BERKSHIRE HILLS BANCORP INC
Form 10-K
March 15, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended: **December 31, 2011**

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

For the transition period from _________ to __________

Commission File Number: **000-51584**

BERKSHIRE HILLS BANCORP, INC.

(Exact name of registrant as specified in its charter)

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

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of Exchange on which registered
Common stock, par value $0.01 per share	NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of the Form 10-K or any amendment to this Form 10-K. x

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

Large Accelerated Filer ¨ Accelerated Filer x Non-Accelerated Filer ¨ Smaller Reporting Company ¨

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates was approximately $365 million, based upon the closing price of $22.39 as quoted on the NASDAQ Global Select Market as of the last business day of the registrant's most recently completed second fiscal quarter.

The number of shares outstanding of the registrant's common stock as of March 7, 2012 was 21,193,105.

DOCUMENTS INCORPORATED BY REFERENCE: Portions of the Proxy Statement for the 2012 Annual Meeting of Stockholders are incorporated by reference in Part III of this Form 10-K.

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PART I

ITEM 1. BUSINESS

Forward-Looking Statements

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

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

You should not place undue reliance on forward-looking statements, which reflect our expectations only as of the date of this report. We do not assume any obligation to revise forward-looking statements except as may be required by law.

General

Berkshire Hills Bancorp (“Berkshire” or “the Company”) is headquartered in Pittsfield, Massachusetts. Berkshire Hills Bancorp, Inc. is a Delaware corporation and the holding company for the Berkshire Bank (“the Bank”) and Berkshire Insurance Group (“BIG”). Established in 1846, the Bank is one of Massachusetts' oldest and largest independent banks and is the largest banking institution based in Western Massachusetts.

At year-end 2011, the Bank had $4.0 billion in assets and its wealth management division managed under $1.0 billion in assets invested for clients. Additionally, Berkshire Insurance Group's revenues place it among the largest independent insurance agencies in Western Massachusetts. Berkshire's common shares are traded on the NASDAQ Global Select Market under the symbol "BHLB". At year-end 2011, Berkshire's closing stock price was $22.19 and 21.1 million common shares were outstanding. Berkshire is a regional bank and financial services company providing the service capabilities of a larger institution and the local focus and responsiveness as a local partner to its communities. The Company seeks to distinguish itself based on the following attributes:

— Strong growth from organic, de novo, product and acquisition strategies

— Solid capital, core funding and risk management culture

— Experienced executive team focused on earnings, high performance, and stockholder value

— Distinctive brand and culture as America's Most Exciting Bank^{SM}

— Diversified integrated financial service revenues

— Positioned to be regional consolidator in attractive markets

The Company profiles its growing regional franchise as follows:

The Bank operates under the brand America's Most Exciting Bank[SM] and portrays its brand and culture as follows:

The Bank has 60 full-service banking offices serving communities throughout Western Massachusetts, Northeastern New York and in Southern Vermont. The Bank operates in four regions:

- **The Berkshire County Region**, with 19 offices in Berkshire County. Berkshire County is the Company's traditional market, where it has a leading market share in many of its product lines. With the acquisition of Legacy Bancorp in 2011, Berkshire increased its overall share of this market. Berkshire County is renowned for its combination of nature, culture, and harmony which makes it a leisure and tourism destination and an attractive location for an emerging creative economy. Berkshire County is within commuting range of both Albany, New York and Springfield, Massachusetts and is also part of a mountain recreational area shared with Southern Vermont. Berkshire is an attractive second home and vacation area for New York City and Boston. The Pittsfield metropolitan statistical area ("MSA") 2010 GDP was $5 billion. At year-end 2011, Berkshire had approximately $1.2 billion in loans and $1.2 billion in deposits in this market.

- **The New York Region,** with 21 offices serving the Albany area as well as to the west in Rome, adjacent to Utica as a result of the acquisition of Rome Bancorp in 2011. The Albany area represents a de novo expansion by the Company begun in 2005. Berkshire's presence in this area expanded with the Legacy Bancorp acquisition in 2011. In 2009, the Company recruited a prominent New York Chairman and an experienced commercial banking team to serve this market. Albany is the state capital and is part of New York's Tech Valley which is gaining prominence as a world technology hub including leading edge nanotechnology initiatives representing a blend of private enterprise and public investment. In 2010 and 2011, Berkshire opened three offices in this area and is opening another two offices in the first half of 2012. The Albany/Schenectady MSA 2010 GDP was $41 billion. At year-end 2011, Berkshire had approximately $0.7 billion in loans and $0.9 billion in deposits in its New York region (excluding discontinued operations).

- **The Springfield Region,** in the Pioneer Valley area with 12 offices along the Connecticut River valley in Springfield, Massachusetts, and north and west of Springfield. The Company entered this region through the acquisition of Woronoco Bancorp in June 2005 and also services certain other New England commercial business through this region. The Company opened its new regional headquarters in Springfield, along with a new branch in the fourth quarter of 2009. This region is the metropolitan hub of Western Massachusetts and part of the Hartford/Springfield economic region; centrally located between Boston and New York City at the crossroads of Interstate 91 which traverses the length of New England and Interstate 90 which traverses the width of Massachusetts. This region also has easy access to Bradley International Airport, which is a major airport serving central New England. The Springfield MSA 2010 GDP was $23 billion. At year-end 2011, Berkshire had approximately $0.6 billion in loans and $0.6 billion in deposits in this region.

- **The Vermont Region,** with 8 branches serving the Southern Vermont region. The Company entered this region through the acquisition of Factory Point Bancorp in September 2007. The Southern Vermont region is contiguous to Berkshire County and shares similar characteristics, with a more pronounced focus on recreation activities in Vermont's Green Mountains. Additionally, this region shares commerce with both the Berkshire and Albany markets, and provides the Company with access to selected accounts in Northern Vermont. At year-end 2011, Berkshire had approximately $0.2 billion in loans and $0.4 billion in deposits in this region.

These four regions are viewed as having favorable demographics and provide an attractive regional niche for the Bank to distinguish itself from larger super-regional banks and smaller community banks while serving its three state market area. The Company's markets have experienced less exposure to speculative development, real estate inflation, and subprime lending activities compared to many other regions of the country. The Company believes it has attractive long term growth prospects because of the Bank's positioning as the largest locally headquartered regional bank which can serve the retail and commercial markets with a strong product set and responsive local management. The Company also has a goal to deepen its wallet share as a result of its focused cross sales program across its various business lines including insurance and wealth management.

In addition to the above regions, Berkshire has expanded into commercial banking operations into Central and Eastern Massachusetts. In 2010, it recruited a leading New England middle market asset based lending team which is located in Woburn, Massachusetts and which serves businesses throughout New England and the New York region. In the fourth quarter of 2011, Berkshire recruited an experienced Central/Eastern Massachusetts commercial banking team which has been located in a new commercial office in Westborough. At year-end 2011, Berkshire had approximately

$0.2 billion in loans under the management of these teams.

The Company is pursuing expansion through organic growth, de novo branching, product development, recruitment of banking teams, and through acquisitions. The Bank promotes itself as America's Most Exciting Bank SM. It has set out to change the financial service experience. Its vision is to excel as a high performing market leader with the right people, attitude, and energy providing an engaging and exciting customer and team member experience. This brand and culture statement is expected to drive customer engagement, loyalty, market share and profitability. Similarly, this focus on performance underlies Berkshire's strong growth, improved efficiency, investment in infrastructure, and solid execution of acquisition due diligence and integration.

The Company offers a wide range of deposit, lending, insurance, and wealth management products to retail, commercial, not-for-profit, and municipal customers in its market areas. The Company's product offerings also include retail and commercial electronic banking, commercial cash management, and commercial interest rate swaps. The Company's traditional commercial banking products are offered within its regions and to commercial relationships in Massachusetts, Connecticut, and Rhode Island. The Company stresses a culture of teamwork and performance excellence to produce customer satisfaction to support its strategic growth and profitability. The Company utilizes Six Sigma tools to improve operational effectiveness and efficiency.

The Company has recruited executives with experience in regional bank management and has augmented its management team as it has expanded into a three state diversified regional financial services provider. The Company has invested in its infrastructure in order to position itself for further growth as a regional consolidator with an objective of filling in and expanding its footprint in its New England and New York markets. Its acquisitions of banks, insurance agencies, and wealth management companies have resulted in initial dilution to book value and tangible book value per share for the Company to achieve the scale and momentum to support future beneficial growth. In 2011, with the benefit of this strategy, the Company completed two bank acquisitions which were accretive to earnings per share while overall tangible book value per share also increased during the year.

The Company has continued to seek opportunities to participate in regional consolidation in its markets. In the fourth quarter of 2011, Berkshire announced an agreement to acquire CBT – The Connecticut Bank and Trust Company. Based in Hartford, CBT has approximately $0.3 billion in total assets and serves the Greater Hartford area with eight branches. This acquisition provides Berkshire with a long-targeted expansion into Northern Connecticut and combines with its initiatives in Springfield and Central Massachusetts to build its presence in this larger region, which is the second largest economic area in New England. This is anticipated to further enhance the Company's positioning as a major regional provider.

Company Website and Availability of Securities and Exchange Commission Filings

The Company's Internet website is in the Investor Relations section at www.berkshirebank.com. At this site, the Company makes available free of charge, its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports filed pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after the Company electronically files such material with the Securities and Exchange Commission. Information on the website is not incorporated by reference and is not a part of this annual report on Form 10-K.

Competition

The Company is subject to strong competition from banks and other financial institutions and financial service providers. Its competition includes national and super-regional banks such as Bank of America, TD Bank, Citizens Bank, Sovereign Bank, and Key Bank which have substantially greater resources and lending limits. Non-bank competitors include credit unions, brokerage firms, insurance providers, financial planners, and the mutual fund industry. New technology is reshaping customer interaction with financial service providers and the increase of Internet-accessible financial institutions increases competition for the Company’s customers. The Company generally competes on the basis of customer service, relationship management, and the fair pricing of loan and deposit products and wealth management and insurance services. The location and convenience of branch offices is also a significant competitive factor, particularly regarding new offices. The Company does not rely on any individual, group, or entity for a material portion of its deposits. Recent economic and financial events have significantly impacted the competitive environment. The Board of Governors of the Federal Reserve System (“the Federal Reserve”) reduced short-term interest rates to close to zero and numerous financial companies converted to bank charters and began accepting deposits insured by the Federal Deposit Insurance Corporation (“FDIC”). A number of nonbank sources of competition have withdrawn from the market, and national competitors have reduced their commitment to some activities in the region.

Lending Activities

General. The Bank originates loans in the four basic portfolio categories discussed below. Lending activities are limited by federal and state laws and regulations. Loan interest rates and other key loan terms are affected principally by the Bank’s asset/liability strategy, loan demand, competition, and the supply of money available for lending purposes. These factors, in turn, are affected by general and economic conditions, monetary policies of the federal government, including the Federal Reserve, legislative tax policies and governmental budgetary matters. Most of the Bank’s loans are made in its market areas and are secured by real estate located in its market areas. Lending activities are therefore affected by activity in these real estate markets. The Bank does not engage in subprime lending activities targeted towards borrowers in high risk categories. The Bank monitors and manages the amount of long-term fixed-rate lending volume. Adjustable-rate loan products generally reduce interest rate risk but may produce higher loan losses in the event of sustained rate increases. The Bank retains most of the loans it originates, although the Bank generally sells its longer-term, fixed-rate, one to four-family residential loans and sometimes buys and sells participations in some commercial loans.

Loan Portfolio Analysis. The following table sets forth the year-end composition of the Bank’s loan portfolio in dollar amounts and as a percentage of the portfolio at the dates indicated. Further information about the composition of the loan portfolio is contained in the Loans footnote in the consolidated financial statements.

Item 1 - Table 1 - Loan Portfolio Analysis

	2011		2010		2009		2008		2007	
(In millions)	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
Residential mortgages	$1,020.4	34 %	$645.0	30 %	$609.0	31 %	$677.2	34 %	$657.0	33 %
Commercial mortgages	1,156.2	39	925.6	43	851.8	43	805.5	40	704.8	36
Commercial business	410.3	14	286.1	13	186.0	10	178.9	9	203.6	11
Total commercial loans	1,566.5	53	1,211.7	56	1,037.8	53	984.4	49	908.4	47
Consumer	369.6	13	285.5	14	314.8	16	345.5	17	378.6	20
Total loans	$2,956.5	100 %	$2,142.2	100 %	$1,961.6	100 %	$2,007.1	100 %	$1,944.0	100 %
Allowance for loan losses	(32.4)		(31.9)		(31.8)		(22.9)		(22.1)	
Net loans	$2,924.1		$2,110.3		$1,929.8		$1,984.2		$1,921.9	

Residential Mortgages. The Bank offers fixed-rate and adjustable-rate residential mortgage loans with maturities of up to 30 years that are fully amortizing with monthly loan payments. Residential mortgages are generally underwritten according to the Federal National Mortgage Association ("Fannie Mae") or the Federal Home Loan Mortgage Association ("Freddie Mac") guidelines for loans they designate as "A" or "A-" (these are referred to as "conforming loans"). Private mortgage insurance is generally required for loans with loan-to-value ratios in excess of 80%. The Bank also originates loans above conforming loan amount limits, referred to as "jumbo loans," which are generally conforming to secondary market guidelines for these loans. The Bank does not offer subprime mortgage lending programs.

The Bank normally sells a portion of its newly originated fixed rate mortgages. It also monitors its interest rate risk position and sometimes may decide to sell existing mortgage loans in the secondary mortgage market. The Bank is approved as a direct seller to Fannie Mae, retaining the servicing rights. The Bank may also sell loans to other secondary market investors, either on a servicing retained or servicing released basis. The Bank is also an approved originator of loans for sale to the Federal Housing Administration ("FHA"), U.S. Department of Veteran Affairs ("VA"), and state housing agency programs.

The Bank offers adjustable rate ("ARM") mortgages which do not contain interest-only or negative amortization features. After an initial term of six months to ten years, the rates on these loans generally reset every year based upon a contractual spread or margin above the average yield on U.S. Treasury securities. ARM loan interest rates may rise as interest rates rise, thereby increasing the potential for default. At year-end 2011, the Bank's adjustable rate mortgage portfolio totaled $386 million. The Bank also originates loans to individuals for the construction and acquisition of personal residences. These loans generally provide fifteen-month construction periods followed by a permanent mortgage loan, and follow the Bank's normal mortgage underwriting guidelines.

Commercial Mortgages. The Bank originates commercial mortgages on properties used for business purposes such as small office buildings, industrial, healthcare, lodging, recreation, or retail facilities. This portfolio also includes commercial 1-4 family and multifamily properties. Loans may generally be made with amortizations of up to 25 years and with interest rates that adjust periodically (primarily from short-term to five years). Most commercial mortgages are originated with final maturities of ten years or less. The Bank generally requires that borrowers have debt service coverage ratios (the ratio of available cash flows before debt service to debt service) of at least 1.25 times. Loans at origination may be made up to 80% of appraised value. Generally, commercial mortgages require personal guarantees by the principals. Credit enhancements in the form of additional collateral or guarantees are normally considered for start-up businesses without a qualifying cash flow history.

Commercial mortgages generally involve larger principal amounts and a greater degree of risk than residential mortgages. They also often provide higher lending spreads. Because repayment is often dependent on the successful operation or management of the properties, repayment of such loans may be affected by adverse conditions in the real estate market or the economy. The Bank seeks to minimize these risks through strict adherence to its underwriting standards and portfolio management processes.

The Bank offers interest rate swaps to certain larger commercial mortgage borrowers. These swaps allow the Bank to originate a mortgage based on short-term LIBOR rates and allow the borrower to swap into a longer term fixed rate. The Bank simultaneously sells an offsetting back-to-back swap to an investment grade national bank so that it does not retain this fixed-rate risk. The Bank also records fee income on these interest rate swaps based on the terms of the offsetting swaps with the bank counterparties.

The Bank originates construction loans to builders and commercial borrowers in and around its markets. Construction loans finance the acquisition and/or improvement of commercial and residential properties. The maximum loan to value limits for construction loans follow FDIC supervisory limits, up to a maximum of 80%. The Bank commits to provide the permanent mortgage financing on most of our construction loans on income-producing property. Advances on construction loans are made in accordance with a schedule reflecting the cost of the improvements. Construction loans include land acquisition loans up to a maximum 65% loan to value on raw land. Construction loans may have greater credit risk than permanent loans. In many cases, the loan’s repayment is dependent on the completion of construction and other real estate improvements, which entails risk that construction permits may be delayed or may not be received, or that there may be delays or cost overruns during construction. Repayment is also often dependent on the sale or rental of the improved property, which depends on market conditions and the availability of permanent financing. Developers and contractors may also encounter liquidity risks or other risks related to other projects which are not being financed.

Commercial Business Loans. The Bank offers secured commercial term loans with repayment terms which are normally limited to the expected useful life of the asset being financed, generally not exceeding seven years. The Bank also offers revolving loans, lines of credit, letters of credit, time notes and Small Business Administration guaranteed loans. Business lines of credit have adjustable rates of interest and are payable on demand, subject to annual review and renewal. Commercial business loans are generally secured by a variety of collateral such as accounts receivable, inventory and equipment, and are generally supported by personal guarantees. Loan to value ratios depend on the collateral type and generally do not exceed 95% of the liquidation value of the collateral. Some commercial loans may also be secured by liens on real estate. The Bank generally does not make unsecured commercial loans.

In the first quarter of 2010, the Bank recruited an experienced asset based lending team with a long track record of serving middle-market companies in New England. This Asset Based Lending Group serves its traditional New England market, as well as the Bank’s market in northeastern New York. This new group expands the Bank’s business lending offerings to include revolving lines of credit and term loans secured by accounts receivable, inventory, and other assets to manufacturers, distributors and select service companies experiencing seasonal working capital needs, rapid sales growth, a turnaround, buyout or recapitalization with credit needs ranging from $2 to $25 million. Asset based lending involves monitoring loan collateral so that outstanding balances are always properly secured by business assets. This new business line expands the Bank’s business services, diversifies its loan portfolio, and provides important credit services across a wider geography. The Asset Based Lending Group is located in Woburn, Massachusetts in the Greater Boston area where this lending team has been based for many years. The recruitment of this team included the operations personnel and the acquisition of lending systems which are critical to this form of lending. The Company's Chief Risk Officer brings extensive experience in the oversight of asset based lending functions, and has instituted underwriting and review policies appropriate for the integration of this form of lending into the Bank’s overall lending risk management processes.

In the fourth quarter of 2011, the Bank recruited an experienced commercial lending team to serve the commercial middle market in Central/Eastern Massachusetts. This team also has expertise in health care and education financing. Additionally, in the latter part of 2011, the Bank reorganized its small business lending function to expand this important business financing capability in 2012, and will include the retail division in the origination of conforming small business loans in order to provide the best service to community based small businesses.

Commercial loans are of higher risk and are made primarily on the basis of the borrower's ability to make repayment from the cash flows of its business. Further, any collateral securing such loans may depreciate over time, may be difficult to monitor and appraise and may fluctuate in value. The Bank gives additional consideration to the borrower's credit history and the guarantor's capacity to help mitigate these risks.

Consumer Loans. The Bank's consumer loans consist principally of home equity lines of credit, together with second mortgage loans and automobile loans. The Bank's home equity lines of credit are typically secured by first or second mortgages on borrowers' residences. Home equity lines have an initial revolving period up to fifteen years, followed by an amortizing term up to twenty years. These loans are normally indexed to the prime rate. Home equity loans also include amortizing fixed-rate second mortgages with terms up to fifteen years. Lending policies for combined debt service and collateral coverage are similar to those used for residential first mortgages, although underwriting verifications are more streamlined. The maximum combined loan-to-value is 80%. Home equity line credit risks are similar to those of adjustable-rate first mortgages, although these loans may be more sensitive to losses when interest rates are rising due to increased sensitivity to rate changes. Additionally, there may be possible compression of collateral coverage on second lien home equity lines. The Bank also includes all other consumer loans in this portfolio total, including personal secured and unsecured loans and overdraft protection facilities.

Maturity and Sensitivity of Loan Portfolio. The following table shows contractual final maturities of selected loan categories at year-end 2011. The contractual maturities do not reflect premiums, discounts, deferred costs, and prepayments.

Item 1 - Table 2 - Loan Contractual Maturity -Scheduled Loan Amortizations are not included in the maturities presented.

Contractual Maturity (In thousands)	One Year or Less	More than One to Five Years	More Than Five Years	Total
Construction mortgage loans:				
Residential	$11,062	$ 30,499	$ -	$41,561
Commercial	30,579	93,639	-	124,218
Commercial business loans	226,895	135,923	47,474	410,292
Total	$268,536	$ 260,061	$ 47,474	$576,071

For the $308 million of loans above which mature in more than one year, $70 million of these loans are fixed-rate and $238 million are variable rate.

Loan Administration. Lending activities are governed by a loan policy approved by the Board's Risk Management Committee. Internal staff perform post-closing loan documentation review, quality control, and monitor commercial loan administration. The lending staff assigns a risk rating to all commercial loans. Management primarily relies on internal risk management staff to review the risk ratings of the majority of commercial loan balances.

The Bank's lending activities follow written, non-discriminatory underwriting standards and loan origination procedures established by the Risk Management Committee and Management. The Bank's loan underwriting is based on a review of certain factors including risk ratings, recourse, loan-to-value ratios and material policy exceptions. The Risk Management Committee has established individual and combined loan limits and lending approval authorities. Management's Executive Loan Committee is responsible for commercial and residential loan approvals in accordance with these standards and procedures. Generally, Commercial lending management has the authority to approve pass rated secured loans up to $2 million, and in conjunction with the Senior Credit Officer up to $7.5 million (or $5 million in the case of material policy exceptions). The Executive Loan Committee approves secured loans over these amounts (and over $1 million unsecured).

The Bank's lending activities are conducted by its salaried and commissioned loan personnel. Designated salaried branch staff originate conforming residential mortgages and receive bonuses based on overall performance. Additionally, the Bank employs commissioned residential mortgage originators. Commercial lenders receive salaries and are eligible for bonuses based on overall performance. From time to time, the Bank will purchase whole loans or participations in loans. These loans are underwritten according to the Bank's underwriting criteria and procedures and are generally serviced by the originating lender under terms of the applicable participation agreement. The Bank routinely sells newly originated fixed rate residential mortgages in the secondary market. Customer rate locks are offered without charge and rate locked applications are generally committed for forward sale to minimize interest rate risk pending delivery of the loans to the investors. The Bank sells a limited number of commercial loan participations on a non-recourse basis. The Bank issues loan commitments to its prospective borrowers conditioned on the occurrence of certain events. Loan origination commitments are made in writing on specified terms and conditions and are generally honored for up to sixty days from approval; some commercial commitments are made for longer terms.

The loan policy sets certain limits on concentrations of credit and requires periodic reporting of concentrations to the Risk Management Committee. Loans outstanding to the ten largest relationships each averaged $23 million, or 6.4% of risk based capital in total. Total year-end commercial construction loans outstanding were 36% of the Bank's risk based capital at year-end, and total commercial mortgage outstandings (including certain owner-occupied loans) were estimated at 256% of risk based capital. The Bank's portfolio management objective has been to reduce these concentrations. The FDIC has established monitoring guidelines of 100% and 300% for these ratios, respectively. Above these guidelines, additional monitoring and risk management controls are required.

Problem Assets. The Bank prefers to work with borrowers to resolve problems rather than proceeding to foreclosure. For commercial loans, this may result in a period of forbearance or restructuring of the loan, which is normally done at current market terms and does not result in a "troubled" loan designation. For residential mortgage loans, the Bank generally follows FDIC guidelines to attempt a restructuring that will enable an owner-occupant to remain in their home. However, if these processes fail to result in a performing loan, then the Bank generally will initiate foreclosure or other proceedings no later than the 90th day of a delinquency, as necessary, to minimize any potential loss. Management reports delinquent loans and non-performing assets to the Board quarterly. Loans are generally removed from accruing status when they reach 90 days delinquent, except for certain loans which are well secured and in the process of collection. Delinquent automobile loans are maintained on accrual until they reach 120 days delinquent, and then they are generally charged-off.

Real estate acquired by the Bank as a result of loan collections is classified as real estate owned until sold. When property is acquired it is recorded at fair market value less estimated selling costs at the date of foreclosure, establishing a new cost basis. Holding costs and decreases in fair value after acquisition are expensed.

Interest income that would have been recorded for 2011 had nonaccruing loans been current according to their original terms, amounted to $1.3 million. Included in this amount is $54 thousand related to troubled debt restructurings. The amount of interest income on those loans that was included in net income in 2011 was $0.7 million. Included in this amount is $100 thousand related to troubled debt restructurings. Interest income on accruing troubled debt restructurings totaled $0.3 million for 2011. The total carrying value of troubled debt restructurings was $1.3 million at year-end.

The following table sets forth additional information on year-end problem assets and accruing troubled debt restructurings ("TDR"). Due to accounting standards for business combinations, non-accrual loans of acquired banks are recorded as accruing on the acquisition date. Therefore measures related to accruing and non-accruing loans reflect these standards and may not be comparable compared to prior periods.

Item 1 - Table 3 - Problem Assets and Accruing TDR

(In thousands)	2011	2010	2009	2008	2007
Non-accruing loans:					
Residential mortgages	$7,010	$2,173	$3,304	$1,646	$726
Commercial mortgages	14,280	9,488	31,917	7,738	5,177
Commercial business	990	1,305	3,115	1,921	4,164
Consumer	1,954	746	364	866	441
Total non-performing loans	24,234	13,712	38,700	12,171	10,508
Real estate owned	1,900	3,386	30	498	866
Total non-performing assets	$26,134	$17,098	$38,730	$12,669	$11,374
Troubled debt restructurings (accruing)	$1,263	$7,829	$17,818	$7,456	$4,613
Accruing loans 90+ days past due	$10,184	$1,054	$91	$923	$823
Total non-performing loans/total loans	0.82 %	0.64 %	1.97 %	0.61 %	0.54 %
Total non-performing assets/total assets	0.65 %	0.59 %	1.43 %	0.48 %	0.45 %

Asset Classification and Delinquencies. The Bank performs an internal analysis of its commercial loan portfolio and assets to classify such loans and assets similar to the manner in which such loans and assets are classified by the federal banking regulators. There are four classifications for loans with higher than normal risk: Loss, Doubtful, Substandard and Special Mention. An asset classified as Loss is normally fully charged-off. Substandard assets have one or more defined weaknesses and are characterized by the distinct possibility that the insured institution will sustain some loss if the deficiencies are not corrected. Doubtful assets have the weaknesses of substandard assets with the additional characteristic that the weaknesses make collection or liquidation in full on the basis of currently existing facts, conditions and values questionable, and there is a high possibility of loss. Assets that do not currently expose the insured institution to sufficient risk to warrant classification in one of the aforementioned categories but possess weaknesses are designated Special Mention. Please see the additional discussion of non-accruing and potential problem loans in Item 7 and additional information about loans by risk rating in the Loans Note to the consolidated financial statements.

Allowance for Loan Losses. The Bank's loan portfolio is regularly reviewed by management to evaluate the adequacy of the allowance for loan losses. The allowance represents management's estimate of inherent losses that are probable and estimable as of the date of the financial statements. The allowance includes a specific component for impaired loans (a "specific loan loss reserve") and a general component for portfolios of all outstanding loans (a "general loan loss reserve"). There is no allowance for loan losses assigned to acquired loans which are carried at fair value, including the impact of expected losses, as of the acquisition date. The loan loss allowance is discussed further in the Note about Significant Accounting Policies in the consolidated financial statements.

For loans covered by the loan loss allowance, Management assesses specific loan loss reserves when it deems that it is probable that the Bank will be unable to collect all amounts due according to the contractual terms stipulated in the loan agreement. Management weighs various factors in its assessment, including but not limited to, its review of the borrower's payment history and the borrower's future ability to service the debt, the current value of any pledged collateral, and the strength of any guarantor support. Generally non-accruing commercial loans are deemed impaired and evaluated for specific valuation allowances. Confirmed loan losses are charged-off directly to the allowance. Losses are deemed confirmed when upon review of all the available evidence, any portion of the loan balance is deemed uncollectible. Subsequent recoveries, if any, are credited to the allowance.

For loans covered by the loan loss allowance, Management estimates general loan loss reserves when it is probable that there would be credit losses in portfolios of loans with similar characteristics. Management has identified four primary loan portfolios: residential mortgages, commercial mortgages, commercial business and consumer loans. Sub-portfolios within these primary loan portfolios are also evaluated in order to arrive at a more precise general loan loss allowance.. The methodology for computing the general allowance was enhanced in 2011. This methodology includes a historical loss component and an environmental factors component. The historical loss component is based on the Bank’s risk rating system in combination with the attribution of loss factors based on industry historical corporate default and recovery rates. The environmental factors component assesses loss potential as it may be affected by economic business conditions, lending policies and procedures, portfolio characteristics, management and staff changes, problem loan trends, and credit concentration trends. While the general loss reserve is analyzed according to the various subportfolios, the general loss reserve in aggregate is available to cover all losses in all components of the loan portfolio.

Management believes that it uses the best information available to establish the allowance for loan losses. However, future adjustments to the allowance for loan losses may be necessary, and results of operations could be adversely affected if circumstances differ substantially from the assumptions used in making its determinations. Because the estimation of inherent losses cannot be made with certainty, there can be no assurance that the existing allowance for loan losses is adequate or that increases will not be necessary should the quality of any loan or loan portfolio category deteriorate as a result of the factors discussed above. Additionally, the regulatory agencies, as an integral part of their examination process, also periodically review the Bank’s allowance for loan losses. Such agencies may require the Bank to make additional provisions for estimated losses based upon judgments different from those of management. Any material increase in the allowance for loan losses may adversely affect the Bank’s financial condition and results of operations.

The following table presents an analysis of the allowance for loan losses for the years indicated.

Item 1 - Table 4 - Allowance for Loan Loss (In thousands)	2011	2010	2009	2008	2007
Balance at beginning of year	$31,898	$31,816	$22,908	$22,116	$19,370
Charged-off loans:					
Residential mortgages	1,322	409	2,016	143	110
Commercial mortgages	4,046	6,403	27,596	1,384	-
Commercial business	1,443	2,685	5,945	884	4,850
Consumer	885	1,188	3,586	2,031	1,416
Total charged-off loans	7,696	10,685	39,143	4,442	6,376
Recoveries on charged-off loans:					
Residential mortgages	231	213	-	-	-
Commercial mortgages	189	794	22	100	-
Commercial business	109	1,094	64	290	13
Consumer	150	140	235	264	356
Total recoveries	679	2,241	321	654	369
Net loans charged-off	7,017	8,444	38,822	3,788	6,007
Allowance attributed to loans acquired by merger	-	-	-	-	4,453
Provision for loan losses	7,563	8,526	47,730	4,580	4,300
Transfer of commitment reserve	-	-	-	-	-
Balance at end of year	$32,444	$31,898	$31,816	$22,908	$22,116
Ratios:					
Net charge-offs/average loans	0.27 %	0.42 %	1.96 %	0.19 %	0.34 %
Recoveries/charged-off loans	8.82	20.97	0.82	14.72	5.79
Net loans charged-off/allowance for loan losses	21.63	26.47	109.81	14.77	27.16
Allowance for loan losses/total loans	1.10	1.49	1.62	1.14	1.14
Allowance for loan losses/non-accruing loans	133.88	232.63	82.21	188.22	210.47

The following tables present year-end data for the approximate allocation of the allowance for loan losses by loan categories at the dates indicated (including an apportionment of any unallocated amount). The first table shows for each category the amount of the allowance allocated to that category as a percentage of the outstanding loans in that category. The second table shows the allocated allowance together with the percentage of loans in each category to total loans. Management believes that the allowance can be allocated by category only on an approximate basis. The allocation of the allowance to each category is not indicative of future losses and does not restrict the use of any of the allowance to absorb losses in any category. Due to the impact of accounting standards for acquired loans, data in the accompanying tables may not be comparable between accounting periods.

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Item 1 - Table 5A - Allocation of Allowance for Loan Loss by Category

(Dollars in thousands)	2011 Amount Allocated	Percent of Amount Allocated to Total Loans in Each Category	2010 Amount Allocated	Percent of Amount Allocated to Total Loans in Each Category	2009 Amount Allocated	Percent of Amount Allocated to Total Loans in Each Category	2008 Amount Allocated	Percent of Amount Allocated to Total Loans in Each Category	2007 Amount Allocated	Percent of Amount Allocate to Total Loans in Each Category
Residential mortgages	$3,420	0.34 %	$3,200	0.50 %	$3,169	0.52 %	$2,006	0.30 %	$2,028	0.31 %
Commercial mortgages	22,176	1.92	19,923	2.15	19,659	2.31	13,539	1.68	12,040	1.71
Commercial business	4,566	1.11	6,498	2.27	6,099	3.28	4,184	2.34	5,787	2.84
Consumer	2,282	0.62	2,277	0.80	2,889	0.92	3,179	0.92	2,261	0.60
Total	$32,444	1.10 %	$31,898	1.49 %	$31,816	1.62 %	$22,908	1.14 %	$22,116	1.14 %

Item 1 - Table 5B - Allocation of Allowance for Loan Loss

(Dollars in thousands)	2011 Amount Allocated	Percent of Loans in Each Category to Total Loans	2010 Amount Allocated	Percent of Loans in Each Category to Total Loans	2009 Amount Allocated	Percent of Loans in Each Category to Total Loans	2008 Amount Allocated	Percent of Loans in Each Category to Total Loans	2007 Amount Allocated	Percent Loans i Categor to Total
Residential mortgages	$3,420	34.51 %	$3,200	30.11 %	$3,169	31.05 %	$2,006	33.74 %	$2,028	33.74
Commercial mortgages	22,176	39.11	19,923	43.21	19,659	43.42	13,539	40.13	12,040	40.29
Commercial business	4,566	13.88	6,498	13.35	6,099	9.48	4,184	8.92	5,787	8.76
Consumer	2,282	12.50	2,277	13.33	2,889	16.05	3,179	17.21	2,261	17.21
Total	$32,444	100.00 %	$31,898	100.00 %	$31,816	100.00 %	$22,908	100.00 %	$22,116	100.00

Investment Securities Activities

The securities portfolio provides cash flow to protect the safety of customer deposits and as a potential source of liquidity for funding loan commitments. The portfolio is also used to manage interest rate risk and to earn a reasonable return on investment. Investment decisions are made in accordance with the Company's investment policy and include consideration of risk, return, duration, and portfolio concentrations. Day-to-day oversight of the portfolio rests with the Chief Financial Officer and the Treasurer. The Asset/Liability Committee meets monthly and reviews investment strategies. The Risk Management Committee reviews all securities transactions and provides general oversight of the investment function.

The Company has historically maintained a high-quality portfolio of limited duration mortgage-backed securities, together with a portfolio of municipal bonds including national and local issuers and local economic development bonds issued to non-profit organizations. Nearly all of the mortgage-backed securities are issued by Ginnie Mae, Fannie Mae or Freddie Mac, and they generally have an average duration of two to four years. They principally consist of collateralized mortgage obligations (generally consisting of planned amortization class bonds). Other than securities issued by the above agencies, no other issuer concentrations exceeding 10% of stockholders’ equity existed at year-end 2011. The municipal portfolio provides tax-advantaged yield, and the local economic development bonds were originated by the Company to area borrowers. Nearly all of the Company's available for sale municipal securities are investment grade rated and most of the portfolio carries credit enhancement protection. The Company also invests in equity securities of local financial institutions for a variety of reasons, including if it concludes the financial institution is undervalued or if the Company might consider partnering with the financial institution in the future. The Company owns restricted equity in the Federal Home Loan Bank of Boston (“FHLBB”) based on the operating relationship with the FHLBB. The Company owns an interest rate swap against a tax advantaged economic development bond issued to a local not-for-profit organization, and as a result this security is carried as a trading account security. The Bank did not record any material losses or write-downs of investment securities during the year and none of the Company’s investment securities were other-than-temporarily impaired at year-end.

The following tables present the amortized cost and fair value of the Company's securities, by type of security, for the years indicated.

Item 1 - Table 6A - Amortized Cost and Fair Value of Securities

	2011		2010		2009	
(In thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Securities available for sale						
Municipal bonds and obligations	$73,436	$77,854	$79,292	$79,906	$73,277	$74,784
Mortgage-backed securities	289,084	292,707	170,294	172,883	192,597	197,276
Other bonds and obligations	30,702	28,186	40,931	38,548	51,707	49,722
Marketable equity securities	20,236	21,009	15,756	18,905	2,679	2,563
Total securities available for sale	$413,458	$419,756	$306,273	$310,242	$320,260	$324,345
Securities held to maturity						
Municipal bonds and obligations	$10,349	$10,349	$7,069	$7,069	$14,737	$14,737
Mortgage-backed securities	79	83	83	86	139	142
Tax advantaged economic development bonds	47,869	49,348	48,861	50,016	42,572	43,515
Other bonds and obligations	615	615	423	423	173	173
Total securities held to maturity	$58,912	$60,395	$56,436	$57,594	$57,621	$58,567
Trading account security	$14,096	$17,395	$14,560	$16,155	$15,000	$15,880
Restricted equity securities	$37,118	$37,118	$23,120	$23,120	$23,120	$23,120

Item 1 - Table 6B - Amortized Cost and Fair Value of Securities

	2011		2010		2009	
(In thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
U.S. Treasuries,other Government agencies and corporations	$309,399	$313,799	$186,133	$191,874	$195,415	$199,981
Municipal bonds and obligations	145,750	154,946	149,782	153,146	145,586	148,916
Other bonds and obligations	68,435	65,919	64,474	62,091	75,000	73,015
Total Securites	$523,584	$534,664	$400,389	$407,111	$416,002	$421,911

The schedule includes available-for-sale and held-to-maturity securities as well as the trading security and restricted equity securities.

The following table summarizes year-end 2011 amortized cost, weighted average yields and contractual maturities of debt securities. A significant portion of the mortgage-based securities are planned amortization class bonds. Their expected durations are 2-4 years at current interest rates, but the contractual maturities shown reflect the underlying maturities of the collateral mortgages. Additionally, the mortgage-based securities maturities shown below are based on final maturities and do not include scheduled amortization.

Item 1 - Table 7 - Weighted Average Yield

	One Year or Less		More than One Year to Five Years		More than Five Years to Ten Years		More than Ten Years		Total	
(In millions)	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield
Municipal bonds and obligations	$6.7	1.60 %	$ 3.9	4.84 %	$ 61.7	4.68 %	$ 95.6	5.47 %	167.9	5.01 %
Mortgage-backed securities	0.9	1.15	7.1	2.63	24.0	2.10	221.2	2.13	253.2	2.14
Other bonds and obligations	0.3	0.36	8.0	3.97	2.0	5.01	20.7	5.37	31.0	4.94
Total	$7.9	1.51 %	$ 19.0	3.65 %	$ 87.7	3.98 %	$ 337.5	3.28 %	$452.1	3.40 %

Deposit Activities and Other Sources of Funds

Deposits are the major source of funds for the Bank's lending and investment activities. Deposit accounts are the primary product and service interaction with the Bank’s customers. The Bank serves personal, commercial, non-profit, and municipal deposit customers. Most of the Bank’s deposits are generated from the areas surrounding its branch offices. The Bank offers a wide variety of deposit accounts with a range of interest rates and terms. The Bank also periodically offers promotional interest rates and terms for limited periods of time. The Bank’s deposit accounts consist of interest-bearing checking, noninterest-bearing checking, regular savings, money market savings and time certificates of deposit. The Bank emphasizes its transaction deposits – checking and NOW accounts for personal accounts and checking accounts promoted to businesses. These accounts have the lowest marginal cost to the Bank and are also often a core account for a customer relationship. The Bank offers a courtesy overdraft program to improve customer service, and also provides debit cards and other electronic fee producing payment services to transaction account customers. The Bank is promoting remote deposit capture devices so that commercial accounts can make deposits from their place of business. Money market accounts have increased in popularity due to their interest rate structure. Savings accounts include traditional passbook and statement accounts. The Bank’s time accounts provide maturities from three months to ten years. Additionally, the Bank offers a variety of retirement deposit accounts to personal and business customers. Deposit service fee income also includes other miscellaneous transaction and convenience services sold to customers through the branch system as part of an overall service relationship.

The Bank offers 100% insurance on all deposits as a result of a combination of insurance from the FDIC and the Massachusetts Depositors Insurance Fund, a mutual insurance fund sponsored by Massachusetts-chartered savings banks. This provides a competitive advantage compared to banks which do not offer this insurance. In the fourth quarter of 2008, the FDIC increased its insurance limits from $100 thousand per person to $250 thousand per person. Additionally, the FDIC optionally offered unlimited insurance on most categories of transaction deposit accounts, and the Bank opted to participate in this program. The $250 thousand limit was made permanent by the passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”). The Dodd-Frank Act also extended the unlimited coverage on non-interest bearing demand accounts through December 31, 2012.

The following table presents information concerning average balances and weighted average interest rates on the Bank's interest-bearing deposit accounts for the years indicated. Deposit amounts in the following tables include balances associated with discontinued operations.

Item 1 - Table 8 - Average Balance and Weighted Average Rates for Deposits

	2011			2010			2009		
(In millions)	Average Balance	Percent of Total Average Deposits	Weighted Average Rate	Average Balance	Percent of Total Average Deposits	Weighted Average Rate	Average Balance	Percent of Total Average Deposits	Weighted Average Rate
Demand	$377.9	14 %	$ - %	$279.2	14 %	$ - %	$256.4	13 %	$ - %
NOW	244.2	9	0.4	199.3	10	0.4	188.2	10	0.4
Money market	833.3	31	0.7	597.3	29	0.9	499.6	26	1.3
Savings	369.6	13	0.2	224.3	11	0.3	212.3	11	0.3
Time	902.6	33	1.8	749.2	36	2.6	777.1	40	3.2
Total	$2,727.6	100 %	0.9 %	$2,049.3	100 %	1.3 %	$1,933.6	100 %	1.7 %

At year-end 2011, the Bank had time deposit accounts in amounts of $100 thousand or more maturing as follows:

Item 1 - Table 9 - Maturity of Deposits > $100,000

Maturity Period	Amount	Weighted Average Rate
(In thousands)		
Three months or less	$59,988	1.36 %
Over 3 months through 6 months	67,092	1.94
Over 6 months through 12 months	100,582	1.32
Over 12 months	263,384	2.67
Total	$491,046	2.14 %

The Company also uses borrowings from the FHLBB as an additional source of funding, particularly for daily cash management and for funding longer duration assets. FHLBB advances also provide more pricing and option alternatives for particular asset/liability needs. The FHLBB functions as a central reserve bank providing credit for member institutions. As an FHLBB member, the Company is required to own capital stock of the FHLBB. FHLBB borrowings are secured by a blanket lien on most of the Bank's mortgage loans and mortgage-related securities, as well as certain other assets. Advances are made under several different credit programs with different lending standards, interest rates, and range of maturities. The Company has a $15 million trust preferred debenture outstanding . Subject to certain limitations, the Company can also choose to issue common stock in public stock offerings and can also potentially obtain privately placed common and preferred stock, and subordinated, and senior debt from institutional and private investors.

DERIVATIVE FINANCIAL INSTRUMENTS

The Company uses interest rate swap instruments for its own account and also offers them for sale to commercial customers for their own accounts, normally in conjunction with commercial loans offered by the Bank to these customers. At year-end 2011, the Company held derivative financial instruments with a total notional amount of $578 million. The Company has a policy for managing its derivative financial instruments, and the policy and program activity are overseen by the Risk Management Committee. Interest rate swap counterparties are limited to a select number of national financial institutions and commercial borrower customers. Collateral may be required based on financial condition tests. The Company works with a third-party firm which assists in marketing swap transactions, documenting transactions, and providing information for bookkeeping and accounting purposes.

Wealth Management Services

The Company's Wealth Management Group provides consultative investment management and trust relationships to individuals, businesses, and institutions, with an emphasis on personal investment management. The Wealth Management Group has built a track record over more than a decade with its dedicated in-house investment management team. In 2011, the Wealth Management business line expanded with the integration of the Renaissance Investment Group in the Legacy merger. At year-end 2011, assets under management (including investment accounts) totaled $964 million. Wealth management services include investment management, trust administration, estate planning, and private banking. The Bank also provides a full line of investment products, financial planning, and brokerage services utilizing Commonwealth Financial Network as the broker/dealer.

Insurance

As an independent insurance agent, the Berkshire Insurance Group represents a carefully selected group of financially sound, reputable insurance companies offering attractive coverage at competitive prices. The Insurance Group offers a full line of personal and commercial property and casualty insurance. It also offers employee benefits insurance and a full line of personal life, health, and financial services insurance products. The Group sells all lines of insurance in Western Massachusetts, Southern Vermont, Upstate New York and Northwestern Connecticut. Berkshire Insurance Group operates a focused cross-sell program of insurance and banking products through all offices and branches of the Bank with some of the Group’s offices co-located within the Bank’s branches.

Personnel

At year-end 2011, the Company had 760 full time equivalent employees (excluding employees assigned to discontinued operations which were divested in January, 2012). Total employees increased from 599 at the start of the year due to the Rome and Legacy mergers. Rome and Legacy had reported 270 full time equivalent employees as of December 31, 2010. Additionally, Berkshire adjusted its staffing based on new branches and lending teams added in 2011, along with other targeted staff increases related to deepening the Company’s infrastructure. The Company's employees are not represented by a collective bargaining unit.

Subsidiary Activities

The Parent wholly owns two active consolidated subsidiaries: the Bank and Berkshire Insurance Group. The Bank is a Massachusetts chartered savings bank. One of its subsidiaries is Berkshire Bank Municipal Bank which is chartered in the state of New York. Berkshire Insurance Group is incorporated in Massachusetts.

The Parent also owns all of the common stock of a Delaware statutory business trust, Berkshire Hills Capital Trust I. The capital trust was organized under Delaware law to facilitate the issuance of trust preferred securities and is not consolidated into the Company's financial results. Its only activity has been the issuance of the $15 million trust preferred security related to the junior subordinated debentures reported in the Company's consolidated financial statements.

Additional information about subsidiaries is contained in Exhibit 21 to this report.

Segment Reporting

The Company has two reportable operating segments, Banking and Insurance. Banking includes the activities of the Bank and its subsidiaries, which provide commercial and retail banking services. Insurance includes the activities of Berkshire Insurance Group, which provides commercial and consumer insurance services. The only other consolidated financial activity of the Company is that of the Company's role as Parent of the Bank and Berkshire Insurance Group. For more information about the Company's reportable operating segments, see the related note in the consolidated financial statements.

REGULATION AND SUPERVISION

General

Berkshire Hills Bancorp is a Delaware corporation and savings and loan holding company registered with the Federal Reserve Board. The Bank's deposits are insured up to applicable limits by the FDIC and by the Depositors Insurance Fund of Massachusetts for amounts in excess of the FDIC insurance limits. The Bank is subject to extensive regulation by the Massachusetts Commissioner of Banks (the "Commissioner") as its chartering agency, and by the FDIC, as its deposit insurer. The Bank is required to file reports with the Commissioner and the FDIC concerning its activities and financial condition in addition to obtaining regulatory approvals prior to entering into certain transactions such as mergers with, or acquisitions of, other savings institutions. The Commissioner and the FDIC conduct periodic examinations to test the Bank's safety and soundness and compliance with various regulatory requirements. As a savings and loan holding company, Berkshire Hills Bancorp is required by federal law to file reports with, and otherwise comply with the rules and regulations of, the Federal Reserve Board. The regulatory structure gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes. Any change in such regulatory requirements and policies, whether by the Commissioner, the Massachusetts legislature, the FDIC, the Federal Reserve Board or Congress, could have a material adverse impact on Berkshire Hills Bancorp, the Bank and their operations.

The 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) made extensive changes in the regulation of insured depository institution. Under the Dodd-Frank Act, the Office of Thrift Supervision (“OTS”), the previous federal regulator of Berkshire Hills Bancorp, was eliminated. At the same time, responsibility for the regulation and supervision of savings and loan holding companies, such as Berkshire Hills Bancorp, was transferred to the Federal Reserve Board, which also supervises bank holding companies. The transfer took place as of July 21, 2011.

Additionally, the Dodd-Frank Act created a new Consumer Financial Protection Bureau as an independent bureau of the Federal Reserve Board. The Consumer Financial Protection Bureau assumed responsibility for the implementation of the federal financial consumer protection and fair lending laws and regulations, a function previously assigned to prudential regulators, and has authority to impose new requirements. However, institutions of less than $10 billion in assets, such as the Bank, will continue to be examined for compliance with consumer protection and fair lending laws and regulations by, and be subject to the primary enforcement authority of their prudential regulator rather than the Consumer Financial Protection Bureau. In addition, the Dodd-Frank Act directed changes in the way that institutions are assessed for deposit insurance, mandated the imposition of consolidated capital requirements on savings and loan holding companies such as Berkshire Hills Bancorp, required originators of certain securitized loans to retain a percentage of the risk for the transferred loans, stipulated regulatory rate-setting for certain debit card interchange fees, repealed restrictions on the payment of interest on commercial demand deposits and contained a number of reforms related to mortgage originations. Many of the provisions of the Dodd-Frank Act are subject to delayed effective dates and/or require the issuance of implementing regulations. Their impact on operations cannot yet be fully assessed. However, there is a significant possibility that the Dodd-Frank Act will, at a minimum, result in increased regulatory burden, compliance costs and interest expense for the Company and the Bank.

Certain regulatory requirements applicable to the Company, including certain changes made by the Dodd-Frank Act, are referred to below or elsewhere herein. The description of statutory provisions and regulations applicable to savings institutions and their holding companies set forth in this Form 10-K does not purport to be a complete description of such statutes and regulations and their effects on the Company and is qualified in its entirety by reference to the actual laws and regulations.

Massachusetts Banking Laws and Supervision

General. As a Massachusetts-chartered savings bank, the Bank is subject to supervision, regulation and examination by the Commissioner and to various Massachusetts statutes and regulations which govern, among other things, investment powers, lending and deposit-taking activities, borrowings, maintenance of surplus and reserve accounts, distribution of earnings and payment of dividends. In addition, the Bank is subject to Massachusetts consumer protection and civil rights laws and regulations. The approval of the Commissioner is required for a Massachusetts-chartered bank to establish or close branches, merge with other financial institutions, organize a holding company, issue stock and undertake certain other activities.

Massachusetts regulations generally allow Massachusetts banks to engage in activities permissible for federally chartered banks or banks chartered by another state. The Commissioner has adopted procedures reducing regulatory burdens and expense and expediting branching by well-capitalized and well-managed banks.

Dividends. A Massachusetts stock bank may declare cash dividends from net profits not more frequently than quarterly and non-cash dividends at any time. No dividends may be declared, credited or paid if the bank’s capital stock is impaired. The approval of the Commissioner is required if the total of all dividends declared in any calendar year exceeds the total of its net profits for that year combined with its retained net profits of the preceding two years. Net profits for this purpose means the remainder of all earnings from current operations plus actual recoveries on loans and investments and other assets after deducting from the total thereof all current operating expenses, actual losses, accrued dividends on preferred stock, if any, and all federal and state taxes.

Loans to One Borrower Limitations. Massachusetts banking law grants broad lending authority. However, with certain limited exceptions, total obligations of one borrower to a bank may not exceed 20.0% of the total of the bank's capital, which is defined under Massachusetts law as the sum of the bank's capital stock, surplus account and undivided profits.

Loans to a Bank's Insiders. Massachusetts banking laws prohibit any executive officer, director or trustee from borrowing, otherwise becoming indebted, or becoming liable for a loan or other extension of credit by such bank to any other person, except for any of the following loans or extensions of credit: (i) loans or extensions of credit, secured or unsecured, to an officer of the bank in an amount not exceeding $100,000; (ii) loans or extensions of credit intended or secured for educational purposes to an officer of the bank in an amount not exceeding $200,000; (iii) loans or extensions of credit secured by a mortgage on residential real estate to be occupied in whole or in part by the officer to whom the loan or extension of credit is made, in an amount not exceeding $750,000; and (iv) loans or extensions of credit to a director or trustee of the bank who is not also an officer of the bank in an amount permissible under the bank's loan to one borrower limit.

The loans listed above require approval of the majority of the members of the Bank’s Board of Directors, excluding any member involved in the loan or extension of credit. No such loan or extension of credit may be granted with an interest rate or other terms that are preferential in comparison to loans granted to persons not affiliated with the savings bank.

Investment Activities. In general, Massachusetts-chartered savings banks may invest in preferred and common stock of any corporation organized under the laws of the United States or any state provided such investments do not involve control of any corporation and do not, in the aggregate, exceed 4.0% of the bank’s deposits. Massachusetts-chartered savings banks may in addition invest an amount equal to 1.0% of their deposits in stocks of Massachusetts corporations or companies with substantial employment in Massachusetts which have pledged to the Commissioner that such monies will be used for further development within the Commonwealth. However, these powers are constrained by federal law.

Regulatory Enforcement Authority. Any Massachusetts-chartered bank that does not operate in accordance with the regulations, policies and directives of the Commissioner may be sanctioned for non-compliance, including seizure of the property and business of the bank and suspension or revocation of its charter. The Commissioner may, under certain circumstances, suspend or remove officers or directors who have violated the law, conducted the bank’s business in a manner which is unsafe, unsound or contrary to the depositors interests or been negligent in the performance of their duties. In addition, upon finding that a bank has engaged in an unfair or deceptive act or practice, the Commissioner may issue an order to cease and desist and impose a fine on the bank concerned. Finally, Massachusetts consumer protection and civil rights statutes applicable to the Bank permit private individual and class action law suits and provide for the rescission of consumer transactions, including loans, and the recovery of statutory and punitive damage and attorney’s fees in the case of certain violations of those statutes.

Depositors Insurance Fund. All Massachusetts-chartered savings banks are required to be members of the Depositors Insurance Fund (“DIF”), a corporation that insures savings bank deposits in excess of federal deposit insurance coverage. The DIF is a private, industry-sponsored insurance company and is not backed by the federal government or the Commonwealth of Massachusetts. The DIF is authorized to charge savings banks an annual assessment for its coverage. Such assessments may vary based on the risk classification assigned to the institution.

The combination of FDIC and DIF insurance provides customers of Massachusetts-chartered savings banks with full deposit insurance on all their deposit accounts. DIF insurance coverage requires no applications or special forms. Depositors automatically receive this added insurance benefit at no cost whenever they make a deposit to a new or existing account at a DIF member bank. The DIF is examined annually by the Massachusetts Division of Banks and audited by an independent auditor.

Massachusetts has other statutes or regulations that are similar to the federal provisions discussed below.

Federal Regulations

Capital Requirements. Under FDIC regulations, federally insured state-chartered banks that are not members of the Federal Reserve System ("state non-member banks"), such as the Bank, are required to comply with minimum leverage capital requirements. For an institution determined by the FDIC to not be anticipating or experiencing significant growth and to be in general a strong banking organization, rated composite 1 under the Uniform Financial Institutions Rating System established by the Federal Financial Institutions Examination Council, the minimum capital leverage requirement is a ratio of Tier 1 capital to total average assets (as defined) of 3%. For all other institutions, the minimum leverage capital ratio is not less than 4%. Tier 1 capital is the sum of common stockholders' equity, noncumulative perpetual preferred stock (including any related surplus) and minority investments in certain subsidiaries, less intangible assets (except for certain servicing rights and credit card relationships) and certain other items.

The Bank must also comply with the FDIC risk-based capital guidelines. The FDIC guidelines require state non-member banks to maintain certain levels of regulatory capital in relation to regulatory risk-weighted assets. Risk-based capital ratios are determined by allocating assets and specified off-balance sheet items to four risk-weighted categories ranging from 0% to 100%, with higher levels of capital being required for the categories perceived as representing greater risk.

State non-member banks must maintain a minimum ratio of total capital to risk-weighted assets of at least 8%, of which at least one-half must be Tier 1 capital. Total capital consists of Tier 1 capital plus Tier 2 or supplementary capital items, which include allowances for loan losses in an amount of up to 1.25% of risk-weighted assets, cumulative preferred stock, a portion of the net unrealized gain on equity securities and other capital instruments. The includable amount of Tier 2 capital cannot exceed the amount of the institution’s Tier 1 capital.

As a savings and loan holding company, the Parent is not currently subject to any separate regulatory capital requirements, although this is expected to change in the future. The Bank’s regulatory capital is included in the Stockholders’ Equity note of the Company’s financial statements in Item 8 of this report. At year-end 2011, the Bank met each of its capital requirements.

Interstate Banking and Branching. Federal law permits a bank, such as the Bank, to acquire an institution by merger in a state other than Massachusetts unless the other state has opted out. Federal law, as amended by the Dodd-Frank Act, authorizes de novo branching into another state to the extent that the target state allows its state chartered banks to establish branches within its borders. The Bank operates branches in New York and Vermont, as well as Massachusetts. Following the completion of the merger with CBT, the Bank will also operate branches in Connecticut. At its interstate branches, the Bank may conduct any activity that is authorized under Massachusetts law that is permissible either for a savings bank chartered in that state (subject to applicable federal restrictions) or a branch in that state of an out-of-state national bank. The New York State Superintendent of Banks and the Vermont Commissioner of Banking and Insurance may exercise certain regulatory authority over the Bank’s New York and Vermont branches. Following the completion of the merger with CBT, the Connecticut Commissioner of Banking may exercise certain regulatory authority over the Bank’s branches.

Prompt Corrective Regulatory Action. Federal law requires, among other things, that federal bank regulatory authorities take “prompt corrective action” with respect to banks that do not meet minimum capital requirements. For these purposes, the law establishes three categories of capital deficient institutions: undercapitalized, significantly undercapitalized and critically undercapitalized.

An institution is deemed to be “well capitalized” if it has a total risk-based capital ratio of 10% or greater, a Tier 1 risk-based capital ratio of 6% or greater, and a leverage ratio of 5% or greater. An institution is “adequately capitalized” if it has a total risk-based capital ratio of 8% or greater, a Tier 1 risk-based capital ratio of 4% or greater and generally a leverage ratio of 4% or greater. An institution is “undercapitalized” if it has a total risk-based capital ratio of less than

8%, a Tier 1 risk-based capital ratio of less than 4%, or generally a leverage ratio of less than 4% (3% or less for institutions with the highest examination rating). An institution is deemed to be "significantly undercapitalized" if it has a total risk-based capital ratio of less than 6%, a Tier 1 risk-based capital ratio of less than 3%, or a leverage ratio of less than 3%. An institution is considered to be "critically undercapitalized" if it has a ratio of tangible equity (as defined in the regulations) to total assets that is equal to or less than 2%. At year-end 2011, the Bank met the conditions to be classified as a "well capitalized" institution.

"Undercapitalized" banks must adhere to growth, capital distribution (including dividend) and other limitations and are required to submit a capital restoration plan. No institution may make a capital distribution, including payment as a dividend, if it would be "undercapitalized" after the payment. A bank's compliance with such plans is required to be guaranteed by its parent holding company in an amount equal to the lesser of 5% of the institution's total assets when deemed undercapitalized or the amount needed to comply with regulatory capital requirements. If an "undercapitalized" bank fails to submit an acceptable plan, it is treated as if it is "significantly undercapitalized." "Significantly undercapitalized" banks must comply with one or more of a number of additional restrictions, including but not limited to an order by the FDIC to sell sufficient voting stock to become adequately capitalized, requirements to reduce assets and cease receipt of deposits from correspondent banks or dismiss directors or officers, and restrictions on interest rates paid on deposits, compensation of executive officers and capital distributions by the parent holding company. "Critically undercapitalized" institutions must comply with additional sanctions including, subject to a narrow exception, the appointment of a receiver or conservator within 270 days after it obtains such status.

Transactions with Affiliates. Transactions between depository institutions and their affiliates are governed by Sections 23A and 23B of the Federal Reserve Act. In a holding company context, at a minimum, the parent holding company of a savings bank and any companies which are controlled by such parent holding company are affiliates of the savings bank. Generally, Section 23A limits the extent to which the savings bank or its subsidiaries may engage in "covered transactions," such as loans, with any one affiliate to 10% of such savings bank's capital stock and surplus, and contains an aggregate limit on all such transactions with all affiliates to 20% of capital stock and surplus. Loans to affiliates and certain other specified transactions must comply with specified collateralization requirements. Section 23B requires that transactions with affiliates be on terms that are no less favorable to the savings bank or its subsidiary as similar transactions with non-affiliates.

Further, federal law restricts an institution with respect to loans to directors, executive officers, and principal stockholders ("insiders"). Loans to insiders and their related interests may not exceed, together with all other outstanding loans to such persons and affiliated entities, the institution's total capital and surplus. Loans to insiders above specified amounts must receive the prior approval of the board of directors. Further, loans to insiders must be made on terms substantially the same as offered in comparable transactions to other persons, except that such insiders may receive preferential loans made under a benefit or compensation program that is widely available to the Bank's employees and does not give preference to the insider over the employees. Federal law places additional limitations on loans to executive officers.

Enforcement. The FDIC has extensive enforcement authority over insured savings banks, including the Bank. This enforcement authority includes, among other things, the ability to assess civil money penalties, issue cease and desist orders and to remove directors and officers. In general, these enforcement actions may be initiated in response to violations of laws and regulations and unsafe or unsound practices. The FDIC has authority under federal law to appoint a conservator or receiver for an insured bank under certain circumstances.

Insurance of Deposit Accounts. The Bank's deposit accounts are insured by the Deposit Insurance Fund of the FDIC up to applicable legal limits, and, as discussed above under "Massachusetts Banking Laws and Supervision—Depositors

Insurance Fund", by the Massachusetts Depositors Insurance Fund for amounts in excess of federal deposit insurance coverage.

The FDIC insures deposits up to the standard maximum deposit insurance amount ("SMDIA") of $250 thousand. The deposit insurance limit was increased in response to the Dodd-Frank Act, which, among other provisions, made permanent the increase in the SMDIA from $100 thousand to $250 thousand. Additionally, in November 2010, pursuant to the Dodd-Frank Act, the FDIC issued a final rule to provide separate temporary coverage for noninterest-bearing transaction accounts. The final rule indicates that all funds held in noninterest-bearing transaction accounts are fully insured, without limit, and that this unlimited coverage is separate from, and in addition to, the coverage provided to depositors with respect to other accounts held at an insured depository institution, such as the Bank. This provision for non-interest bearing transaction accounts became effective December 31, 2010 and terminates on December 31, 2012.

The FDIC has adopted a risk-based insurance assessment system. The FDIC assigns an institution to one of four risk categories based on the institution's financial condition and supervisory ratings. An institution's assessment rate depends on the capital category and supervisory category to which it is assigned, based on a final rule which becomes effective April 1, 2011. Under the final rule, banks in Risk Category 1 have a base assessment rate of 5-9 basis points and those in Risk Category 2 have a rate of 14 basis points, subject to adjustment based on certain risk additional risk factors specified by the FDIC. The overall range, including prospective adjustments, is 2.5 to 45 basis points. Assessment rates are scheduled to decline as the FDIC Reserve Ratio improves. As required by the Dodd-Frank Act, FDIC assessments are now based on each institution's total assets less tier 1 capital, rather than deposits, as was previously the case. The FDIC has stated that nearly all of the 7,600-plus institutions with assets less than $10 billion will pay smaller assessments as a result of this final rule.

In the fourth quarter of 2009, due to stress on the insurance fund, the FDIC voted to require insured institutions to prepay thirteen quarters of estimated insurance assessments. The estimated quarterly risk-based assessments for the fourth quarter of 2009 and for all of 2010, 2011, and 2012 were paid by the Bank on December 30, 2009.

In addition, FDIC insured institutions are required to pay assessments to the Federal Deposit Insurance Corporation to fund interest payments on bonds issued by the Financing Corporation, an agency of the federal government established to recapitalize a predecessor to deposit insurance fund. These assessments will continue until the Financing Corporation bonds mature in 2017 through 2019. The assessment rate is adjusted quarterly to reflect changes in the assessment bases of the fund based on quarterly Call Report and Thrift Financial Report submissions and for the quarter ended December 21, 2011 amounted to .68 basis point of total assets less tier 1 capital.

Insurance of deposits may be terminated by the FDIC upon a finding that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by a regulator. Management does not know of any practice, condition or violation that might lead to termination of deposit insurance.

The Dodd-Frank Act increased the minimum target DIF ratio from 1.15% of estimated insured deposits to 1.35% of estimated insured deposits. The FDIC must seek to achieve the 1.35% ratio by September 30, 2020. Insured institutions with assets of $10 billion or more are supposed to fund the increase. The Dodd-Frank Act eliminated the 1.50% maximum fund ratio, instead leaving it to the discretion of the FDIC. The FDIC has recently exercised that discretion by establishing a long range fund ratio of 2.00%.

The FDIC has authority to increase insurance assessments. A significant increase in insurance premiums would likely have an adverse effect on the operating expenses and results of operations of the Bank. Management cannot predict what insurance assessment rates will be in the future.

Federal Home Loan Bank System. The Bank is a member of the Federal Home Loan Bank system, which consists of 12 regional Federal Home Loan Banks that provide a central credit facility primarily for member institutions. The Bank, as a member, is required to acquire and hold shares of capital stock in the FHLBB.

The Federal Home Loan Banks are required to provide funds for certain purposes including contributing funds for affordable housing programs. These requirements, and general financial results, could reduce the amount of dividends that the Federal Home Loan Banks pay to their members and result in the Federal Home Loan Banks imposing a higher rate of interest on advances to their members. Historically, the FHLBB paid dividends to member banks based on money market interest rates. Due to losses initially reported in the fourth quarter of 2008, the FHLBB suspended its dividend to members in the first quarter of 2009. The dividend remained suspended through year-end 2010, but was recently restored to a nominal amount in the first quarter of 2011 and subsequent quarters.

Holding Company Regulation

General. Federal law allows a state savings bank that qualifies as a “Qualified Thrift Lender,” discussed below, to elect to be treated as a savings association for purposes of the savings and loan holding company provisions of federal law. Such election allows its holding company to be regulated as a savings and loan holding company by the Federal Reserve Board rather than as a bank holding company by the Federal Reserve Board under the federal Bank Holding Company Act. As such, the Parent is registered with the Federal Reserve Board and must adhere to the Federal Reserve Board’s regulations and reporting requirements. In addition, the FRB may examine, supervise and take enforcement action against the Parent and its non-savings institution subsidiaries. Among other things, this authority permits the Federal Reserve Board to restrict or prohibit activities that are determined to be a serious risk to the subsidiary savings institution. By regulation, the Federal Reserve Board may restrict or prohibit the Bank from paying dividends.

The Dodd-Frank Act provides for the elimination of the OTS and transferred its authority over and responsibilities for savings and loan holding companies to the Federal Reserve Board. That transfer was effective July 21, 2011.

As a unitary savings and loan holding company, Berkshire Hills Bancorp is generally unrestricted under existing laws as to the types of business activities in which it may engage. The Gramm-Leach-Bliley Act of 1999 provided that unitary savings and loan holding companies may only engage in activities permitted to a financial holding company under that legislation and those permitted for multiple savings and loan holding companies. Unitary savings and loan companies existing prior to May 4, 1999 were grandfathered as to the unrestricted activities. The Company would become subject to activities restrictions upon the acquisition of another savings institution that is held as a separate subsidiary.

Federal law prohibits a savings and loan holding company from, directly or indirectly, acquiring more than 5% of the voting stock of another savings association or savings and loan holding company or from acquiring such an institution or company by merger, consolidation or purchase of its assets, without prior written approval of the Federal Reserve Board. In evaluating applications by holding companies to acquire savings associations, the Federal Reserve Board considers factors such as the financial and managerial resources and future prospects of the Company and the institution involved, the effect of the acquisition on the risk to the insurance fund, the convenience and needs of the community and competitive factors.

To be regulated as a savings and loan holding company (rather than as a bank holding company), the bank must qualify as a Qualified Thrift Lender. To qualify as a Qualified Thrift Lender, the bank must maintain compliance with the test for a "domestic building and loan association," as defined in the Internal Revenue Code, or with a Qualified Thrift Lender Test. Under the Qualified Thrift Lender Test (the "QLT Test"), a savings institution is required to maintain at least 65% of its "portfolio assets" (total assets less: (1) specified liquid assets up to 20% of total assets; (2) intangibles, including goodwill; and (3) the value of property used to conduct business) in certain "qualified thrift investments" (primarily residential mortgages and related investments, including certain mortgage-backed securities) in at least 9 months out of each 12-month period. At year-end 2011, the Bank maintained at least 65% of its portfolio assets in qualified thrift investments and met the QTL Test for the year.

Unlike bank holding companies, savings and loan holding companies are not currently subject to specific regulatory capital requirements. The Dodd-Frank Act, however, requires the Federal Reserve Board to promulgate consolidated capital requirements for depository institution holding companies that are no less stringent, both quantitatively and in terms of components of capital, than those applicable to institutions themselves. That will eliminate the inclusion of certain instruments from Tier 1 capital, such as trust preferred securities, that are currently includable for bank holding companies. Instruments issued before May 19, 2010 by companies of less than $15 billion in assets (as of December 31, 2009) are grandfathered. There is a five year transition period from the July 21, 2010 date of enactment of the Dodd-Frank Act before the capital requirements are expected to apply to savings and loan holding companies.

The Dodd-Frank Act also extends the “source of strength” doctrine to savings and loan holding companies. The regulatory agencies must promulgate regulations implementing the “source of strength” policy, which requires holding companies to act as a source of strength to their subsidiary depository institutions by providing capital, liquidity and other support in times of financial distress. Further, the Federal Reserve Board has issued a policy statement regarding the payment of dividends by bank holding companies that it has suggested is applicable to savings and loan holding companies as well. In general, the policy provides that dividends should be paid only out of current earnings and if the prospective rate of earnings retention by the holding company appears consistent with the organization’s capital needs, asset quality and overall financial condition. Regulatory guidance provides for prior regulatory review of capital distributions in certain circumstances such as where the company’s net income for the past four quarters, net of dividends previously paid over that period, is insufficient to fully fund the dividend or the company’s overall rate of earnings retention is inconsistent with the company’s capital needs and overall financial condition. The ability of a savings and loan holding company to pay dividends may be restricted if a subsidiary bank becomes undercapitalized. These regulatory policies could affect the ability of Berkshire Hills Bancorp to pay dividends or otherwise engage in capital distributions.

Acquisition of the Company. Under the Federal Change in Bank Control Act, a notice must be submitted to the Federal Reserve Board if any person (including a company), or group acting in concert, seeks to acquire “control” of a savings and loan holding company. A change in control may occur, and prior notice is required, upon the acquisition of 10% or more of the Company’s outstanding voting stock, unless the Federal Reserve Board has found that the acquisition will not result in a change of control of the Company.

Massachusetts Holding Company Regulation. In addition to the federal holding company regulations, a bank holding company organized or doing business in Massachusetts must comply with regulations under Massachusetts law. Approval of the Massachusetts regulatory authorities would be required for the Company to acquire 25% or more of the voting stock of another depository institution. Similarly, prior regulatory approval would be necessary for any person or company to acquire 25% or more of the voting stock of the Company. The term “bank holding company,” for the purpose of Massachusetts law, is defined generally to include any company which, directly or indirectly, owns, controls or holds with power to vote more than 25% of the voting stock of each of two or more banking institutions, including commercial banks and state co-operative banks, savings banks and savings and loan association and national banks, federal savings banks and federal savings and loan associations. In general, a holding company controlling, directly or indirectly, only one banking institution will not be deemed to be a bank holding company for the purposes of Massachusetts law. Under Massachusetts law, the prior approval of the Board of Bank Incorporation is required before any of the following: any company becoming a bank holding company; any bank holding company acquiring direct or indirect ownership or control of more than 5% of the voting stock of, or all or substantially all of the assets of, a banking institution; or any bank holding company merging with another bank holding company. Although Berkshire Hills Bancorp is not a bank holding company for purposes of Massachusetts law, any future acquisition of ownership, control, or the power to vote 25% or more of the voting stock of another banking institution or bank holding company would cause it to become such.

Legislation. The U.S. Congress, state lawmaking bodies and federal and state regulatory agencies continue to consider a number of wide-ranging and comprehensive proposals for altering the structure, regulation and competitive relationships of the nation's financial institutions. In addition, both the U.S. Treasury Department and the Basel Committee have issued policy statements regarding proposed significant changes to the regulatory capital framework applicable to banking organizations as discussed above. The Company cannot predict whether or in what form further legislation or regulations may be adopted or the extent to which the Company may be affected thereby.

Berkshire Bank Municipal Bank

Berkshire Bank Municipal Bank is a state-chartered limited purpose commercial bank in New York, established to accept deposits of municipalities and other governmental entities in the State of New York. Berkshire Bank Municipal Bank is subject to extensive regulation, examination and supervision by the New York State Superintendent of Banks, as its primary regulator, and the FDIC, as the deposit insurer. It is also subject to regulation as to certain matters by the Federal Reserve Board. As of year-end 2011, Berkshire Bank Municipal Bank met all of its capital requirements and met the capital conditions to be classified as a "well capitalized" institution.

Other Regulations

Consumer Protection Laws. The Bank is subject to federal and state consumer protection statues and regulations including, but not limited to, the:

£ Truth-In-Lending Act, governing disclosures of credit terms to consumer borrowers;

£ Home Mortgage Disclosure Act, requiring financial institutions to provide certain information about home mortgage and refinance loans;

£ Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit;

£ Fair Credit Reporting Act, governing the provision of consumer information to credit reporting agencies and the use of consumer information;

£ Fair Debt Collection Act, governing the manner in which consumer debts may be collected by collection agencies; and

£ Electronic Funds Transfer Act, governing automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services.

The Bank also is subject to federal laws protecting the confidentiality of consumer financial records, and limiting the ability of the institution to share non-public personal information with third parties.

The Community Reinvestment Act ("CRA") establishes a requirement for federal banking agencies that, in connection with examinations of financial institutions within their jurisdiction, the agencies evaluate the record of the financial institutions in meeting the credit needs of their local communities, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of those institutions. These factors are also considered in evaluating mergers, acquisitions and applications to open a branch or new facility. Under the CRA, institutions are assigned a rating of "outstanding," "satisfactory," "needs to improve," or "substantial non-compliance." A less than "satisfactory" rating would result in the suspension of any growth of the Bank through acquisitions or opening de novo branches until the rating is improved. As of the most recent CRA examination by the FDIC, the Bank's CRA rating was "satisfactory."

Anti-Money Laundering Laws. The Bank is subject to extensive anti-money laundering provisions and requirements, which require the institution to have in place a comprehensive customer identification program and an anti-money laundering program and procedures. These laws and regulations also prohibit financial institutions from engaging in business with foreign shell banks; require financial institutions to have due diligence procedures and, in some cases, enhanced due diligence procedures for foreign correspondent and private banking accounts; and improve information sharing between financial institutions and the U.S. government. The Bank has established policies and procedures intended to comply with these provisions.

TAXATION

The Company reports its income on a calendar year basis using the accrual method of accounting. This discussion of tax matters is only a summary and is not a comprehensive description of the tax rules applicable to the Company and its subsidiaries. Further discussion of income taxation is contained in the income taxes note to the consolidated financial statements.

Federal

The federal income tax laws apply to the Company in the same manner as do other corporations with some exceptions. We may exclude from income 100% of dividends received from the Bank and from Berkshire Insurance Group as members of the same affiliated group of corporations. For federal income tax purposes, we may carry back net operating losses to the preceding two taxable years and forward to the succeeding twenty taxable years, subject to certain limitations.

State

The Company reports income on a calendar year basis to the Commonwealth of Massachusetts. The Massachusetts income tax rate for financial institutions was 9.5% in 2011 and is scheduled to decline to 9% in 2012 and thereafter. The Company's taxable income under Massachusetts tax law includes gross income as defined under the Internal Revenue Code, plus interest from non-Massachusetts municipal obligations, less deductions, but not the credits, allowable under the provisions of the Internal Revenue Code. Carry forwards and carry backs of net operating losses are not allowed under Massachusetts tax law. Also no deduction is allowed for bonus depreciation or state income taxes paid.

Massachusetts tax law generally permits special tax treatment for a qualifying limited purpose "securities corporation." The Bank's three securities corporations all qualify for this treatment, and are taxed at a 1.3% rate on their gross income.

The Company also pays certain franchise taxes annually in the states of Vermont and New York. These taxes were immaterial to the Company's results.

ITEM 1a. Risk Factors

Overall Business Risks

The Company's Business May Be Adversely Affected by Conditions in the Financial Markets and Economic Conditions Generally and Locally

From December 2007 through June 2009, the U.S. economy was in recession. Business activity across a wide range of industries and regions in the U.S. was greatly reduced. Although economic conditions improved, certain sectors, such as real estate, remain weak and unemployment remains high. U.S. fiscal and monetary policy have been stimulative, but the policy outlook remains uncertain amidst concerns about public debt levels and financial market conditions. International developments relating to European sovereign debt, in the Middle East, and elsewhere are affecting financial markets and oil and commodities prices, which may have a negative economic impact. Local governments and many businesses are in serious difficulty due to lower consumer spending and the lack of liquidity in the credit markets. A deterioration of business and economic conditions could adversely affect the credit quality of the Company's loans, results of operations and financial condition.

Lending

Continued and Prolonged Deterioration in the Housing Sector, Commercial Real Estate, and Related Markets May Adversely Affect Our Business and Financial Results.

Softening residential housing markets, increasing delinquency and default rates and constrained secondary credit markets have been affecting the mortgage industry generally. Commercial and residential real estate markets have been impacted by the broader economic conditions previously discussed. Real estate lending is a major business activity for the Company. Real estate market conditions affect the value and marketability of this real estate collateral, and they also affect the cash flows, liquidity, and net worth of many borrowers whose operations and finances depend on real estate market conditions. Adverse conditions in our market areas could reduce our growth rate, affect the ability of our customers to repay their loans and generally affect our financial condition and results of operations.

Our Emphasis on Commercial Lending May Expose Us to Increased Lending Risks, Which Could Hurt Our Profits.

We plan to continue to emphasize the origination of commercial loans, which generally exposes us to a greater risk of nonpayment and loss because repayment of such loans often depends on the successful operations and income stream of the borrowers. Commercial loans are historically more sensitive to economic downturns. Such sensitivity includes potentially higher default rates and possible reduction of collateral values. Commercial lending involves larger loan sizes and larger relationship exposures, which can have a greater impact on profits in the event of adverse loan performance. The majority of the Company's commercial mortgages are secured by real estate and are subject to the previously discussed real estate risk factors. Commercial lending sometimes involves construction or other development financing, which is dependent on the future success of new operations. The Company's commercial lending activities extend beyond the area of its traditional branch footprint, which is the area of which the Company has the most knowledge. The Company's commercial lending includes asset based lending, which depends on the Company's processes for monitoring and being able to liquidate collateral on which these loans rely. Commercial loans may increase as a percentage of total loans, and commercial lending may continue to expose the company to increased risks.

Our Allowance for Loan Losses May Prove to be Insufficient to Absorb Losses in Our Loan Portfolio.

Like all financial institutions, we maintain an allowance for loan losses which is our estimate of the probable losses that are inherent in the loan portfolio as of the financial statement date. However, our allowance for loan losses may not be sufficient to cover actual loan losses, and future provisions for loan losses could materially and adversely affect our operating results. The accounting measurements related to impairment and the loan loss allowance require significant estimates which are subject to uncertainty and changes relating to new information and changing circumstances. Additionally, the allowance can only reflect those losses which are reasonably estimable, and there are constraints in our ability to estimate losses in this period of unusual economic and financial stress. This is particularly relevant for our estimates of losses for pools of loans. Accordingly, at any time, there may be probable losses inherent in the portfolio but which we are not reasonably able to estimate until additional information emerges which can form the basis for a reasonable estimate.

State and federal regulators, as an integral part of their examination process, periodically review our allowance for loan losses and may require us to increase our allowance for loan losses by recognizing additional provisions for loan losses charged to expense, or to decrease our allowance for loan losses by recognizing loan charge-offs, net of recoveries. Any such additional provisions for loan losses or charge-offs, as required by these regulatory agencies, could have a material adverse effect on our financial condition and results of operations.

Our Estimates of Discounts on Acquired Loans With Deteriorated Credit Quality May Be Insufficient

Under generally accepted principles for business combinations, there is no loan loss allowance recorded for acquired loans, which are recorded at net fair value on the acquisition date. This net fair value generally includes embedded loss estimates for acquired loans with deteriorated credit quality. These estimates are based on projections of expected cash flows for these problem loans. If the projections are incorrect, the fair value estimates may exceed the actual collectability of the balances, and this may result in the related loans being considered impaired.

Operating

Our Expansion, Growth, and Acquisitions Could Negatively Impact Earnings If Not Successful.

We plan to achieve significant growth organically, by geographic expansion, through business line expansion, and through acquisitions. We have recently expanded into new geographic markets and anticipate that we will continue to expand into additional geographic markets as we grow as a regional bank. The success of this expansion depends on our ability to continue to maintain and develop an infrastructure appropriate to support and integrate such growth. Also, our success depends on the acceptance by customers of us and our services in these new markets and, in the case of expansion through acquisitions, our success depends on many factors, including the long-term recruitment and retention of key personnel and acquired customer relationships. The profitability of our expansion strategy also depends on whether the income we generate in the new markets will offset the increased expenses of operating a larger entity with increased personnel, more branch locations and additional product offerings.

We continue to identify and evaluate opportunities to expand through acquisition of banks, insurance agencies, and wealth management firms. Some of these opportunities could result in further geographic expansion. Merger and acquisition activities are subject to a number of risks, including lending, operating, and integration risks. Growth through acquisition requires careful due diligence, evaluation of risks, and projections of future operations and financial conditions. Actual results may differ from our expectations and could have a material adverse effect on our financial condition and results of operations. Growth through acquisition also often involves the negotiation and execution of extensive merger agreements. Such agreements may give rise to litigation, or constrain us in certain ways, or expose us to other risks beyond our normal operating risks.

The Company's recruitment of new executive and commercial lending management has in several cases brought in new management from larger institutions. These individuals have often served larger customers than the Company has historically serviced, and they have had the benefit of larger capital and administrative resources than are present in the Company's current structure. The success of this recruitment may depend on the successful integration of these individuals into the Company and may expose the Company to lending and operating losses related to large new customers in newer markets. The Company's commercial banking strategy has particularly focused on taking market share from larger national institutions and in many cases these new accounts are larger than the Company's historic accounts. Additionally, the Company's ability to service these accounts may in some cases involve arranging loan participations and syndications. These activities can expose the Company to additional lending, administrative, and liquidity risks. The Company also actively recruits in other business lines, including private banking and wealth management. This activity can give the Company additional access to large customers in its markets in order to expand our business. Such recruitment can affect the retention of new and old business, and can also be affected by competitive reactions and other relationship risks in retaining accounts.

Competition From Financial Institutions and Other Financial Service Providers May Adversely Affect Our Growth and Profitability.

Competition in the banking and financial services industry is intense. We compete with commercial banks, savings institutions, mortgage brokerage firms, credit unions, finance companies, mutual funds, insurance companies, and brokerage and investment banking firms operating locally and elsewhere. Larger banking institutions have substantially greater resources and lending limits and may offer certain services that we do not. Local competitors with excess capital may accept lower returns on new business. There is increased competition by out-of-market competitors through the internet. Federal regulations and financial support programs may in some cases favor competitors or place us at an economic disadvantage. Our profitability depends on our continued ability to successfully compete and grow profitably in our market areas.

We are Subject to Security and Operational Risks Relating to Our Use of Technology that Could Damage Our Reputation and Our Business.

Security breaches in our internet banking activities could expose us to possible liability and damage our reputation. Any compromise of our security also could deter customers from using our internet banking services that involve the transmission of confidential information. We rely on industry standard internet security systems to provide the security and authentication necessary to effect secure transmission of data. These precautions may not protect our systems from compromises or breaches of our security measures that could result in damage to our reputation and our business. We utilize third party core banking software and for some systems we outsource our data processing to a third party. If our third party providers encounter difficulties or if we have difficulty in communicating with such third parties, it could significantly affect our ability to adequately process and account for customer transactions, which could significantly affect our business operations. We utilize file encryption in designated internal systems and networks and are subject to certain state and federal regulations regarding how we manage the security of the data that we are responsible for. Disaster and disaster recovery risks could affect our ability to operate and our reputation.

Financial and Operating Counterparties Expose Us to Risks.

We have increased our use of derivative financial instruments, primarily interest rate swaps, which expose us to financial and contractual risks with counterparty banks. We maintain correspondent bank relationships, manage certain loan participations, engage in securities transactions, and engage in other activities with financial counterparties that are customary to our industry. We also utilize services from major vendors of technology, telecommunications, and other essential operating services. There is financial and operating risk in these relationships, which we seek to manage through internal controls and procedures, but there is no assurance that we could not experience loss or interruption of our business as a result of unforeseen events with these providers.

We May Not Be Able to Attract and Retain Skilled People.

Our success depends, in large part, on our ability to attract new employees, retain and motivate our existing employees, and continue to compensate employees competitively amid intense public and regulatory scrutiny on the compensation practices of financial institutions. Competition for the best people in most activities engaged in by us can be intense and we may not be able to hire these people or to retain them.

Our Controls and Procedures May Fail or Be Circumvented.

Management regularly reviews and updates the Company’s internal controls, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of the controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on the Company’s business, results of operations and financial condition.

New Mortgage Lending Operations In Eastern Massachusetts May Expose Us to New Operating Risks.

Subsequent to year-end 2011, the Bank entered into an agreement to acquire the business assets of an established residential mortgage origination company in Eastern Massachusetts. This acquisition is expected to be completed in the second quarter of 2012. Under the agreement the Bank expects to employ the former employees of this company and to utilize its business name and operating procedures to originate residential mortgages in Eastern Massachusetts as well as in other Massachusetts and surrounding markets. The anticipated volume of mortgage originations is expected to exceed the Bank’s existing mortgage originations volume, and involves lending in a new market area with new staff and new processes. It is expected that most mortgage originations will be sold on a servicing released basis to secondary market investors. The Bank plans to implement an oversight/review process as these new operations are commenced in order to assimilate them into the Bank’s risk management program, however the conduct of these new activities may initially expose the Bank to the risk of loan losses, losses related to interest rate risk management, litigation, and other risks common in mortgage banking operations.

The Planned Core Bank Processing System Conversion Exposes Us to Operating and Financial Risks.

The Bank has contracted to convert its core bank processing system to a new system and a new vendor in 2012. This system will also be changed from primarily an "in-house" system run on the Bank's own computers to one that is primarily a "service bureau" solution running on the provider's computers and relying on long distance telecommunications. Core systems conversions involve extensive planning and operational changes which may affect bank account records, customer service delivery, internal procedures, technology risk management, and other significant operating activities. The conversion from one vendor to another can involve conversion costs and creates the risk of contract and performance disputer. Negotiations are ongoing with these vendors relating to contract matters. The planned changes expose the Bank to new risks with new systems and new vendors. The Bank is working closely with third parties to manage the related operating and financial risks.

Liquidity

Our Wholesale Funding Sources May Prove Insufficient to Replace Deposits at Maturity and Support Our Operations and Future Growth.

We must maintain sufficient funds to respond to the needs of depositors and borrowers. As a part of our liquidity management, we use a number of funding sources in addition to core deposit growth and repayments and maturities of loans and investments. These sources include Federal Home Loan Bank advances, proceeds from the sale of loans, and liquidity resources at the holding company. Our financial flexibility will be severely constrained if we are unable to maintain our access to funding or if adequate financing is not available to accommodate future growth at acceptable costs. Finally, if we are required to rely more heavily on more expensive funding sources to support future growth, our revenues may not increase proportionately to cover our costs. In this case, our operating margins and profitability would be adversely affected. Turbulence in the capital and credit markets may adversely affect our liquidity and financial condition and the willingness of certain counterparties and customers to do business with us.

Our Ability to Service Our Debt, Pay Dividends and Otherwise Pay Our Obligations as They Come Due Is Substantially Dependent on Capital Distributions from the Bank, and These Distributions Are Subject to Regulatory Limits and Other Restrictions.

A substantial source of our holding company income is the receipt of dividends from the Bank, from which we service our debt, pay our obligations, and pay shareholder dividends. The availability of dividends from the Bank is limited by various statutes and regulations. It is possible, depending upon the financial condition of the Bank and other factors, that the applicable regulatory authorities could assert that payment of dividends or other payments is an unsafe or unsound practice. If the Bank is unable to pay dividends to us, we may not be able to service our debt, pay our obligations or pay dividends on our common stock. The inability to receive dividends from the Bank would adversely affect our business, financial condition, results of operations and prospects.

Interest Rates

Changes in Interest Rates Could Adversely Affect Our Results of Operations and Financial Condition.

Net interest income is our largest source of income. Changes in interest rates can affect the level of net interest income. The Company's interest rate sensitivity is discussed in more detail in Item 7A of this report. We principally manage interest rate risk by managing our volume and mix of our earning assets and funding liabilities. In a changing interest rate environment, we may not be able to manage this risk effectively. If we are unable to manage interest rate risk effectively, our business, financial condition and results of operations could be materially harmed. Changes in interest rates can also affect the demand for our products and services, and the supply conditions in the U.S. financial and capital markets. Changes in the level of interest rates may negatively affect our ability to originate real estate loans, the value of our assets and our ability to realize gains from the sale of our assets, all of which ultimately affect our earnings.

Securities Market Values

Declines in the Value of Certain Investment Securities Could Require Write-Downs, Which Would Reduce Our Earnings.

Unrealized losses on investment securities result from changes in credit spreads and liquidity issues in the marketplace, along with changes in the credit profile of individual securities issuers. We have concluded that, as of year-end 2011, any unrealized losses are temporary in nature, and we have the intent and ability to hold these investments for a time necessary to recover our cost or stated maturity (at which time, full payment is expected). However, a continued decline in the value of these securities or other factors could result in an other-than-temporary impairment write-down which would reduce our earnings. Some of the Company's securities are locally originated economic development bonds. These securities could become impaired due to economic and real estate market conditions which also affect loan risk. We have an investment in the stock of the Federal Home Loan Bank of Boston, which recently reinstituted a modest dividend after a period when the dividend was suspended. If the capitalization of a Federal Home Loan Bank, including the FHLBB, became substantially diminished it could result in a write-down which would reduce our earnings.

Regulatory

Legislative and Regulatory Initiatives.

The potential exists for additional federal or state laws and regulations regarding lending, funding practices, capital, and liquidity standards. Bank regulatory agencies are expected to be more active in responding to concerns and trends identified in examinations, including the expected issuance of many formal enforcement orders. In addition, new laws, regulations, and other regulatory changes may also increase our costs of regulatory compliance and of doing business, and otherwise affect our operations. The FDIC sets the cost of our FDIC insurance premiums, which can affect our profitability.

We are required by federal and state regulatory authorities to maintain adequate levels of capital to support our operations. Regulatory capital requirements and their impact on the Company may change. We may need to raise additional capital in the future to support our operations and continued growth. Our ability to raise capital, if needed, will depend on conditions in the capital markets at that time, which are outside of our control, and on our financial performance. If we cannot raise additional capital when needed, it could affect our operations and our ability to execute our strategic plan, which includes further expanding our operations through internal growth and acquisitions.

The Dodd-Frank Act made extensive changes in the regulation of insured depository institution. In addition to eliminating the OTS and creating the Consumer Financial Protection Bureau, the Dodd-Frank Act, among other things, directs changes in the way that institutions are assessed for deposit insurance, mandates the imposition of consolidated capital requirements on savings and loan holding companies, requires originators of certain securitized loans to retain a percentage of the risk for the transferred loans, stipulates regulatory rate-setting for certain debit card interchange fees, repeals restrictions on the payment of interest on commercial demand deposits and contains a number of reforms related to mortgage originations. Many of the provisions of the Dodd-Frank Act are subject to delayed effective dates and/or require the issuance of implementing regulations. Their impact on operations cannot yet be fully assessed. However, there is a significant possibility that the Dodd-Frank Act will, at a minimum, result in increased regulatory burden, compliance costs and interest expense for the Company.

New laws, regulations, and other regulatory changes, along with negative developments in the financial industry and the domestic and international credit markets, may significantly affect the markets in which we do business, the markets for and value of our loans and investments, and our ongoing operations, costs and profitability. For more information, see “Regulation and Supervision” in Item 1 of this report.

Provisions of Our Certificate of Incorporation, Bylaws and Delaware Law, as Well as State and Federal Banking Regulations, Could Delay or Prevent a Takeover of Us by a Third Party.

Provisions in our certificate of incorporation and bylaws, the corporate law of the State of Delaware, and state and federal regulations could delay, defer or prevent a third party from acquiring us, despite the possible benefit to our stockholders, or otherwise adversely affect the price of our common stock. These provisions include: limitations on voting rights of beneficial owners of more than 10% of our common stock, supermajority voting requirements for certain business combinations; the election of directors to staggered terms of three years; and advance notice requirements for nominations for election to our Board of Directors and for proposing matters that stockholders may act on at stockholder meetings. In addition, we are subject to Delaware laws, including one that prohibits us from engaging in a business combination with any interested stockholder for a period of three years from the date the person became an interested stockholder unless certain conditions are met. These provisions may discourage potential takeover attempts, discourage bids for our common stock at a premium over market price or adversely affect the market price of, and the voting and other rights of the holders of, our common stock. These provisions could also discourage proxy contests and make it more difficult for you and other stockholders to elect directors other than the candidates nominated by our Board.

Goodwill and Other Intangible Assets

Our Acquisitions Have Resulted in Significant Goodwill, Which if it Becomes Impaired Would be Required to be Written Down, Resulting in a Negative Impact on Earnings.

The initial recording and subsequent impairment testing of goodwill and other intangible assets requires subjective judgments about the estimates of the fair value of assets acquired. Factors that may significantly affect the estimates include specific industry or market sector conditions, changes in revenue growth trends, customer behavior, competitive forces, cost structures and changes in discount rates. It is possible that future impairment testing could result in an impairment of the value of goodwill or intangible assets, or both. If we determine impairment exists at a given point in time, our earnings and the book value of the related intangible asset(s) will be reduced by the amount of the impairment. Notwithstanding the foregoing, the results of impairment testing on goodwill and core deposit intangible assets have no impact on our tangible book value or regulatory capital levels. These are non-GAAP financial measures. They are not a substitute for GAAP measures and should only be considered in conjunction with the Company’s GAAP financial information.

Trading

The Trading History of Our Common stock is Characterized by Low Trading Volume. The Value of Your Investment May be Subject to Sudden Decreases Due to the Volatility of the Price of our Common Stock.

Our common stock trades on the NASDAQ Global Select Market. The level of interest and trading in our stock depends on many factors beyond our control. The market price of our common stock may be highly volatile and subject to wide fluctuations in response to numerous factors, including, but not limited to, the factors discussed in other risk factors and the following actual or anticipated fluctuations in our operating results; changes in interest rates; changes in the legal or regulatory environment in which we operate; press releases, announcements or publicity relating to us or our competitors or relating to trends in our industry; changes in expectations as to our future financial performance, including financial estimates or recommendations by securities analysts and investors; future sales of our common stock; changes in economic conditions in our marketplace, general conditions in the U.S. economy, financial markets or the banking industry; and other developments affecting our competitors or us. These factors may adversely affect the trading price of our common stock, regardless of our actual operating performance, and could prevent our stockholders from selling their common stock at a desirable price.

In the past, stockholders have brought securities class action litigation against a company following periods of volatility in the market price of their securities. We could be the target of similar litigation in the future, which could result in substantial costs and divert management’s attention and resources.

Pending Merger

Failure to Complete the Pending Merger with The Connecticut Bank and Trust Company Could Negatively Impact Our Stock Price and Future Business and Financial Results.

If this merger is not completed, our ongoing business may be adversely affected. In addition, we may experience negative reactions from the financial markets and from customers and employees. We also could be subject to litigation related to any failure to complete the merger or to enforcement proceedings commenced against us to perform certain obligations under the merger agreement. If the merger is not completed, we cannot assure our stockholders that the risks described above will not materialize and will not materially affect our business, financial results and stock price. Litigation may prevent the merger from being completed or from being completed within the expected timeframe. Please see Item 3 regarding legal proceedings. One of the conditions to the closing of the merger is that no order, decree or injunction issued by a governmental entity that prohibits the completion of the merger shall be in effect. As such, if the plaintiffs are successful in obtaining an injunction prohibiting the completion of the merger on the agreed-upon terms, then such injunction may prevent the merger from being completed, or from being completed within the expected timeframe.

Item 1b. Unresolved staff comments

None.

ITEM 2. PROPERTIES

The Company's headquarters are located in owned and leased facilities located in Pittsfield, Massachusetts. The Company also owns or leases other facilities within its primary market areas: Berkshire County, Massachusetts; Pioneer Valley (Springfield area), Massachusetts; Southern Vermont, the Capital Region, and Northeastern New York. The Company has 60 full-service banking offices. The Company's Asset Based Lending Group operates from a leased facility in Woburn, Massachusetts and its new Central/Eastern Massachusetts Commercial Banking Team operates from a leased facility in Westborough, Massachusetts.

During 2011, the Berkshire acquired Rome Bancorp and Legacy Bancorp, which significantly expanded its owned and leased facilities. Pittsfield has been the headquarters location of both Berkshire and Legacy, and as a result of the merger the Company has significant headquarters facilities in Pittsfield. The Company expects to have excess facilities in this location as a result of merger related operational integrations, and the Company expects to discontinue the use of some headquarters facilities over time to eliminate this excess. Berkshire also utilizes former headquarters facilities in other locations and may identify and reduce excess facilities capacity over time. Additionally, as part of its integrations, the Company is in the process of adjusting its branch configuration. The Company divested four Legacy Berkshire County branches in 2011 in accordance with its merger agreement, and held three other branches as discontinued operations at year-end 2011 under contract for divestiture in January, 2012. In selected other locations, the Company may combine or relocate other branches over time based on market conditions. Berkshire has a pending agreement to acquire The Connecticut Bank and Trust Company, and expects to add that bank’s eight Hartford area branches in the second quarter of 2012.

In 2011, Berkshire relocated its Wealth Management business into a new facility located in Lenox, Massachusetts. Berkshire Insurance Group operates from 11 locations in Western Massachusetts in both standalone premises as well as in rented space located in the Bank’s premises. For several years, all new Berkshire branch locations have been based around its new retail branch design which eliminates traditional teller counters and provides an interactive customer service environment through “pod” stations which include automated cash handling technology. In many cases, this branch design also includes a multimedia community room which is offered for use by nonprofit community groups. Berkshire currently has 8 offices configured based on this new branch design, including all of the de novo branch offices opened in recent years in the Albany New York market.

ITEM 3. LEGAL PROCEEDINGS

At December 31, 2011, neither the Company nor the Bank was involved in any pending legal proceedings believed by management to be material to the Company’s financial condition or results of operations. Periodically, there have been various claims and lawsuits involving the Bank, such as claims to enforce liens, condemnation proceedings on properties in which the Bank holds security interests, claims involving the making and servicing of real property loans and other issues incident to the Bank’s business. However, neither the Company nor the Bank is a party to any pending legal proceedings that it believes, in the aggregate, would have a material adverse effect on the financial condition or operations of the Company.

Following the public announcement of the execution of the Agreement and Plan of Merger, dated October 25, 2011 (the "Merger Agreement"), by and among the Company, the Bank and The Connecticut Bank and Trust Company (“CBT”), on January 18, 2012, Jean-Pierre Van Rooy, Marie-Claire Van Rooy and Eric Van Rooy filed a shareholder class action lawsuit in the Superior Court of the State of Connecticut, Judicial District of Hartford, against CBT, the Directors of CBT, the Company and the Bank (the “CBT shareholder litigation”). The CBT shareholder litigation purports to be brought on behalf of all of CBT's public stockholders and alleges that the directors of CBT breached their fiduciary duties to CBT's stockholders by failing to take steps necessary to obtain a fair and adequate price for CBT's common stock and that the Company and the Bank knowingly aided and abetted CBT’s directors' breach of fiduciary duty.

CBT, its Directors, the Company and the Bank deny and intend to vigorously defend all of the allegations asserted in the CBT shareholder litigation. Management of the Company and the Bank believe that the CBT shareholder litigation will not have any material adverse effect on the financial condition or operations of the Company or the Bank.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

The common shares of the Company trade on the NASDAQ Global Select Market under the symbol "BHLB". The following table sets forth the quarterly high and low closing sales price information and dividends declared per share of common stock in 2011 and 2010.

	High	Low	Dividends Declared
2011			
First quarter	$22.92	$20.68	$ 0.16
Second quarter	22.85	20.45	0.16
Third quarter	24.14	17.11	0.16
Fourth quarter	22.50	17.56	0.17
2010			
First quarter	$20.99	$16.20	$ 0.16
Second quarter	22.84	16.81	0.16
Third quarter	20.94	17.08	0.16
Fourth quarter	22.49	17.90	0.16

Holders

The Company had approximately 3,237 holders of record of common stock at March 7, 2012.

Dividends

The Company intends to pay regular cash dividends to common stockholders; however, there can be no assurance as to future dividends because they are dependent on the Company's future earnings, capital requirements, financial condition, and regulatory environment. Dividends from the Bank have been a source of cash used by the Company to pay its dividends, and these dividends from the Bank are dependent on the Bank's future earnings, capital requirements, and financial condition. Further information about dividend restrictions is provided in the Stockholders' Equity note in the consolidated financial statements.

Recent Sales of Unregistered Securities; Use of Proceeds From Registered Securities

No unregistered securities were sold by the Company within the last three years.

In May 2009, the Company issued 1.61 million common shares in a public stock offering and raised $32 million which was used to repay U.S. Treasury preferred stock. No other registered securities were sold by the Company within the last three years.

Purchases of Equity Securities by the Issuer and Affiliated Purchases

There were no purchases of equity securities during the fourth quarter of 2011 made by or on behalf of the Company or any “affiliated purchaser”, as defined by Section 240.10b-18(a)(3) of the Securities and Exchange Act of 1934, of shares of the Company’s common stock. On December 14, 2007, the Company authorized the purchase of up to 300 thousand shares, from time to time, subject to market conditions. The repurchase plan will continue until it is completed or terminated by the Board of Directors. The Company has no intentions to terminate this plan or to cease any potential future purchases. As of year-end 2011, there were 98 thousand maximum shares that may yet be purchased under this publicly announced plan.

The following table sets forth information regarding the activity during the fourth quarter of 2011:

Period	Total number of shares purchased (1)	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares that may yet be purchased under the plans or programs
October 1-31, 2011	416	$ 18.47	-	97,993
November 1-30, 2011	-	-	-	97,993
December 1-31, 2011	-	-	-	97,993
Total	416	$ 18.47	-	97,993

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

Performance Graph

The performance graph compares the Company's cumulative stockholder return on its common stock over the last five years to the cumulative return of the NASDAQ Composite Index, and the SNL All Bank and Thrift Index. Total stockholder return is measured by dividing total dividends (assuming dividend reinvestment) for the measurement period plus share price change for a period by the share price at the beginning of the measurement period. The Company's cumulative stockholder return over a five-year period is based on an initial investment of $100 on December 31, 2006.

	Period Ending					
Index	12/31/06	12/31/07	12/31/08	12/31/09	12/31/10	12/31/11
Berkshire Hills Bancorp, Inc.	100.00	79.25	96.39	66.51	73.47	76.04
NASDAQ Composite	100.00	110.66	66.42	96.54	114.06	113.16
SNL Bank and Thrift	100.00	76.26	43.85	43.27	48.30	37.56

ITEM 6. SELECTED FINANCIAL DATA

The following summary data is based in part on the consolidated financial statements and accompanying notes, and other schedules appearing elsewhere in this Form 10-K. Historical data is also based in part on, and should be read in conjunction with, prior filings with the SEC.

	At or For the Years Ended December 31,				
(In thousands, except per share data)	2011	2010	2009	2008	2007
Selected Financial Data:					
Total assets	$3,991,204	$2,881,403	$2,700,991	$2,666,729	$2,513,432
Securities	533,181	405,953	420,966	341,516	258,497
Loans	2,956,570	2,142,162	1,961,658	2,007,152	1,944,016
Allowance for loan loss	(32,444)	(31,898)	(31,816)	(22,908)	(22,116)
Goodwill and intangibles	223,364	173,079	176,100	178,830	182,452
Deposits	3,101,175	2,204,441	1,986,762	1,829,580	1,822,563
Borrowings and subordinated debentures	237,402	260,301	306,668	374,621	349,938
Total stockholders' equity	553,365	388,647	385,148	408,425	326,837
Selected Operating Data:					
Total interest and dividend income	$138,260	$112,277	$115,476	$133,211	$131,944
Total interest expense	31,740	35,330	45,880	57,471	68,019
Net interest income	106,520	76,947	69,596	75,740	63,925
Service charges and fee income	33,727	29,859	28,181	30,334	26,654
All other non-interest income (loss)	2,076	(108)	(3,004)	1,261	(2,011)
Total net revenue	142,323	106,698	94,773	107,335	88,568
Provision for loan losses	7,563	8,526	47,730	4,580	4,300
Total non-interest expense	116,052	81,729	78,571	71,699	65,494
Income tax expense (benefit) - continuing operations	2,041	2,585	(15,597)	8,812	5,239
Net income from discontinued operations	914	-	-	-	-
Net income (loss)	$17,581	$13,858	$(15,931)	$22,244	$13,535
Less: Cumulative preferred stock dividend and accretion	-	-	1,030	-	-
Less: Deemed dividend from preferred stock repayment	-	-	2,954	-	-
Net income (loss) available to common stockholders	$17,581	$13,858	$(19,915)	$22,244	$13,535
Dividends per common share	$0.65	$0.64	$0.64	$0.63	$0.58
Basic earnings per common share	$0.98	$1.00	$(1.51)	$2.08	$1.47
Diluted earnings per common share	$0.98	$1.00	$(1.51)	$2.06	$1.44
Weighted average common shares outstanding - basic	17,885	13,862	13,189	10,700	9,223

Weighted average common hares outstanding - diluted	17,952	13,896	13,189	10,791	9,370

	At or For the Years Ended December 31,				
	2011	2010	2009	2008	2007
Selected Operating Ratios and Other Data:					
Performance Ratios:					
Return on average assets	0.50 %	0.51 %	(0.74)%	0.87 %	0.60 %
Return on average equity	3.69	3.62	(4.83)	6.47	4.69
Interest rate spread	3.38	3.01	2.61	3.06	2.79
Net interest margin	3.57	3.28	3.00	3.44	3.26
Non-interest income/total net revenue	25.16	27.88	26.57	29.44	27.82
Non-interest expense/average assets	3.33	2.98	2.93	2.81	2.90
Dividend payout ratio	66.33	64.00	N/M	30.58	40.28
Growth Ratios:					
Total loans	38.02%	9.20 %	(2.27)%	3.24 %	14.43%
Total deposits	40.68	10.96	8.59	0.39	19.75
Total net revenues	33.39	12.58	(8.15)	21.19	22.52
Capital Ratios:					
Tier 1 capital to average assets - bank	8.41 %	8.04 %	7.86 %	9.34 %	7.97 %
Total capital to risk-weighted assets - bank	11.29	10.61	10.71	12.28	10.40
Stockholders’ equity/total assets	13.86	13.49	14.26	15.32	13.00
Tangible common stockholders' equity to tangible assets (1)	8.76	7.96	8.26	7.75	6.22
Asset Quality Ratios:					
Net loans charged-off/average total loans	0.27	0.42	1.96	0.19	0.34
Allowance for loan losses/total loans	1.10	1.49	1.62	1.14	1.14
Share Data:					
Book value per share	$26.17	$27.61	$27.68	$30.33	$31.15
Market price at year end	$22.19	$22.11	$20.68	$30.86	$26.00

Note: All performance ratios are based on average balance sheet amounts where applicable.

N/M = Not Meaningful

(1) Tangible common stockholders' equity to tangible assets exclude goodwill and other intangibles. This is a non-GAAP financial measure that the Company believes provide investors with information that is useful in understanding our financial performance and condition.

Note: Generally accepted accounting principles require that acquired loans be recorded at fair value, whereas historical loans are recorded at cost. In 2011, BHLB acquired loans as a result of its acquisitions of Rome Bancorp and Legacy Bancorp. The fair value of acquired loans includes expected loan losses, and there is no loan loss allowance recorded for acquired loans at the time of acquisition. Accordingly, the ratio of the loan loss allowance to total loans is reduced as a result of the existence of acquired loans, and this measure is not directly comparable to prior periods. Similarly, net loan charge-offs are normally reduced for acquired loans since these loans are recorded net of expected loan losses. Therefore, the ratio of net loan charge-offs to average loans is reduced as a result of the existence of acquired loans, and this measure is not directly comparable to prior periods. Other institutions may have acquired loans, and therefore there may be no direct comparability of these ratios between and among other institutions.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONs

General

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

Critical Accounting POLICIES

The SEC defines "critical accounting policies" as those that require application of management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in future periods. The Company's significant accounting policies are described in Note 1 to the consolidated financial statements. Please see those policies in conjunction with this discussion. Management believes that the following policies would be considered critical under the SEC's definition:

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

Acquired Loans. Due to the bank acquisitions in 2011, the Company added a significant accounting policy related to acquired loans. Loans that the Company acquired are initially recorded at fair value with no carryover of the related allowance for credit losses. Determining the fair value of the loans involves estimating the amount and timing of principal and interest cash flows initially expected to be collected on the loans and discounting those cash flows at an appropriate market rate of interest. Going forward, the Company continues to evaluate reasonableness of expectations for the timing and the amount of cash to be collected. Subsequent decreases in expected cash flows may result in changes in the amortization or accretion of fair market value adjustments, and in some cases may result in the loan being considered impaired.

Income Taxes. Significant management judgment is required in determining income tax expense and deferred tax assets and liabilities. The Company uses the asset and liability method of accounting for income taxes in which deferred tax assets and liabilities are established for the temporary differences between the financial reporting basis and the tax basis of the Company's asset and liabilities. The realization of the net deferred tax asset generally depends upon future levels of taxable income and the existence of prior years' taxable income, to which "carry back" refund claims could be made. A valuation allowance is maintained for deferred tax assets that management estimates are more likely than not to be unrealizable based on available evidence at the time the estimate is made. In determining the valuation allowance, the Company uses historical and forecasted future operating results, based upon approved business plans, including a review of the eligible carryforward periods, tax planning opportunities and other relevant considerations. These underlying assumptions can change from period to period. For example, tax law changes or variances in future projected operating performance could result in a change in the valuation allowance. Should actual factors and conditions differ materially from those considered by management, the actual realization of the net deferred tax asset could differ materially from the amounts recorded in the financial statements. If the Company is not able to realize all or part of our net deferred tax asset in the future, an adjustment to the deferred tax asset valuation allowance would be charged to income tax expense in the period such determination was made.

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

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

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

Summary

Berkshire achieved record total net revenue of $142 million in 2011, which was a 33% increase over $107 million in the prior year. This increase was due both to organic growth and to the acquisitions of Rome Bancorp on April 1, 2011 and Legacy Bancorp on July 21, 2011. The fourth quarter was the first full quarter of combined operations with the acquired banks. Fourth quarter net revenue increased by 45% to an annualized rate of $160 million including the full combined results of the acquired banks.

Berkshire's net income increased by $3.7 million (27%) to $17.6 million in 2011, compared to $13.9 million in the prior year. Fourth quarter net income, reflecting the combined operations of the acquired banks, increased by 135% to $8.5 million in 2011, compared to $3.6 million in the prior year. Total shares outstanding increased by 50% to 21.1 million during the year as a result of shares issued for merger consideration. Full year earnings per share totaled $0.98 in 2011, compared to $1.00 in the prior year. All references to per share results in this report refer to diluted shares unless otherwise noted.

Fourth quarter earnings per share increased by 54% to $0.40 in 2011, compared to $0.26 in 2010. Results in the fourth quarter of 2011 included $0.8 million in net after-tax charges ($0.04 per share) related to merger and divestiture activities. The Company views the improvement in earnings per share before these charges as reflecting the ongoing benefits of organic growth, bank acquisitions, and profitability improvement achieved during the year.

After the initial expenses related to the merger, the Company expected the acquisition of Rome Bancorp to be accretive to earnings in the amount of $0.09 per share in 2011 and $0.10 in 2012. For the Legacy acquisition, this expectation was accretion of $0.06 per share in 2011 and $0.10 per share in 2012. Based on the results achieved in 2011, the Company believes that it met or exceeded its merger related EPS accretion expectations in 2011 and its goal is to achieve the expected benefits in 2012.

In addition to merger related growth, the Company produced organic growth of loans and deposits. Coupled with Berkshire's pricing and expense management disciplines, this growth resulted in positive operating leverage – with revenue growth exceeding expense growth. The fourth quarter net interest margin improved to 3.61% in 2011 from 3.30% in the prior year. For these periods, the return on assets increased to 0.85% from 0.51%, and the return on equity increased to 6.2% from 3.7%.

As a result of accounting standards for business combinations, costs related to acquisitions are recorded as expenses in the current period, although the Company views such costs as part of the overall economic investment in the acquired entities. Total after-tax merger, divestiture, and non-recurring net costs were $10.4 million ($0.58 per share) in 2011.

In addition to the growth in revenue, earnings, and profitability described above, Berkshire took other significant steps in 2012 in implementing its strategy for growth and development. In the fourth quarter, Berkshire announced an agreement to acquire CBT – The Connecticut Bank and Trust Company, which will expand Berkshire's operations into Northern Connecticut. Also in the fourth quarter, Berkshire announced the recruitment of a seasoned commercial banking team to be located in its new Westborough, Massachusetts commercial banking office. Along with its existing asset based lending team located in Woburn, this initiative increases Berkshire's commercial banking activities in Central and Eastern Massachusetts. Berkshire opened two de novo branches in its Albany, New York region during 2011, continuing its ongoing expansion in this market. Berkshire appointed a new executive with extensive experience in our markets to lead the commercial banking and wealth management teams. Berkshire also expanded its risk management function, including recruiting new senior officers to manage credit underwriting and internal control. Another senior officer was recruited to lead the new office of project management. The Company entered into a contract for a new core processing system to be implemented in 2012, which is intended to increase Berkshire's product capabilities, and scalability in future years. This systems conversion is also targeted towards improved operating efficiency, together with Berkshire's ongoing Six Sigma process engineering initiatives. Current operations include costs related to these activities as Berkshire continues to balance earnings growth with ongoing costs of investing in the franchise to support future growth and expansion.

Reflecting the improvement in earnings and the earnings outlook, Berkshire increased the shareholder dividend by 6% to $0.17 per share from $0.16 per share beginning in the fourth quarter of 2011. Berkshire's capital ratios were strong and improving during the year, including both the equity/assets ratio and the tangible equity/assets ratio. The Company viewed most asset quality measures as favorable and improving. Improvement in Berkshire's liquidity was reflected in lower borrowings and a decrease in the ratio of loans/deposits. The Company's access to funds improved as a result of an increase in the total number of branches to 60 from 42 during the year. Berkshire's loan portfolio was further diversified as a result of the expansion of its lending footprint and the ongoing growth of its commercial business lending activities.

In summary, Berkshire achieved a significant increase in the size and quality of its franchise, resulting in significant growth in revenues and recurring earnings, both on an absolute and per share basis. Berkshire continued to post strong organic growth in targeted business lines. The bank acquisitions were accretive to recurring earnings per share and tangible equity measures also improved during the year. Berkshire's profitability increased, as evidenced by the significant improvement in all fourth quarter profitability measures, with the fourth quarter representing the first full quarter with the combined results of both acquired banks. A number of strategic initiatives were undertaken to produce further growth in revenues and earnings in 2011 and beyond. The Company's financial condition remained strong and improving, as reflected in capital, asset quality, and liquidity measures. Berkshire continued to enhance and deepen its management team and to strengthen its culture and brand as America's Most Exciting Bank℠.

COMPARISON OF FINANCIAL CONDITION AT DECEMBER 31, 2011 AND 2010

Balance Sheet Summary. Total assets increased by $1.1 billion (39% compared to the comparable prior period measure) to $4.0 billion at year-end 2011. This growth included $1.2 billion in assets recorded as a result of the acquisitions of Rome Bancorp (on April 1, 2011) and Legacy Bancorp (on July 21, 2011). Most categories of assets and liabilities increased as a result of these acquisitions. Berkshire also recorded a $143 million reduction in deposits and a $49 million reduction in assets related to the divestiture of four former Legacy branches in conjunction with the Legacy merger agreement. Additionally, Berkshire reported $55 million in liabilities and $5 million in assets related to the discontinued operations of four other former Legacy branches held for divestiture at year-end; this transaction was completed in January 2012.

On an organic basis, excluding the impact of acquisitions and divestitures, total loans increased by 2% and total deposits increased by 10%. Organic loan growth was primarily due to a 6% organic increase in commercial loans, and organic deposit growth benefited from commercial deposit growth as well as higher balances related to ongoing expansion of de novo branches in the Albany, New York region.

Capital, asset performance, and liquidity metrics improved during 2011. Total outstanding common shares increased by 50% to 21.1 million in 2011 due to shares issued as merger consideration. Total shareholders' equity increased by $165 million (42%) to $553 million primarily due to this share issuance. The ratio of total equity/assets increased to

13.9% from 13.5%, and the Bank's risk based capital ratio increased to 11.3% from 10.6%. The ratio of loans/deposits was 95% at year-end 2011, compared to 97% at the start of the year, due to strong deposit growth.

The ratio of net loan charge-offs/average loans was 0.27% in 2011, and the ratio of nonperforming assets/assets was 0.65% at year-end 2011. In accordance with accounting standards for business combinations, the acquired assets are recorded at fair value and there is no loan loss allowance recorded for acquired loans. Additionally, all acquired loans are recorded as performing regardless of their payment status. Accordingly, many asset quality metrics are not comparable from period to period.

At year-end 2011, Berkshire had a pending agreement to acquire CBT – The Connecticut Bank and Trust Company, with $0.3 billion in assets and eight branches in the Hartford, Connecticut area. The approximate value of this acquisition is $30 million, including approximately $21 million in additional common stock expected to be issued in the second quarter of 2012 based on the planned merger completion date. This acquisition is not expected to have a material effect on the key balance sheet ratios described above.

Investment Securities. Total investment securities increased by $127 million (31%) in 2011. This increase included the $53 million fair value of securities recorded in the business combinations, as well as the investment of excess funds generated from organic deposit growth. At year-end, most of the growth was represented in the $110 million increase in securities available for sale, along with a $14 million increase in restricted equity investments primarily consisting of Federal Home Loan Bank stock held by the acquired banks. The increase in securities available for sale mainly consisted of a $101 million increase in U.S. government agency sponsored mortgage backed securities which were mostly planned amortization class bonds with average expected lives targeted in the 2-4 year range.

Berkshire’s goal is to maintain a high quality portfolio consisting primarily of liquid investment securities with managed durations to limit the potential for market value declines in rising rate markets. At year-end 2011, Berkshire’s $533 million securities portfolio was primarily comprised of $293 million in U.S. government or government agency sponsored mortgage backed securities, which constituted 55% of the total portfolio, compared to $173 million (43% of the portfolio) at the start of the year. Municipal securities and development bonds were little changed, totaling $138 million (26% of the portfolio) at year-end 2011. Other significant components of the portfolio at year-end included $28 million of corporate bonds and trust preferred securities, $21 million of marketable equity securities (consisting primarily of regional community bank stocks), and $37 million of restricted securities which mostly consisted of Federal Home Loan bank stock. Approximately 79% of the total portfolio was designated as available for sale, with the primary exceptions being the restricted stock and locally issued development bonds (classified as held to maturity municipal securities except for one security classified as a trading obligation as a result of a related interest rate swap.)

The net unrealized gain on securities available for sale totaled $6.3 million, or 1.5% of book value at year-end 2011, compared to 1.3% a year earlier. The fair value benefit of lower long term interest rates at year-end 2011 was partially offset by the lower portfolio yield resulting from run-off during the year. Also, Berkshire realized a $2.1 million gain in income in 2011 on its investment holdings of common stock in Rome and Legacy based on the accounting standards for business combinations. Most of this gain was included in unrealized gains at the start of the year.

There were no material credit rating downgrades of securities in the portfolio in 2011. None of the Company's investment securities were deemed impaired on an other-than-temporary basis during 2011. At year-end 2011, all available for sale debt securities carried at least one investment grade rating by a major rating agency except for two securities: a $2.6 million investment in the Mezzanine Class B tranche of a pooled trust preferred security which was rated Ca by Moodys, and a $2.0 million investment in an unrated school district bond with a year-end premium fair value and an unrealized gain. The Company's held to maturity securities are generally unrated local securities, all of which are performing and none of which is deemed substandard according to the Company's internal ratings systems. Regarding the above-mentioned pooled trust preferred security, the unrealized loss measured 81% of book value at year-end 2011, compared to 92% of book value at the start of the year. The Company evaluated the security, with a Level 3 fair value of $0.5 million at year-end 2011. With the assistance of independent third parties, the Company modeled cash flows and defaults and evaluated the loss protection provided by the pool's junior tranches. There was no evidence of other-than-temporary impairment based on both the Company's plan and ability to hold the security until the recovery of its remaining amortized cost and the protection from credit loss afforded by excess subordination above projected losses. The Level 3 fair value of the security was determined with the assistance of a third party by a subjective assessment of market conditions for similar securities. Interest payments on this security have been suspended by the issuer, but it has been maintained on an accruing status based on the Company's cash flow analysis and the subordination protecting the Company's tranche. In addition to this pooled trust preferred security, at year-end 2011 the Company owned $17 million in single issuer trust preferred securities issued primarily by prominent national and major regional banks, all of which had at least one investment grade rating at year-end. The net unrealized loss on this portfolio was 1% of amortized cost at year-end 2011, and there were no purchases or sales of such securities during the year.

The tax equivalent yield on investment securities declined to 3.3% in the fourth quarter of 2011, compared to 3.9% in the fourth quarter of 2010, reflecting the impact of portfolio turnover and growth in the ongoing low interest rate environment. For the year, the yield decreased to 3.7% in 2011 from 4.1% in 2010. Berkshire continues to pursue a general investment policy approach to maintain a high quality, relatively short duration investment portfolio, and to focus on loan growth as the primary use of funds from deposit growth and the primary source of interest income. The effective duration of the available for sale debt securities portfolio was estimated at 2.3 years, with a 4.2 year average life at year-end 2011. This reflects the short duration planned amortization class bonds which comprise the majority of the mortgage backed securities portfolio, combined with the approximate 7.1 year duration of available for sale municipal securities.

Loans. Total loans increased by $814 million (38%) to $2.96 billion in 2011. This included $258 million in acquired Rome loans and $566 million in acquired Legacy loans and excluded $48 million in loans designated as discontinued operations.

Loans acquired as a result of the bank mergers were generally in-market conforming loans, and included $279 million in commercial loans, $374 million in residential mortgages, and $123 million in consumer loans. The acquired loans were recorded at estimated net fair value. As a result of merger activity, the year-end residential mortgage portfolio increased to 34% of total loans from 30%. Consumer loans remained little changed at 13% of total loans, and commercial loans decreased to 53% of total loans from 56%.

Rome's commercial loans were primarily small business loans to local area borrowers. Legacy's commercial loans were primarily to entities in and around its footprint, and also included approximately $76 million in year-end 2011 fair value of national commercial real estate loan balances under a longstanding program targeted to provide portfolio diversity. This portfolio includes about $28 million in loans within Berkshire's overall lending footprint, and approximately $48 million in other regions, generally in the eastern U.S. This portfolio is performing with minimal delinquencies.

Berkshire conducted thorough pre-merger due diligence on these acquired portfolios and post-merger fair value analysis with the assistance of a third party. The combined loan loss allowances of Rome and Legacy on the acquisition dates totaled $11.3 million. The Company recorded a net discount of $21.2 million on acquired loans (2.5% of the acquired book balance). This included $13.3 million in nonaccretable discount on acquired loans with deteriorated credit quality. The remaining $7.9 million in net discount included $3.6 million in accretable discount on loans with deteriorated credit quality, and $4.3 million in other net accretable discount. The total accretable net discount at acquisition will be accreted into loan income over the portfolio lives. Acquired loan prepayments introduced some volatility into quarterly earnings due to the unevenness of prepayment events. At year-end 2011, accruing loans over 90 days past due included $4.5 million in acquired loans which were accruing interest based on accretable discount estimates for acquired loans with deteriorated credit quality.

Excluding the $776 million net total of acquired loans, total organic loan growth was $38 million (2%). Organic growth is a non-GAAP measure which measures the change in the balance that is not attributable to merger and divestiture activities. Organic growth is viewed as the result of the Company's ongoing activities to build its business volumes. This included ongoing growth of the commercial asset based lending portfolio, which increased by $53 million to $151 million at period-end. Including this growth, the total organic increase in commercial loan outstandings was $76 million (6% annualized). Berkshire is adhering to strong underwriting and pricing disciplines as it captures larger market share with high grade loan originations. Berkshire has emphasized commercial business loan originations in order to diversify its portfolio and to utilize the expertise of its lending teams to build more profitable relationships utilizing its service and product capabilities. Berkshire also expects to benefit from its recruitment of an established commercial lending team announced in December, which is now operating from the Company's new Westborough office serving the commercial middle market in central and eastern Massachusetts. In conjunction with its planned acquisition of The Connecticut Bank & Trust Company, Berkshire expects to develop its commercial lending footprint in the Worcester, Springfield, Hartford triangle, as well as continuing to enhance its commercial presence in eastern Massachusetts.

As a result of its commercial loan origination activities, the Company achieved progress towards its goal of reducing the proportion of commercial real estate loans, which decreased to 74% of the commercial portfolio at year-end 2011, compared to 76% at the start of the year. This included a decrease in the balance of commercial construction loans to 8% of total commercial outstandings at year-end 2011. Commercial loans to hospitality borrowers were primarily real estate based and comprised 9% of total year-end 2011 commercial outstandings; the Company continues to pursue plans to lower this portfolio balance as a percent of total loans. The asset based lending portfolio grew to 10% of total commercial outstandings from 8% during the year. The year-end 2011 asset based lending portfolio was comprised primarily of loans to manufacturers (40% of the total) and wholesalers (39%) of the portfolio. There were no criticized loans outstanding in this portfolio at year-end 2011. Berkshire is gradually reducing the term to maturity of commercial loans in order to provide more long run flexibility in managing the portfolio. The Company has reviewed the maturity schedule of commercial real estate loans and does not foresee any significant concentrations of maturities. In the second half of the year, Berkshire developed enhancements to its small business lending program which will be introduced in 2012. The Company expects to increase originations of small business loans and to include the retail division in the origination of conforming low balance small business loans to more effectively provide service to this market.

In 2011, Berkshire originated $230 million in residential mortgages, selling $75 million and retaining $155 million in portfolio. In the prior year, mortgage originations totaled $240 million, with $105 million being sold and $135 million being retained. In 2011, the portfolio was flat on an organic basis, excluding the impact of acquisitions and divestitures. The higher retention of originations in 2011 was targeted to offset the impact of runoff, which measured approximately 19% of the average portfolio balance in the ongoing low interest rate environment. The portfolio of loans serviced for others totaled $487 million at year-end 2011, compared to $320 million at the start of the year, and included the impact of the bank acquisitions. Unused home equity lines of credit totaled $225 million at year-end 2011, increasing from $173 million at the prior year-end, including the impact of the bank acquisitions. Based on year-end outstanding loan balances, the line of credit utilization rate was 57% both at the end and at the beginning of 2011. Home equity balances outstanding decreased by 13% on an organic basis in 2011, reflecting in part the drop in demand due to refinancings and the low fixed rate mortgage alternatives.

Yields have generally been declining for many loan categories during 2011 due to the impact of run-off and of the ongoing low interest rate environment on originations. Loan yields benefited from the higher rates associated with the Rome small business loan portfolio and rates associated with some of the Legacy commercial real estate portfolio. Loan yields also benefited from the higher rates assigned to acquired non-performing and higher risk loans as a result of fair value accounting. With this benefit, the 4.74% yield on total average loans in the fourth quarter of 2011 was down only slightly from 4.77% in the same quarter of 2010. Similarly, for the year 2011, the average loan yield decreased slightly to 4.79% from 4.87% in the prior year. The average balance of total loans increased by 29% to $2.6 billion in 2011, reflecting the partial year benefit of the acquired loan portfolios.

Berkshire continues to favor an asset sensitive interest rate risk profile, and seeks to manage the retention of long term fixed rate loans. A portion of fixed rate residential mortgage originations is sold in the secondary market, and interest rate swaps are sometimes used to provide fixed rate protection where it is sought by large commercial borrowers. The total amount of swapped commercial loans increased to $160 million from $137 million in 2011. The Bank offers back-to-back interest rate swaps to certain commercial loan customers, which effectively allows the Bank to book a variable rate loan while providing the customer with an option to fix its interest rate. This allows the Company to be more competitive with national financing sources and to avoid booking long-term, fixed rate assets at current low interest rates, as well as providing a source of fee income. Commercial loan swap fee income decreased to $0.5 million in 2011 from $1.3 million in the prior year due to lower demand for fixed rate protection in the ongoing low interest rate environment.

Total loans with repricings over five years increased to $921 million at year-end 2011, compared to $527 million at the beginning of the year. In addition to the impact of the acquired loan portfolios, this growth also reflected the increased retention of fixed rate mortgage loan originations during the year to offset the impact of loan prepayments and indirect auto loan run-off on interest income. Total loans repricing under three months increased in 2011 to $935 million from $758 million, including the impact of growth in commercial business loans.

Asset Quality. Under accounting standards for business combinations, acquired loans are recorded at fair value and are deemed performing regardless of their payment status. Therefore, some overall portfolio measures of asset quality at year-end 2011 are not comparable to those in prior years.

Non-performing assets were 0.65% of total assets at year-end 2011. Total non-performing assets were $26 million at year-end 2011, compared to $17 million at the start of the year. Loans which became non-performing during the year totaled $29 million in 2011, compared to $18 million in the prior year. Growth in non-performing assets in 2011 was partially offset by resolutions totaling $20 million including upgrades, collections, and charge-offs. New non-performing assets were primarily commercial real estate development loans originated prior to the recession where development plans did not come to fruition. Residential mortgages contributed $5 million to the increase in non-performing assets, due to a limited number of loans which became past due. At year-end 2011, the largest non-performing asset was a $3 million commercial land loan. The ten largest non-performing loans totaled $15 million and were generally well secured, with $1.4 million in impairment reserves required as of year-end.

Accruing loans over 90 days past due measured 0.34% of total loans at year-end 2011, compared to 0.05% at the start of the year. This increase included past due loans acquired in the business combinations, which are recorded as accruing under accounting standards for business combinations, as well as an increase in delinquent residential mortgages. Loans delinquent 30-89 days increased to 0.55% of total loans from 0.26% due primarily to a small number of commercial real estate loans. Loan classified as performing troubled debt restructurings decreased to $1 million from $7 million during 2011 due to current loan performance resulting in a reclassification from the troubled status. There were no loans which were restructured in 2011 that subsequently defaulted during the year.

Foreclosed real estate remained negligible at year-end 2011, totaling $1.9 million. The Company recorded $2.0 million in foreclosed property expenses in 2011 primarily due to writedowns on one commercial property due to lower offering prices from prospective buyers. The Company anticipated the liquidation of this property in 2012.

Net loan charge-offs were 0.27% of average loans in 2011. Total net charge-offs were $7.0 million in 2011, compared to $8.4 million in the prior year. There were no net charge-offs recorded for acquired loans. The acquired loans were recorded with $13.3 million in non-accretable discounts representing the expected uncollectable contractual amounts owed on acquired loans. The expected cash flows of acquired loans are evaluated quarterly.

The credit risk profile of the Company's loan portfolio is described in the Loans footnote in the consolidated financial statements. The Company's risk management process focuses primary attention on loans with higher than normal risk, which includes loans rated special mention and classified (substandard and lower). These loans are referred to as criticized loans, and criticized assets are the total of criticized loans and foreclosed real estate. The Company measures criticized and classified assets in comparison to total assets and to the sum of Tier One regulatory capital plus the loan loss allowance. Criticized assets, total assets, and capital increased as a result of the business combinations in 2011. As noted above, acquired loans were recorded at fair value, net of estimated nonaccretable credit discounts, and all acquired loans were recorded as performing. The recorded values were in line with estimates made by Berkshire during due diligence prior to negotiating the final terms of the merger agreements, and the quality and performance of acquired criticized assets has been within the range of Berkshire's expectations.

Total criticized assets were $162 million at year-end 2011, compared to $132 million at the start of the year, decreasing to 4.1% of total assets from 4.6% during the year. Compared to the sum of Tier One capital plus the loan loss allowance, criticized assets decreased to 47% from 54% during the year. This improvement included the benefit of risk rating upgrades during the year reflecting improved credit metrics on a number of commercial loans. The ratio of classified assets to the sum of Tier One capital plus the loan loss allowance decreased to 35% from 37%. Total classified assets increased to $123 million from $91 million due primarily to the acquired loans. Performing commercial substandard loans at year-end 2011 were $91 million, including $16 million in acquired loans. Excluding the acquired loans, performing commercial substandard historical loans totaled $75 million at year-end 2011, compared to $73 million at the start of the year. These loans are viewed as potential problem loans with a possibility of loss if weaknesses are not corrected. The ten largest of these loans totaled $43 million, with the largest loan having a $10 million balance and two other loans with balances over $5 million. These three loans were all commercial office and retail rental properties that were performing and not viewed as impaired.

Loan Loss Allowance. The determination of the allowance for loan losses is a critical accounting estimate. The Company's methodologies for determining the loan loss allowance are discussed in Item 1 of this report and Item 8 includes further information about the accounting policy for the loan loss allowance and the Company's accounting for the allowance in the consolidated financial statements.

The Company considers the allowance for loan losses appropriate to cover probable losses which can be reasonably estimated and which are inherent in the loan portfolio as of the balance sheet date. Under accounting standards for business combinations, acquired loans are recorded at fair value with no loan loss allowance on the date of acquisition. A loan loss allowance is recorded by the Company for the emergence of new probable and estimable losses relating to acquired loans which were not impaired as of the acquisition date. Because of the accounting for acquired loans, some measures of the loan loss allowance are not comparable to periods prior to the acquisition date.

The total amount of the loan loss allowance was $32.4 million at year-end 2011, compared to $31.9 million at the start of the year. This increase included a $0.5 million general reserve on acquired loans reflecting further seasoning and environmental factors in the second half of the year. The allowance related to historical loans measured 1.41% of historical loans (excluding acquired loans) at year-end 2011, compared to 1.49% at the start of the year. This reflected general improvement in the credit profile of historical loans during the year. Additionally, the decrease in the general allowance allocated to business loans included the impact of the Company’s additional experience and history with its asset based lending program. The loan loss allowance measured 1.10% of total loans at year-end 2011.

The specific valuation allowance assigned to impaired loans increased slightly to $2.8 million from $2.5 million during the year. Total loans deemed impaired increased to $17.4 million from $14.2 million at the start of the year. The allowance provided 4.6X coverage of net loan charge-offs in 2011 and 1.3X coverage of year-end non-performing loans.

Other Assets

The total amount of cash and short term investments increased by $31 million at year-end 2011, compared to the start of the year. This increased liquidity was being held for use in settling the $55 million in liabilities related to discontinued operations, which were sold in January, 2012.

Premises and equipment increased by $22 million in 2011, primarily due to the premises acquired in the bank acquisitions.

Goodwill increased by $41 million, including $17 million related to the Rome acquisition and $29 million related to the Legacy acquisition, less amounts related to discontinued operations. Goodwill is the difference between the fair value of consideration paid for these acquisitions and the fair value of net assets and liabilities acquired. The balance of goodwill includes goodwill related to prior acquisitions. Goodwill is analyzed annually for impairment in accordance with accounting standards, and there was no impairment charge recognized based on the most recent analysis in 2011. Other intangible assets increased by $10 million, primarily due to the fair value of the core deposit intangible assets recorded for the Rome and Legacy acquisitions. These assets are being amortized over eight - ten years based on the sum of the years digits method.

The cash surrender value of bank-owned life insurance policies increased by $29 million primarily due to policies acquired with the Rome and Legacy mergers. These policies are primarily general account policies issued by carriers rated “A” or better. Increases in the cash surrender value of these policies are recorded in non-interest income. There is no income tax expense associated with this income, which partially offsets the cost of employee benefits. In 2011, the tax equivalent yield on the average balance of these policies was approximately 6.2% compared to 5.9% in the prior year.

Total "Other assets" increased by $32 million (55%) in 2011. This included a $22 million increase in tax assets plus the addition of various receivable, prepaid, and other miscellaneous assets from the acquired banks. The total balance of the net deferred tax asset stood at $40 million at year-end 2011, including a $22 million increase during the year primarily due to the impact of deferred tax adjustments related to fair value adjustments and core deposit intangible assets recognized with the bank acquisitions. These deferred tax balances will be amortized as the related purchase accounting impacts are amortized into income in future years.

The $5 million balance of assets from discontinued operations represents loans, premises, and other assets related to the branches held for sale at year-end 2011.

Deposits. Total deposits increased by $897 million (41%) to $3.10 billion in 2011. This included $229 million in acquired Rome balances and $661 million in acquired Legacy balances and excluded $210 million in deposits transferred to discontinued operations. The acquired Rome and Legacy deposits (excluding discontinued operations) included $135 million in transaction balances, $65 million in money market balances, $225 million in savings balances, and $252 million in time account balances. As a result of acquired balances and organic activity, money market balances increased from 32% to 34% of total deposits, and time accounts decreased from 34% to 32% of the total. Transaction and savings account balances remained unchanged at 23% and 11% of total deposits, respectively.

Excluding the $677 million net total of balances related to acquisitions and divestitures, total organic deposit growth was $216 million (10%) in 2011. Most of this organic growth was in the Albany, New York region. The New York growth reflected ongoing deposit growth related to the Bank's de novo branches opened in recent years in this strategically important region. The Bank opened an additional two branches in this region in 2011. Overall organic growth was strongest in checking account balances (22%) and money market account balances (25%). Berkshire promotes these account types, which provide more relationship cross-sale opportunities. Organic deposit growth has included the contribution of growth in commercial balances related to the increased volumes of commercial business.

By emphasizing lower cost non-maturity deposits and lowering time deposit costs, the Company has reduced the cost of its deposits in order to offset the impact of lower asset yields in the current low interest rate environment. The average annualized cost of deposits decreased to 0.73% in the fourth quarter of 2011 from 1.15% in the fourth quarter of 2010. A total of $523 million in time deposits are scheduled to mature in 2012, and the weighted average cost of time deposits is expected to continue to decline based on continuing low interest rates. The average balance of total deposits increased by 33% to $2.7 billion in 2011, including the impact of the bank acquisitions during the year.

Borrowings and Debentures. Total borrowings and debentures decreased by $23 million to $237 million in 2011, as excess liquidity from deposit growth was used to pay down short-term borrowings from the Federal Home Loan Bank. At year-end 2011, Berkshire had $200 million in notional amount of interest rate swaps outstanding in relation to the $237 million in total borrowings and debentures. This notional swap amount increased from $160 million at the start of the year due to the addition of $40 million in forward starting swaps, bringing the total amount of forward starting swaps to $80 million. The average cost of borrowings (including the impact of related swaps) increased to 3.35% in the fourth quarter of 2011, compared to 2.92% in the fourth quarter of 2010. This reflected a change in the borrowings mix as a result of the repayment of low cost overnight borrowings during the year.

Derivative Financial Instruments. At year-end 2011, the Company held derivatives with a total notional amount of $578 million. Of this total, interest rate swaps with a combined notional amount of $200 million were designated as cash flow hedges and $335 million have been designated as economic hedges. The remaining $43 million notional amount represents commitments to originate residential mortgage loans for sale and commitments to sell residential mortgage loans, which are also accounted for as derivative financial instruments.

The $200 million of cash flow hedges were hedging borrowings and debentures as described above. The $335 million in economic hedges consisted principally of $160 million in total notional value of interest rate swaps with commercial customers, which were offset with back-to-back swaps with bank counterparties. This was a 17% increase over the $137 million notional value of these swaps at the start of the year. Economic hedges also included a $14 million interest rate swap on an economic development bond designated as a trading security.

The net fair value of derivative financial instruments was estimated at a net loss of $13 million at year-end 2011, compared to $11 million at the start of the year, due primarily to the impact of further decreases in market interest rates on the economic hedge of the trading security, which is offset by the improved value of the trading security. The total net loss primarily relates to $9 million in losses on the cash flow hedges due to the impact of falling interest rates on the fixed payment swap obligations. At year-end 2011, gross losses of $27 million were recorded as derivative liabilities included in other liabilities and gross gains of $14 million were recorded as derivative assets in other assets. At year-end 2011, the Company also had a $5 million unamortized balance from a terminated swap in accumulated other comprehensive income which is being amortized into earnings.

Stockholders' Equity. Total equity increased by $165 million (42%) to $553 million in 2011. Paid in capital increased by $157 million due to the merger consideration issued for the bank acquisitions. The Rome consideration was 70% stock and 30% cash, while the Legacy consideration was 90% stock and 10% cash. The cash consideration was paid from the liquid assets of the acquired companies. As a result of these acquisitions, total shares outstanding increased by 50% to 21.1 million from 14.1 million. Equity growth also included the benefit of $18 million in net income less $12 million in dividends paid. The increase in equity further included the impact of options acquired as part of the merger consideration, as well as exercises of existing outstanding stock options, and a decrease in the accumulated other comprehensive loss due to improvement in the fair value of investment securities and cash flow hedges. Tangible equity is measured as the difference between total equity and total goodwill and intangible assets. Tangible equity increased by $114 million (53%) to $330 million during the year. Tangible equity, and measures that refer to tangible equity, are non-GAAP financial measures. They are used by investors as an alternate measure of capital strength. Many regulatory capital measures also adjust equity to exclude goodwill and most intangible assets.

Capital remained strong at year-end 2011, with equity/assets improving to 13.9% from 13.5%, and tangible equity/assets improving to 8.8% from 8.0%. Book value per share decreased to $26.17 from $27.61 due to the impact of current market prices used to value merger stock consideration on the bank acquisition dates. Tangible book value per share increased by 2% to $15.60 from $15.31 during 2011.

In the fourth quarter, the Company increased its quarterly cash dividend by 6% from $0.16 per share to $0.17 per share. Compared to the year-end stock closing price of $22.19, this equated to a 3.1% annualized dividend yield. Based on the year-end stock price, the market capitalization of Berkshire's common stock was $469 million, which was a 51% increase over the $311 million market capitalization at the start of the year. Based on its high price of $24.14 on the date of the Legacy acquisition, the Company's highest market capitalization during the year was approximately $510 million.

At year-end 2011, the Bank's regulatory capital ratios exceeded the requirements to be considered "well capitalized", with the total risk-based capital ratio increasing to 11.3% from 10.6% at the start of the year. Berkshire Bank's federal regulator is the FDIC.

The Company is a savings and loan holding company and is not subject to specific regulatory capital requirements. In the third quarter of 2011, the regulation of Berkshire Hills Bancorp (the holding company) became the responsibility of the Federal Reserve Bank of Boston. The holding company's prior federal regulator, was the Office of Thrift Supervision, which was eliminated by federal legislation. Under a transition rule, the Federal Reserve Bank is expected to specify specific regulatory capital requirements for savings and loan holding companies which will become effective in 2015. The Company does not expect that there will be any material impact on its business as a result of this holding company regulatory change.

COMPARISON OF OPERATING RESULTS FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

Berkshire's results in 2011 included Rome operations acquired on April 1, 2011 and Legacy operations acquired on July 21, 2011. As a result, most categories of revenue and expense increased due to these acquisitions. Earnings per share were affected by the issuance of 7.0 million additional Berkshire common shares related to these acquisitions. All references to revenue and expense in this discussion exclude discontinued operations of Legacy branches.

Net income increased by $3.7 million (27%) to $17.6 million in 2011, compared to $13.9 million in 2010. Earnings per share decreased slightly to $0.98 from $1.00 due to the additional shares issued for the bank acquisitions. Berkshire's 2011 return on assets was 0.50% and its return on equity was 3.69%; these were little changed from the prior year measures of 0.51% and 3.62%, respectively.

Full year results were affected by the timing of the acquisitions and of merger related charges. The fourth quarter of 2011 was the first full quarter to include the operations of the acquired banks. It is therefore viewed as better reflecting the operating benefit of the bank acquisitions. Fourth quarter 2011 return on assets increased to 0.85% and return on equity increased to 6.22%. The improved fourth quarter profitability primarily reflected the benefit of positive operating leverage, with revenue growth exceeding expense growth.

In addition to absorbing the costs of business expansion, the Company has maintained a modest asset sensitive interest rate risk profile and has sacrificed higher current income in order to avoid the negative impact of potential future interest rate increases. The Company's long term objectives are to produce a return on assets exceeding 1% and a return on equity exceeding 10%. The Company is pursuing these objectives while also maintaining an asset sensitive interest rate risk profile which results in lower interest margins in the current environment, and while maintaining its ongoing investment in expansion and infrastructure development to support future revenue and earnings growth.

Results in 2011 included $10.4 million in after-tax impact from non-recurring and merger related items and discontinued operations, compared to $0.4 million for such items in the prior year. Excluding these items, recurring net income was $27.9 million ($1.56 per share) in 2011, compared to $14.2 million ($1.02 per share in the prior year). The growth in recurring earnings per share is estimated to be the benefit of positive operating leverage resulting from revenue growth and disciplined expense management, together with the accretive benefit of the Rome and Legacy acquisitions.

Berkshire refers to its recurring revenues, expenses, and income excluding the impact of these non-recurring and merger items and discontinued operations. Most of these items were directly related to the mergers of Rome and Legacy and are not ongoing operating revenue and expenses of Berkshire. Berkshire chose to acquire these banks and incur these expenses in order to benefit future income from recurring operations, and they are viewed as part of the economic investment for the acquisition of these franchises. This discussion includes reference to recurring revenue, expense, and income in analyzing 2011 results. These are not GAAP measures and are not intended to substitute for GAAP income and expense measures. Merger related items were within the range of the Company’s expectations. Merger related expenses consisted primarily of severance and benefit related costs related to the change in control of the acquired entities. Merger expenses also included professional fees and contract termination costs.

Total Net Revenue. Total net revenue increased by $36 million (33% compared to the comparable prior period measure) to a record level of $142 million in 2011. Net revenue ended the year at a fourth quarter annualized run rate of approximately $160 million, which was a 45% increase over the $110 million annualized run rate in the fourth quarter of 2010 due to the benefit of the mergers and organic growth. Net revenue per share increased by 3% to $7.93 in 2011. Fee income was 24% of net revenue in 2011, compared to 28% in the prior year, as the acquired banks had a higher reliance on net interest income as a revenue source.

Net Interest Income. Net interest income increased by $30 million (38%) to $107 million in 2011 compared to 2010, including the benefit of the bank acquisitions net of discontinued operations. The pro forma revenue analysis disclosed in Note 3 of the consolidated financial statements included components for net interest income and non-interest income. The pro forma net interest income for the combined entities was estimated to be $129 million in both 2010 and 2011, assuming that the mergers had been completed at the beginning of each of those years. Annualized fourth quarter 2011 net interest income was $124 million, which was lower than these pro forma results. This primarily reflected a 5% reduction in total earning assets to $3.5 billion at year-end 2011, compared to the $3.7 billion combined total of the three banks a year earlier. This reduction was primarily due to the impact of the $0.2 million in discontinued operations, along with the reduced use of leverage related to borrowings after the banks were combined.

The net interest margin improved to 3.57% in 2011 compared to 3.28% in 2010. The average yield on earning assets decreased to 4.61% in 2011, compared to 4.73% in the prior year, reflecting the ongoing impact of the low interest rate environment on portfolio yields and on the market interest rates assigned to acquired assets. Net interest income in 2011 included $3.2 million in net credits to interest income for accretion of net discounts on acquired loans and $2.1 million in net credits to interest expense related to the amortization of net fair value adjustments for acquired deposits and borrowings. The impact of these credits on net income was mostly offset by charges totaling $4.2 million which were recorded to intangible asset amortization expense.

In the ongoing low interest rate environment, the cost of interest bearing liabilities decreased to 1.23% in 2011 compared to 1.72% in the prior year. Additionally, the Company has maintained a close focus on the pricing of loans and deposits in order to mitigate the impact of the tighter margins in the low interest rate environment, and it has pursued strategies to increase low cost deposit funding sources. The cost of deposits decreased to 0.87% in 2011 compared to 1.28% in the prior year, and the fourth quarter 2011 cost of deposits further decreased to 0.73% reflecting these ongoing strategies.

The Company adheres to disciplines in pricing its assets and liabilities in order to maintain an appropriate net interest margin while also achieving its asset/liability objectives. The Company strives to maintain a modestly asset sensitive interest rate risk profile so that long term earnings will benefit when interest rates increase from the very low levels that have existed in the most recent years. The current low level of interest rates is generally leading to tighter interest margins in the banking industry. The Company therefore plans to continue to adjust its pricing and to pursue volume growth in conjunction with its long term net interest margin objectives.

Non-Interest Income. Non-interest income increased by $6 million (20%) to $36 million in 2011 compared to 2010. Based on the pro forma analysis noted in the consolidated financial statements, pro forma non-interest income for the combined entities was estimated to be $42 million in 2011, compared to $38 million in the prior year. Excluding gains and losses recorded by the combined banks, pro forma non-interest income was approximately $38 million in each of the years 2011 and 2010. Growth in deposit fees income helped to offset the impact of discontinued operations and lower loan fee income. The Company's total loan related fee income decreased by $0.2 million (7%) in 2011 compared to 2010 due to a $0.8 million decrease in commercial loan interest rate swap fees as a result of lower demand for fixed rate protection in the ongoing low interest rate environment. Deposit related fees increased by $2.8 million (25%) in 2011. Compared to average deposit balances, deposit fees measured 0.50% of average deposits in 2011, compared to 0.53% in the prior year, due primarily to the full year impact of the 2010 adoption of Regulation E affecting overdraft fees. Insurance fee income was flat in 2011, with certain volume gains being offset by ongoing soft insurance premium pricing conditions and lower contingency revenues. The acquired banks had no significant insurance revenues. Wealth management revenues increased by 31% primarily due to the benefit of acquired Legacy operations. Year-end total wealth and investment assets under management increased to nearly $1 billion in 2011 including the acquired Legacy portfolio.

Non-interest income includes bank owned life insurance income and losses on tax credit related equity limited partnership interests. Bank owned life insurance income is based on increases in the cash surrender value of these insurance policies, which were previously described in the Other Assets section of this discussion above. This income was $2.3 million in 2011, compared to $1.4 million in 2010, primarily reflecting the additional acquired policies from the merged banks. Losses on tax credit partnership interests totaled $1.9 million in 2011, compared to $1.4 million in 2010. These losses are more than offset by credits to current period income tax expense which are based on government programs to subsidize the related investments, which include low income housing and solar energy installations. The Company also reported $2.1 million in non-recurring gains in 2011 which primarily related to gains recorded on equity investments in Rome and Legacy which had been made prior to merger discussions as part of the Company's ongoing program to invest in common stock of regional community banks.

Provision for Loan Losses. The provision for loan losses is a charge to earnings in an amount sufficient to maintain the allowance for loan losses at a level deemed adequate by the Company. The level of the allowance is a critical accounting estimate, which is subject to uncertainty. The level of the allowance was included in the discussion of financial condition. The provision for loan losses totaled $8 million in 2011, compared to $9 million in 2010. The provision for loan losses exceeded net loan charge-offs in both years, and resulted in an increase in the allowance for loan losses that was generally related to loan growth.

Non-Interest Expense. Total non-interest expense increased by $34 million (42%) to $116 million in 2011 compared to 2010. Most categories of non-interest expense increased as a result of the Rome and Legacy acquisitions in 2011. Non-interest expense in 2011 included $20 million in non-recurring and merger related expenses which were previously described in this discussion of operating results. These expenses included $9 million in compensation and severance related expenses, $5 million in professional services, and $3 million in premises related charges, together with accruals for systems conversion costs. Excluding these items, recurring non-interest expense increased by $15 million (18%). Berkshire estimated that by year-end 2011, it had achieved its targeted recurring non-interest expense savings of 35% related to Rome operations and 42% related to Legacy operations.

By holding recurring expense growth below revenue growth, Berkshire produced positive operating leverage and improved recurring profitability. As was previously noted, expense growth in 2011 included the impact of investments in business expansion, including new branches, and targeted resource additions in certain business lines and infrastructure development. The Company measures its recurring non-interest expense in relation to total assets. The comparison of recurring non-interest expense to average assets is a non-GAAP financial measure intended to provide further information about the efficiency of ongoing operations. Fourth quarter annualized recurring non-interest expense measured 2.60% of average assets in 2011, compared to 2.97% in 2010. Full-time equivalent employees totaled 760 at year-end 2011 (excluding staff related to discontinued operations), an increase of 161 compared to 599 at year-end 2010. Full-time equivalent employees of Rome and Legacy totaled 270 at year-end 2010.

At the beginning of the second quarter, the FDIC implemented new banking industry deposit insurance assessment rates and formulas. This change reduced FDIC insurance expense, which measured 0.12% of average deposits in 2011, compared to 0.17% in 2010. Expense of other real estate owned increased in 2011 primarily due to write-downs of foreclosed real estate. Amortization of intangible assets increased due primarily to the core deposit intangibles recorded for the bank acquisitions.

Income from Continuing Operations. Income from continuing operations increased by $3 million (20%) to $17 million in 2011 compared to 2010. The effective tax rate on income from continuing operations was 11% in 2011 compared to 16% in 2010. As discussed in the consolidated financial statements, results in 2011 and prior years included the impact of an accounting error correction related to the tax credit limited partnerships which was not material to the financial statements. This tax credit, which equated to a 7% effective credit to the 2011 effective tax rate, was previously reported as a component of non-interest income. Before this credit, the effective tax rate from continuing operations was 18% in 2011 compared to 21% in 2010. The decrease in 2011 reflects the benefit of non-taxable gains on the Rome and Legacy acquisitions.

Income from Discontinued Operations. Income from discontinued operations was $914 thousand in 2011. Discontinued operations related to branches held for divestiture in the second half of 2011. Four of these branches were divested in the fourth quarter and the remaining four were divested in January 2012. The divestiture in 2011 resulted in a $4.9 million pre-tax gain. The tax rate on discontinued operations was 80% due to the non-deductibility of goodwill for income tax purposes in determining the taxable gain on divestiture. Primarily as a result of this higher tax rate on discontinued operations, the effective tax rate on total continuing and discontinued operations increased to 25% in 2011 from 16% in prior year.

Results of Segment and Parent Operations. Berkshire Hills Bancorp ("the Parent") has two subsidiary operating segments – banking and insurance. Results in the banking segment generally followed the levels and trends of consolidated results, which have been previously discussed. In the insurance segment, revenues decreased by 1% due to ongoing soft pricing conditions and reduced contingency fees in the industry. Expenses decreased by 7%, and as a result, insurance segment net income increased by 28%. The Parent's net interest income included dividends from the insurance segment. Parent non-interest expense increased due primarily to professional fees related to the bank acquisitions. Most of the parent's revenues are non-taxable revenues from subsidiaries, and the Parent therefore receives a tax benefit related to the taxable loss generated by its expenses.

Total Comprehensive Income. Total comprehensive income includes net income together with other net comprehensive income (loss). The latter measures changes in accumulated other comprehensive (loss) income, which consist of changes (after-tax) in the unrealized market gains and losses on securities available for sale and the net gain (loss) on derivative instruments used as cash flow hedges, including a terminated hedge. The Company recorded comprehensive income of $19 million due primarily to $18 million in net income discussed previously. Comprehensive income in 2010 was $10 million, including net income of $14 million which was partially offset by an other comprehensive loss relating to unrealized losses on derivatives instruments due to ongoing low interest rates.

COMPARISON OF OPERATING RESULTS FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

Summary. The Company recorded earnings of $14 million in 2010, compared to a loss of $16 million in 2009. Results in 2009 included a $48 million provision for loan losses, which decreased to $9 million in 2010. The loan loss provision in 2009 included the results of a fourth quarter loan initiative undertaken by management resulting in a comprehensive loan review to assess the impacts of the recession and to take actions to reduce current and future risk.

On a per share basis, the Company recorded earnings of $1.00 per share in 2010 compared to a loss of $1.51 in 2009. In 2009, per share results were impacted by preferred dividends in the first half of the year, which reduced income available to common shareholders by $0.30 per share.

Financial highlights in 2010 included: 13% net revenue growth; 11% net interest income growth; 6% fee income growth; 9% loan growth; 11% deposit growth; and 4% expense growth including costs of business expansion

Reflecting the improved earnings, the return on assets was 0.51% and the return on average common equity was 3.62% in 2010. In addition to absorbing the costs of business expansion, the Company maintained a modest asset sensitive interest rate risk profile and sacrificed higher current income in order to avoid the negative impact of anticipated future interest rate increases.

Total Net Revenue. The Company achieved $107 million total of net revenue in 2010. The record net revenue in 2010 was due to record net interest income totaling $77 million. Net revenue per share increased by 7% to $7.68 in 2010 from $7.19 in the prior year. Fee income was 28% of total net revenue in 2010, down slightly from 30% in the prior year.

Net Interest Income. Net interest income increased by $7 million (11%) to $77 million in 2010. Most of this increase was due to an improvement in the net interest margin to 3.28% in 2010 from 3.00% in 2009. Additionally, net interest income benefited from a 2% increase in average earning assets resulting from the 2% increase in average loans. The improvement in the net interest margin resulted largely from the Company's strategies to reduce funding costs and included the benefit of prepayments made at the end of 2009 on certain borrowings. Both asset yields and funding costs decreased during the year due to the effects of the ongoing low interest rate environment. Funding costs were reduced at a greater rate, and both deposit and borrowings costs declined during the year. This produced a steady improvement in the net interest margin from 3.05% in the fourth quarter of 2009 to 3.30% in the final two quarters of 2010. At the start of 2010, the Company's interest rate model indicated that the margin would be under further pressure if interest rates did not increase in 2010. The Company undertook various initiatives previously described to offset this margin pressure and to increase the net interest margin towards its long term goal of 3.50%.

Non-Interest Income. Non-interest income increased by $5 million (18%) to $30 million in 2010 due to a similar increase in fee income. A $2 million increase in loan fee income included increases in net residential mortgage loan sale income, mortgage servicing income, and commercial lending fees. Total deposit related fees increased by $1 million (7%) in 2010 due primarily to higher business volumes. Amendments to Regulation E requiring customer opt-in for eligibility for certain overdraft privileges became effective in the third quarter of 2010 for all banks. The Company aggressively solicited checking account customers to obtain opt-ins in order to minimize the potential negative impact on overdraft volume and fee income, with more than 80% of solicited accounts choosing the opt-in. Additionally, the Company made other changes to its checking account offerings. The fourth quarter of 2010 was the first complete quarter following the implementation of this regulatory change. Total checking and related fee income was flat in the fourth quarter of 2010 compared to 2009, reflecting the Company's strategy to avoid any negative income impact from this regulatory change. Insurance fee income decreased by $1 million (9%) due primarily to lower contingency fee income, as well as lower premium income, related to the soft pricing and profitability conditions in the property casualty insurance business. Insurance results also include the impact of lower premium volumes as a result of the recession and competitive auto insurance conditions, which was partially offset by growth in commercial insurance accounts in 2010. In the fourth quarter of the year, insurance premium income increased by 8% over the prior year comparable period, reflecting improved business conditions in the most recent period. For the year 2010, wealth management income decreased by 7% due to competitive factors. The decrease in all other non-interest income was primarily due to decreased losses on tax credit limited partnership interests, which are offset by credits to income tax expense. In 2009, the $1 million charge for non-recurring non-interest income items included prepayment fees, a swap termination gain, and a credit for a merger termination fee.

Provision for Loan Losses. The provision for loan losses totaled $9 million in 2010, compared to $48 million in 2009. In 2010, the provision for loan losses slightly exceeded total net loan charge-offs for the year. The level and trend of most asset quality indicators remained favorable throughout 2010. There was no material change in the balance of the loan loss allowance. Reflecting the improved credit characteristics of the loan portfolio, the ratio of the allowance to total loans decreased to 1.49% in 2010, compared to 1.62% at the start of the year.

Non-Interest Expense and Income Tax Expense. Total non-interest expense increased by $3 million (4%) in 2010 compared to 2009. By holding expense growth below revenue growth, the Company produced positive operating leverage. which contributed to the 55% increase in pre-tax pre-provision earnings from year to year. As was previously noted, expense growth in 2010 included the impact of investments in business expansion, including new business lines, new branches, and targeted resource additions in certain business lines and infrastructure development. The Company measures its recurring non-interest expense in relation to total assets. Compared to average assets, this measure increased to 2.97% in 2010 from 2.93% in the prior year. However, most asset growth was in the second half of the year, and compared to year-end assets, this measure declined to 2.82% from 2.89%.

The increase in non-interest expense in 2010 resulted from a $6 million (15%) increase in compensation related expense, which was partially offset by decreases of $1 million (21%) in marketing and professional services and $1 million (25%) in FDIC insurance expense. All other total non-interest expenses were flat from year-to-year. In addition to business growth, compensation related expense in 2010 included a $2 million increase for the restoration of incentive compensation, which was substantially eliminated in 2009 due to the operating loss. Additionally, 2010 compensation related expense included $2 million related to severance charges and a decrease in compensation cost credited against expense and charged against loan sales income due to the mortgage refinancing wave in 2009. Excluding the above items, all other compensation related expense increased by $2 million, which was equivalent to a 4% increase over 2009 total compensation related expense. The Company had 599 full time equivalent employees at year-end 2010, compared to 622 at the end of 2009.

The $1 million decrease in marketing and professional fees was due to the higher professional fees in 2009 related to strategic initiatives undertaken in the fourth quarter of that year. The $1 million decrease in FDIC insurance expense was due to a special assessment levied in 2009 on all banks based on their size. Non-recurring expense in 2010 consisted of charges related to the pending merger agreements with Rome Bancorp and Legacy Bancorp. Nonrecurring expense in 2009 included costs associated with the terminated merger agreement with CNB Financial Corp. and other charges related to operational restructurings together with a legal settlement related charge.

The Company’s effective income tax rate was 16% in 2010 and included the proportionately greater benefit of tax exempt income on investment securities and other tax preference items compared to total pre-tax income. The Company recorded a $16 million income tax benefit in 2009, measuring 49% of the pre-tax loss.

Results of Segment and Parent Operations. Results in the banking segment generally followed the levels and trends of consolidated results, which have been previously discussed. In the insurance segment, revenues declined by 9% as a result of non-interest income changes previously discussed. Due to re-engineering of the operations in this segment, non-interest expenses decreased by 8% in 2010. Insurance segment earnings decreased by 9%. Fourth quarter insurance revenues increased by 8% in 2010 compared to 2009, and the Company expected improved non-contingency income in the future due to improved market conditions and business development. The parent did not receive dividends from subsidiaries in 2010; the parent had $13 million in cash on deposit at the Bank at year-end 2010. The charge to non-interest income for the parent in 2010 represented interest on the trust preferred securities and non-interest expense included $0.4 million in charges related to the pending merger agreements with Rome

Bancorp and Legacy Bancorp.

Comprehensive (Loss) Income. Comprehensive (loss) income is a component of total stockholders' equity on the balance sheet. It includes changes in accumulated other comprehensive (loss) income, which consist of changes (after-tax) in the unrealized market gains and losses on securities available for sale and the net gain (loss) on derivative instruments used as cash flow hedges, including a terminated hedge. The Company recorded comprehensive income of $10 million in 2010, compared to a comprehensive loss of $7 million in 2009. In 2010, net income of $14 million was partially offset by an other comprehensive loss relating to unrealized losses on derivatives instruments due to ongoing low interest rates. In 2009, the $16 million operating loss was partially offset by unrealized gains in the prices of securities and derivatives instruments. These results reflected the impact on interest rates and market prices of the financial turmoil in the second half of 2008 and the partial recovery to more normalized market conditions in 2009.

Average Balances, Interest and Average Yields/Cost

The following table presents an analysis of average rates and yields on a fully taxable equivalent basis for the years presented. Tax exempt interest revenue is shown on a tax-equivalent basis for proper comparison using a statutory federal income tax rate of 35%.

Item 7-7A - Table 1 - Average Balance and Weighted Average Interest Rates

	2011				2010				2009			
(Dollars in millions)	Average Balance	Interest	Average Yield/ Rate		Average Balance	Interest	Average Yield/ Rate		Average Balance	Interest	Average Yield/ Rate	
Interest-earning assets:												
Loans:												
Residential Loans	$876.1	$42.5	4.85	%	$633.6	$32.9	5.19	%	$642.9	$34.7	5.40	%
Commercial Mortgages	1,058.0	52.9	5.00		881.9	43.3	4.91		829.3	42.3	5.10	
Commercial Business Loans	344.3	16.5	4.79		204.0	10.5	5.15		177.8	10.0	5.62	
Consumer Loans	336.7	13.4	3.98		299.9	11.7	3.90		332.5	14.7	4.42	
Total Loans	2,615.1	125.3	4.79		2,019.4	98.4	4.87		1,982.5	101.7	5.13	
Investment securities (2)	444.9	16.5	3.71		403.5	16.7	4.14		368.5	16.0	4.34	
Federal funds sold and short-term investments	14.7	-	0.11		11.4	-	0.14		42.1	0.1	0.24	
Total interest-earning assets	3,074.7	141.8	4.61		2,434.3	115.1	4.73		2,393.1	117.8	4.92	
Intangible assets	207.5				174.5				177.6			
Other non-interest earning assets	201.8				134.2				112.2			
Total assets	$3,484.0				$2,743.0				$2,682.9			
Interest-bearing liabilities:												
Deposits:												
NOW accounts	$244.2	$0.9	0.37	%	$199.3	$0.7	0.4	%	$188.2	$0.8	0.43	%
Money market accounts	833.3	5.6	0.67		597.3	5.6	0.94		499.6	6.4	1.28	
Savings accounts	369.6	0.8	0.22		224.3	0.6	0.27		212.3	0.7	0.33	
Certificates of deposit	902.6	16.3	1.81		749.2	19.4	2.59		777.1	24.7	3.18	
Total interest-bearing deposits	2,349.7	23.6	1.00		1,770.1	26.3	1.49		1,677.2	32.6	1.94	
Borrowings and debentures	250.4	8.4	3.35		282.0	9.0	3.19		312.9	13.3	4.25	
	2,600.1	32.0	1.23		2,052.1	35.3	1.72		1,990.1	45.9	2.31	

Total interest-bearing liabilities			
Deposits:			
deposits	377.9	279.1	256.4
Other non-interest-bearing liabilities	29.8	28.7	24.2
Total liabilities	3,007.8	2,359.9	2,270.7
Equity	476.2	383.1	412.2
Total liabilities and equity	$3,484.0	$2,743.0	$2,682.9
Net interest-earning assets	$474.6	$382.2	$403.0
Net interest income	109.8	79.8	71.9
Supplementary data			
Total non-maturity deposits	$1,825.0	$1,300.0	$1,156.5
Total deposits	2,727.6	2,049.2	1,933.6
Fully taxable equivalent adjustment	2.7	2.8	2.3
Interest rate spread	3.38 %	3.01 %	2.61 %
Net interest margin	3.57	3.28	3.00
Cost of funds	1.08	1.52	2.04
Cost of deposits	0.87	1.28	1.69
Interest-earning assets/interest-bearing liabilities	118.25	118.62	120.25

Notes:

(1) The average balances of loans includes nonaccrual loans, loans held for sale, and deferred fees and costs.
(2) The average balance of investment securities is based on amortized cost. The average balance of equity also reflects this adjustment.
(3) The above schedule includes balances associated with discontinued operations.

Rate/Volume Analysis

The following table presents the effects of rate and volume changes on the fully taxable equivalent net interest income. Tax exempt interest revenue is shown on a tax-equivalent basis for proper comparison using a statutory, federal income tax rate of 35%. For each category of interest-earning assets and interest-bearing liabilities, information is provided with respect to changes attributable to (1) changes in rate (change in rate multiplied by prior year volume), (2) changes in volume (change in volume multiplied by prior year rate) and (3) changes in volume/rate (change in rate multiplied by change in volume) have been allocated proportionately based on the absolute value of the change due to the rate and the change due to volume.

Item 7-7A - Table 2 - Rate Volume Analysis

	2011 Compared with 2010 Increase (Decrease) Due to			2010 Compared with 2009 Increase (Decrease) Due to		
(In thousands)	Rate	Volume	Net	Rate	Volume	Net
Interest income:						
Residential Loans	$(2,262)	$11,879	$9,617	$(1,341)	$(498)	$(1,839)
Commercial Mortgage Loans	861	8,796	9,657	(1,643)	2,620	977
Commercial Business Loans	(817)	6,764	5,947	(867)	1,397	530
Consumer Loans	232	1,457	1,689	(1,647)	(1,367)	(3,014)
Total Loans	(1,986)	28,896	26,910	(5,497)	2,151	(3,346)
Investment securities	(1,826)	1,626	(200)	(773)	1,466	693
Short-term investments	(4)	4	-	(47)	(53)	(100)
Total interest income	(3,816)	30,526	26,710	(6,316)	3,563	(2,753)
Interest expense:						
NOW accounts	62	169	231	(137)	45	(92)
Money market accounts	(1,774)	1,842	68	(1,945)	1,109	(836)
Savings accounts	(98)	333	235	(154)	38	(116)
Certificates of deposit	(6,660)	3,492	(3,168)	(4,395)	(859)	(5,254)
Total deposits	(8,470)	5,836	(2,634)	(6,631)	333	(6,298)
Borrowings	400	(1,045)	(645)	(3,032)	(1,220)	(4,252)
Total interest expense	(8,070)	4,791	(3,279)	(9,663)	(887)	(10,550)
Change in net interest income	$4,254	$25,735	$29,989	$3,347	$4,450	