Loss on termination of hedges	—	—	—	(8,792)
Total non-interest income	16,780	14,506	29,342	18,929
Total net revenue	69,417	58,835	127,472	106,024
Provision for loan losses	4,204	3,989	8,055	7,385
Non-interest expense				
Compensation and benefits	24,503	20,279	46,314	40,138
Occupancy and equipment	7,243	6,656	14,351	13,470
Technology and communications	4,090	3,800	7,683	7,578
Marketing and promotion	800	621	1,513	1,142
Professional services	1,375	1,024	2,647	2,176
FDIC premiums and assessments	1,143	1,029	2,272	2,038
Other real estate owned and foreclosures	251	33	502	556
Amortization of intangible assets	934	1,274	1,835	2,580
Acquisition, restructuring and conversion related expenses	8,711	190	13,132	6,491
Other	4,975	4,357	8,924	8,454
Total non-interest expense	54,025	39,263	99,173	84,623
Income before income taxes	11,188	15,583	20,244	14,016
Income tax expense	1,144	4,119	1,441	3,658
Net income	$10,044	$11,464	$18,803	$10,358
Earnings per share:				
Basic	$0.35	$0.46	$0.71	$0.42
Diluted	$0.35	$0.46	$0.70	$0.42
Weighted average common shares outstanding:				

Basic	28,301	24,715	26,557	24,707
Diluted	28,461	24,809	26,713	24,821

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

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BERKSHIRE HILLS BANCORP, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2015	2014	2015	2014
Net income	$10,044	$11,464	$18,803	$10,358
Other comprehensive income, before tax:				
Changes in unrealized gain on securities available-for-sale	(16,071)	11,113	(6,734)	17,133
Changes in unrealized loss on derivative hedges	784	(3,267)	(3,117)	1,266
Changes in unrealized gain on terminated swaps	—	—	—	3,237
Changes in unrealized loss on pension	65	—	(1,466)	—
Income taxes related to other comprehensive income:				
Changes in unrealized gain on securities available-for-sale	6,100	(4,261)	2,495	(6,481)
Changes in unrealized loss on derivative hedges	(316)	1,322	1,256	(510)
Changes in unrealized gain on terminated swaps	—	—	—	(1,312)
Changes in unrealized loss on pension	(26)	—	591	—
Total other comprehensive (loss) income	(9,464)	4,907	(6,975)	13,333
Total comprehensive income	$580	$16,371	$11,828	$23,691

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

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

(In thousands)	Common stock Shares	Common stock Amount	Additional paid-in capital	Unearned compensation	Retained earnings	Accumulated other comprehensive (loss) income	Treasury stock	Total
Balance at December 31, 2013	25,036	$265	$587,247	$ (5,563)	$141,958	$ (9,057)	$(36,788)	$678,062
Comprehensive income:								
Net income	—	—	—	—	10,358	—	—	10,358
Other comprehensive income	—	—	—	—	—	13,333	—	13,333
Total comprehensive income								23,691
Cash dividends declared ($0.36 per share)	—	—	—	—	(9,122)	—	—	(9,122)
Treasury stock purchased	(100)	—	—	—	—	—	(2,467)	(2,467)
Forfeited shares	(7)	—	(6)	156	—	—	(150)	—
Exercise of stock options	72	—	—	—	(945)	—	1,793	848
Restricted stock grants	130	—	44	(3,264)	—	—	3,220	—
Stock-based compensation	—	—	41	1,783	—	—	—	1,824
Net tax benefit related to stock-based compensation	—	—	(1,980)	—	—	—	—	(1,980)
Other, net	(16)	—	(6)	—	—	—	(387)	(393)
Balance at June 30, 2014	25,115	$265	$585,340	$ (6,888)	$142,249	$ 4,276	$(34,779)	$690,463
Balance at December 31, 2014	25,183	$265	$585,289	$ (6,147)	$156,446	$ 6,579	$(33,145)	$709,287
Comprehensive income:								
Net income	—	—	—	—	18,803	—	—	18,803
Other comprehensive loss	—	—	—	—	—	(6,975)	—	(6,975)
Total comprehensive income								11,828
Acquisition of Hampden Bancorp, Inc. (1)	4,186	42	114,562	—			—	114,604
	—	—	—	—	(10,440)	—	—	(10,440)

Cash dividends declared ($0.38 per share)								
Treasury stock purchased	—	—	—	—	—	—	—	—
Forfeited shares	(11)	—	28	254	—	—	(282)	—
Exercise of stock options	11	—	—	—	(165)	—	281	116
Restricted stock grants	174	—	283	(4,579)	—	—	4,296	—
Stock-based compensation	—	—	—	2,252	—	—	—	2,252
Net tax benefit related to stock-based compensation	—	—	26	—	—	—	—	26
Other, net	(22)	—	5	—	—	—	(527)	(522)
Balance at June 30, 2015	29,521	$307	$700,193	$ (8,220)	$164,644	$ (396)	$(29,377)	$827,151

(1) The Company's common stock includes the elimination of $4.6 million of Berkshire Hills Bancorp stock held by a subsidiary.

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

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BERKSHIRE HILLS BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30,	
(In thousands)	2015	2014
Cash flows from operating activities:		
Net income (loss)	$18,803	$10,358
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	8,055	7,385
Net amortization of securities	863	1,008
Change in unamortized net loan costs and premiums	836	(1,008)
Premises and equipment depreciation and amortization expense	4,282	4,037
Stock-based compensation expense	2,252	1,824
Accretion of purchase accounting entries, net	(3,071)	(3,479)
Amortization of other intangibles	1,835	2,580
Write down of other real estate owned	75	160
Excess tax loss from stock-based payment arrangements	(26)	(93)
Income from cash surrender value of bank-owned life insurance policies	(1,535)	(1,458)
Gain on sales of securities, net	(2,418)	(237)
Net (increase) decrease in loans held for sale	(28,102)	(4,345)
Loss on disposition of assets	2,084	715
Loss on sale of real estate	400	170
Loss on termination of hedges	—	3,237
Amortization of interest in tax-advantaged projects	5,748	825
Net change in other	(8,384)	3,143
Net cash provided by operating activities	1,697	24,822
Cash flows from investing activities:		
Net decrease in trading security	282	268
Proceeds from sales of securities available for sale	22,504	79,550
Proceeds from maturities, calls and prepayments of securities available for sale	94,561	68,342
Purchases of securities available for sale	(174,992)	(447,063)
Proceeds from maturities, calls and prepayments of securities held to maturity	1,875	2,764
Purchases of securities held to maturity	(45,520)	(1,021)
Net change in loans	(126,806)	(268,616)
Purchases of bank owned life insurance	431	—
Proceeds from sale of Federal Home Loan Bank stock	163	379
Purchase of Federal Home Loan Bank stock	(10,706)	(9,576)
Net investment in limited partnership tax credits	(2,500)	(2,884)
Proceeds from the sale of premises and equipment	541	1,756
Purchase of premises and equipment, net	(3,070)	(4,302)
Acquisitions, net of cash paid	83,134	423,416
Proceeds from sale of other real estate	1,476	799
Net cash (used in) provided by investing activities	(158,627)	(156,188)

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	Six Months Ended June 30,	
(In thousands)	2015	2014
Cash flows from financing activities:		
Net increase (decrease) in deposits	206,354	189,568
Proceeds from Federal Home Loan Bank advances and other borrowings	3,896,000	2,935,035
Repayments of Federal Home Loan Bank advances and other borrowings	(3,801,362)	(2,945,250)
Purchase of treasury stock	—	(2,467)
Exercise of stock options	116	848
Excess tax loss from stock-based payment arrangements	26	93
Common stock cash dividends paid	(10,440)	(9,122)
Net cash provided (used) by financing activities	290,694	168,705
Net change in cash and cash equivalents	133,764	37,339
Cash and cash equivalents at beginning of year	71,754	75,539
Cash and cash equivalents at end of year	$205,518	$112,878
Supplemental cash flow information:		
Interest paid on deposits	$10,290	$9,177
Interest paid on borrowed funds	4,555	5,533
Income taxes paid, net	324	71
Acquisition of non-cash assets and liabilities:		
Assets acquired	730,868	18,064
Liabilities assumed	(611,601)	(441,550)
Other non-cash changes:		
Other net comprehensive income	(6,975)	10,096
Real estate owned acquired in settlement of loans	460	816

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

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NOTE 1. BASIS OF PRESENTATION

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

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

The results for any interim period are not necessarily indicative of results for the full year. These consolidated financial statements should be read in conjunction with the audited financial statements and note disclosures for Berkshire Hills Bancorp, Inc. (the "Company") previously filed with the Securities and Exchange Commission in the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

Reclassifications

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

Recently Adopted Accounting Standards

In January 2014, the Financial Accounting Standard Board "FASB" issued Accounting Standard Updated "ASU" ASU No. 2014-01, "Accounting for Investments in Qualified Affordable Housing Projects." ASU No. 2014-01 permits reporting entities to make an accounting policy election to account for investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense. This new guidance also requires new disclosures for all investors in these projects. ASU No. 2014-01 is effective for interim and annual reporting periods beginning after December 15, 2014. Upon adoption, the guidance must be applied retrospectively to all periods presented. However, entities that use the effective yield method to account for investments in these projects before adoption may continue to do so for these pre-existing investments. The Company has elected not to adopt the proportional amortization method, which had no impact on our consolidated financial statements.

Also in January 2014, the FASB issued ASU No. 2014-04, "Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure." The objective of this guidance is to clarify when an in substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. ASU No. 2014-04 states that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, ASU No. 2014-04 requires interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. ASU No. 2014-04 is effective for interim and annual reporting periods beginning after December 15, 2014. The Company adopted the provisions of ASU No. 2014-04 effective January 1, 2015, which did not have a material effect on our consolidated financial statements. See Note 6. Loan Loss Allowance to the Consolidated Financial Statements for the disclosures required by ASU No. 2014-04.

In June 2014, the FASB issued ASU No. 2014-11 related to repurchase-to-maturity transactions, repurchase financing and disclosures. The pronouncement changes the accounting for repurchase-to-maturity transactions and linked repurchase financings to secured borrowing accounting, which is consistent with the accounting for other repurchase agreements. The pronouncement also requires two new disclosures. The first disclosure requires an entity to disclose information on transfers accounted for as sales in transactions that are economically similar to repurchase agreements. The second disclosure provides increased transparency about the types of collateral pledged in repurchase agreements and similar transactions accounted for as secured borrowings. The pronouncement is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. Early adoption is not permitted. As of March 31, 2015, the Company did not have any repurchase transactions, and therefore the adoption of this pronouncement did not have an impact on our consolidated financial statements.

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In August 2014, the FASB issued ASU No. 2014-14 related to classification of certain government-guaranteed mortgage loans upon foreclosure. The objective of this guidance is to reduce diversity in practice related to how creditors classify government-guaranteed mortgage loans, including FHA or VA guaranteed loans, upon foreclosure. Some creditors reclassify those loans to real estate consistent with other foreclosed loans that do not have guarantees; others reclassify the loans to other receivables. The amendments in this guidance require that a mortgage loan be derecognized and that a separate other receivable be recognized upon foreclosure if the following conditions are met: (1) The loan has a government guarantee that is not separable from the loan before foreclosure; (2) At the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim; and (3) At the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. The pronouncement is effective for interim and annual reporting periods beginning after December 15, 2014. The Company adopted the provisions of ASU No. 2014-14 effective January 1, 2015, which did not have a material effect on our consolidated financial statements.

Future Application of Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09 related to the recognition of revenue from contracts with customers. The new revenue pronouncement creates a single source of revenue guidance for all companies in all industries and is more principles-based than current revenue guidance. The pronouncement provides a five-step model for a company to recognize revenue when it transfers control of goods or services to customers at an amount that reflects the consideration to which it expects to be entitled in exchange for those goods or services. The five steps are (1) identify the contract with the customer, (2) identify the separate performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the separate performance obligations and (5) recognize revenue when each performance obligation is satisfied. The standard is effective for public entities for interim and annual reporting periods beginning after December 15, 2016; early adoption is not permitted. However, in July 2015, the FASB voted to approve deferring the effective date by one year (i.e., interim and annual reporting periods beginning after December 15, 2017). Early adoption is permitted, but not before the original effective date (i.e., interim and annual reporting periods beginning after December 15, 2016). For financial reporting purposes, the standard allows for either full retrospective adoption, meaning the standard is applied to all of the periods presented, or modified retrospective adoption, meaning the standard is applied only to the most current period presented in the financial statements with the cumulative effect of initially applying the standard recognized at the date of initial application. The Company is currently evaluating the provisions of ASU No. 2014-09, and will be closely monitoring developments and additional guidance to determine the potential impact the new standard will have on our consolidated financial statements.

In February 2015, the FASB issued ASU No. 2015-02, “Amendments to the Consolidation Analysis.” This ASU affects reporting entities that are required to evaluate whether they should consolidate certain legal entities. Specifically, the amendments: (1) Modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities (“VIEs”) or voting interest entities; (2) Eliminate the presumption that a general partner should consolidate a limited partnership; (3) Affect the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships; and (4) Provide a scope exception from consolidation guidance for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds. ASU No. 2015-02 is effective for interim and annual reporting periods beginning after December 15, 2015. The adoption of this pronouncement is not expected to have a material impact on our consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-05, “Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement.” This ASU provides guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The new guidance does not change the accounting for a customer’s accounting for service contracts. ASU No. 2015-05 is effective for interim and annual reporting periods beginning after December 15, 2015. The adoption of this pronouncement is not expected to have a material impact on our consolidated financial statements.

NOTE 2. BANK ACQUISITION
Hampden Bancorp, Inc.

On April 17, 2015, the Company acquired all of the outstanding common shares of Hampden Bancorp, Inc. (“Hampden”). Hampden, as a holding company, had one banking subsidiary (“Hampden Bank”) that had ten branches primarily serving western

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Massachusetts. As a result of the transaction, Hampden merged into Berkshire Hills Bancorp, and Hampden Bank merged into Berkshire Bank. This business combination increases Berkshire's market share in its franchise and the goodwill recognized results from the expected synergies and earnings accretion from this combination, including future cost savings related to Hampden's operations.

On the acquisition date, Hampden had 5.167 million outstanding common shares, net of 209 thousand shares held by Berkshire Bank. Hampden shareholders received 4.186 million Berkshire common shares based on an exchange ratio of 0.81 shares of Berkshire common stock for each Hampden share. The merger qualifies as a reorganization for federal income tax purposes, and as a result, Hampden common shares exchanged for Berkshire common shares are transferred on a tax-free basis. The 4.355 million shares of Berkshire common stock issued in this exchange were valued at $27.38 per share based on the closing price of Berkshire posted on April 17, 2015. Excluding the 169 thousand shares issued to Berkshire Bank, this resulted in a consideration value of $114.6 million. The Hampden shares held by Berkshire Bank were valued at $4.6 million, and the value in excess of the carrying value was recorded as a $2.2 million non-recurring securities gain in the statement of income.

The results of Hampden's operations are included in the Company's Consolidated Statement of Income from the date of acquisition. The assets and liabilities in the Hampden acquisition were recorded at their fair value based on management's best estimate using information available as of the date of acquisition. Consideration paid, and fair values of Hampden's assets acquired and liabilities assumed, along with the resulting goodwill, are summarized in the following tables:

(in thousands)	As Acquired	Fair Value Adjustments		As Recorded at Acquisition
Consideration paid:				
Berkshire Hills Bancorp common stock issued to Hampden common stockholders				$114,604
Fair value of Hampden shares previously owned by the Company prior to acquisition				4,632
Total consideration paid				$119,236
Recognized amounts of identifiable assets acquired and liabilities assumed, at fair value:				
Cash and short-term investments	$83,134	$—		$83,134
Investment securities	72,439	(224)	(a)	72,215
Loans	501,870	(8,101)	(b)	493,769
Premises and equipment	4,449	775	(c)	5,224
Core deposit intangibles	—	2,780	(d)	2,780
Deferred tax assets, net	3,875	3,091	(e)	6,966
Other assets	22,919	560	(f)	23,479
Deposits	(482,130)	(1,439)	(g)	(483,569)
Borrowings	(117,135)	(2,380)	(h)	(119,515)
Other liabilities	(8,395)	(124)	(i)	(8,519)
Total identifiable net assets	$81,026	$(5,062)		$75,964
Goodwill				$43,272

Explanation of Certain Fair Value Adjustments

(a) The adjustment represents the write down of the book value of investments to their estimated fair value based on fair values on the date of acquisition.

(b) The adjustment represents the write down of the book value of loans to their estimated fair value based on current interest rates and expected cash flows, which includes an estimate of expected loan loss inherent in the portfolio. Loans that met the criteria and are being accounted for in accordance with ASC 310-30 had a book value of $28.5

million and have a fair value $16.7 million. Non-impaired loans accounted for under ASC 310-10 had a book value of $473.4 million and have a fair value of $477.1 million. ASC 310-30 loans have a $4.0 million fair value adjustment discount that is accretable in earnings over an estimated five year life using the effective yield as determined on the date of acquisition. The effective yield is periodically adjusted for changes in expected flows. ASC 310-10 loans

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have a $0.4 million fair value adjustment premium that is amortized into expense over the remaining term of the loans using the effective interest method, or a straight-line method if the loan is a revolving credit facility.
(c) The amount represents the adjustment of the book value of buildings and equipment, to their estimated fair value based on appraisals and other methods. The adjustments will be depreciated over the estimated economic lives of the assets.
(d) The adjustment represents the value of the core deposit base assumed in the acquisition. The core deposit asset was recorded as an identifiable intangible asset and will be amortized using a straight-line method over the average life of the deposit base, which is estimated to be nine years.
(e) Represents net deferred tax assets resulting from the fair value adjustments related to the acquired assets and liabilities, identifiable intangibles, and other purchase accounting adjustments.
(f) The amount consists of a $0.2 million fair value adjustment to write-down other real estate owned based on market report data, a $0.3 million write-down of mortgage servicing assets acquired based on valuation reports, a $0.5 million write-off of prepaid assets due to obsolescence, and a $1.6 million measurement period adjustment increase to current taxes receivable. These adjustments are not accretable into earnings in the statement of income.
(g) The adjustment is necessary because the weighted average interest rate of time deposits exceeded the cost of similar funding at the time of acquisition. The amount will be amortized using an accelerated method over the estimated useful life of two years.
(h) Adjusts borrowings to their estimated fair value, which is calculated based on the amount of prepayment penalties that would be incurred if the borrowings were exited with the Federal Home Loan Bank of Boston on the date of acquisition.
(i) Adjusts the book value of other liabilities to their estimated fair value at the acquisition date. The adjustment consists of a $0.4 million write-off of deferred revenue, a $0.3 million increase to post-retirement liabilities due to change-in-control provisions, and a $0.2 million increase related to non-level leases.

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

Information about the acquired loan portfolio subject to ASC 310-30 as of April 17, 2015 is, as follows (in thousands):

	ASC 310-30 Loans
Gross contractual receivable amounts at acquisition	$28,505
Contractual cash flows not expected to be collected (nonaccretable discount)	(7,884)
Expected cash flows at acquisition	20,621
Interest component of expected cash flows (accretable discount)	(3,950)
Fair value of acquired loans	$16,671

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

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

Direct acquisition and integration costs of the Hampden acquisition were expensed as incurred, and totaled $8.0 million during the six months ending June 30, 2015 and there were $0 million for the same period of 2014.

The Company has determined it is impractical to report the amounts of revenue and earnings of the acquired entity since the acquisition date. Due to the integration of its operations with those of the organization, the Company does not record revenue

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and earnings separately for these operations. The revenue and earnings of these operations are included in the consolidated statement of income.

The following table presents selected unaudited pro forma financial information reflecting the acquisition assuming it was completed as of January 1, 2014. The unaudited pro forma financial information includes adjustments for scheduled amortization and accretion of fair value adjustments recorded at the time of the merger. These adjustments would have been different if they had been recorded on January 1, 2014, and they do not include the impact of prepayments. The unaudited pro forma financial information is presented for illustrative purposes only and is not necessarily indicative of the combined financial results of the Company and Hampden had the transaction actually been completed at the beginning of the periods presented, nor does it indicate future results for any other interim or full-year period. Pro forma basic and diluted earnings per common share were calculated using Berkshire's actual weighted-average shares outstanding for the periods presented plus the 4.2 million shares issued as a result of the Hampden acquisition. The unaudited pro forma information is based on the actual financial statements of Berkshire and Hampden for the periods shown until the date of acquisition, at which time the Hampden operations became included in Berkshire's financial statements.

The unaudited pro forma information, for the six months ended June 30, 2015 and 2014, set forth below reflects adjustments related to (a) amortization and accretion of purchase accounting fair value adjustments; (b) amortization of core deposit intangible; and (c) an estimated tax rate of 40.5 percent. Direct acquisition expenses incurred by Berkshire during 2015 as noted above, and $7.7 million recorded by Hampden are reversed for the purposes of this unaudited pro forma information. Also excluded during 2015, was a $2.2 million gain on Hampden stock that was held by Berkshire at the time of acquisition. Furthermore, the unaudited pro forma information does not reflect management's estimate of any revenue-enhancing or anticipated cost-savings that could occur after June 30, 2015.

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

	Pro Forma (unaudited)	
	Six Months Ended June 30,	
	2015	2014
Net interest income	$105,076	$98,639
Non-interest income	28,010	20,708
Net income	22,244	13,435
Pro forma earnings per share:		
Basic	$0.77	$0.46
Diluted	$0.76	$0.46

NOTE 3. TRADING SECURITY

The Company holds a tax advantaged economic development bond that is being accounted for at fair value. The security had an amortized cost of $12.3 million and $12.6 million, and a fair value of $14.4 million and $14.9 million, at June 30, 2015 and December 31, 2014, respectively. As discussed further in Note 13 - Derivative Financial Instruments and Hedging Activities, the Company has entered into a swap contract to swap-out the fixed rate of the security in exchange for a variable rate. The Company does not purchase securities with the intent of selling them in the near term, and there are no other securities in the trading portfolio at June 30, 2015.

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NOTE 4. SECURITIES AVAILABLE FOR SALE AND HELD TO MATURITY

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

(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2015				
Securities available for sale				
Debt securities:				
Municipal bonds and obligations	$ 147,779	$4,226	$(1,704)	$150,301
Government-guaranteed residential mortgage-backed securities	61,533	511	(177)	61,867
Government-sponsored residential mortgage-backed securities	886,974	7,005	(4,281)	889,698
Corporate bonds	51,651	137	(1,030)	50,758
Trust preferred securities	12,747	590	(72)	13,265
Other bonds and obligations	3,197	—	(30)	3,167
Total debt securities	1,163,881	12,469	(7,294)	1,169,056
Marketable equity securities	31,616	5,998	(1,914)	35,700
Total securities available for sale	1,195,497	18,467	(9,208)	1,204,756
Securities held to maturity				
Municipal bonds and obligations	49,343	25	(992)	48,376
Government-sponsored residential mortgage-backed securities	69	3	—	72
Tax advantaged economic development bonds	37,251	1,509	(27)	38,733
Other bonds and obligations	331	—	—	331
Total securities held to maturity	86,994	1,537	(1,019)	87,512
Total	$ 1,282,491	$20,004	$(10,227)	$1,292,268
December 31, 2014				
Securities available for sale				
Debt securities:				
Municipal bonds and obligations	$ 127,014	$6,859	$(174)	$133,699
Government-guaranteed residential mortgage-backed securities	68,972	702	(206)	69,468
Government-sponsored residential mortgage-backed securities	755,893	7,421	(3,130)	760,184
Corporate bonds	55,134	120	(1,103)	54,151
Trust preferred securities	16,607	820	(1,212)	16,215
Other bonds and obligations	3,211	—	(52)	3,159
Total debt securities	1,026,831	15,922	(5,877)	1,036,876
Marketable equity securities	48,993	7,322	(1,373)	54,942
Total securities available for sale	1,075,824	23,244	(7,250)	1,091,818
Securities held to maturity				
Municipal bonds and obligations	4,997	—	—	4,997
Government-sponsored residential mortgage-backed securities	70	4	—	74

Tax advantaged economic development bonds	37,948	1,680	(34)	39,594
Other bonds and obligations	332	—	—	332
Total securities held to maturity	43,347	1,684	(34)	44,997
Total	$ 1,119,171	$24,928	$(7,284)	$1,136,815

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The amortized cost and estimated fair value of available for sale ("AFS") and held to maturity ("HTM") securities, segregated by contractual maturity at June 30, 2015 are presented below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations. Mortgage-backed securities are shown in total, as their maturities are highly variable. Equity securities have no maturity and are also shown in total.

	Available for sale		Held to maturity	
(In thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Within 1 year	$31,405	$30,472	$4,320	$4,320
Over 1 year to 5 years	1,255	1,270	18,924	19,751
Over 5 years to 10 years	12,364	12,590	12,904	13,066
Over 10 years	170,350	173,159	50,777	50,303
Total bonds and obligations	215,374	217,491	86,925	87,440
Marketable equity securities	31,616	35,700	—	—
Residential mortgage-backed securities	948,507	951,565	69	72
Total	$1,195,497	$1,204,756	$86,994	$87,512

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

	Less Than Twelve Months		Over Twelve Months		Total	
(In thousands)	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
June 30, 2015						
Securities available for sale						
Debt securities:						
Municipal bonds and obligations	$ 618	$ 11,657	$1,086	$30,986	$1,704	$42,643
Government-guaranteed residential mortgage-backed securities	128	12,773	49	14,035	177	26,808
Government-sponsored residential mortgage-backed securities	3,297	180,831	984	122,864	4,281	303,695
Corporate bonds	—	—	1,030	36,158	1,030	36,158
Trust preferred securities	—	—	72	928	72	928
Other bonds and obligations	30	3,025	—	—	30	3,025
Total debt securities	4,073	208,286	3,221	204,971	7,294	413,257
Marketable equity securities	1,871	8,972	43	299	1,914	9,271
Total securities available for sale	5,944	217,258	3,264	205,270	9,208	422,528
Securities held to maturity						
Municipal bonds and obligations	176	4,880	816	30,981	992	35,861
Tax advantaged economic development bonds	27	7,847	—	—	27	7,847
Total securities held to maturity	203	12,727	816	30,981	1,019	43,708
Total	$ 6,147	$ 229,985	$4,080	$236,251	$10,227	$466,236

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December 31, 2014

Securities available for sale						
Debt securities:						
Municipal bonds and obligations	$8	$1,001	$166	$7,206	$174	$8,207
Government guaranteed residential mortgage-backed securities	46	7,122	160	16,727	206	23,849
Government-sponsored residential mortgage-backed securities	236	30,672	2,894	167,473	3,130	198,145
Corporate bonds	1,103	39,571	—	—	1,103	39,571
Trust preferred securities	65	935	1,147	2,408	1,212	3,343
Other bonds and obligations	—	—	52	3,035	52	3,035
Total debt securities	1,458	79,301	4,419	196,849	5,877	276,150
Marketable equity securities	1,039	9,902	334	4,755	1,373	14,657
Total securities available for sale	2,497	89,203	4,753	201,604	7,250	290,807
Securities held to maturity						
Tax advantaged economic development bonds	—	—	34	7,972	34	7,972
Total securities held to maturity	—	—	34	7,972	34	7,972
Total	$2,497	$89,203	$4,787	$209,576	$7,284	$298,779

Debt Securities

The Company expects to recover its amortized cost basis on all debt securities in its AFS and HTM portfolios. Furthermore, the Company does not intend to sell nor does it anticipate that it will be required to sell any of its securities in an unrealized loss position as of June 30, 2015, prior to this recovery. The Company’s ability and intent to hold these securities until recovery is supported by the Company’s strong capital and liquidity positions as well as its historically low portfolio turnover. The following summarizes, by investment security type, the basis for the conclusion that the debt securities in an unrealized loss position within the Company’s AFS and HTM portfolios were not other-than-temporarily impaired at June 30, 2015:

AFS municipal bonds and obligations

At June 30, 2015, 41 of the total 186 securities in the Company’s portfolio of AFS municipal bonds and obligations were in unrealized loss positions. Aggregate unrealized losses represented 3.8% of the amortized cost of securities in unrealized loss positions. The Company continually monitors the municipal bond sector of the market carefully and periodically evaluates the appropriate level of exposure to the market. At this time, the Company feels the bonds in this portfolio carry minimal risk of default and the Company is appropriately compensated for that risk. There were no material underlying credit downgrades during the quarter. All securities are performing.

AFS residential mortgage-backed securities

At June 30, 2015, 86 out of the total 253 securities in the Company’s portfolios of AFS residential mortgage-backed securities were in unrealized loss positions. Aggregate unrealized losses represented 1.2% of the amortized cost of securities in unrealized loss positions. The Federal National Mortgage Association (“FNMA”), Federal Home Loan Mortgage Corporation (“FHLMC”) and Government National Mortgage Association (“GNMA”) guarantee the contractual cash flows of all of the Company’s residential mortgage-backed securities. The securities are investment grade rated and there were no material underlying credit downgrades during the quarter. All securities are performing.

AFS corporate bonds

At June 30, 2015, 3 out of 5 securities in the Company’s portfolio of AFS corporate bonds were in an unrealized loss position. The aggregate unrealized loss represents 2.8% of the amortized cost of bonds in unrealized loss positions. The Company reviews the financial strength of all of these bonds and has concluded that the amortized cost remains supported by the expected future cash flows of these securities. None of the bonds are investment grade rated.

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At June 30, 2015, $0.9 million of the total unrealized losses was attributable to a $31.4 million investment. The Company evaluated this security, with a Level 2 fair value of $30.5 million, for potential other-than-temporary impairment ("OTTI") at June 30, 2015 and determined that OTTI was not evident based on both the Company's ability and intent to hold the security until the recovery of its remaining amortized cost.

AFS trust preferred securities

At June 30, 2015, 1 out of the 4 securities in the Company's portfolio of AFS trust preferred securities was in an unrealized loss position. Aggregate unrealized losses represented 7.2% of the amortized cost of the security in an unrealized loss position. The Company's evaluation of the present value of expected cash flows on this security supports its conclusions about the recoverability of the securities' amortized cost basis. This security is investment grade rated. The Company reviews the financial strength of all of the single issue trust issuers and has concluded that the amortized cost remains supported by the market value of these securities and they are performing.

AFS other bonds and obligations

At June 30, 2015, 4 of the total 8 securities in the Company's portfolio of other bonds and obligations were in unrealized loss positions. Aggregate unrealized losses represented 0.9% of the amortized cost of securities in unrealized loss positions. The securities are investment grade rated and there were no material underlying credit downgrades during the quarter. All securities are performing.

Marketable Equity Securities

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

At June 30, 2015, 4 out of the total 24 securities in the Company's portfolio of marketable equity securities were in an unrealized loss position. The unrealized loss represented 17.1% of the amortized cost of the securities. The Company has the ability and intent to hold the securities until recovery of their cost basis and does not consider the securities other-than-temporarily impaired at June 30, 2015. As new information becomes available in future periods, changes to the Company's assumptions may be warranted and could lead to a different conclusion regarding the OTTI of these securities.

Securities Held to Maturity

HTM Municipal bonds and obligations

At June 30, 2015, 30 of the total 77 securities in the Company's portfolio of other bonds and obligations were in unrealized loss positions. Aggregate unrealized losses represented 2.7% of the amortized cost of securities in unrealized loss positions. The securities are investment grade rated and there were no material underlying credit downgrades during the quarter. All securities are performing.

NOTE 5. LOANS

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

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

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

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(In thousands)	June 30, 2015 Business Activities Loans	Acquired Loans	Total	December 31, 2014 Business Activities Loans	Acquired Loans	Total
Residential mortgages:						
1-4 family	$1,238,456	$366,046	$1,604,502	$1,199,408	$268,734	$1,468,142
Construction	30,247	2,607	32,854	27,044	1,018	28,062
Total residential mortgages	1,268,703	368,653	1,637,356	1,226,452	269,752	1,496,204
Commercial real estate:						
Construction	181,157	44,230	225,387	169,189	4,201	173,390
Single and multi-family	149,716	47,950	197,666	140,050	53,168	193,218
Other commercial real estate	1,105,381	378,803	1,484,184	1,030,837	214,122	1,244,959
Total commercial real estate	1,436,254	470,983	1,907,237	1,340,076	271,491	1,611,567
Commercial and industrial loans:						
Asset based lending	339,331	—	339,331	341,246	—	341,246
Other commercial and industrial loans	490,594	91,265	581,859	411,945	51,175	463,120
Total commercial and industrial loans	829,925	91,265	921,190	753,191	51,175	804,366
Total commercial loans	2,266,179	562,248	2,828,427	2,093,267	322,666	2,415,933
Consumer loans:						
Home equity	294,878	56,275	351,153	252,681	65,951	318,632
Auto and other	315,500	152,178	467,678	346,480	103,351	449,831
Total consumer loans	610,378	208,453	818,831	599,161	169,302	768,463
Total loans	$4,145,260	$1,139,354	$5,284,614	$3,918,880	$761,720	$4,680,600

The carrying amount of the acquired loans at June 30, 2015 totaled $1.1 billion. A subset of these loans was determined to have evidence of credit deterioration at acquisition date, which is accounted for in accordance with ASC 310-30. These purchased credit-impaired loans presently maintain a carrying value of $24.9 million (and a note balance of $45.2). These loans are evaluated for impairment through the periodic reforecasting of expected cash flows. Loans that were considered not impaired at the acquisition date had a carrying amount of $1.1 billion.

The carrying amount of the acquired loans at December 31, 2014 totaled $762 million. A subset of these loans was determined to have evidence of credit deterioration at acquisition date, which is accounted for in accordance with ASC 310-30. These purchased credit-impaired loans presently maintain a carrying value of $13.8 million (and a note balance of $25.8). These loans are evaluated for impairment through the periodic reforecasting of expected cash flows. Loans that were considered not impaired at the acquisition date had a carrying amount of $747.9 million.

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

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	Three Months Ended June 30,	
(In thousands)	2015	2014
Balance at beginning of period	$3,431	$3,154
Acquisitions	4,178	—
Sales	—	—
Reclassification form nonaccretable difference for loans with improved cash flows	405	39
Change in cash flows that do not affect nonaccretable difference	—	(149)
Accretion	(1,474)	(604)
Balance at end of period	$6,540	$2,440

	Six Months Ended June 30,	
(In thousands)	2015	2014
Balance at beginning of period	$2,541	$2,559
Acquisitions	4,178	—
Sales	—	—
Reclassification form nonaccretable difference for loans with improved cash flows	1,736	1,579
Change in cash flows that do not affect nonaccretable difference	—	(149)
Accretion	(1,915)	(1,549)
Balance at end of period	$6,540	$2,440

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The following is a summary of past due loans at June 30, 2015 and December 31, 2014:

Business Activities Loans

(in thousands)	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total Loans	Past Due > 90 days and Accruing
June 30, 2015							
Residential mortgages:							
1-4 family	$1,915	$1,073	$3,777	$6,765	$1,231,691	$1,238,456	$913
Construction	—	—	—	—	30,247	30,247	—
Total	1,915	1,073	3,777	6,765	1,261,938	1,268,703	913
Commercial real estate:							
Construction	—	—	199	199	180,958	181,157	—
Single and multi-family	135	260	262	657	149,059	149,716	187
Other commercial real estate	993	1,819	6,896	9,708	1,095,673	1,105,381	442
Total	1,128	2,079	7,357	10,564	1,425,690	1,436,254	629
Commercial and industrial loans:							
Asset based lending	—	—	—	—	339,331	339,331	—
Other commercial and industrial loans	355	438	2,447	3,240	487,354	490,594	—
Total	355	438	2,447	3,240	826,685	829,925	—
Consumer loans:							
Home equity	60	—	2,623	2,683	292,195	294,878	1,194
Auto and other	928	120	293	1,341	314,159	315,500	2
Total	988	120	2,916	4,024	606,354	610,378	1,196
Total	$4,386	$3,710	$16,497	$24,593	$4,120,667	$4,145,260	$2,738

Business Activities Loans

(in thousands)	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total Loans	Past Due > 90 days and Accruing
December 31, 2014							
Residential mortgages:							
1-4 family	$5,580	$146	$4,053	$9,779	$1,189,629	$1,199,408	$1,527
Construction	666	410	—	1,076	25,968	27,044	—
Total	6,246	556	4,053	10,855	1,215,597	1,226,452	1,527
Commercial real estate:							
Construction	—	2,000	720	2,720	166,469	169,189	—
Single and multi-family	178	156	458	792	139,258	140,050	—
Other commercial real estate	692	705	9,383	10,780	1,020,057	1,030,837	621
Total	870	2,861	10,561	14,292	1,325,784	1,340,076	621

Commercial and industrial loans:							
Asset based lending	—	—	—	—	341,246	341,246	—
Other commercial and industrial loans	1,040	498	856	2,394	409,551	411,945	6
Total	1,040	498	856	2,394	750,797	753,191	6
Consumer loans:							
Home equity	333	1,000	1,387	2,720	249,961	252,681	230
Auto and other	831	65	315	1,211	345,269	346,480	10
Total	1,164	1,065	1,702	3,931	595,230	599,161	240
Total	$9,320	$4,980	$17,172	$31,472	$3,887,408	$3,918,880	$2,394

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Acquired Loans

(in thousands)	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Acquired Credit Impaired	Total Loans	Past Due > 90 days and Accruing
June 30, 2015							
Residential mortgages:							
1-4 family	$1,622	$514	$1,787	$3,923	$2,615	$366,046	$417
Construction	—	—	—	—	—	2,607	—
Total	1,622	514	1,787	3,923	2,615	368,653	417
Commercial real estate:							
Construction	—	—	664	664	3,289	44,230	—
Single and multi-family	310	—	158	468	1,798	47,950	—
Other commercial real estate	445	—	2,786	3,231	15,179	378,803	603
Total	755	—	3,608	4,363	20,266	470,983	603
Commercial and industrial loans:							
Asset based lending	—	—	—	—	—	—	—
Other commercial and industrial loans	1,323	50	584	1,957	1,711	91,265	—
Total	1,323	50	584	1,957	1,711	91,265	—
Consumer loans:							
Home equity	78	41	939	1,058	113	56,275	212
Auto and other	661	825	544	2,030	153	152,178	—
Total	739	866	1,483	3,088	266	208,453	212
Total	$4,439	$1,430	$7,462	$13,331	$24,858	$1,139,354	$1,232

Acquired Loans

(in thousands)	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Acquired Credit Impaired	Total Loans	Past Due > 90 days and Accruing
December 31, 2014							
Residential mortgages:							
1-4 family	$1,133	$638	$1,651	$3,422	$375	$268,734	$269
Construction	—	—	—	—	—	1,018	—
Total	1,133	638	1,651	3,422	375	269,752	269
Commercial real estate:				—			
Construction	—	—	691	691	1,296	4,201	—
Single and multi-family	277	—	572	849	5,477	53,168	—
Other commercial real estate	—	715	2,004	2,719	5,504	214,122	329
Total	277	715	3,267	4,259	12,277	271,491	329
Commercial and industrial loans:							
Asset based lending	—	—	—	—	—	—	—

Other commercial and industrial loans	202	32	855	1,089	986	51,175	—
Total	202	32	855	1,089	986	51,175	—
Consumer loans:							
Home equity	176	95	1,049	1,320	171	65,951	466
Auto and other	1,170	944	1,363	3,477	—	103,351	194
Total	1,346	1,039	2,412	4,797	171	169,302	660
Total	$2,958	$2,424	$8,185	$13,567	$13,809	$761,720	$1,258

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The following is summary information pertaining to non-accrual loans at June 30, 2015 and December 31, 2014:

(In thousands)	June 30, 2015 Business Activities Loans	June 30, 2015 Acquired Loans (1)	June 30, 2015 Total	December 31, 2014 Business Activities Loans	December 31, 2014 Acquired Loans (2)	December 31, 2014 Total
Residential mortgages:						
1-4 family	$2,864	$1,370	$4,234	$2,526	$1,382	$3,908
Construction	—	—	—	—	—	—
Total	2,864	1,370	4,234	2,526	1,382	3,908
Commercial real estate:						
Construction	199	—	199	720	—	720
Single and multi-family	75	158	233	458	141	599
Other commercial real estate	6,454	2,183	8,637	8,762	1,675	10,437
Total	6,728	2,341	9,069	9,940	1,816	11,756
Commercial and industrial loans:						
Other commercial and industrial loans	2,447	547	2,994	850	811	1,661
Total	2,447	547	2,994	850	811	1,661
Consumer loans:						
Home equity	1,429	728	2,157	1,157	583	1,740
Auto and other	291	543	834	305	1,169	1,474
Total	1,720	1,271	2,991	1,462	1,752	3,214
Total non-accrual loans	$13,759	$5,529	$19,288	$14,778	$5,761	$20,539

(1) At quarter end June 30, 2015, acquired credit impaired loans accounted for $0.7 million of non-accrual loans that are not presented in the above table.
(2) At December 31, 2014, acquired credit impaired loans accounted for $1.2 million of non-accrual loans that are not presented in the above table.

Loans evaluated for impairment as of June 30, 2015 and December 31, 2014 were as follows:
Business Activities Loans

(In thousands)	Residential mortgages	Commercial real estate	Commercial and industrial loans	Consumer	Total
June 30, 2015					
Loans receivable:					
Balance at end of period					
Individually evaluated for impairment	$2,926	$19,100	$ 8,410	$605	$31,041
Collectively evaluated	1,265,777	1,417,154	821,515	609,773	4,114,219
Total	$1,268,703	$1,436,254	$ 829,925	$610,378	$4,145,260

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Business Activities Loans

(In thousands)	Residential mortgages	Commercial real estate	Commercial and industrial loans	Consumer	Total
December 31, 2014					
Loans receivable:					
Balance at end of year					
Individually evaluated for impairment	$3,238	$22,015	$ 743	$452	$26,448
Collectively evaluated for impairment	1,223,214	1,318,061	752,448	598,709	3,892,432
Total	$1,226,452	$1,340,076	$ 753,191	$599,161	$3,918,880

Acquired Loans

(In thousands)	Residential mortgages	Commercial real estate	Commercial and industrial loans	Consumer	Total
June 30, 2015					
Loans receivable:					
Balance at end of Period					
Individually evaluated for impairment	$743	$7,338	$ 33	$320	$8,434
Collectively evaluated	367,910	463,645	91,232	208,133	1,130,920
Total	$368,653	$470,983	$ 91,265	$208,453	$1,139,354

Acquired Loans

(In thousands)	Residential mortgages	Commercial real estate	Commercial and industrial loans	Consumer	Total
December 31, 2014					
Loans receivable:					
Balance at end of year					
Individually evaluated for impairment	$695	$5,637	$ 39	$199	$6,570
Collectively evaluated for impairment	269,057	265,854	51,136	169,103	755,150
Total	$269,752	$271,491	$ 51,175	$169,302	$761,720

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The following is a summary of impaired loans at June 30, 2015:
Business Activities Loans

	June 30, 2015		
(In thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance:			
Residential mortgages - 1-4 family	$2,043	$2,043	$—
Commercial real estate - construction	2,140	2,140	—
Commercial real estate - single and multifamily	—	—	—
Other commercial real estate loans	15,958	15,958	—
Other commercial and industrial loans	6,669	6,669	—
Consumer - home equity	493	493	—
Consumer - other	112	112	—
With an allowance recorded:			
Residential mortgages - 1-4 family	$796	$883	$87
Commercial real estate - construction	—	—	—
Commercial real estate - single and multifamily	—	—	—
Other commercial real estate loans	973	1,003	30
Other commercial and industrial loans	35	1,741	1,706
Consumer - home equity	—	—	—
Total			
Residential mortgages	$2,839	$2,926	$87
Commercial real estate	19,071	19,101	30
Commercial and industrial loans	6,704	8,410	1,706
Consumer	605	605	—
Total impaired loans	$29,219	$31,042	$1,823

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Acquired Loans

	June 30, 2015		
(In thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance:			
Residential mortgages - 1-4 family	$442	$442	$—
Commercial real estate - construction	664	664	—
Commercial real estate - single and multifamily	—	—	—
Other commercial real estate loans	1,915	1,915	—
Other commercial and industrial loans	33	33	—
Consumer - home equity	320	320	—
With an allowance recorded:			
Residential mortgages - 1-4 family	$262	$301	$39
Commercial real estate - construction	—	—	—
Commercial real estate - single and multifamily	2,807	2,847	40
Other commercial real estate loans	1,786	1,912	126
Consumer - home equity	—	—	—
Total			
Residential mortgages	$704	$743	$39
Commercial real estate	7,172	7,338	166
Commercial and industrial loans	33	33	—
Consumer	320	320	—
Total impaired loans	$8,229	$8,434	$205

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The following is a summary of impaired loans at December 31, 2014:

Business Activities Loans

	December 31, 2014		
(In thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance:			
Residential mortgages - 1-4 family	$2,528	$2,528	$—
Commercial real estate - construction	16,990	16,990	—
Commercial real estate - single and multifamily	—	—	—
Other commercial real estate loans	102	102	—
Other commercial and industrial loans	743	743	—
Consumer - home equity	87	87	—
Consumer - other	—	—	—
With an allowance recorded:			
Residential mortgages - 1-4 family	$555	$710	$155
Commercial real estate - construction	3,511	4,431	920
Commercial real estate - single and multifamily	490	492	2
Other commercial real estate loans	—	—	—
Other commercial and industrial loans	—	—	—
Consumer - home equity	194	248	54
Consumer - other	105	117	12
Total			
Residential mortgages	$3,083	$3,238	$155
Commercial real estate	21,093	22,015	922
Commercial and industrial loans	743	743	—
Consumer	386	452	66
Total impaired loans	$25,305	$26,448	$1,143

Acquired Loans

	December 31, 2014		
(In thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance:			
Residential mortgages - 1-4 family	$189	$189	$—
Other commercial real estate loans	5,206	5,206	—
Other commercial and industrial loans	39	39	—
Consumer - home equity	—	—	—
With an allowance recorded:			
Residential mortgages - 1-4 family	$458	$506	$48
Other commercial real estate loans	383	431	48
Consumer - home equity	124	199	75
Total			
Residential mortgages	$647	$695	$48
Other commercial real estate loans	5,589	5,637	48
Other commercial and industrial loans	39	39	—
Consumer - home equity	124	199	75

Total impaired loans	$6,399	$6,570	$171

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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, 2015 and 2014:

Business Activities Loans

	Six Months Ended June 30, 2015		Six Months Ended June 30, 2014	
(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	$2,281	$ 41	$4,661	$ 99
Commercial real estate - construction	2,466	1	—	—
Commercial real estate - single and multifamily	120	—	17,308	312
Other commercial real estate loans	12,734	170	2,397	—
Commercial and industrial loans	1,447	3	583	14
Consumer - home equity	360	1	300	3
Consumer - other	114	2	123	2
With an allowance recorded:				
Residential mortgages - 1-4 family	$764	$ 17	$482	$ 3
Commercial real estate - construction	—	—	—	—
Commercial real estate - single and multifamily	—	—	2,858	—
Other commercial real estate loans	6,629	92	—	—
Commercial and industrial loans	329	2	2,055	44
Consumer - home equity	—	—	—	—
Total				
Residential mortgages	$3,045	$ 58	$5,143	$ 102
Commercial real estate	21,949	263	22,563	312
Commercial and industrial loans	1,776	5	2,638	58
Consumer loans	474	3	423	5
Total impaired loans	$27,244	$ 329	$30,767	$ 477

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Acquired Loans

(in thousands)	Six Months Ended June 30, 2015 Average Recorded Investment	Six Months Ended June 30, 2015 Cash Basis Interest Income Recognized	Six Months Ended June 30, 2014 Average Recorded Investment	Six Months Ended June 30, 2014 Cash Basis Interest Income Recognized
With no related allowance:				
Residential mortgages - 1-4 family	$569	$ 2	$930	$ 5
Commercial real estate - construction	664	60	—	—
Commercial real estate - single and multifamily	254	—	—	—
Other commercial real estate loans	1,977	3	4,392	51
Other commercial and industrial loans	51	3	537	8
Consumer - home equity	355	6	51	—
Consumer - other	—	—	—	—
With an allowance recorded:				
Residential mortgages - 1-4 family	$310	$ 5	$363	$ 1
Commercial real estate - single and multifamily	2,872	63	—	—
Other commercial real estate loans	845	59	1,489	55
Other commercial and industrial loans	—	—	68	3
Total				
Residential mortgages	$879	$ 7	$1,293	$ 6
Other commercial real estate loans	6,612	185	5,881	106
Commercial and industrial loans	51	3	605	11
Consumer loans	355	6	51	—
Total impaired loans	$7,897	$ 201	$7,830	$ 123

Troubled Debt Restructuring Loans

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

The following tables include the recorded investment and number of modifications identified during the three and six months ended June 30, 2015 and for the three and six months ended June 30, 2014, respectively. The table includes the recorded investment in the loans prior to a modification and also the recorded investment in the loans after the loans were restructured. The modifications for the three and six months ending June 30, 2015 were attributable to interest rate concessions, maturity date extensions and modified payment terms. The modifications for the three and six months ending June 30, 2014 were attributable to concessions granted as ordered by bankruptcy court, interest rate concessions and maturity date extensions.

	Three Months Ended June 30, 2015		
(Dollars in thousands)	Number of Modifications	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings			
Commercial - Construction	1	$ 1,877	$ 1,877

Commercial - Other	1	1,694	1,694
Commercial and industrial - Other	4	8,159	8,159
Total	6	$ 11,730	$ 11,730

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(Dollars in thousands)	Six Months Ended June 30, 2015 Number of Modifications	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings			
Commercial - Construction	1	$ 2,000	$ 2,000
Commercial - Other	2	1,694	1,694
Commercial and industrial - Other	5	8,192	8,192
Total	8	$ 11,886	$ 11,886

(Dollars in thousands)	Three Months Ended June 30, 2014 Number of Modifications	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings			
Residential - 1-4 Family	2	$ 247	$ 247
Commercial - single and multifamily	1	623	623
Commercial - other	6	4,804	4,804
Total	9	$ 5,674	$ 5,674

(Dollars in thousands)	Six Months Ended June 30, 2014 Number of Modifications	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings			
Residential - 1-4 Family	3	$ 369	$ 366
Commercial - single and multifamily	1	623	623
Commercial - other	6	4,804	4,804
Total	10	$ 5,796	$ 5,793

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

	Modifications that Subsequently Defaulted Three Months Ended June 30, 2015 Number of Contracts	Recorded Investment
Troubled Debt Restructurings		
Commercial - Other	1	$668

	Modifications that Subsequently Defaulted Six Months Ended June 30, 2015 Number of Contracts	Recorded Investment
Troubled Debt Restructurings		
Commercial - Other	1	$ 649

	Modifications that Subsequently Defaulted Three Months Ended June 30, 2014 Number of Contracts	Recorded Investment
Troubled Debt Restructurings		
Commercial - Other	2	$158

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	Modifications that Subsequently Defaulted	
	Six Months Ended June 30, 2014	
	Number of Contracts	Recorded Investment
Troubled Debt Restructurings		
Commercial - Other	2	$ 158

The following table presents the Company's TDR activity for the three and six months ended June 30, 2015 and 2014:

	Three Months Ended June 30,	
(In thousands)	2015	2014
Balance at beginning of the period	$17,204	$10,112
Principal payments	(607)	(88)
TDR status change (1)	—	(589)
Other reductions/increases (2)	(611)	4
Newly identified TDRs	9,730	5,674
Balance at end of the period	$25,716	$15,113
	Six Months Ended June 30,	
(In thousands)	2015	2014
Balance at beginning of the period	$16,714	$10,822
Principal payments	(1,091)	(960)
TDR status change (1)	—	(641)
Other reductions/increases (2)	(1,793)	99
Newly identified TDRs	11,886	5,793
Balance at end of the period	$25,716	$15,113

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(1) TDR status change classification represents TDR loans with a specified interest rate equal to or greater than the rate that the Company was willing to accept at the time of the restructuring for a new loan with comparable risk and the loan was on current payment status and not impaired based on the terms specified by the restructuring agreement.
(2) Other reductions classification consists of transfer to other real estate owned and charge-offs and advances to loans.

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

As of June 30, 2015, the Company maintained foreclosed residential real estate property with a fair value of $119 thousand. Additionally, residential mortgage loans collateralized by real estate property that are in the process of foreclosure totaled $5.3 million. As of December 31, 2014, foreclosed residential real estate property totaled $1.3 million.

NOTE 6. LOAN LOSS ALLOWANCE

Activity in the allowance for loan losses for the six months ended June 30, 2015 and 2014 was as follows:

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Business Activities Loans (In thousands)	Residential mortgages	Commercial real estate	Commercial and industrial loans	Consumer	Unallocated	Total
June 30, 2015						
Balance at beginning of period	$6,836	$14,690	$ 5,206	$5,928	$135	$32,795
Charged-off loans	446	4,422	372	462	—	5,702
Recoveries on charged-off loans	113	146	154	127	—	540
Provision/(releases) for loan losses	(32)	2,553	4,178	(679)	(427)	5,593
Balance at end of period	$6,471	$12,967	$ 9,166	$4,914	$(292)	$33,226
Individually evaluated for impairment	87	30	1,706	—	—	1,823
Collectively evaluated	6,384	12,937	7,460	4,914	(292)	31,403
Total	$6,471	$12,967	$ 9,166	$4,914	$(292)	$33,226

Business Activities Loans (In thousands)	Residential mortgages	Commercial real estate	Commercial and industrial loans	Consumer	Unallocated	Total
June 30, 2014						
Balance at beginning of period	$6,937	$13,705	$5,173	$3,644	$68	$29,527
Charged-off loans	1,159	1,645	1,426	571	—	4,801
Recoveries on charged-off loans	64	6	22	177	—	269
Provision/(releases) for loan losses	(299)	2,389	1,396	1,597	143	5,226
Balance at end of period	$5,543	$14,455	$5,165	$4,847	$211	$30,221
Individually evaluated for impairment	57	712	475	—	—	1,244
Collectively evaluated	5,486	13,743	4,690	4,847	211	28,977
Total	$5,543	$14,455	$5,165	$4,847	$211	$30,221

Acquired Loans (In thousands)	Residential mortgages	Commercial real estate	Commercial and industrial loans	Consumer	Unallocated	Total
June 30, 2015						
Balance at beginning of period	$615	$790	$1,093	$369	$—	$2,867
Charged-off loans	375	587	336	608	—	1,906
Recoveries on charged-off loans	41	395	56	56	—	548
Provision for loan losses	527	1,188	160	587	—	2,462
Balance at end of period	$808	$1,786	$973	$404	$—	$3,971
Individually evaluated for impairment	39	166	—	—	—	205
Collectively evaluated	769	1,620	973	404	—	3,766
Total	$808	$1,786	$973	$404	$—	$3,971

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Acquired Loans (In thousands)	Residential mortgages	Commercial real estate	Commercial and industrial loans	Consumer	Unallocated	Total
June 30, 2014						
Balance at beginning of period	$625	$2,339	$597	$235	$—	$3,796
Charged-off loans	723	495	176	638	—	2,032
Recoveries on charged-off loans	161	1	24	23	—	209
Provision for loan losses	599	246	624	690	—	2,159
Balance at end of period	$662	$2,091	$1,069	$310	$—	$4,132
Individually evaluated for impairment	60	306	20	—	—	386
Collectively evaluated	602	1,785	1,049	310	—	3,746
Total	$662	$2,091	$1,069	$310	$—	$4,132

Credit Quality Information

Business Activities Loans Credit Quality Analysis

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

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

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

Acquired Loans Credit Quality Analysis

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

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

ASC 310-30.

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

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Additionally, the Company considers the need for an additional reserve for acquired loans accounted for outside of the scope of ASC 310-30 under ASC 310-20. At acquisition date, the Bank determined a fair value mark with credit and interest rate components. Under the Company's model, the impairment evaluation process involves comparing the carrying value of acquired loans, including the entire unamortized premium or discount, to the recorded reserve allowance. If necessary, the Company books an additional reserve to account for shortfalls identified through this calculation. Fair value marks are not bifurcated when evaluating for impairment.

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, 2015, the allowance for loan losses related to acquired loans was $4.0 million using the above mentioned criteria.

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

The following table presents the Company's loans by risk rating at June 30, 2015 and December 31, 2014:

Business Activities Loans

Residential Mortgages

Credit Risk Profile by Internally Assigned Grade

	1-4 family		Construction		Total residential mortgages	
(In thousands)	June 30, 2015	December 31, 2014	June 30, 2015	December 31, 2014	June 30, 2015	December 31, 2014
Grade:						
Pass	$1,233,607	$1,195,209	$30,247	$26,634	$1,263,854	$1,221,843
Special mention	1,073	146	—	410	1,073	556
Substandard	3,776	4,053	—	—	3,776	4,053
Total	$1,238,456	$1,199,408	$30,247	$27,044	$1,268,703	$1,226,452

Commercial Real Estate

Credit Risk Profile by Creditworthiness Category

	Construction		Single and multi-family		Other		Total commercial real estate	
(In thousands)	June 30, 2015	December 31, 2014	June 30, 2015	December 31, 2014	June 30, 2015	December 31, 2014	June 30, 2015	December 31, 2014
Grade:								
Pass	$178,785	$166,295	$146,780	$137,533	$1,048,171	$959,836	$1,373,736	$1,263,664
Special mention	—	—	769	—	5,432	6,933	6,201	6,933
Substandard	2,372	2,894	2,167	2,517	51,705	63,995	56,244	69,406
Doubtful	—	—	—	—	73	73	73	73
Total	$181,157	$169,189	$149,716	$140,050	$1,105,381	$1,030,837	$1,436,254	$1,340,076

Commercial and Industrial Loans

Credit Risk Profile by Creditworthiness Category

	Asset based lending		Other		Total comm. and industrial loans	
(In thousands)	June 30, 2015	December 31, 2014	June 30, 2015	December 31, 2014	June 30, 2015	December 31, 2014
Grade:						
Pass	$339,331	$341,246	$456,713	$404,846	$796,044	$746,092
Special mention	—	—	20,047	560	20,047	560
Substandard	—	—	13,834	6,539	13,834	6,539
Total	$339,331	$341,246	$490,594	$411,945	$829,925	$753,191

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Consumer Loans
Credit Risk Profile Based on Payment Activity

	Home equity		Auto and other		Total consumer loans	
(In thousands)	June 30, 2015	December 31, 2014	June 30, 2015	December 31, 2014	June 30, 2015	December 31, 2014
Performing	$293,449	$251,524	$315,209	$346,175	$608,658	$597,699
Nonperforming	1,429	1,157	291	305	1,720	1,462
Total	$294,878	$252,681	$315,500	$346,480	$610,378	$599,161

Acquired Loans
Residential Mortgages
Credit Risk Profile by Internally Assigned Grade

	1-4 family		Construction		Total residential mortgages	
(In thousands)	June 30, 2015	December 31, 2014	June 30, 2015	December 31, 2014	June 30, 2015	December 31, 2014
Grade:						
Pass	$362,389	$266,445	$2,607	$1,018	$364,996	$267,463
Special mention	631	638	—	—	631	638
Substandard	3,026	1,651	—	—	3,026	1,651
Total	$366,046	$268,734	$2,607	$1,018	$368,653	$269,752

Commercial Real Estate
Credit Risk Profile by Creditworthiness Category

	Construction		Single and multi-family		Other		Total commercial real estate	
(In thousands)	June 30, 2015	December 31, 2014	June 30, 2015	December 31, 2014	June 30, 2015	December 31, 2014	June 30, 2015	December 31, 2014
Grade:								
Pass	$40,940	$2,904	$41,080	$44,497	$356,270	$195,681	$438,290	$243,082
Special mention	2,020	—	625	533	9,076	4,868	11,721	5,401
Substandard	1,270	1,297	6,245	8,138	13,457	13,573	20,972	23,008
Total	$44,230	$4,201	$47,950	$53,168	$378,803	$214,122	$470,983	$271,491

Commercial and Industrial Loans
Credit Risk Profile by Creditworthiness Category

	Asset based lending		Other		Total comm. and industrial loans	
(In thousands)	June 30, 2015	December 31, 2014	June 30, 2015	December 31, 2014	June 30, 2015	December 31, 2014
Grade:						
Pass	$—	$—	$86,751	$45,757	$ 86,751	$ 45,757
Special mention	—	—	1,361	1,723	1,361	1,723
Substandard	—	—	3,113	3,695	3,113	3,695
Doubtful	—	—	40	—	40	—
Total	$—	$—	$91,265	$51,175	$ 91,265	$ 51,175

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Consumer Loans
Credit Risk Profile Based on Payment Activity

	Home equity		Auto and other		Total consumer loans	
(In thousands)	June 30, 2015	December 31, 2014	June 30, 2015	December 31, 2014	June 30, 2015	December 31, 2014
Performing	$55,547	$65,368	$151,634	$102,182	$207,181	$167,550
Nonperforming	728	583	544	1,169	1,272	1,752
Total	$56,275	$65,951	$152,178	$103,351	$208,453	$169,302

The following table summarizes information about total loans rated Special Mention or lower as of June 30, 2015 and December 31, 2014. The table below includes consumer loans that are special mention and substandard accruing that are classified in the above table as performing based on payment activity.

	June 30, 2015			December 31, 2014		
(In thousands)	Business Activities Loans	Acquired Loans	Total	Business Activities Loans	Acquired Loans	Total
Non-Accrual	$13,759	$6,230	$19,989	$14,778	$6,927	$21,705
Substandard Accruing	63,085	22,430	85,515	66,995	23,839	90,834
Total Classified	76,844	28,660	105,504	81,773	30,766	112,539
Special Mention	27,441	14,577	42,018	9,113	8,800	17,913
Total Criticized	$104,285	$43,237	$147,522	$90,886	$39,566	$130,452

NOTE 7. DEPOSITS

A summary of time deposits is as follows:

(In thousands)	June 30, 2015	December 31, 2014
Time less than $100,000	$551,610	$515,570
Time $100,000 or more	1,200,314	940,176
Total time deposits	$1,751,924	$1,455,746

Included in deposits are brokered deposits of $609.9 million and $430.8 million at June 30, 2015 and December 31, 2014, respectively. Included in the brokered deposit balance stated above are reciprocal deposits of $8.7 million and $9.4 million at June 30, 2015 and December 31, 2014, respectively.

NOTE 8. BORROWED FUNDS

Borrowed funds at June 30, 2015 and December 31, 2014 are summarized, as follows:

	June 30, 2015			December 31, 2014		
(dollars in thousands)	Principal	Weighted Average Rate		Principal	Weighted Average Rate	
Short-term borrowings:						
Advances from the FHLBB	$1,058,001	0.24	%	$890,900	0.24	%
Other Borrowings	—	—		10,000	1.80	
Total short-term borrowings:	1,058,001	0.24		900,900	0.23	
Long-term borrowings:						
Advances from the FHLBB	118,483	1.92		61,676	0.93	
Subordinated borrowings	74,318	7.00		74,283	7.00	
Junior subordinated borrowings	15,464	2.13		15,464	2.08	
Total long-term borrowings:	208,265	3.75		151,423	4.03	
Total	$1,266,266	0.82	%	$1,052,323	0.79	%

Short term debt includes Federal Home Loan Bank of Boston ("FHLBB") advances with an original maturity of less than one year and a short-term line-of-credit drawdown through a correspondent bank. The Bank also maintains a $3.0 million secured line of credit with the FHLBB that bears a daily adjustable rate calculated by the FHLBB. There was no outstanding balance on the FHLBB line of credit for the periods ended June 30, 2015 and December 31, 2014. The Bank is approved to borrow on a short-term basis from the Federal Reserve Bank of Boston as a non-member bank. The Bank has pledged certain loans and securities to the Federal Reserve Bank to support this arrangement. No borrowings with the Federal Reserve Bank of Boston took place for the periods ended June 30, 2015 and December 31, 2014.

Long-term FHLBB advances consist of advances with an original maturity of more than one year. The advances outstanding at June 30, 2015 include callable advances totaling $11.0 million, and amortizing advances totaling $5.1 million. The advances outstanding at December 31, 2014 include callable advances totaling $5.0 million, and amortizing advances totaling $5.1 million. All FHLBB borrowings, including the line of credit, are secured by a blanket security agreement on certain qualified collateral, principally all residential first mortgage loans and certain securities.

A summary of maturities of FHLBB advances as of June 30, 2015 and December 31, 2014 is as follows:

	June 30, 2015			December 31, 2014		
(in thousands, except rates)	Principal	Weighted Average Rate		Principal	Weighted Average Rate	
Fixed rate advances maturing:						
2015	$1,067,031	0.25	%	$940,900	0.24	%
2016	52,792	1.37		1,519	0.88	
2017	33,719	2.46		5,000	4.33	
2018	1,044	2.62		—	—	
2019 and beyond	21,898	2.72		5,157	3.85	
Total FHLBB advances	$1,176,484	0.41	%	$952,576	0.28	%

The Company does not have variable-rate FHLB advances for the periods ended June 30, 2015 and December 31, 2014.

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

The Company holds 100% of the common stock of Berkshire Hills Capital Trust I ("Trust I") which is included in other assets with a cost of $0.5 million. The sole asset of Trust I is $15.5 million of the Company's junior subordinated debentures due in 2035. These debentures bear interest at a variable rate equal to LIBOR plus 1.85% and had a rate of 2.13% and 2.08% at June 30, 2015 and December 31, 2014, respectively. The Company has the right to defer payments of interest for up to five years on the debentures at any time, or from time to time, with certain limitations, including a restriction on the payment of dividends to stockholders while such interest payments on the debentures have been deferred. The Company has not exercised this right to defer payments. The Company has the right to redeem the debentures at par value. Trust I is considered a variable interest entity

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for which the Company is not the primary beneficiary. Accordingly, Trust I is not consolidated into the Company's financial statements.

NOTE 9. STOCKHOLDERS' EQUITY

The actual and required capital ratios were as follows:

	June 30, 2015		Regulatory Minimum to be Well Capitalized		December 31, 2014		Regulatory Minimum to be Well Capitalized	
Company (consolidated)								
Total capital to risk weighted assets	11.7	%	10.0	%	11.4	%	10.0	%
Common Equity Tier 1 Capital to risk weighted assets	9.5		6.5		N/A		N/A	
Tier 1 capital to risk weighted assets	9.6		8.0		9.0		6.0	
Tier 1 capital to average assets	7.4		5.0		7.0		5.0	
Bank								
Total capital to risk weighted assets	11.0	%	10.0	%	10.8	%	10.0	%
Common Equity Tier 1 Capital to risk weighted assets	9.7		6.5		N/A		N/A	
Tier 1 capital to risk weighted assets	9.7		8.0		9.3		6.0	
Tier 1 capital to average assets	7.5		5.0		7.2		5.0	

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

Effective January 1, 2015, the Company and the Bank became subject to the Basel III rule that requires the Company and the Bank to assess their Common Equity Tier 1 Capital to risk weighted assets and the Company and the Bank each exceed the minimum to be well capitalized.

Accumulated other comprehensive income (loss)

Components of accumulated other comprehensive income is as follows:

(In thousands)	June 30, 2015		December 31, 2014	
Other accumulated comprehensive income, before tax:				
Net unrealized holding gain on AFS securities	$9,259		$15,993	
Net (loss) on effective cash flow hedging derivatives	(6,416	)	(3,299	)
Net unrealized holding (loss) on pension plans	(3,757	)	(2,291	)
Income taxes related to items of accumulated other comprehensive income:				
Net unrealized holding gain on AFS securities	(3,582	)	(6,077	)
Net (loss) on effective cash flow hedging derivatives	2,586		1,330	
Net unrealized holding (loss) on pension plans	1,514		923	
Accumulated other comprehensive income	$(396	)	$6,579	

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The following table presents the components of other comprehensive income for the three and six months ended June 30, 2015 and 2014:

(In thousands)	Before Tax	Tax Effect	Net of Tax
Three Months Ended June 30, 2015			
Net unrealized holding gains on AFS securities:			
Net unrealized losses arising during the period	$(13,687)	$5,243	$(8,444)
Less: reclassification adjustment for (gains) realized in net income	(2,384)	857	(1,527)
Net unrealized holding loss on AFS securities	(16,071)	6,100	(9,971)
Net loss on cash flow hedging derivatives:			
Net unrealized gain arising during the period	784	(316)	468
Less: reclassification adjustment for losses realized in net income	—	—	—
Net gain on cash flow hedging derivatives	784	(316)	468
Net unrealized holding loss on pension plans			
Net unrealized gain arising during the period	—	—	—
Less: reclassification adjustment for losses realized in net income	65	(26)	39
Net unrealized holding gain on pension plans	65	(26)	39
Other comprehensive loss	$(15,222)	$5,758	$(9,464)
Three Months Ended June 30, 2014			
Net unrealized holding loss on AFS securities:			
Net unrealized loss arising during the period	$11,316	$(4,344)	$6,972
Less: reclassification adjustment for (gains) realized in net income	(203)	83	(120)
Net unrealized holding gain on AFS securities	11,113	(4,261)	6,852
Net loss on cash flow hedging derivatives:			
Net unrealized loss arising during the period	(3,267)	1,322	(1,945)
Less: reclassification adjustment for (gains) realized in net income	—	—	—
Net loss on cash flow hedging derivatives	(3,267)	1,322	(1,945)
Net gain on terminated swap:			
Net unrealized loss arising during the period	—	—	—
Less: reclassification adjustment for losses realized in net income	—	—	—
Net gain on terminated swap	—	—	—
Other comprehensive income	$7,846	$(2,939)	$4,907

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(In thousands)	Before Tax	Tax Effect	Net of Tax
Six Months Ended June 30, 2015			
Net unrealized holding gains on AFS securities:			
Net unrealized losses arising during the period	$(4,316)	$1,625	$(2,691)
Less: reclassification adjustment for (gains) realized in net income	(2,418)	870	(1,548)
Net unrealized holding loss on AFS securities	(6,734)	2,495	(4,239)
Net loss on cash flow hedging derivatives:			
Net unrealized loss arising during the period	(3,117)	1,256	(1,861)
Less: reclassification adjustment for losses realized in net income	—	—	—
Net loss on cash flow hedging derivatives	(3,117)	1,256	(1,861)
Net unrealized holding loss on pension plans			
Net unrealized loss arising during the period	(1,596)	643	(953)
Less: reclassification adjustment for losses realized in net income	130	(52)	78
Net unrealized holding loss on pension plans	(1,466)	591	(875)
Other comprehensive income	$(11,317)	$4,342	$(6,975)
Six Months Ended June 30, 2014			
Net unrealized holding loss on AFS securities:			
Net unrealized loss arising during the period	$17,370	$(6,576)	$10,794
Less: reclassification adjustment for (gains) realized in net income	(237)	95	(142)
Net unrealized holding gain on AFS securities	17,133	(6,481)	10,652
Net loss on cash flow hedging derivatives:			
Net unrealized loss arising during the period	(4,127)	1,691	(2,436)
Less: reclassification adjustment for (gains) realized in net income	5,393	(2,201)	3,192
Net gain on cash flow hedging derivatives	1,266	(510)	756
Net gain on terminated swap:			
Net unrealized loss arising during the period	—	—	—
Less: reclassification adjustment for losses realized in net income	3,237	(1,312)	1,925
Net gain on terminated swap	3,237	(1,312)	1,925
Other comprehensive income	$21,636	$(8,303)	$13,333

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The following table presents the changes in each component of accumulated other comprehensive income (loss), for the three and six months ended June 30, 2015 and 2014:

(in thousands)	Net unrealized holding gain on AFS Securities	Net loss on effective cash flow hedging derivatives	Net loss on terminated swap	Net unrealized holding loss on pension plans	Total
Three Months Ended June 30, 2015					
Balance at Beginning of Period	$15,648	$(4,298)	$—	$(2,282)	$9,068
Other Comprehensive (Loss) Gain Before reclassifications	(8,444)	468	—	—	(7,976)
Amounts Reclassified from Accumulated other comprehensive income	(1,527)	—	—	39	(1,488)
Total Other Comprehensive (Loss) Income	(9,971)	468	—	39	(9,464)
Balance at End of Period	$5,677	$(3,830)	$—	$(2,243)	$(396)
Three Months Ended June 30, 2014					
Balance at Beginning of Period	$(1,976)	$1,335	$—	$10	$(631)
Other Comprehensive Gain (Loss) Before reclassifications	6,972	(1,945)	—	—	5,027
Amounts Reclassified from Accumulated other comprehensive income	(120)	—	—	—	(120)
Total Other Comprehensive Income (Loss)	6,852	(1,945)	—	—	4,907
Balance at End of Period	$4,876	$(610)	$—	$10	$4,276
Six Months Ended June 30, 2015					
Balance at Beginning of Period	$9,916	$(1,969)	$—	$(1,368)	$6,579
Other Comprehensive (Loss) Before reclassifications	(2,691)	(1,861)	—	(953)	(5,505)
Amounts Reclassified from Accumulated other comprehensive income	(1,548)	—	—	78	(1,470)
Total Other Comprehensive (Loss)	(4,239)	(1,861)	—	(875)	(6,975)
Balance at End of Period	$5,677	$(3,830)	$—	$(2,243)	$(396)
Six Months Ended June 30, 2014					
Balance at Beginning of Period	$(5,776)	$(1,366)	$(1,925)	$10	$(9,057)
Other Comprehensive Gain (Loss) Before reclassifications	10,794	(2,436)	—	—	8,358
Amounts Reclassified from Accumulated other comprehensive income	(142)	3,192	1,925	—	4,975
Total Other Comprehensive Income	10,652	756	1,925	—	13,333
Balance at End of Period	$4,876	$(610)	$—	$10	$4,276

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The following table presents the amounts reclassified out of each component of accumulated other comprehensive income (loss) for the three and six months ended June 30, 2015 and 2014:

(in thousands)	Three Months Ended June 30, 2015	2014	Affected Line Item in the Statement where Net Income is Presented
Realized (gains) on AFS securities:			
	$(2,384)	$(203)	Non-interest income
	857	83	Tax expense
	(1,527)	(120)	Net of tax
Realized losses on cash flow hedging derivatives:			
	—	—	Non-interest income
	—	—	Tax expense
	—	—	Net of tax
Amortization of realized gains on terminated swap:			
	—	—	Non-interest income
	—	—	Tax expense
	—	—	Net of tax
Realized loss on pension plans:			
	65	—	Non-interest income
	(26)	—	Tax expense
	39	—	Net of tax
Total reclassifications for the period	$(1,488)	$(120)	Net of tax

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(in thousands)	Six Months Ended June 30, 2015	2014	Affected Line Item in the Statement where Net Income is Presented
Realized (gains) on AFS securities:			
	$(2,418)	$(237)	Non-interest income
	870	95	Tax expense
	(1,548)	(142)	Net of tax
Realized losses on cash flow hedging derivatives:			
	—	5,393	Non-interest income
	—	(2,201)	Tax expense
	—	3,192	Net of tax
Amortization of realized gains on terminated swap:			
	—	3,237	Non-interest income
	—	(1,312)	Tax expense
	—	1,925	Net of tax
Realized loss on pension plans:			
	130	—	Non-interest income
	(52)	—	Tax expense
	78	—	Net of tax
Total reclassifications for the period	$(1,470)	$4,975	Net of tax

NOTE 10. EARNINGS PER SHARE

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

(In thousands, except per share data)	Three Months Ended June 30, 2015	2014	Six Months Ended June 30, 2015	2014
Net income	$10,044	$11,464	$18,803	$10,358
Average number of common shares issued	29,975	26,525	28,260	26,525
Less: average number of treasury shares	1,193	1,417	1,244	1,421
Less: average number of unvested stock award shares	481	393	459	397
Average number of basic common shares outstanding	28,301	24,715	26,557	24,707
Plus: dilutive effect of unvested stock award shares	94	44	91	55
Plus: dilutive effect of stock options outstanding	66	50	65	59
Average number of diluted common shares outstanding	28,461	24,809	26,713	24,821
Earnings per share:				
Basic	$0.35	$0.46	$0.71	$0.42
Diluted	$0.35	$0.46	$0.70	$0.42

For the six months ended June 30, 2015, 365 thousand shares of restricted stock and 207 thousand options were anti-dilutive and therefore excluded from the earnings per share calculations. For the six months ended June 30, 2014, 342 thousand shares of restricted stock and 305 thousand options were anti-dilutive and therefore excluded from the earnings per share calculations.

NOTE 11. STOCK-BASED COMPENSATION PLANS

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A combined summary of activity in the Company's stock award and stock option plans for the six months ended June 30, 2015 is presented in the following table:

	Non-vested Stock Awards Outstanding		Stock Options Outstanding	
(Shares in thousands)	Number of Shares	Weighted-Average Grant Date Fair Value	Number of Shares	Weighted-Average Exercise Price
December 31, 2014	424	$24.33	282	$20.42
Granted	174	26.33	—	—
Stock options exercised	—	—	(11)	10.52
Stock awards vested	(86)	24.28	—	—
Forfeited	(11)	23.64	—	—
Expired	—	—	—	—
June 30, 2015	501	$24.92	271	$21.12
Exercisable options, June 30, 2015			271	$21.12

During the six months ended June 30, 2015 and 2014, proceeds from stock option exercises totaled $116 thousand and totaled $848 thousand, respectively. During the six months ended June 30, 2015, there were 86 thousand shares issued in connection with vested stock awards. During the six months ended June 30, 2014, there were 66 thousand shares issued in connection with vested stock awards. All of these shares were issued from available treasury stock. Stock-based compensation expense totaled $2.3 million and $1.8 million during the six months ended June 30, 2015 and 2014, respectively. Stock-based compensation expense is recognized over the requisite service period for all awards.

NOTE 12. OPERATING SEGMENTS

The Company has two reportable operating segments, Banking and Insurance, which are delineated by the consolidated subsidiaries of Berkshire Hills Bancorp, Inc. Banking includes the activities of the Bank and its subsidiaries, which provide retail and commercial banking, along with wealth management and investment services. Insurance includes the activities of Berkshire Insurance Group, Inc. ("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, 2015					
Net interest income	$53,480	$—	$5,157	$(6,000)	$ 52,637
Provision for loan losses	4,204	—	—	—	4,204
Non-interest income	14,096	2,486	7,445	(7,247)	16,780
Non-interest expense	47,531	1,901	4,591	2	54,025
Income before income taxes	15,841	585	8,011	(13,249)	11,188
Income tax expense (benefit)	2,951	227	(2,033)	(1)	1,144
Net income	$12,890	$358	$10,044	$(13,248)	$ 10,044
Average assets (in millions)	$7,191	$29	$884	$(909)	$ 7,195
Three Months Ended June 30, 2014					
Net interest income (expense)	$45,244	$—	$(915)	$—	$ 44,329
Provision for loan losses	3,989	—	—	—	3,989
Non-interest income	12,046	2,460	12,272	(12,272)	14,506
Non-interest expense	36,970	1,887	406	—	39,263
Income before income taxes	16,331	573	10,951	(12,272)	15,583
Income tax expense (benefit)	4,409	223	(513)	—	4,119
Net income	$11,922	$350	$11,464	$(12,272)	$ 11,464
Average assets (in millions)	$6,111	$27	$744	$(736)	$ 6,146
Six Months Ended June 30, 2015					
Net interest income	$99,819	$—	$10,311	$(12,000)	$ 98,130
Provision for loan losses	8,055	—	—	—	8,055
Non-interest income	23,509	5,453	11,229	(10,849)	29,342
Non-interest expense	90,025	3,841	5,305	2	99,173
Income before income taxes	25,248	1,612	16,235	(22,851)	20,244
Income tax expense (benefit)	3,384	626	(2,568)	(1)	1,441
Net income	$21,864	$986	$18,803	$(22,850)	$ 18,803
Average assets (in millions)	$6,837	$29	$821	$(841)	$ 6,846
Six Months Ended June 30, 2014					
Net interest income (expense)	$88,954	$—	$(1,859)	$—	$ 87,095
Provision for loan losses	7,385	—	—	—	7,385
Non-interest income	13,420	5,509	12,020	(12,020)	18,929
Non-interest expense	79,543	4,209	871	—	84,623
Income before income taxes	15,446	1,300	9,290	(12,020)	14,016
Income tax expense (benefit)	4,217	509	(1,068)	—	3,658
Net income	$11,229	$791	$10,358	$(12,020)	$ 10,358
Average assets (in millions)	$5,971	$26	$733	$(732)	$ 5,998

NOTE 13. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

As of June 30, 2015, the Company held derivatives with a total notional amount of $1.2 billion. That amount included $300.0 million in forward starting 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 $824.0 million and $55.7 million, respectively, which

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are not designated as hedges for accounting purposes and are therefore recorded at fair value. Economic hedges included interest rate swaps totaling $692.6 million, risk participation agreements with dealer banks of $48.8 million, and $82.6 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 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/Capital 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, 2015.

The Company pledged collateral to derivative counterparties in the form of cash totaling $6.0 million and securities with an amortized cost of $24.8 million and a fair value of $24.8 million as of June 30, 2015. The Company does not typically require its commercial customers to post cash or securities as collateral on its program of back-to-back economic hedges. However certain language is written into the International Swaps Dealers Association, Inc. ("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 derivative assets and liabilities at June 30, 2015, follows:

	Notional Amount (In thousands)	Weighted Average Maturity (In years)	Weighted Average Rate Received	Contract pay rate	Estimated Fair Value Asset (Liability) (In thousands)
Cash flow hedges:					
Forward-starting interest rate swaps on FHLBB borrowings	$300,000	3.8	— %	2.29 %	$ (6,416)
Total cash flow hedges	300,000				(6,416)
Economic hedges:					
Interest rate swap on tax advantaged economic development bond	12,272	14.4	0.52 %	5.09 %	(2,326)
Interest rate swaps on loans with commercial loan customers	340,147	6.6	1.74 %	4.54 %	(11,471)
Reverse interest rate swaps on loans with commercial loan customers	340,147	6.6	4.54 %	1.74 %	11,567
Risk Participation Agreements with Dealer Banks	48,801	15.7			(69)
Forward sale commitments	82,640	0.2			475
Total economic hedges	824,007				(1,824)
Non-hedging derivatives:					
Interest rate lock commitments	55,749	0.2			382
Total non-hedging derivatives	55,749				382
Total	$1,179,756				$ (7,858)

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Information about derivative assets and liabilities at December 31, 2014, follows:

	Notional Amount (In thousands)	Weighted Average Maturity (In years)	Weighted Average Rate Received		Contract pay rate		Estimated Fair Value Asset (Liability) (In thousands)
Cash flow hedges:							
Forward-starting interest rate swaps on FHLBB borrowings	$300,000	4.3	—	%	2.29	%	$ (3,299)
Total cash flow hedges	300,000						(3,299)
Economic hedges:							
Interest rate swap on tax advantaged economic development bond	12,554	14.9	0.52	%	5.09	%	(2,578)
Interest rate swaps on loans with commercial loan customers	297,158	6.0	2.23	%	4.54	%	(12,183)
Reverse interest rate swaps on loans with commercial loan customers	297,158	6.0	4.54	%	2.23	%	12,221
Risk participation agreements with dealer banks	45,842	16.6					(91)
Forward sale commitments	42,366	0.2					(510)
Total economic hedges	695,078						(3,141)
Non-hedging derivatives:							
Interest rate lock commitments	39,589	0.2					625
Total non-hedging derivatives	39,589						625
Total	$1,034,667						$ (5,815)

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 transaction is forecasted to affect 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 six forward-starting interest rate swap contracts with a combined notional value of $300.0 million as of June 30, 2015. The six forward starting swaps will become effective in 2016. All have durations of three years. This hedge strategy converts the one month rolling FHLBB borrowings based on the FHLBB's one month fixed interest rate to fixed interest rates, thereby protecting the Company from floating interest rate variability.

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

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(In thousands)	Three Months Ended June 30, 2015	2014	Six Months Ended June 30, 2015	2014
Interest rate swaps on FHLBB borrowings:				
Unrealized gain (loss) recognized in accumulated other comprehensive loss	$784	$(3,343)	$(3,117)	$(4,127)
Reclassification of unrealized loss from accumulated other comprehensive income to other non-interest income for termination of swaps	—	—	—	8,630
Reclassification of unrealized deferred tax benefit from accumulated other comprehensive income to tax expense for terminated swaps	—	—	—	(3,611)
Net tax benefit (expense) on items recognized in accumulated other comprehensive income	(316)	1,352	1,256	1,666
Interest rate swaps on junior subordinated debentures:				
Unrealized loss recognized in accumulated other comprehensive income	—	—	—	(1)
Reclassification of unrealized loss from accumulated other comprehensive income to interest expense	—	75	—	204
Net tax expense on items recognized in accumulated other comprehensive income	—	(29)	—	(80)
Other comprehensive gain (loss) recorded in accumulated other comprehensive income, net of reclassification adjustments and tax effects	$468	$(1,945)	$(1,861)	$2,681
Net interest expense recognized in interest expense on junior subordinated notes	$—	$75	$—	$204

Hedge ineffectiveness on interest rate swaps designated as cash flow hedges was immaterial to the Company's financial statements during the three and six months ended June 30, 2015 and 2014.

Amounts reported in accumulated other comprehensive income 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 does not anticipate any such reclassifications.

As a result of the branch acquisition, in the first quarter of 2014, the Company initiated and subsequently terminated all of its interest rate swaps, with various institutions, associated with FHLB advances with 3-month LIBOR based floating interest rates with an aggregate notional amount of $30 million, all of its interest rate swaps associated with 90 day rolling FHLB advances issued using the FHLB's 3-month fixed interest rate with an aggregate notional amount of $145 million and all of its forward-starting interest rate swaps associated with 90 day rolling FHLB advances issued using the FHLB's 3-month fixed interest rate with an aggregate notional amount of $235 million. In the first quarter of 2014, the Company elected to extinguish $215 million of FHLB advances related to the terminated swaps. As a result the Company reclassified $8.6 million of losses from the effective portion of the unrealized changes in the fair value of the terminated derivatives from other comprehensive income to non-interest income as the forecasted transactions to the related FHLB advances will not occur.

Economic hedges

As of June 30, 2015, the Company has an interest rate swap with a $12.3 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

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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 $94.7 thousand as of June 30, 2015. The interest income and expense on these mirror image swaps exactly offset each other.

The Company has risk participation agreements with dealer banks. Risk participation agreements occur when the Company participates on a loan and a swap where another bank is the lead. The Company gets paid a fee to take on the risk associated with having to make the lead bank whole on Berkshire's portion of the pro-rated swap should the borrower default. Changes in fair value are recorded in current period earnings.

The Company utilizes forward sale commitments to hedge interest rate risk and the associated effects on the fair value of interest rate lock commitments and loans originated for sale. The forward sale commitments are accounted for as derivatives with changes in fair value recorded in current period earnings.

The Company uses the following types of forward sale commitments contracts:

- Best efforts loan sales,
- Mandatory delivery loan sales, and
- To Be Announced ("TBA") mortgage-backed securities sales.

A best efforts contract refers to a loan sale agreement where the Company commits to deliver an individual mortgage loan of a specified principal amount and quality to an investor if the loan to the underlying borrower closes. The Company may enter into a best efforts contract once the price is known, which is shortly after the potential borrower's interest rate is locked.

A mandatory delivery contract is a loan sale agreement where the Company commits to deliver a certain principal amount of mortgage loans to an investor at a specified price on or before a specified date. Generally, the Company may enter into mandatory delivery contracts shortly after the loan closes with a customer.

The Company may sell TBA mortgage-backed securities to hedge the changes in fair value of interest rate lock commitments and held for sale loans, which do not have corresponding best efforts or mandatory delivery contracts. These security sales transactions are closed once mandatory contracts are written. On the closing date the price of the security is locked-in, and the sale is paired-off with a purchase of the same security. Settlement of the security purchase/sale transaction is done with cash on a net-basis.

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:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2015	2014	2015	2014
Economic hedges				
Interest rate swap on industrial revenue bond:				
Unrealized gain (loss) recognized in other non-interest income	$331	$(350)	$60	$(731)
Interest rate swaps on loans with commercial loan customers:				
Unrealized (loss) gain recognized in other non-interest income	3,889	(1,919)	775	(1,732)
Reverse interest rate swaps on loans with commercial loan customers:				
Unrealized loss recognized in other non-interest income	(3,889)	1,919	(775)	1,732
Favorable (Unfavorable) change in credit valuation adjustment recognized in other non-interest income	56	4	57	11
Risk Participation Agreements:				
Unrealized gain recognized in other non-interest income	31	—	(40)	—
Forward Commitments:				
Unrealized gain (loss) recognized in other non-interest income	475	(561)	87	(669)
Realized gain (loss) in other non-interest income	504	(177)	413	(341)
Non-hedging derivatives				
Interest rate lock commitments				
Unrealized gain recognized in other non-interest income	$382	$660	$1,359	$1,037
Realized gain in other non-interest income	186	769	941	1,035

Assets and Liabilities Subject to Enforceable Master Netting Arrangements

Interest Rate Swap Agreements (“Swap Agreements”)

The Company enters into swap agreements to facilitate the risk management strategies for commercial banking customers. The Company mitigates this risk by entering into equal and offsetting swap agreements with highly rated third party financial institutions. The swap agreements are free-standing derivatives and are recorded at fair value in the Company’s consolidated statements of condition. The Company is party to master netting arrangements with its financial institution counterparties; however, the Company does not offset assets and liabilities under these arrangements for financial statement presentation purposes. The master netting arrangements provide for a single net settlement of all swap agreements, as well as collateral, in the event of default on, or termination of, any one contract. Collateral generally in the form of marketable securities is received or posted by the counterparty with net liability positions, respectively, in accordance with contract thresholds. The Company had net asset positions with its commercial banking counterparties totaling $11.6 million and $12.3 million as of June 30, 2015 and December 31, 2014, respectively. The Company had net liability positions with its financial institution counterparties totaling $16.4 million and $18.2 million as of June 30, 2015 and December 31, 2014, respectively. At June 30, 2015, the Company did not have a net liability position with its commercial banking counterparties, compared to a $0.1 million liability at December 31, 2014. The collateral posted by the Company that covered liability positions was $16.4 million and $18.2 million as of June 30, 2015 and December 31, 2014, respectively.

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The following table presents the assets and liabilities subject to an enforceable master netting arrangement as of June 30, 2015 and December 31, 2014:

Offsetting of Financial Assets and Derivative Assets

(in thousands)	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Statements of Condition	Net Amounts of Assets Presented in the Statements of Condition	Gross Amounts Not Offset in the Statements of Condition: Financial Instruments	Cash Collateral Received	Net Amount
June 30, 2015						
Interest Rate Swap Agreements:						
Institutional counterparties	$27	$ —	$ 27	$—	$ —	$27
Commercial counterparties	11,585	—	11,585	—	—	11,585
Total	$11,612	$ —	$ 11,612	$—	$ —	$11,612

Offsetting of Financial Liabilities and Derivative Liabilities

(in thousands)	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statements of Condition	Net Amounts of Liabilities Presented in the Statements of Condition	Gross Amounts Not Offset in the Statements of Condition: Financial Instruments	Cash Collateral Pledged	Net Amount
June 30, 2015						
Interest Rate Swap Agreements:						
Institutional counterparties	$(16,421)	$ 5	$ (16,416)	$10,596	$ 5,820	$—
Commercial counterparties	(18)	—	(18)	—	—	(18)
Total	$(16,439)	$ 5	$ (16,434)	$10,596	$ 5,820	$(18)

Offsetting of Financial Assets and Derivative Assets

(in thousands)	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Statements of Condition	Net Amounts of Assets Presented in the Statements of Condition	Gross Amounts Not Offset in the Statements of Condition: Financial Instruments	Cash Collateral Received	Net Amount
December 31, 2014						
Interest Rate Swap Agreements:						
Institutional counterparties	$23	$ —	$ 23	$—	$ —	$23
Commercial counterparties	12,270	—	12,270	—	—	12,270
Total	$12,293	$ —	$ 12,293	$—	$ —	$12,293

Offsetting of Financial Liabilities and Derivative Liabilities

Gross Amounts of	Gross Amounts Offset in the	Net Amounts of Liabilities	Gross Amounts Not Offset in the Statements of Condition

(in thousands)	Recognized Liabilities	Statements of Condition	Presented in the Statements of Condition	Financial Instruments	Cash Collateral Pledged	Net Amount
December 31, 2014						
Interest Rate Swap Agreements:						
Institutional counterparties	$(18,232)	$ 58	$ (18,174)	$14,984	$ 3,190	$—
Commercial counterparties	(50)	—	(50)	—	—	(50)
Total	$(18,282)	$ 58	$ (18,224)	$14,984	$ 3,190	$(50)

NOTE 14. FAIR VALUE MEASUREMENTS

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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 financial assets and financial liabilities measured at fair value on a recurring basis as of June 30, 2015 and December 31, 2014, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value.

	June 30, 2015			
(In thousands)	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Trading security	$—	$—	$14,378	$14,378
Available-for-sale securities:				
Municipal bonds and obligations	—	150,301	—	150,301
Government guaranteed residential mortgage-backed securities	—	61,867	—	61,867
Government-sponsored residential mortgage-backed securities	—	889,698	—	889,698
Corporate bonds	—	50,758	—	50,758
Trust preferred securities	—	13,265	—	13,265
Other bonds and obligations	—	3,167	—	3,167
Marketable equity securities	33,983	944	773	35,700
Loans held for sale (1)	—	37,324	—	37,324
Derivative assets	425	11,610	431	12,466
Derivative liabilities	—	20,326	—	20,326

(1) Loans held for sale excludes $11.2 million of loans for sale held shown on the balance sheet that is held at lower of cost or market.

	December 31, 2014			
(In thousands)	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Trading security	$—	$—	$14,909	$14,909
Available-for-sale securities:				
Municipal bonds and obligations	—	133,699	—	133,699
Government guaranteed residential mortgage-backed securities	—	69,468	—	69,468
Government-sponsored residential mortgage-backed securities	—	760,184	—	760,184
Corporate bonds	—	54,151	—	54,151
Trust preferred securities	—	14,667	1,548	16,215
Other bonds and obligations	—	3,159	—	3,159
Marketable equity securities	53,806	358	778	54,942
Loans Held for Sale	—	19,493	—	19,493
Derivative assets	—	12,328	625	12,953
Derivative liabilities	417	18,259	93	18,769

There were no transfers between levels during the three and six months ended June 30, 2015 or 2014.
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

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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 owns one privately owned equity security classified as Level 3. The security's fair value is determined through unobservable issuer-provided financial information and a pricing model utilizing peer data.

Loans held for sale. The Company elected the fair value option for all loans held for sale (HFS) originated for sale 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.

June 30, 2015 (In thousands)	Aggregate Fair Value	Aggregate Unpaid Principal	Aggregate Fair Value Less Aggregate Unpaid Principal
Loans Held for Sale (1)	$37,324	$36,787	$ 537

(1) Loans held for sale excludes $11.2 million of loans for sale held shown on the balance sheet that is held at lower of cost or market.

December 31, 2014 (In thousands)	Aggregate Fair Value	Aggregate Unpaid Principal	Aggregate Fair Value Less Aggregate Unpaid Principal
Loans Held for Sale	$19,493	$18,885	$ 608

The changes in fair value of loans held for sale for the three and six months ended June 30, 2015, were losses of $285 thousand and $71 thousand, respectively. The changes in fair value of loans held for sale for the three and six months ended June 30, 2014, were gains of $427 thousand and $467 thousand, respectively. The changes in fair value are included in mortgage banking income in the Consolidated Statements of Income.

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, 2015, 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 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.

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Forward Sale Commitments. The Company utilizes forward sale commitments as economic hedges against potential changes in the values of the IRLCs and loans originated for sale. To Be Announced ("TBA") mortgage-backed securities forward commitment sales are used as the hedging instrument, 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. The fair values of the Company's best efforts and mandatory delivery loan sale commitments are determined similarly to the IRLCs using quoted prices in the market place that are observable. However, costs to originate and closing ratios included in the calculation are internally generated and are based on management's judgment and prior experience, which are considered factors that are not observable. As such, best efforts and mandatory forward commitments are classified as Level 3 measurements.

The table below presents the changes in Level 3 assets and liabilities that were measured at fair value on a recurring basis for the three and six months ended June 30, 2015 and 2014.

	Assets (Liabilities)			
(In thousands)	Trading Security	Securities Available for Sale	Interest Rate Lock Commitments	Forward Commitments
Three Months Ended June 30, 2015				
March 31, 2015	$14,970	$719	$977	$(93)
Sale of AFS security	—	—	—	—
Unrealized (loss) gain, net recognized in other non-interest income	(451)	—	941	—
Unrealized gain included in accumulated other comprehensive loss	—	54	—	143
Paydown of trading security	(141)	—	—	—
Transfers to held for sale loans	—	—	(1,536)	—
June 30, 2015	$14,378	$773	$382	$50
Six Months Ended June 30, 2015				
December 31, 2014	$14,909	$2,326	$625	$(93)
Sale of AFS security	—	(1,327)	—	—
Unrealized (loss) gain, net recognized in other non-interest income	(248)	—	2,671	—
Unrealized gain included in accumulated other comprehensive loss	—	(226)	—	143
Paydown of trading security	(283)	—	—	—
Transfers to held for sale loans	—	—	(2,914)	—
June 30, 2015	$14,378	$773	$382	$50
Unrealized gains (losses) relating to instruments still held at June 30, 2015	$2,106	$3	$382	$50

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	Assets (Liabilities)			
(In thousands)	Trading Security	Securities Available for Sale	Interest Rate Lock Commitments	Forward Commitments
Three Months Ended June 30, 2014				
March 31, 2014	$14,923	$2,046	$377	$(96)
Purchase of Marketable Equity Security	—	—	—	—
Unrealized (loss) gain, net recognized in other non-interest income	181	—	1,075	(67)
Unrealized gain included in accumulated other comprehensive loss	—	171	—	—
Paydown of trading account security	(133)	—	—	—
Transfers to held for sale loans	—	—	(792)	—
June 30, 2014	$14,971	$2,217	$660	$(163)
Six Months Ended June 30, 2014				
December 31, 2013	$14,840	$1,964	$258	$19
Purchase of Marketable Equity Security	—	—	—	—
Unrealized (loss) gain, net recognized in other non-interest income	399	—	1,794	(182)
Unrealized gain included in accumulated other comprehensive loss	—	253	—	—
Paydown of trading account security	(268)	—	—	—
Transfers to held for sale loans	—	—	(1,392)	—
June 30, 2014	$14,971	$2,217	$660	$(163)
Unrealized gains (losses) relating to instruments still held at June 30, 2014	$2,144	$(1,118)	$660	$(163)

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Quantitative information about the significant unobservable inputs within Level 3 recurring assets and liabilities is as follows:

(In thousands)	Fair Value June 30, 2015	Valuation Techniques	Unobservable Inputs	Significant Unobservable Input Value	
Assets (Liabilities)					
Trading Security	$14,378	Discounted Cash Flow	Discount Rate	2.73	%
AFS Securities	773	Pricing Model	Median Peer Price/Tangible Book Value Percentage Multiple	99.02	%
Forward Commitments	50	Historical Trend	Closing Ratio	92.11	%
		Pricing Model	Origination Costs, per loan	$ 2,500	
Interest Rate Lock Commitment	382	Historical Trend	Closing Ratio	92.11	%
		Pricing Model	Origination Costs, per loan	$ 2,500	
Total	$15,583				

(In thousands)	Fair Value December 31, 2014	Valuation Techniques	Unobservable Inputs	Significant Unobservable Input Value	
Assets (Liabilities)					
Trading Security	$14,909	Discounted Cash Flow	Discount Rate	2.60	%
AFS Securities	2,326	Discounted Cash Flow	Discount Rate	13.74	%
			Credit Spread	11.06	%
Forward Commitments	(93)	Historical Trend	Closing Ratio	91.07	%
		Pricing Model	Origination Costs, per loan	$ 2,500	
Interest Rate Lock Commitment	625	Historical Trend	Closing Ratio	91.07	%
		Pricing Model	Origination Costs, per loan	$ 2,500	
Total	$17,767				

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.

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(In thousands)	June 30, 2015 Level 3 Inputs	December 31, 2014 Level 3 Inputs	Six months ended June 30, 2015 Total Gains (Losses)	Fair Value Measurement Date Level 3 Inputs
Assets				
Impaired loans	$6,659	$5,820	$ 839	June 2015
Capitalized mortgage servicing rights	4,697	3,757	—	May 2015
Other real estate owned	674	2,049	(285)	March 2013 - July 2014
Total	$12,030	$11,626	$ 554	

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

(in thousands)	Fair Value June 30, 2015	Valuation Techniques	Unobservable Inputs	Range (Weighted Average) (a)
Assets				
Impaired loans	$6,659	Fair value of collateral	Loss severity	0.41% to 38.41% (9.15%)
			Appraised value	$2.7 to $2,272.0 ($491.6)
Capitalized mortgage servicing rights	4,697	Discounted cash flow	Constant prepayment rate (CPR)	7.67% to 21.08% (10.43%)
			Discount rate	10.00% to 13.00% (10.58%)
Other real estate owned	674	Fair value of collateral	Appraised value	$57 to $700.0 ($595.6)
Total	$12,030			

(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.

(in thousands)	Fair Value December 31, 2014	Valuation Techniques	Unobservable Inputs	Range (Weighted Average) (a)
Assets				
Impaired loans	$5,820	Fair value of collateral	Loss severity	0.31% to 38.7% (12.65%)
			Appraised value	$5 to $1,600.0 ($912.7)
Capitalized mortgage servicing rights	3,757	Discounted cash flow	Constant prepayment rate (CPR)	7.83% to 19.00% (9.92%)
			Discount rate	10.00% to 13.00% (10.43%)
Other real estate owned	2,049	Fair value of collateral	Appraised value	$57 to $700.0 ($462.6)
Total	$11,626			

(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, 2015 and December 31, 2014.

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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, nonrecurring fair value measurement adjustments that relate to real estate collateral have generally been classified as Level 3. Estimates of fair value for other collateral that supports commercial loans are generally 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 exceed adequate compensation 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 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 less the estimated sales costs. 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.

(In thousands)	June 30, 2015 Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial Assets					
Cash and cash equivalents	$205,518	$205,518	$205,518	$—	$—
Trading security	14,378	14,378	—	—	14,378
Securities available for sale	1,204,756	1,204,756	33,983	1,170,000	773
Securities held to maturity	86,994	87,512	—	—	87,512
FHLB bank stock and restricted securities	73,212	73,212	—	73,212	—
Net loans	5,247,417	5,293,778	—	—	5,293,778
Loans held for sale	48,514	48,514	—	48,514	—
Accrued interest receivable	19,120	19,120	—	19,120	—
Cash surrender value of bank-owned life insurance policies	123,536	123,536	—	123,536	—