BERKSHIRE HILLS BANCORP INC
Form 10-K
March 16, 2011

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, 2010

¨ 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 ¨ 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. o

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

Large Accelerated Filer ¨ 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 o No x

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates was approximately $257 million, based upon the closing price of $19.48 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 10, 2011 was 14,115,328.

DOCUMENTS INCORPORATED BY REFERENCE: Portions of the Proxy Statement for the 2011 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

This report contains forward-looking statements that are based on assumptions and may describe future plans, strategies and expectations of Berkshire Hills Bancorp, Inc. (“Berkshire Hills Bancorp” or the “Parent”), Berkshire Bank (the "Bank") and Berkshire Insurance Group, Inc. ("Berkshire Insurance Group" or "BIG"), collectively (the "Company"). This document may include forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements, which are based on certain assumptions and describe future plans, strategies, and expectations of the Company, are generally identified by use of the words “anticipate,” “believe,” “estimate,” “expect,” “intend,” “plan,” “project,” “seek,” “str future or conditional verbs such as “will,” “would,” “should,” “could,” “may,” or similar expressions. Although we believe t our plans, intentions and expectations, as reflected in these forward-looking statements are reasonable, we can give no assurance that these plans, intentions or expectations will be achieved or realized. By identifying these statements for you in this manner, we are alerting you to the possibility that our actual results and financial condition may differ, possibly materially, from the anticipated results and financial condition indicated in these forward-looking statements. Important factors that could cause our actual results and financial condition to differ from those indicated in the forward-looking statements include, among others, those discussed below and under “Risk Factors” in Part I, Item 1A of this Annual Report on Form 10-K. You should not place undue reliance on these 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

The Company is headquartered in Pittsfield, Massachusetts. Berkshire Hills Bancorp, Inc. is a Delaware corporation and the holding company for the Bank and 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 2010, the Bank had $2.9 billion in assets. BIG is one of the largest independent insurance agencies in Western Massachusetts. BIG's 2010 revenues totaled $11.1 million.

The Company's common shares are traded on the NASDAQ Global Select Market under the symbol “BHLB”. At year-end 2010, the Company's closing stock price was $22.11 and 14.1 million common shares were outstanding.

The Company is the largest locally headquartered regional bank and financial services company serving its markets. 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 and stockholder value

— Distinctive brand and culture as America’s Most Exciting BankSM

— Diversified integrated financial service revenues

— Positioned to be regional consolidator in attractive markets

The Company profiles its growing regional franchise as follows:

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

The Bank operates 42 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 twelve 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. 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") 2009 GDP was $5 billion. In 2010, this region had average gross loans of $867 million and average deposits of $880 million. In 2009, this region had average gross loans of $957 million and average deposits of $868 million. The decrease in average loans in 2010 reflected planned runoff of indirect auto loans, along with elevated prepayments of residential mortgage loans, together with writedowns and workouts of commercial loans in accordance with the Company's risk management initiatives.

- The Springfield Region, in the Pioneer Valley area with eleven 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 manages 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 2009 GDP was $23 billion. In 2010, this region had average gross loans of $592 million (including loans in other New England markets) and average deposits of $517 million. In 2009, this region had average gross loans of $545 million and average deposits of $517 million.

- The Albany New York Region, with twelve offices serving Albany and the surrounding area in Northeastern New York. This region represents a de novo expansion by the Company begun in 2005. 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 the latter part of 2010, the Company opened two new branches in this region in the towns of Albany and Latham. Additionally, the Bank plans to open another two new branches in this region in 2012. The Albany/Schenectady MSA 2009 GDP was $40 billion. In 2010, this region had average gross loans of $293 million and average deposits of $297 million. In 2009, the Company's Albany region had average gross loans of $251 million and average deposits of $234 million. Growth of loans and deposits in 2010 reflected ongoing growth of recently opened branches and business development by the commercial banking team.

- The Vermont Region, with seven branches serving Southern Vermont. 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. In 2010, the Vermont region had average loans of $229 million and average deposits of $313 million. In 2009, this region had average loans of $229 million and average deposits of $303 million.

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.

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 BankSM. 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.

The Company offers a wide range of deposit, lending, insurance, wealth management, and insurance 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 but position the Company to achieve the scale and momentum to support future

beneficial growth. In 2008 and 2009, the Company conducted successful common stock offerings to obtain capital for growth opportunities and to strengthen its capital base to support its markets.

The Company has sought opportunities to participate in regional consolidation in its markets and made several offers to acquire other institutions during the year, resulting in merger agreements with two institutions – Rome Bancorp in New York and Legacy Bancorp in Berkshire's hometown of Pittsfield. The Company plans to complete the Rome acquisition early in the second quarter of 2011 and the Legacy acquisition in the following quarter. These acquisitions are anticipated to enhance the Company's positioning as a major regional provider.

COMPANY WEBSITE AND AVAILABILITY OF SECURITIES AND EXCHANGE COMMISSION FILINGS

On the Company's Internet website in the Investor Relations section at www.berkshirebank.com, 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 Federal Reserve System 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 Board, 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 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 limits 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.

	2010		2009		2008		2007		2006	
(In millions)	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
Residential mortgages	$645.0	30 %	$609.0	31 %	$677.2	34 %	$657.0	33 %	$599.2	36 %
Commercial mortgages	925.6	43	851.8	43	805.5	40	704.8	36	566.4	33
Commercial business	286.1	13	186.0	10	178.9	9	203.6	11	190.5	11
Total commercial loans	1,211.7	56	1,037.8	53	984.4	49	908.4	47	756.9	44
Consumer	285.5	14	314.8	16	345.5	17	378.6	20	342.9	20
Total loans	$2,142.2	100 %	$1,961.6	100 %	$2,007.1	100 %	$1,944.0	100 %	$1,699.0	100 %
Allowance for loan losses	(31.9)		(31.8)		(22.9)		(22.1)		(19.4)	
Net loans	$2,110.3		$1,929.8		$1,984.2		$1,921.9		$1,679.6	

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 may sell 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. During 2008, the Bank became 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 sometimes originates loans for sale to the Federal Housing Administration ("FHA"), U.S. Department of Veteran Affairs ("VA"), and state housing agency programs. As of year-end 2010, residential mortgage loans serviced for others totaled $320 million.

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 December 31, 2010, the Bank's ARM portfolio totaled $287 million.

The Bank 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. Residential construction loans totaled $25 million at year-end 2010.

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 terms of up to 25 years and with interest rates that adjust periodically (primarily from short-term to five years).

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.

The Bank originates construction loans to builders and commercial borrowers in and around its markets. These loans totaled $127 million, or 6% of the total loan portfolio at year-end 2010. 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 will continue to serve 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, who was also recruited in 2010, 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.

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 prime indirect automobile loans and home equity loans. In 2008, the Company substantially ended the origination of new indirect automobile loans due to its assessment of credit and pricing conditions in that market. Collections are more sensitive to changes in borrower financial circumstances, and the collateral can depreciate or be damaged prior to repossession. Additionally, collections are subject to the limitations of federal and state laws. Automobile loans outstanding totaled $38 million at year-end 2010 as compared to $77 million at year-end 2009 due to this planned run-off.

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. Home equity and other loans outstanding at year-end 2010 totaled $226 million.

Maturity and Sensitivity of Loan Portfolio. The following table shows contractual final maturities of selected loan categories at year-end 2010. The contractual maturities do not reflect premiums, discounts, deferred costs or prepayments.

Contractual Maturity (In thousands)	One Year or Less	More than One to Five Years	More Than Five Years	Total
Construction mortgage loans:				
Residential	$11,237	$ 13,767	$-	$25,004
Commercial	52,386	74,438	-	126,824
Commercial business loans	158,873	86,676	40,538	286,087
Total	$222,496	$ 174,881	$40,538	$437,915

For the $215 million of loans above which mature in more than one year, $53 million of these loans are fixed-rate and $162 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 employs an independent third party 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 Risk Management Committee has established loan limits and individual and combined lending approval authorities. Management's Executive Loan Committee is responsible for commercial and residential loan approvals in accordance with these standards and procedures. Management's underwriting is based on a review of certain factors including risk ratings, recourse, loan-to-value ratios and material policy exceptions.

The Bank's lending activities are conducted by its salaried and commissioned loan personnel. 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 from time to time will sell or securitize residential mortgages in the secondary market based on prevailing market interest rate conditions and an analysis of the composition and risk of the loan portfolio, the Bank's interest rate risk profile and liquidity needs. 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. Total lending commitments, including lines and letters of credit, were $528 million at year-end 2010.

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 were 84% of risk based capital at year-end 2010. Total year-end commercial construction loans outstanding were 53% of the Bank's risk based capital at year-end, and total commercial mortgage outstandings (including certain owner-occupied loans) were estimated at 323% of risk based capital. 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. The commercial construction and development loans primarily involve residential and condominium construction projects. Additionally, the Bank finances construction of multifamily, lodging, leisure, and retail properties. For the majority of these loans, the Bank provides permanent or semi-permanent financing after the construction period.

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. 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 to the Board of Directors quarterly delinquent loans and non-performing assets. 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. Interest income that would have been recorded for 2010 if non-accruing loans had been current according to their original terms, amounted to $1.0 million. Included in this amount is $210 thousand related to troubled debt restructurings ("TDR"). The amount of interest income on those loans that was included in net income in 2010 was $0.6 million. Included in this amount is $58 thousand related to TDRs. Interest income on accruing TDR loans totaled $0.3 million for 2010. The total carrying value of accruing and non-accruing TDR loans was $8 million at year-end.

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. At year-end 2010, total foreclosed real estate was $3.4 million. Management believes this carrying value is a reasonable approximation of exit price.

The following table sets forth additional information on year-end problem assets and accruing TDRs.

(In thousands)	2010		2009		2008		2007		2006	
Non-accruing loans:										
Residential mortgages	$2,173		$3,304		$1,646		$726		$15	
Commercial mortgages	9,488		31,917		7,738		5,177		308	
Commercial business	1,305		3,115		1,921		4,164		7,203	
Consumer	746		364		866		441		66	
Total non-performing loans	13,712		38,700		12,171		10,508		7,592	
Real estate owned	3,386		30		498		866		-	
Total non-performing assets	$17,098		$38,730		$12,669		$11,374		$7,592	
Troubled debt restructurings (accruing)	$5,283		$17,818		$7,456		$4,613		$5,268	
Accruing loans 90+ days past due	$1,054		$91		$923		$823		$281	
Total non-performing loans/total loans	0.64	%	1.97	%	0.61	%	0.54	%	0.45	%
Total non-performing assets/total assets	0.59	%	1.43	%	0.48	%	0.45	%	0.35	%

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.

At year-end 2010, there were no loan balances classified as Loss. The balance of commercial loans classified as Doubtful was $395 thousand. Commercial loans classified as Substandard totaled $84 million, including $73 million of accruing balances and $11 million of non-accruing balances. 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. Total loans rated Special Mention totaled $42 million at year-end 2010.

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"), a general component for portfolios of all outstanding loans (a "general loan loss reserve"), and an unallocated reserve component for estimated model imprecision.

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.

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. These sub-portfolios include the Bank's construction loan, auto loan, home equity and high risk loan portfolios. The Bank's high risk loan portfolio is designated for loans with greater inherent credit risk of loss characteristics meriting higher reserves.

Management's methodology for assessing general loan loss reserves includes an assessment of historical loss rates adjusted for qualitative and environmental factors, industry data and economic conditions. In addition, management employs an independent third party to perform an annual review of the risk ratings of all of the Bank's commercial loan relationships exceeding $1 million, all material credits on the Bank's watch list or classified as Substandard, and a random sampling of new loans.

Management also records an unallocated reserve for inherent, yet undefined credit losses in its various portfolios. At year-end 2010, the Bank's unallocated reserve totaled $1.2 million or 4% of the total reserve as compared to $1 million or 3% of the total reserve at year-end 2009.

Although management believes that it uses the best information available to establish the allowance for loan losses, 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.

(In thousands)	2010		2009		2008		2007		2006	
Balance at beginning of year	$31,816		$22,908		$22,116		$19,370		$13,001	
Charged-off loans:										
Residential mortgages	409		2,016		143		110		27	
Commercial mortgages	6,403		27,596		1,384		-		-	
Commercial business	2,685		5,945		884		4,850		461	
Consumer	1,188		3,586		2,031		1,416		1,288	
Total charged-off loans	10,685		39,143		4,442		6,376		1,776	
Recoveries on charged-off loans:										
Residential mortgages	213		-		-		-		-	
Commercial mortgages	794		22		100		-		-	
Commercial business	1,094		64		290		13		43	
Consumer	140		235		264		356		667	
Total recoveries	2,241		321		654		369		710	
Net loans charged-off	8,444		38,822		3,788		6,007		1,066	
Allowance attributed to loans acquired by merger	-		-		-		4,453		-	
Provision for loan losses	8,526		47,730		4,580		4,300		7,860	
Transfer of commitment reserve	-		-		-		-		(425	)
Balance at end of year	$31,898		$31,816		$22,908		$22,116		$19,370	
Ratios:										
Net charge-offs/average loans	0.42	%	1.96	%	0.19	%	0.34	%	0.07	%
Recoveries/charged-off loans	20.91		0.82		14.72		5.79		39.98	
Allowance for loan losses/total loans	1.49		1.62		1.14		1.14		1.14	
Allowance for loan losses/non-accruing loans	232.63		82.21		188.22		210.47		255.14	

The following table presents year-end data for the approximate allocation of the allowance for loan losses by loan categories at the dates indicated and the percentage of loans in each category (including an apportionment of the unallocated amount). 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.

	2010		2009		2008		2007		2006	
(In thousands)	Amount Allocated	Percent of Amount Allocated to Total Loans in Each Category	Amount Allocated	Percent of Amount Allocated to Total Loans in Each Category	Amount Allocated	Percent of Amount Allocated to Total Loans in Each Category	Amount Allocated	Percent of Amount Allocated to Total Loans in Each Category	Amount Allocated	Percent of Amount Allocated to Total Loans in Each Category
	$3,200	0.15 %	$3,169	0.52 %	$2,006	0.30 %	$2,028	0.31 %	$1,845	0.31 %

Residential mortgages										
Commercial mortgages	19,923	0.93	19,659	2.31	13,539	1.68	12,040	1.71	9,939	1.75
Commercial business	6,498	0.30	6,099	3.28	4,184	2.34	5,787	2.84	5,199	2.74
Consumer	2,277	0.11	2,889	0.92	3,179	0.92	2,261	0.60	2,387	0.70
Total	$ 31,898	1.49 %	$ 31,816	1.62 %	$ 22,908	1.14 %	$ 22,116	1.14 %	$ 19,370	1.14 %

INVESTMENT SECURITIES ACTIVITIES

The securities portfolio provides cash flow and liquidity to protect the safety of customer deposits. 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 Fannie Mae or Freddie Mac, and they generally have an average duration of two to four years. They principally consist of collateralized mortgage obligations and hybrid ARM pass-through securities. Other than securities issued by Fannie Mae and Freddie Mac, no other issuer concentrations exceeding 10% of stockholders' equity existed at year-end 2010. 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. Over 95% of these securities have ratings of A or better and over 90% of the portfolio also carries credit enhancement protection. Other corporate bonds include financial institution trust preferred bonds totaling $20 million, other financial institution bonds totaling $9 million, and other high grade corporate bonds totaling $9 million. During 2010, the Company became more active in the purchase of local financial institution equity securities. The Company will invest in certain equity securities when management feels that it is a prudent, safe investment and expects an acceptable return. The Company may also invest 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 $21 million of equity in the Federal Home Loan Bank of Boston ("FHLBB"). This investment is based on the operating relationship with the FHLBB and historically has paid dividends based on current money market rates. It is carried on the cost basis since the FHLBB must repurchase it at cost if the Company terminates the operating relationship. Due to the stresses in the U.S. financial system, the FHLBB did not pay dividends in 2009 or 2010, but a nominal dividend was restored in 2011. During 2008, the Company entered into an interest rate swap against a $15 million tax advantaged economic development bond issued to a local non-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 as none of the Company's investment securities were other-than-temporarily impaired at year-end.

The following table presents the year-end amortized cost and fair value of the Company's securities, by type of security, for the years indicated.

	2010		2009		2008	
(In thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Securities available for sale						
Municipal bonds and obligations	$ 79,292	$ 79,906	$ 73,277	$ 74,784	$ 76,843	$ 75,414
Mortgage-backed securities	170,294	172,883	192,597	197,276	174,896	176,824
Other bonds and obligations	40,931	38,548	51,707	49,722	24,341	21,043
Marketable equity securities	15,756	18,905	2,679	2,563	1,177	1,099
Total securities available for sale	$ 306,273	$ 310,242	$ 320,260	$ 324,345	$ 277,257	$ 274,380
Securities held to maturity						
Municipal bonds and obligations	$ 7,069	$ 7,069	$ 14,737	$ 14,737	$ 9,892	$ 9,892
Mortgage-backed securities	83	86	139	142	806	803
Tax advantaged economic development bonds	48,861	50,016	42,572	43,515	15,002	15,862
Other bonds and obligations	423	423	173	173	172	172

Total securities held to maturity	$ 56,436	$ 57,594	$ 57,621	$ 58,567	$ 25,872	$ 26,729
Trading account security	$ 14,560	$ 16,155	$ 15,000	$ 15,880	$ 15,000	$ 18,144
Restricted equity securities	$ 23,120	$ 23,120	$ 23,120	$ 23,120	$ 23,120	$ 23,120

The following table summarizes year-end 2010 amortized cost, weighted average yields and contractual maturities of debt securities. Yields are stated on a book basis (not fully taxable equivalent).

	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 and tax advantaged economic development bonds	$ 5.9	2.73 %	$ 2.1	5.29 %	$ 52.7	5.45 %	$ 74.5	6.11 %	$ 135.2	5.70 %
Mortgage-backed securities	3.2	3.39	8.5	2.36	51.2	2.39	107.5	3.33	170.4	3.00
Other bonds and obligations	13.3	3.23	3.1	5.17	2.0	5.01	23.0	5.26	41.4	4.59
Total	$ 22.4	3.12 %	$ 13.7	3.43 %	$ 105.9	3.97 %	$ 205.0	4.56 %	$ 347.0	4.24 %

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 (“Dodd-Frank Act”). The Dodd-Frank Act also extended the unlimited coverage on non-interest bearing demand accounts through December 31, 2012.

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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.

	2010			2009			2008		
(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	$ 279.2	14 %	- %	$ 256.4	13 %	- %	$ 225.2	12 %	- %
NOW	199.3	10	0.35	188.2	10	0.43	200.1	11	0.75
Money market	597.3	29	0.94	499.6	26	1.28	464.9	25	2.15
Savings	224.3	11	0.27	212.3	11	0.33	216.4	12	0.74
Time	749.2	36	2.59	777.1	40	3.18	725.4	40	3.94
Total	$ 2,049.3	100 %	1.29 %	$ 1,933.6	100 %	1.69 %	$ 1,832.0	100 %	2.28 %

At year-end 2010, the Bank had time deposit accounts in amounts of $100 thousand or more maturing as follows:

Maturity Period	Amount	Weighted Average Rate
(In thousands)		
Three months or less	$48,757	1.81 %
Over 3 months through 6 months	38,832	1.54
Over 6 months through 12 months	93,362	2.42
Over 12 months	191,403	2.98
Total	$372,354	2.54 %

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 and maintains a $3 million line of credit, which was unused at year-end 2010. Subject to certain limitations, the Company can also choose to issue common and preferred stock. The Company issued common stock to the public and preferred stock to the U.S. Treasury in 2008, and funds were used for general corporate purposes. The Company issued common stock to the public in 2009 and these funds were used in the repayment of the U.S. Treasury preferred stock.

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 2010, the Company held derivatives with a total notional amount of $475 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. At year-end 2010, assets under management totaled $667 million. Specialized wealth management services offered include investment management, trust administration, estate planning, and private banking. The Wealth Management Group 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. BIG 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. BIG sells all lines of insurance in Western Massachusetts, Southern Vermont, Upstate New York and Northwestern Connecticut. BIG operates a focused cross-sell program of insurance and banking products through all offices and branches of the Bank with some of BIG’s offices co-located within the Bank’s branches.

PERSONNEL

At year-end 2010, the Company had 599 full-time equivalent employees, compared to 622 at the end of 2009 and 610 at the end of 2008. The 2010 staffing totals included new staff for the new Asset Based Lending Group, the Private Banking Group, and two new branches opened in 2010. These additional employees were more than offset by reductions related to the re-engineering of BIG and other organizational changes in the Company. Year-end personnel included 79 full-time equivalent employees in BIG and 520 in the Bank. 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 BIG. The Bank is a Massachusetts chartered savings bank with five wholly-owned subsidiaries. Three of the Bank’s subsidiaries are qualified as “securities corporations” for Massachusetts income tax purposes: North Street Securities Corporation, Woodland Securities, Inc., and Gold Leaf Securities Corporation. The Bank also owns Berkshire Bank Municipal Bank which is chartered in the state of New York. Additionally, the Bank owns the inactive subsidiary, Berkshire Financial Planning, Inc. Except for Berkshire Bank Municipal Bank, all subsidiaries of the Bank are incorporated in Massachusetts. Berkshire Bank Municipal Bank had $28 million in assets at year-end 2010 and was classified as well capitalized in accordance with federal capital classifications. BIG 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.

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 BIG, which provides commercial and consumer insurance services. The only other consolidated financial activity of the Company is that of the Parent. For more information about the Company's reportable operating segments, see the related note in the consolidated financial statements.

REGULATION AND SUPERVISION

The following discussion describes elements of an extensive regulatory framework applicable to savings and loan holding companies and banks and specific information about Berkshire Hills Bancorp and its subsidiaries. Federal and state regulation of savings banks and their holding companies is intended primarily for the protection of depositors and deposit insurance funds rather than for the protection of stockholders and creditors.

General

Berkshire Hills Bancorp is a Delaware corporation and savings and loan holding company registered with the Office of Thrift Supervision ("OTS"). 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 OTS. 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 OTS or Congress, could have a material adverse impact on the Parent, 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 OTS will be eliminated. Responsibility for the supervision and regulation of federal savings banks will be transferred to the Office of the Comptroller of the Currency, which is the agency that is currently primarily responsible for the regulation and supervision of national banks. The transfer of regulatory functions will take place over a transition period of up to one year from the Dodd-Frank Act enactment date of July 21, 2010, subject to a possible six-month extension. At the same time, responsibility for the regulation and supervision of savings and loan holding companies, such as Berkshire Hills Bancorp, will be transferred to the Federal Reserve Board, which currently supervises bank holding companies.

Additionally, the Dodd-Frank Act creates a new Consumer Financial Protection Bureau as an independent bureau of the Federal Reserve Board. The Consumer Financial Protection Bureau will assume responsibility for the implementation of the federal financial consumer protection and fair lending laws and regulations, a function currently assigned to prudential regulators, and will have 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 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 such as Berkshire Hills Bancorp, 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.

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 subject to sanctions 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 of up to 1/50th of 1.0% of a savings bank's deposit balances in excess of amounts insured by the FDIC.

The combination of FDIC and DIF insurance provides customers of Massachusetts-chartered savings banks with full deposit insurance on all their deposit accounts. No depositor has ever lost a penny in a bank insured by both the FDIC and the DIF.   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 regulated by the OTS, the Parent is not currently subject to any separate regulatory capital requirements. 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 2010, 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 if the host state allows its state chartered banks to establish branches within its borders. The Bank operates branches in New York and Vermont. 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.

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 2010, 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.

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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 limited circumstances.

Insurance of Deposit Accounts. Our 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 of 2010, which, among other provisions, made permanent the increase in the SMDIA from $100 thousand to $250 thousand. Additionally, in November 2010, 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. Maximum base assessment rates are 45 basis points in the highest risk categories. Assessment rates are scheduled to decline as the FDIC Reserve Ratio improves. 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, 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 was paid by the Bank on December 30, 2009.

In addition, FDIC insured institutions are required to pay assessments to the Federal Deposit Insurance Corporation at an annual rate of approximately 1.04 basis points of assessable deposits 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.

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 the FDIC or the OTS. 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 1.5% 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%.

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 Bank was in compliance with this requirement with an investment in FHLBB stock at year-end 2010 of $21 million.

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. For the years 2008, 2007, and 2006, cash dividends from the FHLBB to the Bank amounted to approximately $0.8 million, $1.4 million, and $1.6 million, respectively. 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 at year-end 2010 and was recently restored in a nominal amount in the first quarter of 2011.

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 OTS rather than as a bank holding company by the Federal Reserve Board. As such, the Parent is registered with the OTS and must adhere to the OTS's regulations and reporting requirements. In addition, the OTS may examine, supervise and take enforcement action against the Parent and its non-savings institution subsidiaries. Among other things, this authority permits the OTS to restrict or prohibit activities that are determined to be a serious risk to the subsidiary savings institution. By regulation, the OTS may restrict or prohibit the Bank from paying dividends.

The Dodd-Frank Act provides for the elimination of the OTS and transfers its authority over and responsibilities for savings and loan holding companies to the Federal Reserve Board. That transfer is effective July 21, 2011, subject to a possible six month extension.

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 a multiple savings and loan holding company. 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 OTS. In evaluating applications by holding companies to acquire savings associations, the OTS considers 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 by the OTS (rather than as a bank holding company by the Federal Reserve Board), 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 and commercial mortgages and related investments, including certain mortgage-backed and related securities) in at least 9 months out of each 12-month period. At year-end 2010, the Bank maintained 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 will 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.

Acquisition of the Company. Under the Federal Change in Bank Control Act, a notice must be submitted to the OTS if any person (including a company), or group acting in concert, seeks to acquire “control” of a savings and loan holding company. Under certain circumstances, 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 OTS 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, 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. As of year-end 2010, 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 BIG 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 10% in 2010 and is scheduled to decline to 9.5% in 2011, and 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 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 have begun to improve, 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 in the Mideast and elsewhere are affecting 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. Residential construction loans depend significantly on the residential real estate and lending markets for the repayment of these loans. Commercial lending sometimes involves 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 that the Company has the most knowledge of. 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.

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 expand into additional new geographic markets as we expand 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.

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 from which we service our debt, pay our obligations and from which we can pay dividends is the receipt of dividends from the Bank. 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. At year-end 2010, under existing dividend regulations, the Bank was not eligible to provide dividends to the Parent due to the loss incurred in 2009. We anticipate that as a result of future profits, the Bank will regain its eligibility to pay dividends to the Parent, but there is no assurance as to the specific timing and magnitude of this event.

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 2010, 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, and 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 Mergers

Failure to Complete the Pending Mergers with Rome and Legacy Could Negatively Impact Our Stock Price and Future Business and Financial Results.

If either of the mergers is not completed, our ongoing business may be adversely affected. In addition, if either merger is not completed, 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 either 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.

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 operates 42 full service banking offices. The Company's new Asset Based Lending Group operates from leased facilities in Woburn, Massachusetts.

ITEM 3. LEGAL PROCEEDINGS

At year-end 2010, the Company was not involved in 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 Company, such as claims to enforce liens, condemnation proceedings on properties in which the Company holds security interests, claims involving the making and servicing of real property loans and other issues incident to the Company's business. However, the Company is not 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 12, 2010 (the "Merger Agreement"), by and among the Company and Rome Bancorp, Inc. ("Rome Bancorp"), on October 18, 2010, Stephen Bushansky filed a stockholder class action lawsuit in the Supreme Court of the State of New York, County of the Bronx. On October 27, 2010, James and Liliana DiCastro filed a stockholder class action lawsuit in the Chancery Court of the State of Delaware, and on November 15, 2010, Samuel S. Rapasodi filed a stockholder class action lawsuit in the Supreme Court of the State of New York, County of Oneida. Each suit was brought against Rome Bancorp, the Directors of Rome Bancorp, and the Company. The lawsuit filed in Delaware was subsequently withdrawn voluntarily. The active lawsuits in New York state (collectively, the "Rome shareholder litigation") purport to be brought on behalf of all of Rome Bancorp's public stockholders and allege that the directors of Rome Bancorp breached their fiduciary duties to Rome Bancorp's stockholders by failing to take steps necessary to obtain a fair and adequate price for Rome Bancorp's common stock and that the Company knowingly aided and abetted Rome Bancorp directors' breach of fiduciary duty.

On February 23, 2011, solely to avoid the costs, risks and uncertainties inherent in litigation and to allow stockholders to vote on the proposals required in connection with the merger at the scheduled meeting, Rome Bancorp entered into a memorandum of understanding with plaintiffs' counsel and other named defendants regarding the settlement of the Rome shareholder litigation. Under the terms of the memorandum negotiated by Rome Bancorp, Rome Bancorp, the other named defendants and the plaintiffs have agreed to settle the two lawsuits subject to court approval. If the court approves the settlement contemplated in the memorandum, the Rome shareholder litigation will be dismissed with prejudice. Pursuant to the terms of the memorandum, Rome Bancorp has agreed to make available additional information to its stockholders. In return, the plaintiffs have agreed to the dismissal of the Rome shareholder litigation and to withdraw all motions filed in connection with such lawsuits, including any motions seeking to enjoin the proposed merger from proceeding.

In connection with the settlement, plaintiffs intend to seek an award of attorneys' fees and expenses subject to court approval. Rome Bancorp and its insurance carrier have agreed to pay the legal fees and expenses of plaintiffs' counsel, in an amount not to exceed $395 thousand. This payment is not being made by the Company and will not affect the amount of merger consideration to be paid in the merger. If the settlement is finally approved by the court, it is anticipated that it will resolve and release all claims in all actions that were or could have been brought challenging

any aspect of the proposed merger, the Merger Agreement, and any disclosure made in connection therewith (but excluding claims for appraisal under Section 262 of the Delaware General Corporation Law).

Rome Bancorp, the Company and the other defendants have vigorously denied, and continue to vigorously deny, that they have committed or aided and abetted in the commission of any violation of law or engaged in any of the wrongful acts that were or could have been alleged in the Rome shareholder litigation, and expressly maintain that, to the extent applicable, they diligently and scrupulously complied with their fiduciary and other legal burdens and are entering into the contemplated settlement solely to eliminate the burden and expense of further litigation, to put the claims that were or could have been asserted to rest, and to avoid any possible delay in the consummation of the merger. As a result of the settlement, management of the Company believes the Rome shareholder litigation will not have any material adverse effect on the financial condition or operations of the Company.

ITEM 4. (REMOVED AND RESERVED)

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 2010 and 2009.

	High	Low	Dividends Declared
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
2009			
First quarter	$31.39	$18.46	$0.16
Second quarter	26.99	19.87	0.16
Third quarter	24.88	19.92	0.16
Fourth quarter	22.85	18.05	0.16

Holders

The Company had approximately 2,139 holders of record of common stock at March 10, 2011.

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 2008, the Company issued 1.725 million common shares in a public stock offering of registered securities. Net proceeds from this offering totaled $39 million. The bulk of these proceeds were deposited into the Bank and were used to pay off short-term borrowings and to purchase investment securities. The same year, the Company issued 40 thousand shares of preferred stock and raised proceeds of $40 million in connection with its participation in the U.S. Department of the Treasury Capital Purchase Program. Of these proceeds, $30 million was contributed to the Bank as additional capital and the remaining balance was deposited into Berkshire Hills Bancorp. The Bank used the funds to purchase investment securities and to purchase short-term investments pending anticipated reinvestment in the

expansion of credit through lending activities. The preferred stock offering included the grant of a warrant to purchase 226 thousand shares of common stock; there was no additional cash consideration received for this grant. In May 2009, the Company issued 1.61 million common shares in a public stock offering and raised an additional $32 million which was used to repay the U.S. Treasury preferred stock.

Purchases of Equity Securities by the Issuer and Affiliated Purchases

There were no purchases of equity securities during the fourth quarter of 2010 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 2010, 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 2010:

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, 2010	1,301	$	19.01	-	97,993
November 1-30, 2010	-		-	-	97,993
December 1-31, 2010	-		-	-	97,993
Total	1,301	$	19.01	-	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, 2005.

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)	2010	2009	2008	2007	2006
Selected Financial Data:					
Total assets	$2,880,716	$2,700,424	$2,666,729	$2,513,432	$2,149,642
Securities	405,953	420,966	341,516	258,497	234,174
Loans	2,142,162	1,961,658	2,007,152	1,944,016	1,698,987
Allowance for loan loss	(31,898)	(31,816)	(22,908)	(22,116)	(19,370)
Goodwill and intangibles	173,079	176,100	178,830	182,452	121,341
Deposits	2,204,441	1,986,762	1,829,580	1,822,563	1,521,938
Borrowings and subordinated debentures	260,301	306,668	374,621	349,938	360,469
Total stockholders' equity	387,960	384,581	408,425	326,837	258,161
Selected Operating Data:					
Total interest and dividend income	$112,277	$115,476	$133,211	$131,944	$118,051
Total interest expense	35,330	45,880	57,471	68,019	57,811
Net interest income	76,947	69,596	75,740	63,925	60,240
Service charges and fee income	29,859	28,181	30,334	26,654	13,539
All other non-interest income (loss)	1,300	808	1,261	(2,011)	(1,491)
Total net revenue	108,106	98,585	107,335	88,568	72,288
Provision for loan losses	8,526	47,730	4,580	4,300	7,860
Total non-interest expense	81,729	78,571	71,699	65,494	48,868
Income tax expense (benefit) - continuing operations	4,113	(11,649)	8,812	5,239	4,668
Net income from discontinued operations	-	-	-	-	371
Net income (loss)	$13,738	$(16,067)	$22,244	$13,535	$11,263
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	$13,738	$(20,051)	$22,244	$13,535	$11,263
Dividends per common share	$0.64	$0.64	$0.63	$0.58	$0.56
Basic earnings (loss) per common share	$0.99	$(1.52)	$2.08	$1.47	$1.32
Diluted earnings (loss) per common share	$0.99	$(1.52)	$2.06	$1.44	$1.29
Weighted average common shares outstanding - basic	13,862	13,189	10,700	9,223	8,538
Weighted average common hares outstanding - diluted	13,896	13,189	10,791	9,370	8,730

	At or For the Years Ended December 31,				
	2010	2009	2008	2007	2006
Selected Operating Ratios and Other Data:					
Performance Ratios:					
Return on average assets	0.50 %	(0.60) %	0.87 %	0.60 %	0.53 %
Return on average equity	3.54	(3.90)	6.47	4.69	4.40
Interest rate spread	3.00	2.61	3.06	2.79	2.81
Net interest margin	3.27	3.00	3.44	3.26	3.24
Non-interest income/total net revenue	28.82	29.41	29.44	27.82	16.67
Non-interest expense/average assets	2.97	2.93	2.81	2.90	2.31
Dividend payout ratio	64.65	N/M	30.58	40.28	42.92
Growth Ratios:					
Total loans	9.20 %	(2.27) %	3.24 %	14.43 %	19.36 %
Total deposits	10.96	8.59	0.39	19.75	10.99
Total net revenues	9.66	(8.15)	21.19	22.52	8.64
Capital Ratios:					
Tier 1 capital to average assets - Bank	8.02 %	7.86 %	9.34 %	7.97 %	7.69 %
Total capital to risk-weighted assets - Bank	10.58	10.71	12.28	10.40	10.27
Stockholders’ equity/total assets	13.47	14.24	15.32	13.00	12.01
Tangible common stockholders' equity to tangible assets (1)	7.94	8.26	7.75	6.22	6.75
Asset Quality Ratios:					
Non-performing loans/total loans	0.64 %	1.97 %	0.61 %	0.54 %	0.45 %
Non-performing assets/total assets	0.59	1.43	0.48	0.45	0.35
Net loans charged-off/average total loans	0.42	1.96	0.19	0.34	0.07
Allowance for loan losses/total loans	1.49	1.62	1.14	1.14	1.14
Allowance for loan losses/non-performing loans	233	82	188	210	255
Share Data:					
Book value per share	$27.56	$27.64	$30.33	$31.15	$29.63
Market price at year end	$22.11	$20.68	$30.86	$26.00	$33.46

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 provides investors with information that is useful in understanding our financial performance and condition.

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 we believe that we use 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 us to increase our provisions for loan losses, which would negatively impact earnings.

Income Taxes. 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. Significant management judgment is required in determining income tax expense and deferred tax assets and liabilities. 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. 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. Non-credit 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 $108 million in 2010, surpassing the previous record of $107 million set in 2008. Total net revenue grew by 10% in 2010, aided by strong balance sheet growth, including a 9% increase in total loans and an 11% increase in total deposits during the year. This growth reflected strong business development in Berkshire's regions, along with the benefit of new product lines in asset based lending and private banking. Revenue growth also benefited from an increase in the net interest margin to 3.27% in 2010, resulting from a strong focus on pricing and product disciplines to offset margin pressures as a result of ongoing low interest rates.

The Company produced net income of $13.7 million ($0.99 per share) in 2010. In 2009, the impacts of the recession affected all of the Company's major categories of income and expense, and the Company recorded a net loss of $16.1 million ($1.52 per share), including a $48 million provision for loan losses.

Berkshire's financial achievements in 2010 resulted from disciplined business development in the Company's regions, together with careful control of operating expenses and the costs of business expansion. Total pre-tax, pre-provision income increased by $6.4 million (32%) in 2010 compared to 2009, demonstrating the positive operating leverage from revenue growth and expense control. The Company achieved this result while also absorbing the start-up costs of its successful expansion initiatives, including asset based lending, private banking, two de novo branches, and merger related costs connected to the merger agreements with Rome Bancorp and Legacy Bancorp.

The year's results also reflected a number of aggressive actions that management undertook to build and strengthen the Company. Below is a summary of accomplishments of these strategic initiatives:

- Successful recruitment and integration of two new product line teams:
  - The Asset Based Lending Group was formed to add an important commercial lending program that serves additional industries, diversifies lending risk, and expands the lending geography to include all of New England, with a Boston area headquarters.
  - The Private Banking Group was formed in the Springfield Region, increasing our services to this region centrally located in New England and creating a vehicle for expanding private banking in the Company's other regions.
- Opened two de novo branches in the strategically important New York Albany Region.
- Reorganized the integrated financial services business lines:
  - Consolidated insurance offices and created an insurance service center to reduce costs, improve service, and create a scalable platform for future expansion. Also integrated management with the Retail and Commercial Banking divisions.

- Recruited a new Risk Management Executive who successfully completed targeted reductions in problem assets during the year.

- Enrolled the entire Company in America's Most Exciting Bank University, having every team member attend and complete first semester offerings in the third quarter of the year.

While achieving its growth objectives, the Company also maintained a strong financial condition, completing the year with a 7.9% ratio of tangible equity/assets and a 13.5% ratio of total equity to assets. Additionally, the Company's liquidity strengthened further as a result of the strong deposit growth, with the ratio of loans/deposits decreasing to 97% by year-end.

The Company aggressively sought opportunities to participate in regional consolidation in its markets, and made several offers to acquire other institutions during the year culminating in merger agreements with two institutions – Rome Bancorp in New York and Legacy Bancorp in Berkshire's hometown of Pittsfield. When completed and integrated, these acquisitions are expected to enhance its positioning as a major regional provider, including:

- Increasing assets by approximately 40% to $4 billion
- Increasing branch offices by approximately 50% to more than 60 offices
- Increasing core revenue by more than 40% to approximately $150 million
- Improving core earnings per share by approximately 20% or $0.20 per share
- Improving most of the combined core performance and condition financial metrics
- Producing a double-digit return on investment

Berkshire plans to complete the Rome acquisition around the beginning of the second quarter of 2011 and the Legacy acquisition in the following quarter. At a meeting on March 9, 2011, the shareholders of Rome Bancorp approved the merger agreement with the Company.

COMPARISON OF FINANCIAL CONDITION AT DECEMBER 31, 2010 AND 2009

Balance Sheet Summary. Total assets increased by $180 million (7%) to $2.9 billion in 2010 due to a $174 million (17%) increase in total commercial loans. The increase in commercial loans reflected ongoing business development in the Company's regions, together with $98 million in net new outstandings contributed by the Company's new Asset Based Lending Group. This growth was funded by deposit growth, which totaled $218 million (11%) including $106 million of net growth in the New York region and nearly $50 million contributed by the new Springfield Private Banking Group. The strong deposit growth improved the Company's liquidity, with loans/deposits measuring 97% at year-end 2010. All major asset quality measures improved in 2010, with non-performing assets decreasing to a favorable 0.59% of total assets at year-end. Reflecting the strong growth, capital measures decreased modestly but remained strong, with tangible equity/assets of 7.9% and total equity/assets of 13.5% at year-end. At year-end, the Company had pending agreements to acquire Rome Bancorp and Legacy Bancorp. These acquisitions are expected to be completed by around mid-year 2011 and are expected to increase total assets to approximately $4 billion (40%). Most of the merger consideration is planned to be newly issued stock, which is expected to increase total equity to more than $500 million and to be neutral or accretive to regulatory capital metrics. These mergers are expected to improve most of the Company's performance and condition measures as a result of improved efficiencies.

Investment Securities. Total investment securities decreased by $15 million (4%) in 2010, with most of the proceeds held in short-term investments at year-end. In the ongoing low rate environment, prepayments of mortgage-backed securities remained elevated. The portfolio of available for sale mortgage-backed securities decreased by $24

million. In order to maintain most of the yield on the portfolio, the Company increased its portfolio of higher yielding trust preferred securities by $13 million and also purchased dividend paying equity securities, resulting in a $16 million increase in total marketable equity securities. The trust preferred securities are mostly investment grade securities issued by national banks. The equity securities are mostly issued by Northeast community banks. The marketable equity securities portfolio had a $3.1 million net unrealized gain at year-end 2010, including unrealized gains totaling $1.7 million on investments in Rome Bancorp and Legacy Bancorp common stock which are expected to be realized in income in 2011 when the pending merger agreements are completed.

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 2010, Berkshire's $406 million securities portfolio was primarily comprised of $310 million of available for sale securities, consisting of 56% government and government-sponsored agency mortgage-backed securities, 26% municipal obligations, and 18% other bonds and equities. The remaining securities consisted mainly of $65 million of locally issued development bonds (classified as held to maturity except for one security classified as a trading obligation as a result of a related interest rate swap) and a $21 million investment in the stock of the Federal Home Loan Bank of Boston.

None of the Company's investment securities were deemed impaired on an other-than-temporary basis during 2010. At year-end 2010, 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 investment in the Mezzanine Class B tranche of a pooled trust preferred security which was rated Ca by Moodys, and an unrated school district bond with a year-end premium fair value and an unrealized gain. During the year, the pool trust secured security was downgraded from Caa and the unrealized loss increased to 92% of book value from 67% at year-end 2009. This security is performing. The Company evaluated the security, with a Level 3 fair value of $0.2 million, for potential OTTI at year-end 2010 and determined that other-than-temporary impairment was not evident based on both the Company's more likely than not ability to hold the security until the recovery of its remaining amortized cost and the protection from credit loss afforded by $38 million in excess subordination above current and projected losses. The Company's analysis included a break-even analysis with the assistance of an independent third-party valuation-specialist to calculate the excess subordination of the Mezzanine Class B Tranche. The Company modeled actual cash flows from the pool's underlying securities as provided by Intex Solutions, Inc. and adjusted these for actual defaults and assumed defaults to determine the amount of future credit losses that could be absorbed by the pool's junior tranches before a single dollar of credit loss would be attributed to the Mezzanine Class B tranche. 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. 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. The FHLBB had previously suspended dividends on its common stock, but in early 2011 announced the resumption of a modest dividend. The Company expects that it could redeem its investment in FHLBB stock at par in the future.

The net unrealized gain on securities available for sale totaled $4.0 million, or 1.3% of book value, at year-end 2010. The gain as a percentage of book value was unchanged from the prior year-end. The percentage gains on municipal and mortgage-backed securities declined in 2010. Pricing on municipal securities reflected increased market risk premiums related to state and local budget deficits, and mortgage-backed securities prices reflected run-off of higher yielding securities due to prepayments. The decrease in these gains was offset by an increase in unrealized gains on marketable equity securities, which had nearly a 20% unrealized gain at year-end mainly due to the bank stocks that were purchased during the year. The Company also had net unrealized gains on its held to maturity securities and trading security at year-end 2010, which were little changed from gains at year-end 2009.

The tax equivalent yield on investment securities declined slightly to 3.9% in the fourth quarter of 2010, compared to 4.0% in the fourth quarter of 2009, as higher yields on securities purchased mostly offset the impact of run-off of higher yielding securities during the year. Excluding the held to maturity tax advantaged economic development bonds, the duration of the debt securities was approximately 3.4 years at year-end 2010. Total non-mortgage-backed securities with maturities of five or more years increased to $150 million at year-end 2010 from $121 million at the start of the year. The duration of the mortgage-backed securities portfolio has been held to a relatively short life of about 1.7 years, reflecting the ongoing short duration objective of this most liquid portion of the portfolio.

Loans. Total loans increased by $181 million (9%) to $2.1 billion in 2010 primarily due to the previously mentioned $174 million (17%) increase in commercial loans. Residential mortgages increased by $36 million (6%) to $645

million and home equity loans increased by $15 million (7%) to $226 million. Other consumer loans decreased by $44 million (43%) due primarily to a $37 million (56%) decrease in indirect automobile loans to $29 million due to planned runoff of this portfolio.

The Company actively pursued loan originations in all of its markets in 2010. In addition to offsetting the run-off of indirect automobile loans, its 9% loan growth was achieved despite elevated loan prepayments and lower commercial line utilization resulting from a low rate environment and local business conditions. The Company's loans are originated in and around its markets according to disciplined underwriting standards. It does not offer subprime lending programs. Growth in commercial loans reflects ongoing market share gains, particularly from larger national providers which have reduced their focus on the Company's core markets. This growth included higher originations of commercial business loans, which further diversify the Company's portfolio by industry and geography. Growth also included new relationships with high grade institutional borrowers, including health systems and higher education institutions. Growth in commercial loans was funded in part by an $85 million increase in commercial non-maturity deposit balances, which grew by 19% for the year, reflecting the relationship emphasis of the commercial banking strategy. In commercial lending, excluding the new Asset Based Lending Group, total originations increased by 11% in 2010 compared to 2009, and new loan originations spreads exceeded the Company's targets. At year-end 2010, the ten largest outstanding loans originated in 2010 totaled $95 million and included two apartment buildings, two wholesalers, two metal/machinery manufacturers, two equipment leasing companies, and two commercial real estate investment properties. The Company sets risk adjusted return on equity targets for the majority of its commercial loan originations in order to support its long range return on equity goals. All commercial loans are risk rated according to its internal ratings systems, which are regularly reviewed by independent reviewers. The average risk rating of the Bank's commercial loan portfolio continued to improve in 2010, due to lower levels of problem loans, improvements in performing loans, and lower risk of new originations.

Growth in retail lending reflects ongoing expansion of the Company's retail banking franchise. The portfolio of sold mortgages serviced for others totaled $320 million at year-end 2010, compared to $245 million at the prior year-end. In the current rate environment, the Company retains most variable and jumbo mortgage loans originated and sells most conforming fixed rate residential mortgages to the secondary market to minimized long term interest rate risk. Additionally, the Company regularly evaluates opportunities to purchase residential mortgages in the region's markets to offset portfolio run-off and improve net interest income. In the first quarter of 2010, the Company purchased $32 million in prime, seasoned thirty-year, fixed rate Massachusetts residential mortgages from another institution in the state. The Company has upgraded its mortgage loan origination systems and internet banking applications and is using Six Sigma process management disciplines to expand and strengthen its consumer lending functions as part of its commitment to meeting credit needs as a steady local market provider against the backdrop of continuing change and uncertainty in the national mortgage financing markets. The Company's 7% growth in home equity loan balances also reflected the expanding consumer lending effort, with a 3% increase in total home equity lines, and a 3% increase in average usage to 57% from 54%. Its consumer lending quality metrics continued to improve in 2010, with average FICO scores on mortgage originations rising to about 750 at year-end, and near 775 on home equity line originations.

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 increased by 21% to $1.3 million in 2010, reflecting the higher commercial business volumes. The outstanding notional amount of interest rate swaps sold to commercial loan customers increased to $137 million from $94 million during 2010.

Total year-end loans with repricings over five years increased to $527 million at year-end 2010 compared to $446 million at the beginning of the year. While the Company emphasizes variable rate loans to maintain its asset sensitive interest rate risk profile, the Company also chose to increase holdings of certain higher rate fixed rate loans at certain times during the year in order to offset the impact of loan prepayments and indirect auto loan run-off on interest income. The average yield on loans was 4.77% in the fourth quarter of 2010, compared to 4.95% in the fourth quarter of 2009. An increasing amount of commercial lending is also based on short term LIBOR indices, which remained low throughout the year. LIBOR based commercial loans totaled approximately $400 million of the $1.2 billion total commercial loans at year-end 2010, compared to $230 million of the $1.0 billion total at year-end 2009. In 2010, the Company exceeded its targets for commercial loan origination spreads compared to the internally assigned cost of funds, although deposit funding costs resulted in net interest margins on new commercial loans that were often below the total average net interest margin for the Company. Berkshire benefited from interest rate floors, which in many situations established an initial rate higher than the contracted rate due to the current low rate environment. The total amount of loans with such floors was about $120 million at year-end 2010. The average balance of loans increased by 2% in 2010 as a result of accelerated growth in the second half of 2010 and loan charge-offs recorded at the end of 2009. As a result, the earnings benefit from higher second half 2010 loan growth will provide additional momentum to interest income growth in 2011.

Asset Quality. The level and trend of asset quality remained favorable through year-end 2010. Non-performing assets decreased to 0.59% of total assets and accruing delinquent loans were 0.31% of total loans at year-end, while performing restructured loans were 0.25% of total loans. Year-end other real estate owned totaling $3.4 million consisted primarily of one commercial resort condominium totaling $2.9 million which was being actively marketed for sale. Non-performing loans totaled $13.7 million at that date and included three commercial loans with balances around $1 million; all other non-performing loans were less than $1 million.

Annualized net loan charge-offs decreased to 0.37% of average loans in the fourth quarter, bringing the full year charge-off rate down to 0.42%. Mortgage and home equity net charge-off rates remained very favorable, measuring less than 0.05% of average balances. The Company only took ownership of two residential properties through foreclosure during the year. Commercial loan net charge-offs were 0.66% of average balances in 2010 and were expected to continue to decline based on the Company's aggressive risk mitigation and improving economic conditions.

Asset quality metrics improved throughout the year as the Company followed its strategies to reduce risk following its loan quality initiative in the fourth quarter of 2009. A number of relationships were upgraded during the year as a result of restructurings completed in this initiative, and reflecting improved business conditions for a number of borrowers. 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). The credit risk profile of the Company's loan portfolio is described in the Loans note to the consolidated financial statements. Commercial loans rated as special mention decreased by 50% during the year. Commercial loans rated as substandard or lower decreased by 12% during the year. Substandard loans include performing loans which are viewed as potential problem loans with a possibility of loss if identified weaknesses are not corrected. The balance of commercial potential problem loans totaled $73 million at year-end 2010, including one $13 million commercial relationship consisting primarily of a Massachusetts commercial retail property which was downgraded at midyear and which was performing and was not deemed impaired at year-end as it was following a plan to liquidate assets and cure established weaknesses, and it continued to make payments in accordance with the contractual loan terms. Potential problem loans included five other commercial relationships over $4 million totaling $27 million at year-end, including two lodging properties, two nonprofit borrowers, and office property. These loans were performing at year-end and were not deemed 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 I of this report. 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 December 31, 2010. The $32 million allowance was unchanged from the start of the year.

The specific valuation allowance assigned to impaired loans decreased to $2.5 million from $6.4 million during 2010. Total loans deemed impaired decreased to $16.6 million from $56.9 million as a result of the problem asset resolution strategies discussed earlier. Total pool reserves increased to $29.4 million from $25.4 million, an increase of 16% compared to the 9% increase in total loans. This reflected the higher percentage of commercial loans in the portfolio, which carry higher reserves compared to most retail loans.

The allowance decreased to 1.49% of total loans at year-end 2010 compared to 1.62% at the start of the period, due mainly to the decline in impaired loan reserves noted above. The allowance provided 3.8X coverage of net loan charge-offs in 2010 and 233% coverage of year-end non-accruing loans.

Other Assets. During the fourth quarter of 2010, the Company purchased an additional $10 million of bank-owned life insurance (“BOLI”) as part of a strategy to partially offset the cost of its employee benefits. The premium was split among three carriers rated AAA or AA. The new BOLI policies bear a combined initial yield of approximately 6% on a tax equivalent basis. Increases in the cash surrender value on these policies will be reflected through non-interest income.

The total cash surrender value of BOLI totaled $46 million at year-end 2010, which was below the $53 million regulatory limit for such investments based on 25% of Tier one regulatory capital as of that date. The balance of the net deferred tax asset increased to $16 million from $12 million during the year due to an increase in the asset related to the loan loss allowance. The Company expects to realize the value of the net deferred tax asset during its normal operations. The federal and state tax receivable had increased to $12 million at the end of 2009 as a result of the pre-tax loss recorded in that year. This receivable decreased to $3 million at year-end 2010.

Deposits. Total deposits increased by $218 million (11%) in 2010, including $105 million of net growth in the New York region and nearly $50 million contributed by the new Springfield Private Banking Group. 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 late in 2010. New York deposit growth also benefited from commercial balance growth developed by the commercial banking team that joined the region in 2009. The Company achieved low single digit deposit growth in all of its other regions, reflecting ongoing business development.

The 11% deposit growth resulted from 20% growth of non-maturity deposits which was partially offset by a 4% decrease in time deposits. The decrease in time deposits reflected shifting consumer preferences to more liquid balances in light of the continuing low interest rate environment and the run-off of higher yielding maturing time account balances. The increase in non-maturity deposits included a $163 million (21%) increase in retail balances and an $85 million (19%) increase in commercial balances. All categories of non-maturity deposits increased, with most of the growth concentrated in a $183 million (34%) increase in money market deposits which the Company promoted throughout the year as an alternative to time deposits and as a vehicle to other relationship product sales. Transaction account balances increased by 8% in 2010, and the Company continues to promote demand deposit and NOW accounts as core components to the total banking relationship. Demand deposit growth of 8% included a 2% increase in the number of accounts and a 6% increase in balances, reflecting higher liquidity held by customers in these accounts.

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 1.15% in the fourth quarter of 2010 from 1.48% in the fourth quarter of 2009. A total of $394 million in time deposits were scheduled to mature within twelve months at year-end 2010, and the weighted average cost of time deposits was expected to continue to decline based on continuing low interest rates. The average balance of deposits increased by 6% in 2010, with higher deposit growth being recorded in the second half of the year.

The Dodd-Frank Act permanently raised deposit insurance levels to $250 thousand, retroactive to January 1, 2008, and extended for two years the Transaction Account Guarantee Program, which became mandatory for all insured depository institutions. While the FDIC insurance fund had a negative balance of $7.4 billion at year-end 2010, the FDIC viewed 2010 as a turnaround year for the industry as a result of lower loan loss provisions. The average cost of

FDIC insurance expense measured approximately 0.17% of average deposits in 2010. Under new premium rules, FDIC insurance expense will be based on total assets rather than total deposits, and will include higher assessment rates for banks over $10 billion. The FDIC expects that most institutions under $10 billion will pay lower assessments as a result of these new rules.

Borrowings and Debentures. Total borrowings and debentures decreased by $46 million to $260 million in 2010, as excess liquidity from deposit growth was used to pay down short-term borrowings from the Federal Home Loan Bank. The Company purchased $40 million in forward starting interest rate swaps on FHLBB borrowings in 2010 which will have the effect of extending protection from rising rates in future years. Additionally, in the third quarter, the Company terminated $40 million of cash flow hedges against FHLBB borrowings maturing in 6-8 years based on a determination that this level of protection against rising interest rates was not necessary given the Company's continuing asset sensitive interest rate risk profile. The average cost of borrowings decreased from 4.30% in the fourth quarter of 2009 to 3.27% in the first quarter of 2010 due to the borrowings prepayments made at the end of 2009. The cost of borrowings further declined to 2.92% in the fourth quarter of 2010 including the benefit of the hedging changes discussed above.

Derivative Financial Instruments. The Company has relationships with several national banks which are counterparties for its interest rate swaps. At year-end 2010, the Company had $137 million in total notional value of interest rate swaps with commercial loan customers, which were offset with back-to-back swaps with bank counterparties. This was a 46% increase over the $94 million notional value of these swaps at the start of the year.

The Company also had $160 million in total notional value of interest rate swaps with bank counterparties which were hedging borrowings and debentures, and $15 million hedging the tax advantaged economic development bond designated as a trading security. These totals were unchanged from the start of the year, although the component swaps were changed as discussed in the borrowings discussion. The effect of these changes was to shorten the overall maturity of borrowings hedges and to reduce the current and future period payments contracted under the swaps. The $6 million loss on the $40 million in terminated cash flow hedges remained in accumulated other comprehensive income and will be amortized into earnings in the same periods during which the originally hedged forecasted transaction affects earnings. This amortization is expected to be more than offset by the lower interest cost on the related borrowings.

The net fair value of derivative financial instruments was estimated at a net loss of $11 million at year-end 2010, which was slightly more than the loss estimated at the prior year-end. This unrealized estimated loss is primarily due to the impact of the unanticipated ongoing low interest rate environment on the value of the swaps on borrowings which were intended to fix the rates on variable rate borrowings. The increase in other liabilities was primarily due to an increase in the gross derivatives liability to $19 million at year-end 2010 from $14 million at the start of the year and resulted from the higher liability on fixed rate swaps sold to commercial customers; this liability is offset by a similar asset on the offsetting back to back swaps, with little impact on the $11 million net derivatives liability discussed above.

Stockholders' Equity. Capital remained strong at year-end 2010, with equity/assets at 13.5% and tangible equity/assets at 7.9%. Tangible common equity increased by 3% in 2010, rising to $15.27 per share at year-end. Total common equity measured $27.56 per share at year-end, and was little changed during the year. Based on the year-end closing stock price of $22.11 and year-end outstanding shares totaling 14.1 million, the Company's market capitalization at that date was $311 million, which was an 8% increase over $288 million at the start of the year.

Total stockholders' equity increased slightly to $388 million from $385 million in 2010 as the increase in retained earnings was partially offset by an increase in the accumulated other comprehensive loss primarily related to derivative instruments. The Company paid dividends totaling $9 million, or 65% of the $14 million in 2010 net income. The $0.64 per share dividend in 2010 provided a 3.3% yield based on the average closing price of the Company's common stock in 2010. Equity also increased by $2 million as a result of stock based compensation relating to grants of restricted stock totaling 139,000 shares, including 26,000 performance based shares, with vesting scheduled over a 2-3 year period. Additionally, equity increased by $1 million due to proceeds received from the exercise of stock options during the year.

At year-end 2010, the Bank’s regulatory capital ratios exceeded the requirements to be considered “well capitalized”, with the total risk-based capital ratio measuring 10.6%. The Bank is regulated by the FDIC and Berkshire Hills Bancorp is regulated by the OTS, which does not establish required holding company capital ratios similar to those of the other bank regulatory agencies. Based on federal regulatory changes, the OTS is being merged into another federal agency, and the regulation and supervision of Berkshire Hills Bancorp will become the responsibility of the Federal Reserve Bank of Boston, beginning in the third quarter of 2011. The Boston Federal Reserve Bank already supervises the majority of bank holding companies located in New England. The Federal Reserve Bank requires capital ratios and capital standards for consolidated holding companies, which are similar in many respects to those required by the FDIC for regulated banks. 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, 2010 AND 2009

Summary. The Company recorded earnings of $14 million in 2010, compared to a loss of $16 million in 2009. Total pre-tax, pre-provision income increased by $6.4 million (32%) in 2010 compared to 2009, demonstrating the positive operating leverage from revenue growth and expense control. 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 $0.99 per share in 2010 compared to a loss of $1.52 in 2009. All references to results per share in this report are to diluted earnings per common share unless otherwise noted. 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:

• 10% net revenue growth

• 11% net interest income growth

• 6% fee income growth

• 9% loan growth

• 11% deposit growth

• 4% non-interest expense growth including costs of business expansion

Reflecting the improved earnings, the return on assets was 0.50% and the return on average common equity was 3.54% in 2010. 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 anticipated 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%.

Total Net Revenue. The Company achieved a record $108 million of total 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 4% to $7.78 in 2010 from $7.47 in the prior year. Fee income was 28% of total net revenue in 2010, down slightly from 29% in the prior year. Berkshire continues to focus on long-term growth of this ratio to diversify revenue and to increase franchise value reflecting higher market share achieved through improved cross sales.

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 3.27% 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.

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. 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%. At year-end 2010, the model continued to indicate the potential for gradual margin pressure until interest rates increase. The Company continues to pursue strategies intended to avoid a reduction in the net interest margin and expects that the net interest margin will improve as a result of the completion of the pending merger agreements with Rome and Legacy.

Non-Interest Income. Non-interest income increased by $2 million (7%) to $31 million in 2010 due to a similar increase in fee income. Banking fees increased by $3 million (27%) for the year. 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 checking and related fees increased by $1 million (12%) 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. In October 2010, the Company announced organization changes in this business line, and the Company is taking steps to increase future wealth management fee revenues. An unfavorable change in hedge revaluations caused the decrease in all other non-interest income. 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 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 $9 million in 2010, compared to $48 million in 2009. As was previously discussed, the provision in 2009 was mostly recorded near the end of the year in conjunction with a loan initiative to proactively assess and mitigate current and future risk. 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 32% 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 Company also measures itself by the efficiency ratio, which decreased to 71% from 73% from year-to-year, indicating that expenses were declining as a percentage of revenues. The Company's long term target is to operate with this measure below 60%, and expects a significant improvement towards that goal on the completion of the pending bank mergers in 2011.

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 23% 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 $12 million income tax benefit in 2009, measuring 42% 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.

COMPARISON OF OPERATING RESULTS FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

Summary. Events in 2009 were affected by the severe recession and the financial market turmoil in the second half of 2008 and first half of 2009 which affected the U.S. and global economies. Federal stabilization measures were utilized which were unprecedented since the Great Depression. Financial impacts on the Company included the

reduction of short-term government interest rates to near zero, and sharp increases in FDIC insurance premiums and assessments. While economic conditions were moderating beginning in the third quarter of the year, numerous economic indicators remained stressed through year-end. The recession followed a real estate bubble earlier in the decade, which led to a decline in real estate market prices and activity throughout the year.

The impacts of the recession affected all of the Company's major categories of income and expense. The Company recorded a net loss of $16 million in 2009 including a $48 million provision for loan losses. Income before income taxes and the provision for loan losses was $20 million in 2009, down from $36 million in the prior year. The net loss per share of $1.52 in 2009 included the impact of additional common shares issued and charges related to dividends on preferred stock which was repaid in the first half of the year.

The provision for loan losses primarily reflected the impact of higher commercial loan net charge-offs and reserves. While the Company's loan performance remained comparatively strong throughout the year, the Company initiated a comprehensive loan review in the fourth quarter to assess the impacts of the recession on the portfolio. Based on this review, Management acted to restructure, outplace, or sell a number of larger commercial loans. Following this initiative, non-performing commercial loans increased to $35 million at year-end while the Company pursued the anticipated completion of workout strategies on the majority of this balance.

The Company conducted a successful common stock offering in May 2009, and funds from the offering were used for the repayment of U.S. Treasury TARP preferred stock. The Company's participation in the TARP program resulted in a profit to the Treasury. At year-end, the Company was not participating in any federal capital support programs. The Company maintained the payout of common stock dividends during the year and ended 2009, with higher common equity capital and strong capital ratios.

The Company's strategies emphasized long term over short term earnings. Its actions to increase capital and liquidity decreased certain short term profit measures. Its ongoing discipline to remain asset sensitive was targeted to benefit future earnings at the time of future rate increases anticipated by the market, but this resulted in a lower current net interest margin. The Company held significant liquidity at the Federal Reserve Bank in the first half of the year, which provided maximum protection and flexibility, but comparatively little interest income. The Company also absorbed various expense charges, particularly in the fourth quarter, to be better positioned for the future.

Despite the impacts of the recession, the Company continued to move forward with organic growth of deposits and targeted loans. The Bank's 100% insured deposits provided an attractive alternative to other investments in the unsettled financial markets. The Bank's Community Investment Program, with a goal of $500 million in new loans, produced in excess of $600 million of loan originations to support the needs of its markets in the face of the tighter credit environment.

Berkshire maintained its forward looking focus in 2009, following record revenues and earnings in 2008. It expanded its business lines through the recruitment of high profile banking teams, and opened new regional and branch facilities in Springfield, MA. The Company recruited important new executive leadership, reorganized and re-engineered key fee income business lines, and accomplished a major core systems upgrade. Highlights of the year's activities were as follows:

- 9% deposit growth
- 8% commercial loan growth, excluding net charge-offs
- 10% wealth management new business generation
- 3.00% net interest margin
- $32 million common stock raise in May followed by the $40 million TARP preferred stock repayment
- Borrowings restructuring, lowering future interest expense

- 8.3% tangible common equity to tangible assets and total year-end equity to assets of 14.2% at year-end

Net Income. The Company recorded a loss of $16 million in 2009 following a record profit of $22 million in the prior year. As previously discussed, its common equity capital and liquidity improved during the year. The change in operating results reflected the impact of the severe recession on the Company's earnings. The primary impact was in the provision for loan losses, which increased to $48 million from $5 million. Additionally, total net revenue declined to $99 million from $107 million due to adverse pricing conditions affecting both interest and non-interest income. Total expenses increased to $79 million from $72 million primarily due to the impact of higher FDIC assessments on the industry. The above impacts were increased by management's initiatives in the fourth quarter, wherein costs were incurred to assess and restructure certain aspects of balance sheet and operational management to reduce future risk and benefit future earnings. These initiatives included a number of loan restructurings, prepayment of higher cost borrowings, and re-engineering of the insurance group. On a per share basis, the Company recorded a loss of $1.52 in 2009 compared to income of $2.06 in the prior year. All references to results per share in this report are to diluted earnings per common share unless otherwise noted. In 2009, per share results were impacted by preferred dividends in the first half of the year, as well as by higher average common stock outstandings following capital offerings in October 2008 and May 2009.

Total Net Revenue. Total net revenue consists of net interest income and non-interest income. Total net revenue decreased by $9 million (8%) in 2009 compared to 2008 due to the impacts of the severe recession. This was comprised of a $6 million (8%) decrease in net interest income and a $3 million (8%) decrease in non-interest income. Net revenue per share decreased by 25% to $7.47 from $9.95, reflecting the additional shares issued. Fee income increased slightly to 29% of total net revenue in 2009 from 28% in 2008. The Company focuses on long-term growth of this ratio to diversify revenue and to increase franchise value reflecting higher market share achieved through improved cross sales.

Net Interest Income. The 8% decrease in net interest income was due to a decrease in the net interest margin to 3.00% in 2009 from 3.44% in the prior year. The Company's asset liability model had predicted a decrease in net interest income from 2008 in an unchanged rate environment. U.S. Treasury rates remained fairly stable in 2009, with near zero short term rates as a result of Federal Reserve stimulus policy and a positively sloped yield curve. Due to the Company's asset sensitive interest rate profile, this environment created substantial pressure on margins as variable rate assets repriced and fixed rate assets refinanced. While the Company had anticipated that commercial loan growth would offset some of this pressure, the benefit of this growth was largely offset by the tightening of LIBOR spreads and by the high level of mortgage refinancings and repricings. Other factors contributing to the decrease in net interest income included the planned runoff of higher yielding indirect auto loans, market floors on deposit pricing in the very low rate environment, and the elimination of the dividend by the FHLBB, which had contributed $0.8 million in revenue in 2008.

Average earning assets increased by 6% during 2009, as deposit growth was channeled into investment securities with low market yields. Deposit growth was strongest in the first half of the year, at a time when commercial loan demand was soft due to the economic contraction and new funds were held in overnight investments with little yield. Mortgage runoff was also highest during the first half of the year, with the market responding to federal interventions to reduce long term mortgage rates. The Bank sold most of these low fixed rate mortgages rather than holding them in portfolio. The net interest margin decreased from 3.41% in the fourth quarter of 2008 to 2.91% in the second quarter of 2009. Around midyear, the Company began investing overnight funds in 1-3 year investment securities, more residential mortgage originations were retained, commercial loan growth accelerated, and there was continued focus on loan and deposit pricing to offset the impact of market conditions. With the benefit of these actions, the net interest margin improved to 3.05% in the fourth quarter of 2009. This margin was also affected by the increase in non-performing assets.

The average yields on all major categories of earning assets decreased steadily throughout the year as repricings were affected by the low market rates. Additionally, higher yielding auto loans and mortgages ran-off and were replaced in

part by lower yielding investments and home equity loans. The yield on total earning assets decreased by 0.91% from 5.67% in the fourth quarter of 2008 to 4.76% in the fourth quarter of 2009. Average costs of interest bearing liabilities generally decreased throughout the year, while borrowing costs increased slightly due to changes in the borrowing mix. The cost of interest bearing liabilities decreased by 0.57% from 2.64% in the fourth quarter of 2008 to 2.07% in the fourth quarter of 2009. For the year, the net interest spread decreased by 0.45%. Much of the growth in interest bearing assets was funded by non-interest bearing demand deposit accounts and contributed capital. The net interest margin decreased by a lesser amount of 0.44%.

Non-Interest Income. The $3 million (8%) decrease in non-interest income included a $2 million (7%) decrease in fee income. Berkshire posted increases in deposit and interest rate swap fee revenues. Deposit service fee income increased by $0.3 million (3%) due to higher business volumes related to deposit growth. Commercial interest rate swap fees increased by $0.6 million reflecting increased marketing of these instruments and improved competitive and interest rate conditions in this market. These swaps are generally written in conjunction with certain larger commercial loan originations. Loan fee income decreased by $0.8 million. While the Company processed higher mortgage loan refinancing volume in 2009, the costs of handling the volume surge generally offset the benefit of higher secondary market income. Mortgage servicing fee income decreased due to amortization and impairment charges for mortgage servicing rights as a result of the high refinancing volumes. Wealth management fee income decreased by $0.9 million (16%) primarily due to the lower stock market prices on which some of this income is based. After prices recovered towards the end of the year, total assets under management reached $668 million at year-end 2009, compared to $670 million at the start of the year. Wealth management new business volume measured 10%, reflecting ongoing new business in this segment. Fourth quarter 2009 wealth management fees had recovered to within 3% of results in the fourth quarter of the prior year. Insurance revenues decreased by $1.4 million (11%) due to lower contingency income and ongoing tighter pricing conditions in the consumer and commercial markets. Retail income has also been affected by more competitive conditions in Massachusetts, and commercial income has been affected by reductions in commercial insurance in force due to the impact of downsizings on local businesses. Insurance fee income is seasonal, with most contingency income received in the first half of the year.

The Company recorded an increase in other non-interest income due to the benefit of hedge accounting revaluations. Non-recurring non-interest income items included prepayment fees, a swap termination gain, and a credit for a merger termination fee. The Company recorded $3 million in costs for the prepayment of FHLBB borrowings in the first and fourth quarters. The company recorded a $1 million gain on an interest rate swap termination in the first quarter. The Company recorded $1 million in revenue related to the June termination of a merger agreement with CNB Financial Corp. as a result of an unsolicited offer that was accepted by CNB.

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 provision for loan losses totaled $48 million in 2009 compared to $5 million in 2008. The loan loss provision in 2009 exceeded net charge-offs of $39 million, and as a result, the allowance for loan losses increased to 1.62% of total loans from 1.14% at the start of the year.

Total net loan charge-offs measured 1.96% of average total loans in 2009, compared to 0.19% in the prior year. The Company's 2009 loan losses compared favorably to FDIC 2009 averages, with the national average measuring 2.49% and the average for banks headquartered in the Northeast region measuring 2.75%. The Company's commercial net loan charge-offs totaled 3.32% of average commercial loans in 2009. Residential mortgages averaged 0.32% of average loans. Auto loan charge-offs measured 2.29% of average auto loans. Home equity and other consumer loan losses averaged 0.45% of average loans.

Non-Interest Expense and Income Tax Expense. Total non-interest expense increased by $7 million (10%) in 2009 compared to 2008. The increase included $4 million in higher expense for FDIC insurance and $2 million for the cost of fourth quarter initiatives. The increase in FDIC insurance cost was related to higher charges levied against the industry, as was previously discussed. Additionally, the Bank chose to voluntarily participate in the unlimited transaction account insurance, which resulted in additional premium charges. Before FDIC expense, total expense in the first nine months of 2009 was $1 million less than in the same period of 2008. The Company recorded $2 million in expense for fourth quarter initiatives, including the loan review/restructuring initiative, insurance re-engineering, sign-on bonus and severance expense, and costs for the expanded review of goodwill.

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Before the cost of FDIC expense and fourth quarter initiatives, total expense for the year increased by $1 million (1.5%) compared to the prior year. Expenses in 2009 included fourth quarter costs related to the start-up of the Asset Based Lending Group and the opening of the Springfield regional headquarters and the new Springfield branch. Total salary and benefit expense was flat from year to year. Executive bonuses were forfeited in 2009, and total incentive compensation decreased by $1 million. Compensation expense also declined as a result of a $1 million increase in direct compensation costs that were recorded as charges against non-interest income as a result of current year loan sale activity. Excluding these factors, total salaries and wages increased by $2 million (6%) in 2009 compared to 2008. The Company had 622 full time equivalent employees at year-end 2009, compared to 610 in 2008, including new positions related to its expansion and new business initiatives. Amortization expense for intangibles decreased based on lower intangibles. Nonrecurring expense in 2009 included costs associated with the terminated CNB merger and other charges related to the restructuring of the Integrated Services division which was created at the beginning of the second quarter, together with a legal settlement related charge. Other expense included an increase in loan expense due to higher problem and potential problem loans. Due to the increase in total expense, the ratio of non-interest expense to average total assets increased to 2.93% in 2009 from 2.81% in 2008.

The Company recorded a $12 million income tax benefit in 2009, measuring 42% of the pre-tax loss, due to the full recoverability of prior period federal tax expense through carrybacks and carryforwards. There is no state income tax loss carryback or carryforward benefit, whereas there is normally a 6-7% effective state tax rate on pre-tax income. The Company also has a tax benefit related to tax exempt investment income, which provided a 6% rate benefit in 2009. The effective tax rate was 28% in 2008, including a rate benefit of 3% related to the elimination of a state tax valuation allowance as a result of growth in the Bank's taxable income, along with the ongoing benefit from tax advantaged investments and other ongoing tax credits.

Results of Segment and Parent Operations. The banking segment reported a $16 million loss in 2009, and the consolidated result was a $16 million loss. In comparison, the results were record income of $22 million in 2008 for both the banking segment and the consolidated total. The change in results in the banking segment was primarily due to the same factors that affected consolidated results, which have been discussed previously. Net income of the insurance segment decreased to $1 million from $2 million due to an 11% decrease in revenues reflecting the soft pricing conditions in the industry and other impacts of the recession and competition on revenues. Berkshire Hills Bancorp received $12 million in dividends from the Bank and $3 million in dividends from BIG and recorded a $1 million merger termination fee credit to revenue which was partially offset by increased operating expenses stemming from the terminated merger agreement. The Parent had $24 million in cash on deposit at the Bank at year-end 2009.

Comprehensive (Loss) Income. The Company recorded a comprehensive loss of $7 million in 2009, which was less than the $16 million operating loss due to the improved market prices of securities and derivative instruments. In 2008, the Company recorded $9 million in comprehensive income which was lower than the $22 million net income for the year due to the decrease in market 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%.

	2010			2009			2008		
(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 (1):									
Residential loans	$633.5	$32.9	5.19 %	$642.9	$34.7	5.40 %	$669.1	$37.9	5.66 %
Commercial real estate loans	881.9	43.3	4.91	829.3	42.3	5.10	725.2	48.0	6.62
Commercial business loans	204.0	10.5	5.15	177.8	10.0	5.62	379.8	13.5	3.55
Consumer loans	299.9	11.7	3.90	332.5	14.7	4.42	206.0	21.2	10.29
Total loans	2,019.3	98.4	4.87	1,982.5	101.7	5.13	1,980.1	120.6	6.09
Investment securities (2)	408.3	16.7	4.09	368.5	16.0	4.34	271.2	14.5	5.37
Federal funds sold and short-term investments	11.4	-	-	42.1	0.1	0.24	12.2	0.2	1.64
Total interest-earning assets	2,439.0	115.1	4.72	2,393.1	117.8	4.92	2,263.5	135.3	5.98
Intangible assets	174.5			177.6			180.3		
Other non-interest earning assets	134.9			112.2			107.0		
Total assets	$2,748.4			$2,682.9			$2,550.8		
Interest-bearing liabilities:									
Deposits:									
NOW accounts	199.3	0.7	0.35 %	188.2	0.8	0.43 %	200.1	1.5	0.75 %
Money market accounts	597.3	5.6	0.94	499.6	6.4	1.28	464.9	10.0	2.15
Savings accounts	224.3	0.6	0.27	212.3	0.7	0.33	216.4	1.6	0.74
Certificates of deposit	749.2	19.4	2.59	777.1	24.7	3.18	725.4	28.6	3.94
Total interest-bearing deposits	1,770.1	26.3	1.49	1,677.2	32.6	1.94	1,606.8	41.7	2.60
Borrowings and debentures	282.0	9.0	3.19	312.9	13.3	4.25	363.8	15.8	4.34
Total interest-bearing liabilities	2,052.1	35.3	1.72	1,990.1	45.9	2.31	1,970.6	57.5	2.92
Non-interest-bearing demand deposits	279.2			256.4			225.2		

Other non-interest-bearing liabilities	29.2			24.2			11.0	
Total liabilities	2,360.5			2,270.7			2,206.8	
Equity	387.9			412.2			344.0	
Total liabilities and equity	$2,748.4			$2,682.9			$2,550.8	
Net interest-earning assets	$386.9			$403.0			$292.9	
Net interest income		$79.8			$71.9			$77.8
Supplementary data								
Total non-maturity deposits	$1,300.1			$1,156.5			$1,106.6	
Total deposits	2,049.3			1,933.6			1,832.0	
Fully taxable equivalent adjustment	2.3			2.3			2.1	
Interest rate spread			3.00 %			2.61 %		3.06 %
Net interest margin			3.27			3.00		3.44
Cost of funds			4.52			2.04		2.62
Cost of deposits			1.29			1.69		2.28
Interest-earning assets/interest-bearing liabilities			118.85			120.25		114.86

(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.

RATE/VOLUME ANALYSIS

The following table presents the effects of changing rates and volumes 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%. Changes attributable to changes in both rate and volume have been allocated proportionately based on the absolute value of the change due to rate and the change due to volume.

	2010 Compared with 2009 Increase (Decrease) Due to			2009 Compared with 2008 Increase (Decrease) Due to		
(In thousands)	Rate	Volume	Net	Rate	Volume	Net
Interest income:						
Loans	$(5,243)	$1,897	$(3,346)	$(19,002)	$139	$(18,863)
Investment securities	(1,035)					