

BERKSHIRE HILLS BANCORP INC
Form 10-Q
May 12, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2008
OR

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 0-51584

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)

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

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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 No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See 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

Non-Accelerated Filer

Smaller Reporting Company

(Do not check if a smaller reporting company)

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

The Registrant had 10,474,005 shares of common stock, par value \$0.01 per share, outstanding as of May 5, 2008.

- 1 -

BERKSHIRE HILLS BANCORP, INC.
FORM 10-Q

INDEX

	Page
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1. Consolidated Financial Statements (unaudited)</u>	
<u>Consolidated Balance Sheets as of March 31, 2008 and December 31, 2007</u>	3
<u>Consolidated Statements of Income for the Three Months Ended March 31, 2008 and 2007</u>	4
<u>Consolidated Statements of Changes in Stockholders' Equity for the Three Months Ended March 31, 2008 and 2007</u>	5
<u>Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2008 and 2007</u>	6
<u>Notes to Consolidated Financial Statements</u>	7
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	17
<u>Selected Financial Data</u>	19
<u>Average Balances and Average Yields/Rate</u>	20
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	24
<u>Item 4. Controls and Procedures</u>	24
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	25
<u>Item 1A. Risk Factors</u>	25
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	25
<u>Item 3. Defaults Upon Senior Securities</u>	25
<u>Item 4. Submission of Matters to a Vote of Security Holders</u>	25
<u>Item 5. Other Information</u>	26
<u>Item 6. Exhibits</u>	26
<u>Signatures</u>	27

Index

PART I

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

BERKSHIRE HILLS BANCORP, INC.
CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)	March 31, 2008	December 31, 2007
Assets		
Total cash and cash equivalents	\$ 31,747	\$ 33,259
Federal funds sold and short-term investments	51,838	7,883
Securities available for sale, at fair value	200,980	197,964
Securities held to maturity, at amortized cost	39,626	39,456
Federal Home Loan Bank stock	21,077	21,077
Loans held for sale	2,913	3,445
Residential mortgages	655,184	657,045
Commercial mortgages	718,318	704,764
Commercial business loans	200,048	203,564
Consumer loans	361,635	378,643
Total loans	1,935,185	1,944,016
Less: Allowance for loan losses	(22,130)	(22,116)
Net loans	1,913,055	1,921,900
Premises and equipment, net	38,489	38,806
Goodwill	162,000	161,632
Other intangible assets	20,398	20,820
Cash surrender value of life insurance policies	34,516	35,316
Other assets	29,744	31,874
Total assets	\$ 2,546,383	\$ 2,513,432
Liabilities and Stockholders' Equity		
Liabilities		
Demand deposits	\$ 224,471	\$ 231,994
NOW deposits	208,913	213,150
Money market deposits	514,586	439,341
Savings deposits	213,054	210,186
Total non-maturity deposits	1,161,024	1,094,671
Brokered time deposits	21,446	21,497
Other time deposits	697,633	706,395
Total time deposits	719,079	727,892
Total deposits	1,880,103	1,822,563
Borrowings	308,283	334,474
Junior subordinated debentures	15,464	15,464
Other liabilities	13,792	14,094
Total liabilities	2,217,642	2,186,595

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Stockholders' equity		
Preferred stock (\$.01 par value; 1,000,000 shares authorized; none issued)	-	-
Common stock (\$.01 par value; 26,000,000 shares authorized; 12,513,825 shares issued)	125	125
Additional paid-in capital	265,883	266,134
Unearned compensation	(2,967)	(2,009)
Retained earnings	117,588	113,387
Accumulated other comprehensive income	200	1,217
Treasury stock, at cost (2,039,253 shares at March 31, 2008 and 2,021,120 at December 31, 2007)	(52,088)	(52,017)
Total stockholders' equity	328,741	326,837
Total liabilities and stockholders' equity	\$ 2,546,383	\$ 2,513,432

See accompanying notes to consolidated financial statements.

- 3 -

Index

BERKSHIRE HILLS BANCORP, INC.
CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)	Three Months Ended March 31,	
	2008	2007
Interest and dividend income		
Loans	\$ 31,323	\$ 28,522
Securities and other	3,200	2,948
Total interest and dividend income	34,523	31,470
Interest expense		
Deposits	12,288	11,949
Borrowings and junior subordinated debentures	3,941	4,331
Total interest expense	16,229	16,280
Net interest income	18,294	15,190
Non-interest income		
Insurance commissions and fees	5,146	4,991
Deposit service fees	2,155	1,514
Wealth management fees	1,628	919
Loan service fees	237	309
Total fee income	9,166	7,733
Gain on sale of securities, net	-	81
Other	306	423
Total non-interest income	9,472	8,237
Total net revenue	27,766	23,427
Provision for loan losses	825	750
Non-interest expense		
Salaries and employee benefits	9,656	8,511
Occupancy and equipment	2,968	2,486
Marketing, data processing, and professional services	2,121	1,947
Non-recurring expenses	-	153
Amortization of intangible assets	1,084	662
Other	2,245	1,650
Total non-interest expense	18,074	15,409
Income before income taxes	8,867	7,268
Income tax expense	2,818	2,326
Net income	\$ 6,049	\$ 4,942
Basic earnings per share	\$ 0.58	\$ 0.57
Diluted earnings per share	\$ 0.58	\$ 0.56
Average shares outstanding		
Basic	10,386	8,662
Diluted	10,457	8,842

See accompanying notes to consolidated financial statements.

Index

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

(In thousands)	Three Months Ended March	
	2008	2007
Total stockholders' equity at beginning of period	\$ 326,837	\$ 258,161
Comprehensive income:		
Net income	6,049	4,942
Net unrealized gain on securities available-for-sale, net of reclassification adjustments and tax effects	866	154
Net (loss) gain on derivative instruments	(1,882)	3
Total comprehensive income	5,033	5,099
Cash dividends declared (\$0.15 per share for 2008 and \$0.14 per share for 2007)	(1,574)	(1,220)
Treasury stock purchased	(2,596)	(378)
Exercise of stock options	975	1,078
Issuance of restricted stock awards	1,375	979
Stock-based compensation	409	196
Tax loss from stock compensation	(69)	-
Other equity changes, net	(1,649)	(828)
Total stockholders' equity at end of period	\$ 328,741	\$ 263,087

See accompanying notes to consolidated financial statements.

Index

BERKSHIRE HILLS BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	Three Months Ended March 31,	
	2008	2007
Cash flows from operating activities:		
Net income	\$ 6,049	\$ 4,942
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	825	750
Depreciation, amortization, and deferrals, net	2,093	1,361
Stock-based compensation	409	346
Increase in cash surrender value of bank-owned life insurance policies	(303)	(241)
Net gains on sales of securities and loans, net	-	(81)
Net change in loans held for sale	532	-
Loss from sale of premises	14	-
Writedowns of other real estate owned	100	-
Excess tax effects from stock-based payment arrangements	69	-
Net change in all other assets	2,754	(1,606)
Net change in other liabilities	(4,080)	(302)
Net cash provided by operating activities	8,462	5,169
Cash flows from investing activities:		
Sales of securities available for sale	2,439	2,046
Payments on securities available for sale	6,209	11,383
Purchases of securities available for sale	(10,316)	(10,019)
Payments on securities held to maturity	3,468	2,977
Purchases of securities held to maturity	(3,639)	(1,161)
Decrease (Increase) in loans, net	8,020	(31,366)
Proceeds from surrender of life insurance	1,103	-
Proceeds from sale of premises	60	-
Payment for acquired business	(1,030)	-
Capital expenditures	(719)	(2,234)
Total net cash provided (used) by investing activities	5,595	(28,374)
Cash flows from financing activities:		
Net increase in deposits	57,540	13,674
Proceeds from Federal Home Loan Bank advances	95,000	74,325
Repayments of Federal Home Loan Bank advances and other borrowings	(121,191)	(62,692)
Repayment of bank note	-	(5,000)
Treasury stock purchased	(2,295)	(378)
Proceeds from reissuance of treasury stock	975	1,078
Excess tax effects from stock-based payment arrangements	(69)	-
Cash dividends paid	(1,574)	(1,220)
Net cash provided by financing activities	28,386	19,787
Net change in cash and cash equivalents	42,443	(3,418)
Cash and cash equivalents at beginning of period	41,142	30,985
Cash and cash equivalents at end of period	\$ 83,585	\$ 27,567

Supplemental cash flow information:

Interest paid on deposits	\$	11,387	\$	11,994
Interest paid on borrowed funds		3,981		4,319
Income taxes (refunded) paid, net		(267)		871

See accompanying notes to consolidated financial statements.

- 6 -

Index

BERKSHIRE HILLS BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

Basis of Presentation and Consolidation, and Use of Estimates

The consolidated financial statements include the accounts of Berkshire Hills Bancorp, Inc. ("Berkshire" or the "Company") and its wholly-owned subsidiaries: Berkshire Bank (the "Bank") and Berkshire Insurance Group, but exclude its wholly-owned subsidiary Berkshire Hills Capital Trust I, which is accounted for using the equity method. The consolidated financial statements and notes thereto have been prepared in conformity with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. All significant intercompany transactions have been eliminated in consolidation. The results of operations for the three months ended March 31, 2008 are not necessarily indicative of the results which may be expected for the year.

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, as of the date of the consolidated financial statements, and the reported amounts of revenues and expenses for the periods presented. Actual results could differ from those estimates. Material estimates that are susceptible to near-term changes include the determination of the allowance for loan losses, tax related assets and liabilities, and the carrying value of goodwill and other intangible assets. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in Berkshire's Annual Report on Form 10-K for the year ended December 31, 2007.

Business

Through its wholly-owned subsidiaries, the Company provides a variety of financial services to individuals, municipalities and businesses through its offices in Western Massachusetts, Northeastern New York and Southern Vermont. Its primary deposit products are checking, NOW, money market, savings, and time deposit accounts. Its primary lending products are residential mortgages, commercial mortgages, commercial business loans and consumer loans. The Company offers electronic banking, cash management, and other transaction and reporting services. The Company offers wealth management services including trust, financial planning, and investment services. The Company is the agent for complete lines of property and casualty, life, disability, and health insurance.

Acquisitions

In January 2008, the Company acquired the Center for Financial Planning ("CFP") in Albany, New York. This acquisition will provide a foundation for the Bank's New York region wealth management and investment services. The acquisition was accounted for as a purchase transaction with all cash consideration funded through internal sources. The operating results of CFP are included with the Company's results of operations since the date of acquisition. The purchase of CFP did not significantly impact the Company's consolidated financial statements.

On September 21, 2007, the Company completed its acquisition of Factory Point Bancorp, Inc. and its subsidiary, Factory Point National Bank of Manchester Center, Vermont (collectively "Factory Point") for \$79.4 million, including the assumption of Factory Point stock options. Under the terms of the agreement, the Company issued 1,913,353 shares of the Company's common stock and paid \$16.0 million in cash in exchange for all outstanding Factory Point

shares and also assumed all outstanding Factory Point stock options. Concurrent with the merger of Berkshire Hills Bancorp and Factory Point Bancorp, the Bank and Factory Point National Bank merged with the Bank surviving. The operating results of Factory Point included with the Company's results of operations since the date of acquisition. See footnote 2 in Berkshire's Annual Report on Form 10-K for the year ended December 31, 2007 for additional information on this acquisition.

Index

BERKSHIRE HILLS BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Earnings Per Common Share

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

(In thousands, except per share data)	Three Months Ended March 31,	
	2008	2007
Net income applicable to common stock	\$ 6,049	\$ 4,942
Average number of common shares outstanding	10,506	8,752
Less: average number of unvested stock award shares	(120)	(90)
Average number of basic shares outstanding	10,386	8,662
Plus: average number of dilutive unvested stock award shares	7	90
Plus: average number of dilutive shares based on stock options	64	90
Average number of diluted shares outstanding	10,457	8,842
Basic earnings per share	\$ 0.58	\$ 0.57
Diluted earnings per share	\$ 0.58	\$ 0.56

There were 100,000 stock awards and 16,000 stock options that were anti-dilutive for the quarter ended 2008 and excluded from the total number of dilutive shares.

Recent Accounting Pronouncements

Statements of Financial Accounting Standards

SFAS No. 141, "Business Combinations (Revised 2007)." SFAS 141R replaces SFAS 141, "Business Combinations," and applies to all transactions and other events in which one entity obtains control over one or more other businesses. SFAS 141R requires an acquirer, upon initially obtaining control of another entity, to recognize the assets, liabilities and any non-controlling interest in the acquiree at fair value as of the acquisition date. Contingent consideration is required to be recognized and measured at fair value on the date of acquisition rather than at a later date when the amount of that consideration may be determinable beyond a reasonable doubt. This fair value approach replaces the cost-allocation process required under SFAS 141 whereby the cost of an acquisition was allocated to the individual assets acquired and liabilities assumed based on their estimated fair value. SFAS 141R requires acquirers to expense acquisition-related costs as incurred rather than allocating such costs to the assets acquired and liabilities assumed, as was previously the case under SFAS 141. Under SFAS 141R, the requirements of SFAS 146, "Accounting for Costs Associated with Exit or Disposal Activities," would have to be met in order to accrue for a restructuring plan in purchase accounting. Pre-acquisition contingencies are to be recognized at fair value, unless it is a non-contractual contingency that is not likely to materialize, in which case, nothing should be recognized in purchase accounting and, instead, that contingency would be subject to the probable and estimable recognition criteria of SFAS 5, "Accounting for Contingencies." SFAS 141R is expected to have a significant impact on the Company's accounting for business combinations closing on or after January 1, 2009.

Index

BERKSHIRE HILLS BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SFAS No. 157, "Fair Value Measurements." SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements (see Note 10 - Fair Value Measurements).

SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities-Including an amendment of FASB Statement No. 115." SFAS 159 permits entities to choose to measure eligible items at fair value at specified election dates (see Note 10 - Fair Value Measurements).

SFAS No. 160, "Noncontrolling Interest in Consolidated Financial Statements, an amendment of ARB Statement No. 51." SFAS 160 amends Accounting Research Bulletin (ARB) No. 51, "Consolidated Financial Statements," to establish accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 clarifies that a non-controlling interest in a subsidiary, which is sometimes referred to as minority interest, is an ownership interest in the consolidated entity that should be reported as a component of equity in the consolidated financial statements. Among other requirements, SFAS 160 requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the non-controlling interest. It also requires disclosure, on the face of the consolidated income statement, of the amounts of consolidated net income attributable to the parent and to the non-controlling interest. SFAS 160 is effective for the Company on January 1, 2009 and is not expected to have a significant impact on the Company's financial statements.

SFAS No. 161, "Disclosures About Derivative Instruments and Hedging Activities, an Amendment of FASB Statement No. 133." SFAS 161 amends SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," to amend and expand the disclosure requirements of SFAS 133 to provide greater transparency about (i) how and why an entity uses derivative instruments, (ii) how derivative instruments and related hedge items are accounted for under SFAS 133 and its related interpretations, and (iii) how derivative instruments and related hedged items affect an entity's financial position, results of operations and cash flows. To meet those objectives, SFAS 161 requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of gains and losses on derivative instruments and disclosures about credit-risk-related contingent features in derivative agreements. SFAS 161 is effective for the Company on January 1, 2009 and is not expected to have a significant impact on the Company's financial statements.

SEC Staff Accounting Bulletins

SAB No. 109, "Written Loan Commitments Recorded at Fair Value Through Earnings." SAB No. 109 supersedes SAB 105, "Application of Accounting Principles to Loan Commitments," and indicates that the expected net future cash flows related to the associated servicing of the loan should be included in the measurement of all written loan commitments that are accounted for at fair value through earnings. The guidance in SAB 109 became effective on January 1, 2008 and did not have a material impact on the Company's financial statements.

Index

BERKSHIRE HILLS BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. SECURITIES

A summary of securities follows:

(In thousands)	Amortized Cost	Fair Value
March 31, 2008		
Securities Available for Sale		
Debt securities:		
U.S. Government agencies	\$ 2,539	\$ 2,559
Municipal bonds and obligations	71,353	73,024
Federal Agency mortgage-backed securities	105,249	107,319
Other bonds and obligations	15,582	14,992
Total debt securities	194,723	197,894
Equity securities	2,984	3,086
Total securities available for sale	197,707	200,980
Securities Held to Maturity		
Municipal bonds and obligations	38,575	38,822
Mortgage-backed securities	1,051	1,054
Total securities held to maturity	39,626	39,876
Total securities	\$ 237,333	\$ 240,856
December 31, 2007		
Securities Available for Sale		
Debt securities:		
Municipal bonds and obligations	\$ 74,223	\$ 75,186
Mortgage-backed securities	103,387	104,518
Other bonds and obligations	15,601	15,265
Total debt securities	193,211	194,969
Total equity securities	2,836	2,995
Total securities available for sale	196,047	197,964
Securities Held to Maturity		
Municipal bonds and obligations	36,981	37,233
Mortgage-backed securities	2,475	2,456
Total securities held to maturity	39,456	39,689
Total securities	\$ 235,503	\$ 237,653

Index

BERKSHIRE HILLS BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. LOANS

Loans consist of the following:

(Dollars in millions)	March 31, 2008	December 31, 2007
Residential mortgages:		
1 - 4 Family	\$ 609	\$ 610
Construction	46	47
Total residential mortgages	655	657
Commercial mortgages:		
Construction	130	125
Single and multi-family	79	69
Other commercial mortgages	509	510
Total commercial mortgages	718	704
Commercial business loans	200	204
Total commercial loans	918	908
Consumer loans:		
Auto	181	197
Home equity and other	181	182
Total consumer loans	362	379
Total loans	\$ 1,935	\$ 1,944

4. LOAN LOSS ALLOWANCE

Activity in the allowance for loan losses is as follows:

(In thousands)	Three Months Ended March 31,	
	2008	2007
Balance at beginning of period	\$ 22,116	\$ 19,370
Provision for loan losses	825	750
Loans charged-off	(883)	(627)
Recoveries	72	159
Balance at end of period	\$ 22,130	\$ 19,652

Index

BERKSHIRE HILLS BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. DEPOSITS

A summary of period-end time deposits is as follows:

(Dollars in millions)	March 31, 2008 Balance	December 31, 2007 Balance
Time less than \$100,000	\$ 401	\$ 409
Time \$100,000 or more	297	298
Brokered time	21	21
Total time deposits	\$ 719	\$ 728

6. REGULATORY CAPITAL

The Bank's actual and required capital ratios are as follows:

	March 31, 2008	December 31, 2007	FDIC Minimum to be Well Capitalized
Total capital to risk weighted assets	10.5%	10.4%	10.0 %
Tier 1 capital to risk weighted assets	9.4	9.3	6.0
Tier 1 capital to average assets	8.0	8.0	5.0

At each date shown, Berkshire Bank met the conditions to be classified as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table above. The Holding Company is not subject to regulatory capital requirements.

7. STOCK-BASED COMPENSATION PLANS

A combined summary of activity in the Company's stock award and stock option plans for the three months ended March 31, 2008 is presented in the following table:

(Shares in thousands)	Non-vested Stock Awards Outstanding		Stock Options Outstanding	
	Number of Shares	Weighted- Average Grant Date Fair Value	Number of Shares	Weighted- Average Exercise Price
Balance, December 31, 2007	105	\$ 31.88	644	\$ 21.90
Granted	62	22.29	-	-
Stock options exercised	-	-	(38)	14.29

Stock awards vested	(38)	29.78	-	-
Forfeited	(1)	33.70	-	-
Balance, March 31, 2008	128	\$ 27.60	606	\$ 22.41

During the three months ended March 31, 2008 and 2007, proceeds from stock option exercises totaled \$975 thousand and \$1.1 million, respectively. During the three months ended March 31, 2008, there were 59,000 shares issued in connection with stock option exercises and non-vested stock awards (17,000 shares related to vested stock awards were withheld from participants and reported as treasury shares in order to fund the participants' income tax obligations). All of these shares were issued from available treasury stock. Stock-based compensation expense totaled \$409 thousand and \$346 thousand during the three months ended March 31, 2008 and 2007. Stock-based compensation expense is recognized ratably over the requisite service period for all awards.

Index

BERKSHIRE HILLS BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. OPERATING SEGMENTS

The Company has two reportable operating segments, Banking and Insurance, which are delineated by the consolidated subsidiaries of Berkshire Hills Bancorp. Banking includes the activities of Berkshire Bank and its subsidiaries, which provide commercial and consumer 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 the Parent, which consists of the transactions of Berkshire Hills Bancorp. Management fees for corporate services provided by the Bank to Berkshire Insurance Group and the Parent are eliminated.

The accounting policies of each reportable segment are the same as those of the Company. The Insurance segment and the Parent reimburse the Bank for administrative services provided to them. Income tax expense for the individual segments is calculated based on the activity of the segments, and the Parent records the tax expense or benefit necessary to reconcile to the consolidated total. The Parent does not allocate capital costs. Average assets include securities available-for-sale based on amortized cost.

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

(In thousands)	Banking	Insurance	Parent	Eliminations	Total Consolidated
Three months ended March 31, 2008					
Net interest income	\$ 18,902	\$ -	\$ 2,492	\$ (3,100)	\$ 18,294
Provision for loan losses	825	-	-	-	825
Net interest income after provision for loan losses	18,077	-	2,492	(3,100)	17,469
Non-interest income	4,314	5,156	3,391	(3,389)	9,472
Non-interest expense	15,405	2,494	175	-	18,074
Income before income taxes	6,986	2,662	5,708	(6,489)	8,867
Income tax expense (benefit)	2,097	1,062	(341)	-	2,818
Net income	\$ 4,889	\$ 1,600	\$ 6,049	\$ (6,489)	\$ 6,049
Average assets (in millions)	\$ 2,466	\$ 32	\$ 340	\$ (338)	\$ 2,500

(In thousands)	Banking	Insurance	Parent	Eliminations	Total Consolidated
Three months ended March 31, 2007					
Net interest income	\$ 15,730	\$ -	\$ (540)	\$ -	\$ 15,190
Provision for loan losses	750	-	-	-	750
Net interest income after provision for loan losses	14,980	-	(540)	-	14,440
Non-interest income	3,100	5,137	5,356	(5,356)	8,237
Non-interest expense	12,759	2,500	150	-	15,409
Income before income taxes	5,321	2,637	4,666	(5,356)	7,268
Income tax expense (benefit)	1,547	1,055	(276)	-	2,326
Net income	\$ 3,774	\$ 1,582	\$ 4,942	\$ (5,356)	\$ 4,942

Average assets (in millions)	\$ 2,122	\$ 30	\$ 278	\$ (275)	\$ 2,155
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- 13 -

Index

BERKSHIRE HILLS BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. DERIVATIVE FINANCIAL INSTRUMENTS

The fair value of derivative positions outstanding is included in accrued interest payable and other liabilities in the accompanying consolidated balance sheets. During the quarter-end 2008, the Company had outstanding interest rate swaps with a total notional amount of \$80.0 million that are designated as hedges of FHLB advances. The swaps effectively convert the debt from floating rate to fixed rate and qualify for cash flow hedge accounting under SFAS No. 133 with the objective of protecting the overall cash flows from the Company's monthly interest payments for the \$80 million in floating rate FHLB advances.

Interest Rate Derivatives. The notional amounts and estimated fair values of interest rate derivative positions outstanding at March 31, 2008 are presented in the following table (amounts in thousands). The Company utilizes independent third party valuation models with observable market data inputs to estimate fair values of interest rate swaps. The Company also obtains dealer quotations for these derivatives for comparative purposes to assess the reasonableness of the model valuations.

	Notional Amount	Estimated Fair Value
Interest rate derivatives designated as hedges of cash flows:		
Interest rate swaps on variable-rate borrowings	\$ 80,000	\$ (3,204)

The weighted average rate paid and received for interest rate swaps outstanding as of March 31, 2008 were as follows: