BERKSHIRE HILLS BANCORP INC
Form 10-Q
May 10, 2011

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

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended: March 31, 2011

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _________ to __________

Commission File Number: 000-51584

BERKSHIRE HILLS BANCORP, INC.

(Exact name of registrant as specified in its charter)

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

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

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 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 Exchange Act)

Yes ¨ No x

The Registrant had 16,779,110 shares of common stock, par value $0.01 per share, outstanding as of May 2, 2011.

BERKSHIRE HILLS BANCORP, INC.
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PART I

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

BERKSHIRE HILLS BANCORP, INC.
CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)	March 31, 2011	December 31, 2010
Assets		
Cash and due from banks	$30,928	$ 24,643
Short-term investments	10,297	19,497
Total cash and cash equivalents	41,225	44,140
Trading security	15,781	16,155
Securities available for sale, at fair value	315,333	310,242
Securities held to maturity (fair values of $57,802 and $57,594)	56,628	56,436
Federal Home Loan Bank stock and other restricted securities	23,120	23,120
Total securities	410,862	405,953
Loans held for sale	142	1,043
Residential mortgages	655,601	644,973
Commercial mortgages	924,311	925,573
Commercial business loans	288,375	286,087
Consumer loans	277,015	285,529
Total loans	2,145,302	2,142,162
Less: Allowance for loan losses	(31,898)	(31,898)
Net loans	2,113,404	2,110,264
Premises and equipment, net	39,131	38,546
Other real estate owned	2,400	3,386
Goodwill	161,725	161,725
Other intangible assets	10,638	11,354
Cash surrender value of bank-owned life insurance policies	46,465	46,085
Other assets	59,122	58,220
Total assets	$2,885,114	$ 2,880,716
Liabilities		
Demand deposits	$283,526	$ 297,502
NOW deposits	217,776	212,143
Money market deposits	770,024	716,078
Savings deposits	229,528	237,594
Time deposits	740,195	741,124
Total deposits	2,241,049	2,204,441
Short-term debt	15,480	47,030
Long-term Federal Home Loan Bank advances	197,922	197,807
Junior subordinated debentures	15,464	15,464
Total borrowings	228,866	260,301

Other liabilities	25,201	28,014
Total liabilities	2,495,116	2,492,756
Stockholders’ equity		
Common stock ($.01 par value; 26,000,000 shares authorized; 15,848,825 shares issued and 14,114,874 shares outstanding in 2011; 15,848,825 shares issued and 14,076,148 shares outstanding in 2010)	158	158
Additional paid-in capital	337,315	337,537
Unearned compensation	(2,561)	(1,776)
Retained earnings	103,720	103,285
Accumulated other comprehensive loss	(4,888)	(6,410)
Treasury stock, at cost (1,733,951 shares in 2011 and 1,772,677 shares in 2010)	(43,746)	(44,834)
Total stockholders' equity	389,998	387,960
Total liabilities and stockholders' equity	$2,885,114	$ 2,880,716

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

BERKSHIRE HILLS BANCORP, INC.
CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended March 31,	
(In thousands, except per share data)	2011	2010
Interest and dividend income		
Loans	$24,606	$23,947
Securities and other	3,307	3,535
Total interest and dividend income	27,913	27,482
Interest expense		
Deposits	5,715	6,896
Borrowings and junior subordinated debentures	2,052	2,289
Total interest expense	7,767	9,185
Net interest income	20,146	18,297
Non-interest income		
Loan related fees	591	956
Deposit related fees	2,541	2,460
Insurance commissions and fees	3,730	3,473
Wealth management fees	1,192	1,176
Total fee income	8,054	8,065
Other	448	433
Total non-interest income	8,502	8,498
Total net revenue	28,648	26,795
Provision for loan losses	1,600	2,326
Non-interest expense		
Compensation and benefits	11,151	10,997
Occupancy and equipment	3,435	3,035
Technology and communications	1,466	1,383
Marketing and professional services	1,213	1,297
Supplies, postage and delivery	454	573
FDIC premiums and assessments	1,027	773
Other real estate owned	609	27
Amortization of intangible assets	716	768
Non-recurring expenses	1,708	21
Other	1,410	1,318
Total non-interest expense	23,189	20,192
Income before income taxes	3,859	4,277
Income tax expense	1,061	941
Net income	$2,798	$3,336
Basic earnings per share	$0.20	$0.24
Diluted earnings per share	$0.20	$0.24
Weighted average shares outstanding:		
Basic	13,943	13,829
Diluted	13,981	13,858

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

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

(In thousands)	Common stock Shares	Common stock Amount	Preferred stock	Additional paid-in capital	Unearned compensation	Retained earnings	Accumulated other comprehensive (loss) income	Treasury stock	Total
Balance at December 31, 2009	13,916	$ 158	$ -	$ 338,822	$ (1,318)	$ 99,033	$ (2,968)	$ (49,146)	$ 384,581
Comprehensive income:									
Net income	-	-	-	-	-	3,336	-	-	3,336
Other net comprehensive loss	-	-	-	-	-	-	(567)	-	(567)
Total comprehensive income									2,769
Cash dividends declared ($0.16 per share)	-	-	-	-	-	(2,244)	-	-	(2,244)
Restricted stock grants	123	-	-	(1,093)	(2,036)	-	-	3,129	-
Stock-based compensation	-	-	-	2	409	-	-	-	411
Other, net	(12)	-	-	-	-	-	-	(196)	(196)
Balance at March 31, 2010	14,027	158	-	337,731	(2,945)	100,125	(3,535)	(46,213)	385,321
Balance at December 31, 2010	14,076	158	-	337,537	(1,776)	103,285	(6,410)	(44,834)	387,960
Comprehensive income:									
Net income	-	-	-	-	-	2,798	-	-	2,798
Other net comprehensive income	-	-	-	-	-	-	1,522	-	1,522
Total comprehensive income									4,320
Cash dividends declared ($0.16	-	-	-	-	-	(2,251)	-	-	(2,251)

per share)									
Forfeited shares	(7)	-	-	3	167	-	-	(170)	-
Exercise of stock options	13	-	-	-	-	(112)	-	326	214
Restricted stock grants	55	-	-	(226)	(1,159)	-	-	1,385	-
Stock-based compensation	-	-	-	1	207	-	-	-	208
Other, net	(22)	-	-	-	-	-	-	(453)	(453)
Balance at March 31, 2011	14,115	$ 158	$ -	$ 337,315	$ (2,561)	$ 103,720	$ (4,888)	$ (43,746)	$ 389,998

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

BERKSHIRE HILLS BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	Three Months Ended March 31, 2011	2010
Cash flows from operating activities:		
Net income	$ 2,798	$ 3,336
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,600	2,326
Net amortization of securities	340	673
Change in unamortized net loan costs and premiums	390	233
Premises and equipment depreciation and amortization expense	1,062	912
Stock-based compensation expense	208	411
Amortization of intangible assets	716	768
Income from cash surrender value of bank-owned life insurance policies	(380)	(286)
Net decrease in loans held for sale	901	2,272
Net change in other	1,281	3,793
Net cash provided by operating activities	8,916	14,438
Cash flows from investing activities:		
Trading account security:		
Proceeds from maturities, calls and prepayments	116	110
Securities available for sale:		
Sales	-	3,159
Proceeds from maturities, calls and prepayments	40,355	24,389
Purchases	(44,772)	(17,370)
Securities held to maturity:		
Proceeds from maturities, calls and prepayments	2,105	6,304
Purchases	(2,296)	(11,494)
Net investment in limited partnership tax credits	(4,166)	-
Loan originations, net	(5,044)	(25,479)
Proceeds from sale of other real estate	382	-
Proceeds from surrender of life insurance	-	2,217
Capital expenditures	(1,647)	(965)
Net cash used by investing activities	(14,967)	(19,129)
Cash flows from financing activities:		
Net increase in deposits	36,608	50,531
Proceeds from Federal Home Loan Bank advances and other borrowings	15,480	44,130
Repayments of Federal Home Loan Bank advances and other borrowings	(46,915)	(93,757)
Net proceeds from reissuance of treasury stock	214	-
Common stock cash dividends paid	(2,251)	(2,244)
Net cash provided (used) by financing activities	3,136	(1,340)
Net change in cash and cash equivalents	(2,915)	(6,031)
Cash and cash equivalents at beginning of period	44,140	32,608
Cash and cash equivalents at end of period	$ 41,225	$ 26,577

Supplemental cash flow information:		
Interest paid on deposits	5,753	6,917
Interest paid on borrowed funds	2,052	2,316
Income taxes paid, net	55	2,209
Transfers into other real estate owned	-	3,250

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

1. GENERAL

Basis of presentation and consolidation

The consolidated financial statements (the “financial statements”) of Berkshire Hills Bancorp, Inc. (the “Company” or “Berkshire”) have been prepared in conformity with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and with the instructions to Form 10-Q adopted by the Securities and Exchange Commission (“SEC”). Accordingly, these financial statements, including year-end consolidated balance sheet data presented, do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments necessary for a fair presentation are reflected in the interim financial statements and consist of normal recurring entries. These financial statements include the accounts of the Company and its wholly-owned subsidiaries, Berkshire Insurance Group, Inc. (“BIG”) and Berkshire Bank (the “Bank”), together with the Bank’s consolidated subsidiaries. One of the Bank’s consolidated subsidiaries is Berkshire Bank Municipal Bank, a New York chartered limited-purpose commercial bank. All significant inter-company transactions have been eliminated in consolidation. The results of operations for the three months ended March 31, 2011 are not necessarily indicative of the results which may be expected for the year. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2010.

Business

Through its wholly-owned subsidiaries, the Company provides a variety of financial services to individuals, businesses, not-for-profit organizations, and municipalities through its offices in western Massachusetts, southern Vermont and northeastern and central New York. The Company also provides asset-based middle-market commercial lending throughout New England and its New York markets. Its primary deposit products are checking, NOW, money market, savings, and time deposit accounts. Its primary lending products are residential mortgages, commercial mortgages, commercial business loans and consumer loans. The Company offers electronic banking, cash management, other transaction and reporting services and interest rate swap contracts to commercial customers. The Company offers wealth management services including trust, financial planning, and investment services. The Company is also an agent for complete lines of property and casualty, life, disability, and health insurance.

Business segments

An operating segment is a component of a business for which separate financial information is available that is evaluated regularly by the chief operating decision-maker in deciding how to allocate resources and evaluate performance. The Company has two reportable operating segments, Banking and Insurance, which are delineated by the consolidated subsidiaries of Berkshire Hills Bancorp, Inc. Banking includes the activities of the Bank and its subsidiaries, which provide commercial and consumer banking services. Insurance includes the activities of BIG and its subsidiaries, which provides commercial and consumer insurance services. The only other consolidated financial activity of the Company consists of the transactions of its parent, Berkshire Hills Bancorp, Inc.

Use of estimates

In preparing the financial statements in conformity with GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated balance sheets and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses; the valuation of deferred tax assets; the estimates related to the initial measurement of goodwill and intangible assets and subsequent impairment analyses; the determination of other-than-temporary impairment of securities; and the determination of fair value of financial instruments and subsequent impairment analysis.

Significant accounting policies

The Company's significant accounting policies are described in Note 1 to the consolidated financial statements in the 2010 Form 10-K. The allowance for loan loss policy has since been refined and is described below:

Allowance for Loan Losses

The allowance for loan losses represents our estimate of probable credit losses inherent in the loan portfolio at the balance sheet date. We establish the amount of the allowance for loan losses by analyzing the quality of the loan portfolio at least quarterly, and more often if deemed necessary.

We estimate the appropriate level of our allowance for loan losses by applying historical and industry loss rates to existing loans with similar risk characteristics. The loss rates used to establish the allowance are adjusted to reflect our current assessment of many factors, including:

- State and local economic and business conditions;
- Trends in past due and concentration of portfolio risk;
- Experience, ability and depth of our lending management and staff;
- Risk selection, lending policies and underwriting standards
- Trends in portfolio mix, growth/concentration and types of products offered;
- Banking industry conditions and other external factors.

For all TDR's, regardless of size as well as, impaired loans having an outstanding balance greater than $150 thousand, we conduct further analysis to determine the probable amount of loss and assign a specific allowance to the loan, if deemed appropriate. We estimate the extent of impairment by comparing the carrying amount of the loan with the estimated present value of its future cash flows, the fair value of its underlying collateral or the loan's observable market price. We may assign a specific allowance — even when sources of repayment appear sufficient — if we remain uncertain about whether the loan will be repaid in full.

In the first quarter of 2011, management made refinements to its allowance for loan loss methodology to better incorporate the Company's internal risk ratings into a formula-based approach. This refinement did not have a significant effect on the first quarter loan loss provision or the total allowance for loan loss.

The Company evaluates certain loans individually for specific impairment. A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Loans are selected for evaluation based upon a change in internal risk rating, occurrence of delinquency, loan classification, or non-accrual status. A specific allowance amount is allocated to an individual loan when such loan has been deemed impaired and when the amount of the probable loss is able to be estimated. Estimates of loss may be determined by the present value of anticipated future cash flows or the loan's observable fair market value, or the fair value of the collateral, if the loan is collateral dependent. However, for collateral dependent loans, the amount of the recorded investment in a loan that exceeds the fair value of the collateral is charged-off against the allowance for loan losses in lieu of an allocation of a specific allowance amount when such an amount has been identified definitively as uncollectible.

Large groups of small-balance homogeneous loans such as the residential mortgage, home equity and other consumer portfolios are collectively evaluated for impairment. As such, the Company does not typically identify individual loans within these groupings as impaired loans or for impairment evaluation and disclosure. The Company evaluates all TDRs for impairment on an individual loan basis regardless of loan type.

In the first quarter of 2011, management made refinements to its allowance for loan loss methodology to better incorporate the Company's internal risk ratings into its formula-based approach. This refinement did not have a significant effect on the first quarter loan loss provision or the total allowance for loan loss.

Earnings Per Common Share

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

	Three Months Ended March 31,	
(In thousands, except per share data)	2011	2010
Net income	$2,798	$3,336
Average number of shares outstanding	14,105	13,989
Less: average number of unvested stock award shares	(162)	(160)
Average number of basic shares outstanding	13,943	13,829
Plus: average number of dilutive unvested stock award shares	34	16
Plus: average number of dilutive stock options	4	13
Average number of diluted shares outstanding	13,981	13,858
Basic earnings per share	$0.20	$0.24
Diluted earnings per share	$0.20	$0.24

For the quarter ended March 31, 2011, 129 thousand shares of restricted stock and 141 thousand options were anti-dilutive and therefore excluded from the earnings per share calculations. For the quarter ended March 31, 2010, 144 thousand shares of restricted stock and 257 thousand options were anti-dilutive and therefore excluded from the earnings per share calculations.

Recent accounting pronouncements

FASB ASU No. 2010-20, “Receivables (Topic 310), Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses”. In July 2010, the FASB issued ASU 2010-20 which requires an entity to provide disclosures that facilitate financial statement users’ evaluation of (1) the nature of credit risk inherent in the entity’s loan portfolio (2) how that risk is analyzed and assessed in arriving at the allowance for loan and lease losses and (3) the changes and reasons for those changes in the allowance for loan and lease losses. For public entities, the disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The adoption of this guidance resulted in significant additional loan disclosures included in Note 4.

FASB ASU No. 2010-29, "Business Combinations (Topic 805), Disclosure of Supplementary Pro Forma Information for Business Combinations". In December 2010, the FASB issued ASU 2010-29 which clarifies the presentation of pro forma information required for business combinations when a public company presents comparative financial information. The amendments in this guidance are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. The adoption of this guidance will require additional disclosures.

FASB ASU No. 2011-02, "A Creditor's Determination of Whether Restructuring Is a Troubled Debt Restructuring". In April 2011, the FASB issued ASU 2011-02 which clarifies when a loan modification or restructuring is considered a troubled debt restructuring. The guidance is effective for the first interim or annual period beginning on or after June 15, 2011, and is to be applied retrospectively to modifications occurring on or after the beginning of the annual period of adoption. The adoption of this guidance could result in additional loans being classified as troubled debt restructurings and will require additional loan disclosures.

2. TRADING ACCOUNT SECURITY

The Company holds a tax advantaged economic development bond that is being accounted for at fair value. The security had an amortized cost of $14.4 million and $14.6 million and a fair value of $15.8 million and $16.2 million at March 31, 2011 and December 31, 2010, respectively. As discussed further in Note 9-Derivative Financial Instruments and Hedging Activities, the Company has entered into a swap contract to swap-out the fixed rate of the security in exchange for a variable rate. The Company does not purchase securities with the intent of selling them in the near term, and there are no other securities in the trading portfolio at March 31, 2011.

3. SECURITIES AVAILABLE FOR SALE AND HELD TO MATURITY

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

(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2011				
Securities available for sale				
Debt securities:				
Municipal bonds and obligations	$76,489	$1,451	$(177)	$77,763
Government guaranteed residential mortgage-backed securities	18,987	233	(10)	19,210
Government-sponsored residential mortgage-backed securities	164,627	2,494	(602)	166,519
Corporate bonds	9,004	25	(85)	8,944
Trust preferred securities	22,192	678	(2,260)	20,610
Other bonds and obligations	386	2	-	388
Total debt securities	291,685	4,883	(3,134)	293,434
Equity securities:				
Marketable equity securities	18,662	3,237	-	21,899
Total securities available for sale	310,347	8,120	(3,134)	315,333
Securities held to maturity				
Municipal bonds and obligations	7,498	-	-	7,498
Government-sponsored residential mortgage-backed securities	82	4	-	86
Tax advantaged economic development bonds	48,625	1,170	-	49,795
Other bonds and obligations	423	-	-	423
Total securities held to maturity	56,628	1,174	-	57,802
Total	$366,975	$9,294	$(3,134)	$373,135
December 31, 2010				
Securities available for sale				
Debt securities:				
Municipal bonds and obligations	$79,292	$1,008	$(394)	$79,906
Government guaranteed residential mortgage-backed securities	25,801	370	(7)	26,164
Government-sponsored residential mortgage-backed securities	144,493	2,806	(580)	146,719
Corporate bonds	18,307	73	(90)	18,290
Trust preferred securities	22,222	316	(2,683)	19,855
Other bonds and obligations	402	2	(1)	403
Total debt securities	290,517	4,575	(3,755)	291,337
Equity securities:				
Marketable equity securities	15,756	3,217	(68)	18,905
Total securities available for sale	306,273	7,792	(3,823)	310,242

Securities held to maturity				
Municipal bonds and obligations	7,069	-	-	7,069
Government-sponsored residential mortgage-backed securities	83	3	-	86
Tax advantaged economic development bonds	48,861	1,155	-	50,016
Other bonds and obligations	423	-	-	423
Total securities held to maturity	56,436	1,158	-	57,594
Total	$362,709	$8,950	$(3,823)	$367,836

The amortized cost and estimated fair value of available for sale ("AFS") and held to maturity ("HTM") securities, segregated by contractual maturity at March 31, 2011 are presented below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations. Mortgage-backed securities are shown in total, as their maturities are highly variable. Equity securities have no maturity and are also shown in total.

	Available for sale		Held to maturity	
(In thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Within 1 year	$5,756	$5,782	$4,602	$4,602
Over 1 year to 5 years	2,995	2,910	1,702	1,702
Over 5 years to 10 years	21,098	21,429	30,665	31,375
Over 10 years	78,222	77,584	19,577	20,037
Total bonds and obligations	108,071	107,705	56,546	57,716
Marketable equity securities	18,662	21,899	-	-
Residential mortgage-backed securities	183,614	185,729	82	86
Total	$310,347	$315,333	$56,628	$57,802

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

	Less Than Twelve Months		Over Twelve Months		Total	
(In thousands)	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
March 31, 2011						
Securities available for sale						
Debt securities:						
Municipal bonds and obligations	$ 111	$ 8,288	$ 66	$ 2,902	$ 177	$ 11,190
Government guaranteed residential mortgage-backed securities	10	4,955	-	-	10	4,955
Government-sponsored residential mortgage-backed securities	600	53,418	2	2,890	602	56,308
Corporate bonds	-	-	85	2,910	85	2,910
Trust preferred securities	-	-	2,260	3,382	2,260	3,382
Other bonds and obligations	-	-	-	304	-	304
Total debt securities	721	66,661	2,413	12,388	3,134	79,049
Marketable equity securities	-	-	-	-	-	-
Total securities available for sale	$ 721	$ 66,661	$ 2,413	$ 12,388	$ 3,134	$ 79,049
December 31, 2010						
Securities available for sale						

Debt securities:												
Municipal bonds and obligations	$	335	$	15,630	$	59	$	1,195	$	394	$	16,825
Government guaranteed residential mortgage-backed securities		7		5,125		-		-		7		5,125
Government-sponsored residential mortgage-backed securities		580		54,056		-		-		580		54,056
Corporate bonds		15		1,985		75		2,920		90		4,905
Trust preferred securities		5		2,041		2,678		4,529		2,683		6,570
Other bonds and obligations		-		-		1		309		1		309
Total debt securities		942		78,837		2,813		8,953		3,755		87,790
Marketable equity securities		-		-		68		1,432		68		1,432
Total securities available for sale	$	942	$	78,837	$	2,881	$	10,385	$	3,823	$	89,222

Debt Securities

The Company expects to recover its amortized cost basis on all debt securities in its AFS and HTM portfolios. Furthermore, the Company does not intend to sell nor does it anticipate that it will be required to sell any of its securities in an unrealized loss position as of March 31, 2011, prior to this recovery. The Company's ability and intent to hold these securities until recovery is supported by the Company's strong capital and liquidity positions as well as its historical low portfolio sales. The following summarizes, by investment security type, the basis for the conclusion that the debt securities in an unrealized loss position within the Company's AFS portfolio were not other-than-temporarily impaired at March 31, 2011:

AFS municipal bonds and obligations

At March 31, 2011, 16 out of a total of 134 securities in the Company's portfolio of AFS municipal bonds and obligations were in unrealized loss positions. Aggregate unrealized losses represented 2% of the amortized cost of securities in unrealized loss positions. The securities are all investment grade rated, all insured except for one AAA bond, and all general obligation or water and sewer revenue bonds. The Company continually monitors the municipal bond sector of the market carefully and periodically evaluates the appropriate level of exposure to have to the market. At this time, the Company feels that the bonds in this portfolio carry minimal risk of default and that we are appropriately compensated for that risk. There were no material underlying credit downgrades during 2011. All securities are performing.

AFS residential mortgage-backed securities

At March 31, 2011, 15 out of a total of 110 securities in the Company's portfolio of AFS residential mortgage-backed securities were in unrealized loss positions. Aggregate unrealized losses represented less than 1% of the amortized cost of securities in unrealized loss positions. The Federal National Mortgage Association ("FNMA"), Federal Home Loan Mortgage Corporation ("FHLMC") and Government National Mortgage Association ("GNMA") guarantees the contractual cash flows of the Company's AFS residential mortgage-backed securities. The securities are investment grade rated and there were no material underlying credit downgrades during 2011. All securities are performing.

AFS corporate bonds

At March 31, 2011, 1 out of a total of 4 securities in the Company's portfolio of AFS corporate bonds was in an unrealized loss position. The aggregate unrealized loss represents 3% of the amortized cost. The security is investment grade rated, and there were no material underlying credit downgrades during 2011. The security is performing.

AFS trust preferred securities

At March 31, 2011, 3 out of 7 securities in the Company's portfolio of AFS trust preferred securities were in unrealized loss positions. Aggregate unrealized losses represented 40% of the amortized cost of securities in unrealized loss positions. The Company's evaluation of the present value of expected cash flows on these securities supports its conclusions about the recoverability of the securities' amortized cost basis. Except for the security discussed below, the aggregate unrealized loss on the other securities in unrealized loss positions represented less than 8% of their amortized cost.

At March 31, 2011, $2.0 million of the total unrealized losses was attributable to a $2.6 million investment in a Mezzanine Class B tranche of a $360 million pooled trust preferred security issued by banking and insurance entities. The Company evaluated the security, with a Level 3 fair value of $0.6 million, for potential other-than-temporary impairment ("OTTI") at March 31, 2011 and determined that OTTI 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 $37 million in excess subordination above current and projected losses.

AFS other bonds and obligations

At March 31, 2011, 4 out of a total of 7 securities in the Company's portfolio of other bonds and obligations were in unrealized loss positions. Aggregate unrealized losses represented less than 1% of the amortized cost of the securities in unrealized loss positions. The securities are investment grade rated and there were no material underlying credit downgrades during 2011. All securities are performing.

Marketable Equity Securities

In evaluating its marketable equity securities portfolio for OTTI, the Company considers its more likely than not 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 is recognized immediately through earnings.

At March 31, 2011, none of the 18 securities in the Company's portfolio of marketable equity securities was in an unrealized loss position.

4. LOANS

Loans consist of the following:

(In thousands)	March 31, 2011	December 31, 2010
Residential mortgages		
1-4 family	$ 629,302	$ 619,969
Construction	26,299	25,004
Total residential mortgages	655,601	644,973
Commercial mortgages:		
Construction	107,931	126,824
Single and multifamily	88,393	86,925
Commercial real estate	727,987	711,824
Total commercial mortgages	924,311	925,573
Commercial business loans		
Asset based lending	112,560	98,239
Other commercial business loans	175,815	187,848
Total commercial business loans	288,375	286,087
Total commercial loans	1,212,686	1,211,660
Consumer loans:		
Home equity	225,857	226,458
Other	51,158	59,071
Total consumer loans	277,015	285,529
Total loans	$ 2,145,302	$ 2,142,162

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The following is a summary of past due loans at March 31, 2011 and December 31, 2010:

(in thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total Loans	Past Due > 90 days and Accruing
March 31, 2011							
Residential mortgages:							
1-4 family	$ 1,763	$ 208	$ 3,368	$ 5,339	$ 623,963	$ 629,302	$ 1,971
Construction	-	-	132	132	26,167	26,299	-
Total	1,763	208	3,500	5,471	650,130	655,601	1,971
Commercial mortgages:							
Construction	1,595	-	3,237	4,832	103,099	107,931	-
Single and multi-family	133	196	770	1,099	87,294	88,393	88
Commercial real estate	1,428	5,981	5,710	13,119	714,868	727,987	119
Total	3,156	6,177	9,717	19,050	905,261	924,311	207
Commercial business loans - other	334	353	1,508	2,195	286,180	288,375	1
Consumer loans:							
Home equity	200	19	716	935	224,922	225,857	5
Other	419	52	216	687	50,471	51,158	164
Total	619	71	932	1,622	275,393	277,015	169
Total	$ 5,872	$ 6,809	$ 15,657	$ 28,338	$ 2,116,964	$ 2,145,302	$ 2,348

(in thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total Loans	Past Due > 90 days and Accruing
December 31, 2010							
Residential mortgages:							
1-4 family	$ 2,103	$ 1,598	$ 1,936	$ 5,637	$ 614,332	$ 619,969	$ -
Construction	-	104	237	341	24,663	25,004	-
Total	2,103	1,702	2,173	5,978	638,995	644,973	-
Commercial mortgages:							
Construction	-	-	1,962	1,962	124,862	126,824	-
Single and multi-family	-	-	1,514	1,514	85,411	86,925	88
Commercial real estate	389	74	6,442	6,905	704,919	711,824	342
Total	389	74	9,918	10,381	915,192	925,573	430
Commercial business loans - other	111	128	1,617	1,856	284,231	286,087	312
Consumer loans:							
Home equity	119	20	856	995	225,463	226,458	147
Other	780	245	202	1,227	57,844	59,071	165

Total	899	265	1,058	2,222	283,307	285,529	312
Total	$ 3,502	$ 2,169	$ 14,766	$ 20,437	$ 2,121,725	$ 2,142,162	$ 1,054

Activity in the allowance for loan losses for the three months ended March 31, 2011 and 2010 was as follows:

(In thousands)	Residential mortgages	Commercial mortgages	Commercial business	Consumer	Unallocated	Total
Balance at December 31, 2010	$ 3,077	$ 19,461	$ 6,038	$ 2,099	$ 1,223	$ 31,898
Charged-off loans	234	971	237	316	-	1,758
Recoveries on charged-off loans	110	8	15	25	-	158
Provision for loan losses	(159)	4,435	(1,742)	115	(1,049)	1,600
Balance at March 31, 2011	2,794	22,933	4,074	1,923	174	31,898
Ending balance: individually evaluated for impairment	181	2,004	365	-	-	2,550
Ending balance: collectively evaluated for impairment	$ 2,613	$ 20,929	$ 3,709	$ 1,923	$ 174	$ 29,348

(In thousands)	Total
Balance at December 31, 2009	$31,816
Charged-off loans	(3,846)
Recoveries on charged-off loans	1,533
Net loans charged-off	(2,313)
Provision for loan losses	2,326
Balance at March 31, 2010	$31,829

The following is a summary of impaired loans at March 31, 2011 and for the three months then ended:

	At March 31, 2011			Three Months Ended March 31, 2011	
(In thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Cash Basis Interest Income Recognized
With no related allowance:					
Residential mortgages - 1-4 family	$506	$ 506	$ -	$ 304	$ 8
Residential mortgages - construction	85	85	-	57	-
Commercial-construction	189	189	-	189	-
Commercial mortgages - single and multifamily	290	290	-	214	1
Commercial mortgages - real estate	7,638	7,638	-	7,895	97
Commercial business loans	25	25	-	75	1
Consumer-home equity	393	393	-	394	2
With an allowance recorded:					
Residential mortgages - 1-4 family	$356	$ 537	$ 181	$ 847	$ 10
Residential mortgages - construction	-	-	-	64	-
Commercial business loans	61	426	365	216	1
Commercial-construction	2,311	3,011	700	1,658	-
Commercial mortgages - single and multifamily	295	353	58	921	8
Commercial mortgages - real estate	1,625	2,871	1,246	2,954	10

Total					
Residential mortgages	$947	$ 1,128	$ 181	$ 1,272	$ 18
Commercial mortgages	12,348	14,352	2,004	13,831	116
Commercial business loans	86	451	365	291	2
Consumer loans	393	393	-	394	2
Total impaired loans	$13,774	$ 16,324	$ 2,550	$ 15,788	$ 138

The following is a summary of impaired loans at December 31, 2010:

	At December 31, 2010		
(In thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance:			
Residential mortgages - 1-4 family	$201	$ 201	$ -
Residential mortgages – construction	-	-	-
Commercial business - other	8,596	8,596	-
Consumer - home equity	397	397	-
With an allowance recorded:			
Residential mortgages - 1-4 family	$973	$ 1,206	$ 233
Residential mortgages - construction	178	191	13
Commercial mortgages - construction	1,432	1,735	303
Commercial mortgages - single and multifamily	772	1,211	439
Commercial mortgages - real estate	1,594	3,003	1,409
Commercial business - other	10	102	92
Total			
Residential mortgages	$1,352	$ 1,598	$ 246
Commercial mortgages	3,798	5,949	2,151
Commercial business	8,606	8,698	92
Consumer	397	397	-
Total impaired loans	$14,153	$ 16,642	$ 2,489

The following is summary information pertaining to non-accrual loans March 31, 2011 and December 31, 2010:

(In thousands)	March 31, 2011	December 31, 2010
Residential mortgages:		
1-4 family	$ 1,397	$ 1,936
Construction	132	237
Total	1,529	2,173
Commercial mortgages:		
Construction	3,237	1,962
Single and multi-family	682	1,426
Other	5,591	6,100
Total	9,510	9,488
Commercial business loans - other	1,507	1,305
Consumer loans:		
Home equity	711	709
Other	52	37
Total	763	746
Total non-accrual loans	$ 13,309	$ 13,712

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Credit Quality Information

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

1Substantially Risk Free

Borrowers in this category are of unquestioned credit standing and are at the pinnacle of credit quality. Credits in this category are generally cash secured with strong management depth and experience and exhibit a superior track record.

2 Minimal Risk

A relationship which provides an adequate return on investment, has been stable during the last three years and has a superior financial condition as compared with other borrowers in itsindustry. In addition, management must be of unquestionable character and have strong abilities as measured by their long-term financial performance

3 Moderate Risk

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

4 Better than Average Risk

A relationship which possesses most of the characteristics found in the Moderate Risk category and range from definitely sound to those with minor risk characteristics. Borrowers in this category operate in a reasonably stable industry that may be moderately affected by a business cycle. These loans have a satisfactory track record and are performing as agreed.

5 Average Risk

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

6 Acceptable Risk

Borrowers in this category may be more highly leveraged than their industry peers and experience moderate losses relative to net worth. Trends and performance i.e. sales and earnings, leverage, etc. may be negative. Management's ability may be questionable, or perhaps untested. The industry may be experiencing either temporary or long term pressures. Collateral values are seen as more important in assessing risk for these loans than in higher quality loans. In some cases borrowers have failed to meet required line clean-up periods or other terms and conditions such as timely payments.

7 Special Mention

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

8 Substandard – Performing

A classification assigned to a credit that is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified must have a well-defined weakness or weaknesses that jeopardize the liquation of the debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. Substandard loans will be evaluated on at least a quarterly basis to determine if an additional allocation of the Company's allowance for loan loss is warranted.

9 Substandard – Non-Performing

A classification given to Substandard credits which have deteriorated to the point that management has placed the accounts on non-accrual status due to delinquency exceeding 90 days or where the Company has determined that collection of principal and interest in full is unlikely.

10 Doubtful

Loans classified as doubtful have all the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, highly questionable and improbable. Collection in excess of 50% of the balance owed is not expected.

11 Loss

Loans classified Loss are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value but rather it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be possible in the future.

100 Small Business Express

Grade established for all small business credits deemed pass rated or better.

The Company risk rates its residential mortgages, including 1-4 family and residential construction loans, based on a three rating system: Pass, Special Mention and Substandard. Loans that are current within 59 days are rated Pass. Residential mortgages that are 60-89 days delinquent are rated Special Mention. Loans delinquent for 90 days or greater are rated Substandard and generally placed on non-accrual status unless well secured when they would be transferred to non-accrual status at 120 days past due. Home equity loans are risk rated based on the same rating system as the Company's residential mortgages.

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

The following table presents the Company's loans by risk rating at March 31, 2011 and December 31, 2010:

Residential Mortgages
Credit Risk Profile by Internally Assigned Grade

(In thousands)	1-4 family Mar. 31, 2011	1-4 family Dec. 31, 2010	Construction Mar. 31, 2011	Construction Dec. 31, 2010	Total residential mortgages Mar. 31, 2011	Total residential mortgages Dec. 31, 2010
Grade:						
Pass	$ 625,781	$ 616,435	$ 26,167	$ 24,663	$ 651,948	$ 641,098
Special mention	208	1,598	-	104	208	1,702
Substandard	3,313	1,936	132	237	3,445	2,173
Total	$ 629,302	$ 619,969	$ 26,299	$ 25,004	$ 655,601	$ 644,973

Commercial Mortgages
Credit Risk Profile by Creditworthiness Category

(In thousands)	Construction Mar. 31, 2011	Construction Dec. 31, 2010	Single and multi-family Mar. 31, 2011	Single and multi-family Dec. 31, 2010	Real estate Mar. 31, 2011	Real estate Dec. 31, 2010	Total commercial mortgages Mar. 31, 2011	Total commercial mortgages Dec. 31, 2010
Grade:								
Pass	$ 80,118	$ 100,737	$ 84,255	$ 82,017	$ 639,663	$ 626,571	$ 804,036	$ 809,325
Special mention	9,570	10,803	374	381	25,408	27,377	35,352	38,561
Substandard	18,054	15,095	3,764	4,527	62,792	57,752	84,610	77,374
Doubtful	189	189	-	-	124	124	313	313
Loss	-	-	-	-	-	-	-	-
Total	$ 107,931	$ 126,824	$ 88,393	$ 86,925	$ 727,987	$ 711,824	$ 924,311	$ 925,573

Commercial Business Loans
Credit Risk Profile by Creditworthiness Category

(In thousands)	Asset based lending Mar. 31, 2011	Asset based lending Dec. 31, 2010	Other Mar. 31, 2011	Other Dec. 31, 2010	Total commercial business loans Mar. 31, 2011	Total commercial business loans Dec. 31, 2010
Grade:						
Pass	$ 112,560	$ 98,239	$ 166,768	$ 180,321	$ 279,328	$ 278,560
Special mention	-	-	1,627	1,281	1,627	1,281
Substandard	-	-	7,420	6,164	7,420	6,164
Doubtful	-	-	-	82	-	82
Loss	-	-	-	-	-	-
Total	$ 112,560	$ 98,239	$ 175,815	$ 187,848	$ 288,375	$ 286,087

Consumer Loans
Credit Risk Profile Based on Payment Activity

(In thousands)	Home equity Mar. 31, 2011	Home equity Dec. 31, 2010	Other Mar. 31, 2011	Other Dec. 31, 2010	Total consumer loans Mar. 31, 2011	Total consumer loans Dec. 31, 2010
Performing	$ 225,146	$ 225,749	$ 51,106	$ 59,034	$ 276,252	$ 284,783

Nonperforming	711	709	52	37	763	746
Total	$ 225,857	$ 226,458	$ 51,158	$ 59,071	$ 277,015	$ 285,529