

BERKSHIRE HILLS BANCORP INC
Form 10-Q
May 10, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended: March 31, 2016

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

For the transition period from _____ to _____

Commission File Number: 001-15781
BERKSHIRE HILLS BANCORP, INC.
(Exact name of registrant as specified in its charter)

Delaware 04-3510455
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

24 North Street, Pittsfield, Massachusetts 01201
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (413) 236-3149

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

Indicate by check mark whether the registrant 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 ☐ 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 ☒

The Registrant had 31,150,657 shares of common stock, par value \$0.01 per share, outstanding as of May 4, 2016.

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PART I

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

BERKSHIRE HILLS BANCORP, INC.
CONSOLIDATED BALANCE SHEETS

	March 31, 2016	December 31, 2015
(In thousands, except share data)		
Assets		
Cash and due from banks	\$44,370	\$72,918
Short-term investments	24,447	30,644
Total cash and cash equivalents	68,817	103,562
Trading security, at fair value	14,474	14,189
Securities available for sale, at fair value	1,171,534	1,154,457
Securities held to maturity (fair values of \$134,707 and \$136,904)	128,196	131,652
Federal Home Loan Bank stock and other restricted securities	60,261	71,018
Total securities	1,374,465	1,371,316
Loans held for sale	15,919	13,191
Commercial real estate	2,100,067	2,059,767
Commercial and industrial loans	1,054,140	1,048,263
Residential mortgages	1,753,622	1,815,035
Consumer loans	818,861	802,171
Total loans	5,726,690	5,725,236
Less: Allowance for loan losses	(40,055)	(39,308)
Net loans	5,686,635	5,685,928
Premises and equipment, net	87,840	88,072
Other real estate owned	1,440	1,725
Goodwill	323,659	323,943
Other intangible assets	9,845	10,664
Cash surrender value of bank-owned life insurance policies	126,136	125,233
Deferred tax assets, net	36,514	42,526
Other assets	76,641	64,926
Total assets	\$7,807,911	\$7,831,086
Liabilities		
Demand deposits	\$1,037,103	\$1,081,860
NOW deposits	473,556	510,807
Money market deposits	1,405,361	1,408,107
Savings deposits	611,556	601,761
Time deposits	2,056,814	1,986,600
Total deposits	5,584,390	5,589,135
Short-term debt	940,700	1,071,200
Long-term Federal Home Loan Bank advances	140,196	103,135
Subordinated borrowings	89,027	88,983
Total borrowings	1,169,923	1,263,318
Other liabilities	147,761	91,444
Total liabilities	\$6,902,074	\$6,943,897

Shareholders' equity

Common stock (\$.01 par value; 50,000,000 shares authorized and 32,321,962 shares issued and 31,039,017 shares outstanding in 2016; 32,321,962 shares issued, and 30,973,986 shares outstanding in 2015)	322	322
Additional paid-in capital	744,743	742,619
Unearned compensation	(8,246) (6,997)
Retained earnings	193,653	183,885
Accumulated other comprehensive income / (loss)	4,847	(3,305)
Treasury stock, at cost (1,174,014 shares in 2016 and 1,179,045 shares in 2015)	(29,482) (29,335)
Total shareholders' equity	905,837	887,189
Total liabilities and shareholders' equity	\$7,807,911	\$7,831,086

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

Table of ContentsBERKSHIRE HILLS BANCORP, INC.
CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended March 31,	
(In thousands, except per share data)	2016	2015
Interest and dividend income		
Loans	\$58,442	\$44,445
Securities and other	10,034	8,306
Total interest and dividend income	68,476	52,751
Interest expense		
Deposits	7,159	4,949
Borrowings	3,620	2,309
Total interest expense	10,779	7,258
Net interest income	57,697	45,493
Non-interest income		
Loan related income	3,046	1,283
Mortgage banking income	821	1,253
Deposit related fees	6,109	5,677
Insurance commissions and fees	2,893	2,967
Wealth management fees	2,502	2,603
Total fee income	15,371	13,783
Other	223	(1,255)
Gain on sale of securities, net	36	34
Total non-interest income	15,630	12,562
Total net revenue	73,327	58,055
Provision for loan losses	4,006	3,851
Non-interest expense		
Compensation and benefits	25,714	21,811
Occupancy and equipment	6,690	7,108
Technology and communications	4,857	3,593
Marketing and promotion	673	713
Professional services	1,280	1,272
FDIC premiums and assessments	1,233	1,129
Other real estate owned and foreclosures	263	251
Amortization of intangible assets	819	901
Acquisition, restructuring and conversion related expenses	780	4,421
Other	4,791	3,949
Total non-interest expense	47,100	45,148
Income before income taxes	22,221	9,056
Income tax expense	6,220	297
Net income	\$16,001	\$8,759
Earnings per share:		
Basic	\$0.52	\$0.35
Diluted	\$0.52	\$0.35

Weighted average common shares outstanding:

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Basic	30,511	24,803
Diluted	30,688	24,955

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

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BERKSHIRE HILLS BANCORP, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended March 31,	
(In thousands)	2016	2015
Net income	\$ 16,001	\$ 8,759
Other comprehensive income, before tax:		
Changes in unrealized gain on securities available-for-sale	17,706	9,337
Changes in unrealized loss on derivative hedges	(4,506)	(3,901)
Changes in unrealized loss on pension	—	(1,531)
Income taxes related to other comprehensive income:		
Changes in unrealized gain on securities available-for-sale	(6,856)	(3,605)
Changes in unrealized loss on derivative hedges	1,808	1,572
Changes in unrealized loss on pension	—	617
Total other comprehensive income (loss)	8,152	2,489
Total comprehensive income	\$ 24,153	\$ 11,248

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

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BERKSHIRE HILLS BANCORP, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Common stock (1)	Additional paid-in capital	Unearned compensation	Retained earnings	Accumulated other comprehensive income	Treasury stock	Total
(In thousands)	Shares	Amount			(loss)		
Balance at December 31, 2014	25,183	\$ 265	\$585,289	\$ (6,147)	\$ 156,446	\$ 6,579	\$ (33,145) \$709,287
Comprehensive income:							
Net income	—	—	—	—	8,759	—	8,759
Other comprehensive income	—	—	—	—	—	2,489	2,489
Total comprehensive income							11,248
Cash dividends declared (\$0.19 per share)	—	—	—	—	(4,799)	—	(4,799)
Treasury stock purchased	—	—	—	—	—	—	—
Forfeited shares	(9)	—	22	214	—	—	(236)
Exercise of stock options	11	—	—	—	(165)	—	281
Restricted stock grants	92	—	19	(2,286)	—	—	2,267
Stock-based compensation	—	—	—	993	—	—	—
Net tax benefit related to stock-based compensation	—	—	(23)	—	—	—	(23)
Other, net	(24)	—	—	—	—	—	(592)
Balance at March 31, 2015	25,253	\$ 265	\$585,307	\$ (7,226)	\$ 160,241	\$ 9,068	\$ (31,425) \$716,230
Balance at December 31, 2015	30,974	\$ 322	\$742,619	\$ (6,997)	\$ 183,885	\$ (3,305)	\$ (29,335) \$887,189
Comprehensive income:							
Net income	—	—	—	—	16,001	—	16,001
Other comprehensive income	—	—	—	—	—	8,152	8,152
Total comprehensive income							24,153
Cash dividends declared (\$0.20 per share)	—	—	—	—	(6,216)	—	(6,216)
Treasury stock adjustment (2)	—	—	1,645	—	—	—	(1,645)
Forfeited shares	(22)	—	68	526	—	—	(594)
Exercise of stock options	2	—	—	—	(17)	—	42
Restricted stock grants	105	—	312	(2,931)	—	—	2,619
Stock-based compensation	—	—	—	1,156	—	—	—
Net tax benefit related to stock-based compensation	—	—	99	—	—	—	99
Other, net	(20)	—	—	—	—	—	(569)

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Balance at March 31, 2016 31,039 \$ 322 \$744,743 \$ (8,246) \$193,653 \$ 4,847 \$(29,482) \$905,837

(1) The Company's common stock includes the elimination of \$2.9 million (108,931 shares) of Berkshire Hills Bancorp stock held by a subsidiary.

(2) Treasury stock adjustment represents the sale of 60,000 shares of Berkshire Hills Bancorp stock held by the Company's subsidiary.

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

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CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended March 31,	
(In thousands)	2016	2015
Cash flows from operating activities:		
Net income	\$16,001	\$8,759
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	4,006	3,851
Net amortization of securities	725	(317)
Change in unamortized net loan costs and premiums	72	398
Premises and equipment depreciation and amortization expense	2,155	2,096
Stock-based compensation expense	1,156	993
Accretion of purchase accounting entries, net	(2,469)	(367)
Amortization of other intangibles	819	901
Excess tax loss from stock-based payment arrangements	(99)	23
Income from cash surrender value of bank-owned life insurance policies	(1,053)	(714)
Gain on sales of securities, net	(35)	(34)
Net (increase) in loans held for sale	(2,728)	(9,812)
Loss on disposition of assets	—	1,136
Loss on sale of real estate	54	154
Amortization of interest in tax-advantaged projects	991	—
Net change in other	(10,285)	(3,263)
Net cash provided by operating activities	9,310	3,804
Cash flows from investing activities:		
Proceeds from payments on trading security	148	142
Proceeds from sales of securities available for sale	7,000	4,693
Proceeds from maturities, calls and prepayments of securities available for sale	40,832	40,552
Purchases of securities available for sale	(46,442)	(41,068)
Proceeds from maturities, calls and prepayments of securities held to maturity	3,439	729
Purchases of securities held to maturity	(52)	(200)
Net change in loans	17,069	(68,671)
Proceeds from surrender of bank-owned life insurance	150	—
Proceeds from sale of Federal Home Loan Bank stock	11,495	103
Purchase of Federal Home Loan Bank stock	(739)	(3,117)
Net investment in limited partnership tax credits	(1,803)	—
Proceeds from the sale of premises and equipment	168	—
Purchase of premises and equipment, net	(2,383)	(946)
Proceeds from sale of other real estate	446	578
Net cash provided by (used in) investing activities	29,328	(67,205)
(continued)		

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(In thousands)	Three Months Ended	
	March 31,	
	2016	2015
Cash flows from financing activities:		
Net increase in deposits	25,961	65,007
Proceeds from Federal Home Loan Bank advances and other borrowings	2,119,500	2,200,000
Repayments of Federal Home Loan Bank advances and other borrowings	(2,212,752)	(2,206,440)
Exercise of stock options	25	116
Excess tax loss from stock-based payment arrangements	99	(23)
Common stock cash dividends paid	(6,216)	(4,799)
Net cash (used in) provided by financing activities	(73,383)	53,861
Net change in cash and cash equivalents	(34,745)	(9,540)
Cash and cash equivalents at beginning of year	103,562	71,754
Cash and cash equivalents at end of year	\$68,817	\$ 62,214
Supplemental cash flow information:		
Interest paid on deposits	\$6,967	\$ 4,902
Interest paid on borrowed funds	3,508	2,306
Income taxes (refunded) paid, net	(370)	274
Other non-cash changes:		
Other net comprehensive income	8,152	2,489
Real estate owned acquired in settlement of loans	215	127

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

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NOTE 1. BASIS OF PRESENTATION

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

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

The results for any interim period are not necessarily indicative of results for the full year. These consolidated financial statements should be read in conjunction with the audited financial statements and note disclosures for Berkshire Hills Bancorp, Inc. (the "Company") previously filed with the Securities and Exchange Commission in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

Reclassifications

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

Recently Adopted Accounting Principles

In February 2015, the FASB issued ASU No. 2015-02, "Amendments to the Consolidation Analysis." This ASU affects reporting entities that are required to evaluate whether they should consolidate certain legal entities. Specifically, the amendments: (1) Modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities ("VIEs") or voting interest entities; (2) Eliminate the presumption that a general partner should consolidate a limited partnership; (3) Affect the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships; and (4) Provide a scope exception from consolidation guidance for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds. ASU No. 2015-02 is effective for reporting periods beginning after December 15, 2015. The Company adopted the provisions of ASU No. 2015-02 effective January 1, 2016, which did not have a material effect on the Company's consolidated financial statements. See Note 7. Borrowed Funds to the Consolidated Financial statements for more information.

In April 2015, the FASB issued ASU No. 2015-03, "Simplifying the Presentation of Debt Issuance Costs." This ASU requires that debt issuance costs, not including those related to line of credit arrangements, be reported in the balance sheet as a direct deduction from the face amount of the related liability, consistent with the presentation of debt discounts. Further, the update requires the amortization of debt issuance costs to be reported as interest expense. Similarly, debt issuance costs and any discount or premium are considered in the aggregate when determining the effective interest rate on the debt. The new guidance is effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. The new guidance must be applied retrospectively. The Company adopted the provisions of ASU No. 2015-03 effective January 1, 2016, which did not have a material effect on the Company's consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-05, "Customer's Accounting for Fees Paid in a Cloud Computing Arrangement." This ASU provides guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, the customer should account for the license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The new guidance does not change the accounting for a customer's accounting for service contracts. ASU No.

2015-05 is effective for fiscal years beginning after December 15, 2015. The Company adopted the provisions of ASU No. 2015-05 effective January 1, 2016, which did not have a material effect on the Company's consolidated financial statements.

In September 2015, the FASB issued ASU No. 2015-16, "Business Combinations: Simplifying the Accounting for Measurement-Period Adjustments." This ASU eliminates the requirement to retrospectively adjust the financial statements for measurement-period adjustments that occur in periods after a business combination is consummated. Measurement period adjustments are calculated as if they were known at the acquisition date, but are recognized in the reporting period in which they are determined. Additional disclosures are required about the impact on current-period income statement line items of adjustments that would have been recognized in prior periods if prior-period information had been revised. The guidance is effective for annual periods beginning after December 15, 2015 and is to be applied prospectively to adjustments of provisional amounts that occur after the effective date. Early application is permitted. The Company adopted the provisions of ASU No. 2015-16 effective January 1, 2016, which did not have a material effect on the Company's consolidated financial statements.

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Future Application of Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09 related to the recognition of revenue from contracts with customers. The new revenue pronouncement creates a single source of revenue guidance for all companies in all industries and is more principles based than current revenue guidance. The pronouncement provides a five-step model for a company to recognize revenue when it transfers control of goods or services to customers at an amount that reflects the consideration to which it expects to be entitled in exchange for those goods or services. The five steps are (1) identify the contract with the customer, (2) identify the separate performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the separate performance obligations and (5) recognize revenue when each performance obligation is satisfied. The standard is effective for public entities for interim and annual reporting periods beginning after December 15, 2016; early adoption is not permitted. However, in July 2015, the FASB voted to approve deferring the effective date by one year (i.e., interim and annual reporting periods beginning after December 15, 2017), issuing ASU 2015-14 “Revenue from Contracts with Customers -Deferral of the Effective Date.” Early adoption is permitted, but not before the original effective date (i.e., interim and annual reporting periods beginning after December 15, 2016). For financial reporting purposes, the standard allows for either full retrospective adoption, meaning the standard is applied to all of the periods presented, or modified retrospective adoption, meaning the standard is applied only to the most current period presented in the financial statements with the cumulative effect of initially applying the standard recognized at the date of initial application. The Company is currently evaluating the provisions of ASU No. 2014-09, and will be closely monitoring developments and additional guidance to determine the potential impact the new standard will have on our consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, “Recognition and Measurement of Financial Assets and Financial Liabilities.” This ASU requires an entity to: i) measure equity investments at fair value through net income, with certain exceptions; ii) present in other comprehensive income the changes in instrument-specific credit risk for financial liabilities measured using the fair value option; iii) present financial assets and financial liabilities by measurement category and form of financial asset; iv) calculate the fair value of financial instruments for disclosure purposes based on an exit price and; (v) assess a valuation allowance on deferred tax assets related to unrealized losses of AFS debt securities in combination with other deferred tax assets. The guidance provides an election to subsequently measure certain nonmarketable equity investments at cost less any impairment and adjusted for certain observable price changes. The guidance also requires a qualitative impairment assessment of such equity investments and amends certain fair value disclosure requirements. The guidance is effective for annual periods beginning after December 15, 2017. Early adoption is only permitted for the provision related to instrument specific credit risk, The Company is currently evaluating the impact of the new standard on the consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, “Leases”. The new pronouncement improves the transparency and comparability of financial reporting around leasing transactions and more closely aligns accounting for leases with the recently issued International Financial Reporting Standard. The pronouncement affects all entities that are participants to leasing agreements. From a lessee accounting perspective, the ASU requires a lessee to recognize assets and liabilities on the balance sheet for operating leases and changes many key definitions, including the definition of a lease. The ASU includes a short-term lease exception for leases with a term of twelve months or less, in which a lessee can make an accounting policy election not to recognize lease assets and lease liabilities. Lessees will continue to differentiate between finance leases (previously referred to as capital leases) and operating leases, using classification criteria that are substantially similar to the previous guidance. For lessees, the recognition, measurement, and presentation of expenses and cash flows arising from a lease have not significantly changed from previous GAAP. From a lessor accounting perspective, the guidance is largely unchanged, except for targeted improvements to align with new terminology under lessee accounting and with the updated revenue recognition guidance in Topic 606. For sale-leaseback transactions, for a sale to occur the transfer must meet the sale criteria under the new revenue standard, ASC 606. Entities will not be required to reassess transactions previously accounted under then existing guidance.

Additionally, the ASU includes additional quantitative and qualitative disclosures required by lessees and lessors to help users better understand the amount, timing, and uncertainty of cash flows arising from leases. ASU No. 2016-02 is effective for fiscal years beginning after December 31, 2018, and interim periods within those fiscal years. Lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The modified retrospective approach includes a number of optional practical expedients that entities may elect to apply as well as transition guidance specific to nonstandard leasing transactions. The Company is currently evaluating the provision of the ASU No. 2016-02 to determine the potential impact the new standard will have on the Company's consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-05, "Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships". This ASU clarifies that changes in the counterparty to a derivative instrument designated as a hedge do not alone require it to be de-designated and therefore discontinue the application of hedge accounting. Companies are still required to evaluate whether it is probable that a counterparty will perform under the contract as part of the ongoing effectiveness assessment for hedge accounting. The new guidance is effective for annual periods beginning after December 15, 2016 and

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entities may adopt on a prospective or modified retrospective basis. The adoption of this pronouncement is not expected to have a material impact on the Company's consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-06, "Contingent Put and Call Options in Debt Instruments" clarifying the assessment of whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to the economic characteristics and risks of their debt hosts, a criteria in assessing whether to bifurcate an embedded derivative. The new pronouncement clarifies the exercise contingency and the event triggering the contingency does not need to be evaluated in the clearly and closely analysis relative to interest rates or credit risks. Rather, the call or put would be evaluated as a derivative regardless of the exercise contingency. Further, if an entity is no longer required to bifurcate a put or call option per the new guidance, the entity has a one-time option to irrevocably elect to measure that debt instrument in its entirety at fair value with changes in fair value recognized in earnings. ASU No. 2016-06 is effective for annual periods beginning after December 15, 2016 and early adoption is permitted. The ASU should be applied using the modified retrospective basis to existing instruments as of the beginning of the annual period of adoption. The adoption of this pronouncement is not expected to have a material impact on the Company's consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-07 "Simplifying the Transition to the Equity Method of Accounting" which eliminates the requirement to retroactively adjust an investment that becomes subject to the equity method of accounting as a result of an increase ownership interest or degree of influence. Alternatively, an investor entity adds the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopts the equity method of accounting prospectively as of the qualifying date; no retroactive adjustment is required. Additionally, ASU No. 2016-07 specifies that when an available-for-sale equity security becomes qualified for the equity method of accounting, a company should recognize the unrealized holding gain or loss in accumulated other comprehensive income through earnings at the date the investment becomes qualified for use of the equity method. This guidance is effective for all entities for annual periods beginning after December 15, 2016, with early adoption permitted on a prospective basis. The adoption of this pronouncement is not expected to have a material impact on the Company's consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-08 "Principal versus Agent Considerations (Reporting Revenue Gross versus Net)" to improve the usefulness and understandability of the guidance on principal versus agent considerations within the new revenue standard, ASC 606 "Revenue from Contracts with Customers". The guidance clarified the following: (1) an entity determines if it is a principal or agent for each distinct good or service promised to the customer. If a contract includes multiple specified goods or services, an entity could be a principal for some and an agent for others; (2) for each specified good or service, an entity determines whether it is a good, a service, or a right to a good or service; (3) when another party is involved in providing goods or services to a customer, an entity that is a principal obtains control of: (a) a good from the other party and then transfers it to the customer; (b) the ability to direct that party to provide a service to the customer on the entity's behalf; or (c) a good or service from the other party and combines it with other goods or services to provide to the customer; and (4) the purpose of the five indicators to determine whether an entity is a principal is to support or assist in the assessment of control. The indicators may be more or less relevant to the control assessment and one or more indicators may be more or less persuasive to the control assessment, depending on the facts and circumstances. The effective date and transition requirements mirror those of ASC 606 and similarly with that pronouncement, the Company is evaluating the provisions of ASU No. 2016-08, and will closely monitor developments and additional guidance to determine the potential impact on the consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, "Improvement to Employee Share-Based Payment Accounting". This ASU contains targeted amendments to the accounting for shared based payment transactions, including income tax consequences for awards, classification of awards as either equity or liabilities, and classification of activity on the statement of cash flows. Specifically, some of the requirements under the amendments include: (1) excess tax benefits

and/or tax deficiencies, determined as the difference between compensation cost recognized for financial reporting purposes and the deduction for tax, be recognized in the income statement as income tax expense or benefit in the period in which they occur, removing historical equity treatment; (2) excess tax benefits are no longer separately classified as a financing activity but rather should be classified with other income tax cash flows as an operating activity on the statement of cash flows; (3) cash paid by an employer when withholding shares for tax withholding purposes should be classified as a financing activity. Additionally, regarding forfeitures, this guidance permits a company to make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest (current GAAP) or account for forfeitures when they occur. If elected, the change to recognize forfeitures when they occur must be applied through a modified retrospective approach, with a cumulative effect adjustment recorded to opening retained earnings. ASU No. 2016-09 is effective for annual periods beginning after December 15, 2016. The Company is evaluating the provisions of ASU No. 2016-09, and will closely monitor developments and additional guidance to determine the potential impact on the consolidated financial statements.

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NOTE 2.

TRADING SECURITY

The Company holds a tax advantaged economic development bond that is being accounted for at fair value. The security had an amortized cost of \$11.8 million and \$12.0 million, and a fair value of \$14.5 million and \$14.2 million, at March 31, 2016 and December 31, 2015, respectively. As discussed further in Note 11 - 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, 2016.

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NOTE 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, 2016				
Securities available for sale				
Debt securities:				
Municipal bonds and obligations	\$ 99,126	\$ 5,669	\$(53)	\$ 104,742
Government-guaranteed residential mortgage-backed securities	65,456	714	(81)	66,089
Government-sponsored residential mortgage-backed securities	883,749	15,779	(782)	898,746
Corporate bonds	42,878	—	(1,876)	41,002
Trust preferred securities	11,635	89	(107)	11,617
Other bonds and obligations	3,169	34	(1)	3,202
Total debt securities	1,106,013	22,285	(2,900)	1,125,398
Marketable equity securities	42,356	5,709	(1,929)	46,136
Total securities available for sale	1,148,369	27,994	(4,829)	1,171,534
Securities held to maturity				
Municipal bonds and obligations	91,512	4,417	—	95,929
Government-sponsored residential mortgage-backed securities	67	5	—	72
Tax advantaged economic development bonds	36,290	2,089	—	38,379
Other bonds and obligations	327	—	—	327
Total securities held to maturity	128,196	6,511	—	134,707
Total	\$ 1,276,565	\$ 34,505	\$(4,829)	\$ 1,306,241
December 31, 2015				
Securities available for sale				
Debt securities:				
Municipal bonds and obligations	\$ 99,922	\$ 4,763	\$(124)	\$ 104,561
Government-guaranteed residential mortgage-backed securities	69,866	388	(396)	69,858
Government-sponsored residential mortgage-backed securities	891,041	5,111	(6,145)	890,007
Corporate bonds	42,849	—	(1,827)	41,022
Trust preferred securities	11,719	182	—	11,901
Other bonds and obligations	3,175	—	(34)	3,141
Total debt securities	1,118,572	10,444	(8,526)	1,120,490
Marketable equity securities	30,522	5,331	(1,886)	33,967
Total securities available for sale	1,149,094	15,775	(10,412)	1,154,457
Securities held to maturity				
Municipal bonds and obligations	94,642	3,359	(34)	97,967
Government-sponsored residential mortgage-backed securities	68	3	—	71
Tax advantaged economic development bonds	36,613	1,924	—	38,537
Other bonds and obligations	329	—	—	329
Total securities held to maturity	131,652	5,286	(34)	136,904
Total	\$ 1,280,746	\$ 21,061	\$(10,446)	\$ 1,291,361

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The amortized cost and estimated fair value of available for sale (“AFS”) and held to maturity (“HTM”) securities, segregated by contractual maturity at March 31, 2016 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.

(In thousands)	Available for sale		Held to maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Within 1 year	\$—	\$—	\$1,256	\$1,256
Over 1 year to 5 years	3,468	3,502	17,198	18,297
Over 5 years to 10 years	22,537	22,653	14,777	15,348
Over 10 years	130,803	134,408	94,898	99,734
Total bonds and obligations	156,808	160,563	128,129	134,635
Marketable equity securities	42,356	46,136	—	—
Residential mortgage-backed securities	949,205	964,835	67	72
Total	\$1,148,369	\$1,171,534	\$128,196	\$134,707

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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	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
(In thousands)						
March 31, 2016						
Securities available for sale						
Debt securities:						
Municipal bonds and obligations	\$ —	\$ —	\$ 53	\$ 2,137	\$ 53	\$ 2,137
Government-guaranteed residential mortgage-backed securities	23	1,613	58	5,470	81	7,083
Government-sponsored residential mortgage-backed securities	212	92,018	570	72,393	782	164,411
Corporate bonds	233	14,816	1,643	19,187	1,876	34,003
Trust preferred securities	101	10,000	6	1,264	107	11,264
Other bonds and obligations	—	—	1	31	1	31
Total debt securities	569	118,447	2,331	100,482	2,900	218,929
Marketable equity securities	724	11,939	1,205	5,454	1,929	17,393
Total securities available for sale	1,293	130,386	3,536	105,936	4,829	236,322
Securities held to maturity						
Municipal bonds and obligations	—	—	—	—	—	—
Tax advantaged economic development bonds	—	—	—	—	—	—
Total securities held to maturity	—	—	—	—	—	—
Total	\$ 1,293	\$ 130,386	\$ 3,536	\$ 105,936	\$ 4,829	\$ 236,322
December 31, 2015						
Securities available for sale						
Debt securities:						
Municipal bonds and obligations	\$ 9	\$ 1,587	\$ 115	\$ 3,400	\$ 124	\$ 4,987
Government guaranteed residential mortgage-backed securities	164	23,460	232	19,262	396	42,722
Government-sponsored residential mortgage-backed securities	3,100	315,990	3,045	153,248	6,145	469,238
Corporate bonds	30	6,934	1,796	21,587	1,826	28,521
Trust preferred securities	1	1,269	—	—	1	1,269
Other bonds and obligations	—	108	34	3,032	34	3,140
Total debt securities	3,304	349,348	5,222	200,529	8,526	549,877
Marketable equity securities	534	2,908	1,352	5,729	1,886	8,637
Total securities available for sale	3,838	352,256	6,574	206,258	10,412	558,514
Securities held to maturity						
Municipal bonds and obligations	—	—	34	2,143	34	2,143
Total securities held to maturity	—	—	34	2,143	34	2,143
Total	\$ 3,838	\$ 352,256	\$ 6,608	\$ 208,401	\$ 10,446	\$ 560,657

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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, 2016, prior to this recovery. The Company's ability and intent to hold these securities until recovery is supported by the Company's strong capital and liquidity positions as well as its historically low portfolio turnover. The following summarizes, by investment security type, the basis for the conclusion that the debt securities in an unrealized loss position within the Company's AFS and HTM portfolios were not other-than-temporarily impaired at March 31, 2016:

AFS municipal bonds and obligations

At March 31, 2016, 3 of the total 118 securities in the Company's portfolio of AFS municipal bonds and obligations were in unrealized loss positions. Aggregate unrealized losses represented 2.4% of the amortized cost of securities in unrealized loss positions. The Company continually monitors the municipal bond sector of the market carefully and periodically evaluates the appropriate level of exposure to the market. At this time, the Company feels the bonds in this portfolio carry minimal risk of default and the Company is appropriately compensated for that risk. The bonds are investment grade rated, and there were no material underlying credit downgrades during the quarter. All securities are performing.

AFS residential mortgage-backed securities

At March 31, 2016, 55 out of the total 260 securities in the Company's portfolios of AFS residential mortgage-backed securities were in unrealized loss positions. Aggregate unrealized losses represented 0.5% of the amortized cost of securities in unrealized loss positions. The Federal National Mortgage Association ("FNMA"), Federal Home Loan Mortgage Corporation ("FHLMC") and Government National Mortgage Association ("GNMA") guarantee the contractual cash flows of all of the Company's residential mortgage-backed securities. The securities are investment grade rated and there were no material underlying credit downgrades during the quarter. All securities are performing.

AFS corporate bonds

At March 31, 2016, 6 out of 7 securities in the Company's portfolio of AFS corporate bonds were in an unrealized loss position. The aggregate unrealized loss represents 5.2% of the amortized cost of bonds in unrealized loss positions. The Company reviews the financial strength of all of these bonds and has concluded that the amortized cost remains supported by the expected future cash flows of these securities.

At March 31, 2016, \$1.5 million of the total unrealized losses was attributable to a \$17.6 million investment. The Company evaluated this security, with a Level 2 fair value of \$16.1 million, for potential other-than-temporary impairment ("OTTI") at March 31, 2016 and determined that OTTI was not evident based on both the Company's ability and intent to hold the security until the recovery of its remaining amortized cost.

AFS trust preferred securities

At March 31, 2016, 2 out of the 3 securities in the Company's portfolio of AFS trust preferred securities were in an unrealized loss position. Aggregate unrealized losses represented 0.9% of the amortized cost of these securities in an unrealized loss position. The Company's evaluation of the present value of expected cash flows on these securities supports its conclusions about the recoverability of these securities' amortized cost basis. These securities are investment grade rated. The Company reviews the financial strength of all of the single issue trust issuers and has concluded that the amortized cost remains supported by the market value of these securities and they are performing.

AFS other bonds and obligations

At March 31, 2016, 2 of the total 8 securities in the Company's portfolio of other bonds and obligations were in unrealized loss positions. Aggregate unrealized losses represented 0.3% of the amortized cost of securities in unrealized loss positions. The securities are investment grade rated and there were no material underlying credit

downgrades during the quarter. All securities are performing.

Marketable Equity Securities

In evaluating its marketable equity securities portfolio for OTTI, the Company considers its ability to more likely than not hold an equity security to recovery. The Company additionally considers other various factors including the length of time and the extent to which the fair value has been less than cost and the financial condition and near term prospects of the issuer. Any OTTI is recognized immediately through earnings. At March 31, 2016, 11 out of the total 26 securities in the Company's portfolio of marketable equity securities were in an unrealized loss position. The unrealized loss represented 10.0% of the amortized cost of the securities. The Company has the ability and intent to hold the securities until recovery of their cost basis and does not consider the securities other-than-temporarily impaired at March 31, 2016. As new information becomes available in future periods, changes to the Company's assumptions may be warranted and could lead to a different conclusion regarding the OTTI of these securities.

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NOTE 4. LOANS

The Company's loan portfolio is segregated into the following segments: commercial real estate, commercial and industrial, residential mortgage, and consumer. Commercial real estate loans include construction, single and multi-family, and other commercial real estate classes. Commercial and industrial loans include asset based lending loans, lease financing and other commercial business loan classes. Residential mortgage loans include classes for 1-4 family owner occupied and construction loans. Consumer loans include home equity, direct and indirect auto, and other. These portfolio segments each have unique risk characteristics that are considered when determining the appropriate level for the allowance for loan losses. A substantial portion of the loan portfolio is secured by real estate in western Massachusetts, southern Vermont, northeastern New York, and in the Bank's other New England lending areas. The ability of many of the Bank's borrowers to honor their contracts is dependent, among other things, on the specific economy and real estate markets of these areas.

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

(In thousands)	March 31, 2016			December 31, 2015		
	Business Activities	Acquired Loans	Total	Business Activities	Acquired Loans	Total
Commercial real estate:						
Construction	\$216,745	\$39,542	\$256,287	\$210,196	\$43,474	\$253,670
Single and multi-family	224,741	35,664	260,405	214,823	36,783	251,606
Other commercial real estate	1,251,087	332,288	1,583,375	1,209,008	345,483	1,554,491
Total commercial real estate	1,692,573	407,494	2,100,067	1,634,027	425,740	2,059,767
Commercial and industrial loans:						
Asset based lending	336,749	—	336,749	331,253	—	331,253
Other commercial and industrial loans	516,742	200,649	717,391	495,979	221,031	717,010
Total commercial and industrial loans	853,491	200,649	1,054,140	827,232	221,031	1,048,263
Total commercial loans	2,546,064	608,143	3,154,207	2,461,259	646,771	3,108,030
Residential mortgages:						
1-4 family	1,414,338	317,626	1,731,964	1,454,233	332,747	1,786,980
Construction	20,319	1,339	21,658	26,704	1,351	28,055
Total residential mortgages	1,434,657	318,965	1,753,622	1,480,937	334,098	1,815,035
Consumer loans:						
Home equity	306,451	51,534	357,985	307,159	53,446	360,605
Auto and other	341,127	119,749	460,876	311,328	130,238	441,566
Total consumer loans	647,578	171,283	818,861	618,487	183,684	802,171
Total loans	\$4,628,299	\$1,098,391	\$5,726,690	\$4,560,683	\$1,164,553	\$5,725,236

The carrying amount of the acquired loans at March 31, 2016 totaled \$1.1 billion. A subset of these loans was determined to have evidence of credit deterioration at acquisition date, which is accounted for in accordance with ASC 310-30. These purchased credit-impaired loans presently maintain a carrying value of \$18.3 million (and a note balance of \$33.3 million). These loans are evaluated for impairment through the periodic reforecasting of expected

cash flows. Loans considered not impaired at acquisition date had a carrying amount of \$1.1 billion.

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At December 31, 2015, acquired loans maintained a carrying value of \$1.2 billion and purchased credit-impaired loans totaled \$21.4 million (note balance of \$40.2 million). Loans considered not impaired at acquisition date had a carrying amount of \$1.1 billion.

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

(In thousands)	Three Months Ended March 31,	
	2016	2015
Balance at beginning of period	\$6,925	\$2,541
Acquisitions	—	—
Reclassification from nonaccretable difference for loans with improved cash flows	896	1,330
Reclassification to TDR	(185)	—
Accretion	(1,172)	(440)
Balance at end of period	\$6,464	\$3,431

The following is a summary of past due loans at March 31, 2016 and December 31, 2015:

Business Activities Loans

(in thousands)	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total Loans	Past Due > 90 days and Accruing
March 31, 2016							
Commercial real estate:							
Construction	\$ —	\$ 2,000	\$59	\$ 2,059	\$214,686	\$216,745	\$ —
Single and multi-family	—	121	278	399	224,342	224,741	—
Other commercial real estate	800	249	4,077	5,126	1,245,961	1,251,087	441
Total	800	2,370	4,414	7,584	1,684,989	1,692,573	441
Commercial and industrial loans:							
Asset based lending	—	—	—	—	336,749	336,749	—
Other commercial and industrial loans	1,385	211	7,231	8,827	507,915	516,742	567
Total	1,385	211	7,231	8,827	844,664	853,491	567
Residential mortgages:							
1-4 family	2,216	774	3,424	6,414	1,407,924	1,414,338	670
Construction	—	45	—	45	20,274	20,319	—
Total	2,216	819	3,424	6,459	1,428,198	1,434,657	670
Consumer loans:							
Home equity	466	23	1,891	2,380	304,071	306,451	25
Auto and other	805	163	379	1,347	339,780	341,127	—
Total	1,271	186	2,270	3,727	643,851	647,578	25
Total	\$ 5,672	\$ 3,586	\$17,339	\$26,597	\$4,601,702	\$4,628,299	\$ 1,703

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Business Activities Loans

(in thousands)	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total Loans	Past Due > 90 days and Accruing
December 31, 2015							
Commercial real estate:							
Construction	\$ —	\$ —	\$58	\$58	\$210,138	\$210,196	\$ —
Single and multi-family	65	160	70	295	214,528	214,823	—
Other commercial real estate	1,523	831	3,286	5,640	1,203,368	1,209,008	—
Total	1,588	991	3,414	5,993	1,628,034	1,634,027	—
Commercial and industrial loans:							
Asset based lending	—	—	—	—	331,253	331,253	—
Other commercial and industrial loans	1,202	1,105	7,770	10,077	485,902	495,979	146
Total	1,202	1,105	7,770	10,077	817,155	827,232	146
Residential mortgages:							
1-4 family	3,537	857	4,304	8,698	1,445,535	1,454,233	2,006
Construction	—	—	—	—	26,704	26,704	—
Total	3,537	857	4,304	8,698	1,472,239	1,480,937	2,006
Consumer loans:							
Home equity	563	20	1,658	2,241	304,918	307,159	61
Auto and other	1,230	132	610	1,972	309,356	311,328	59
Total	1,793	152	2,268	4,213	614,274	618,487	120
Total	\$ 8,120	\$ 3,105	\$17,756	\$28,981	\$4,531,702	\$4,560,683	\$ 2,272

Acquired Loans

(in thousands)	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Acquired Credit Impaired	Total Loans	Past Due > 90 days and Accruing
March 31, 2016							
Commercial real estate:							
Construction	\$ —	\$ —	\$ —	\$ —	\$ 1,276	\$39,542	\$ —
Single and multi-family	—	—	396	396	1,380	35,664	300
Other commercial real estate	554	36	1,141	1,731	11,334	332,288	209
Total	554	36	1,537	2,127	13,990	407,494	509
Commercial and industrial loans:							
Asset based lending	—	—	—	—	—	—	—
Other commercial and industrial loans	604	72	1,891	2,567	2,445	200,649	1,075
Total	604	72	1,891	2,567	2,445	200,649	1,075
Residential mortgages:							
1-4 family	1,051	758	2,105	3,914	1,613	317,626	127
Construction	—	—	—	—	—	1,339	—
Total	1,051	758	2,105	3,914	1,613	318,965	127
Consumer loans:							

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Home equity	67	126	586	779	118	51,534	—
Auto and other	482	104	757	1,343	118	119,749	—
Total	549	230	1,343	2,122	236	171,283	—
Total	\$ 2,758	\$ 1,096	\$ 6,876	\$ 10,730	\$ 18,284	\$ 1,098,391	\$ 1,711

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Acquired Loans

(in thousands)	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Acquired Credit Impaired	Total Loans	Past Due > 90 days and Accruing
December 31, 2015							
Commercial real estate:				—			
Construction	\$ —	\$ —	\$ —	\$ —	\$ 1,298	\$43,474	\$ —
Single and multi-family	—	176	227	403	1,380	36,783	127
Other commercial real estate	547	43	1,368	1,958	13,087	345,483	—
Total	547	219	1,595	2,361	15,765	425,740	127
Commercial and industrial loans:							
Asset based lending	—	—	—	—	—	—	—
Other commercial and industrial loans	1,214	505	1,420	3,139	2,775	221,031	785
Total	1,214	505	1,420	3,139	2,775	221,031	785
Residential mortgages:							
1-4 family	2,580	311	1,880	4,771	2,572	332,747	212
Construction	—	—	—	—	—	1,351	—
Total	2,580	311	1,880	4,771	2,572	334,098	212
Consumer loans:							
Home equity	82	277	837	1,196	118	53,446	111
Auto and other	1,491	145	1,081	2,717	132	130,238	187
Total	1,573	422	1,918	3,913	250	183,684	298
Total	\$ 5,914	\$ 1,457	\$ 6,813	\$ 14,184	\$ 21,362	\$ 1,164,553	\$ 1,422

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The following is summary information pertaining to non-accrual loans at March 31, 2016 and December 31, 2015

(In thousands)	March 31, 2016			December 31, 2015		
	Business Acquired Activities Loans (1)		Total	Business Acquired Activities Loans (2)		Total
Commercial real estate:						
Construction	\$59	\$ —	\$59	\$59	\$ —	\$59
Single and multi-family	278	96	374	70	100	170
Other commercial real estate	3,636	932	4,568	3,285	1,368	4,653
Total	3,973	1,028	5,001	3,414	1,468	4,882
Commercial and industrial loans:						
Other commercial and industrial loans	6,664	692	7,356	7,624	597	8,221
Total	6,664	692	7,356	7,624	597	8,221
Residential mortgages:						
1-4 family	2,754	1,978	4,732	2,298	1,668	3,966
Construction	—	—	—	—	—	—
Total	2,754	1,978	4,732	2,298	1,668	3,966
Consumer loans:						
Home equity	1,866	586	2,452	1,597	727	2,324
Auto and other	379	757	1,136	551	893	1,444
Total	2,245	1,343	3,588	2,148	1,620	3,768
Total non-accrual loans	\$15,636	\$ 5,041	\$20,677	\$15,484	\$ 5,353	\$20,837

(1) At quarter end March 31, 2016, acquired credit impaired loans accounted for \$124.0 thousand of non-accrual loans that are not presented in the above table.

(2) At December 31, 2015, acquired credit impaired loans accounted for \$39.0 thousand of non-accrual loans that are not presented in the above table.

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Loans evaluated for impairment as of March 31, 2016 and December 31, 2015 were as follows:

Business Activities Loans

(In thousands)	Commercial real estate	Commercial and industrial loans	Residential mortgages	Consumer	Total
March 31, 2016					
Loans receivable:					
Balance at end of period					
Individually evaluated for impairment	\$ 13,005	\$ 6,269	\$ 3,102	\$ 2,032	\$ 24,408
Collectively evaluated	1,679,568	847,222	1,431,555	645,546	4,603,891
Total	\$ 1,692,573	\$ 853,491	\$ 1,434,657	\$ 647,578	\$ 4,628,299

Business Activities Loans

(In thousands)	Commercial real estate	Commercial and industrial loans	Residential mortgages	Consumer	Total
December 31, 2015					
Loans receivable:					
Balance at end of year					
Individually evaluated for impairment	\$ 11,560	\$ 7,191	\$ 2,812	\$ 1,810	\$ 23,373
Collectively evaluated for impairment	1,622,467	820,041	1,478,125	616,677	4,537,310
Total	\$ 1,634,027	\$ 827,232	\$ 1,480,937	\$ 618,487	\$ 4,560,683

Acquired Loans

(In thousands)	Commercial real estate	Commercial and industrial loans	Residential mortgages	Consumer	Total
March 31, 2016					
Loans receivable:					
Balance at end of Period					
Individually evaluated for impairment	\$ 4,069	\$ 50	\$ 650	\$ 460	\$ 5,229
Purchased credit-impaired loans	13,990	2,445	1,613	236	18,284
Collectively evaluated	389,435	198,154	316,702	170,587	1,074,878
Total	\$ 407,494	\$ 200,649	\$ 318,965	\$ 171,283	\$ 1,098,391

Acquired Loans

(In thousands)	Commercial real estate	Commercial and industrial loans	Residential mortgages	Consumer	Total
December 31, 2015					
Loans receivable:					
Balance at end of year					
Individually evaluated for impairment	\$ 3,749	\$ —	\$ 570	\$ 487	\$ 4,806
Purchased credit-impaired loans	15,765	2,775	2,572	250	21,362
Collectively evaluated for impairment	406,226	218,256	330,956	182,947	1,138,385
Total	\$ 425,740	\$ 221,031	\$ 334,098	\$ 183,684	\$ 1,164,553

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The following is a summary of impaired loans at March 31, 2016 and December 31, 2015:

Business Activities Loans

(In thousands)	March 31, 2016		Related Allowance
	Recorded	Unpaid Principal Investment Balance	
With no related allowance:			
Commercial real estate - construction	\$—	\$ —	\$ —
Commercial real estate - single and multifamily	—	—	—
Other commercial real estate loans	2,495	2,495	—
Other commercial and industrial loans	200	200	—
Residential mortgages - 1-4 family	1,494	1,494	—
Consumer - home equity	729	729	—
Consumer - other	1	1	—
With an allowance recorded:			
Commercial real estate - construction	\$1,989	\$ 2,000	\$ 11
Commercial real estate - single and multifamily	128	144	16
Other commercial real estate loans	8,054	8,366	312
Other commercial and industrial loans	5,939	6,069	130
Residential mortgages - 1-4 family	1,457	1,608	151
Consumer - home equity	1,148	1,197	49
Consumer - other	98	105	7
Total			
Commercial real estate	\$12,666	\$ 13,005	\$ 339
Commercial and industrial loans	6,139	6,269	130
Residential mortgages	2,951	3,102	151
Consumer	1,976	2,032	56
Total impaired loans	\$23,732	\$ 24,408	\$ 676

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Business Activities Loans

(In thousands)	December 31, 2015		
	Recorded	Unpaid Principal Investment Balance	Related Allowance
With no related allowance:			
Commercial real estate - construction	\$2,000	\$ 2,000	\$ —
Commercial real estate - single and multifamily	—	—	—
Other commercial real estate loans	4,613	4,613	—
Other commercial and industrial loans	5,828	5,828	—
Residential mortgages - 1-4 family	1,181	1,181	—
Consumer - home equity	702	702	—
Consumer - other	1	1	—
With an allowance recorded:			
Commercial real estate - construction	\$—	\$ —	\$ —
Commercial real estate - single and multifamily	—	—	—
Other commercial real estate loans	4,798	4,947	149
Other commercial and industrial loans	1,341	1,362	21
Residential mortgages - 1-4 family	1,479	1,632	153
Consumer - home equity	903	999	96
Consumer - other	101	108	7
Total			
Commercial real estate	\$11,411	\$ 11,560	\$ 149
Commercial and industrial loans	7,169	7,190	21
Residential mortgages	2,660	2,813	153
Consumer	1,707	1,810	103
Total impaired loans	\$22,947	\$ 23,373	\$ 426

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Acquired Loans

(In thousands)	March 31, 2016		
	Recorded	Unpaid Principal Investment Balance	Related Allowance
With no related allowance:			
Commercial real estate - construction	\$—	\$ —	\$ —
Commercial real estate - single and multifamily	125	125	—
Other commercial real estate loans	478	478	—
Other commercial and industrial loans	315	315	—
Residential mortgages - 1-4 family	—	—	—
Consumer - home equity	—	—	—
Consumer - other	152	152	—
With an allowance recorded:			
Commercial real estate - construction	\$—	\$ —	\$ —
Commercial real estate - single and multifamily	780	823	43
Other commercial real estate loans	2,502	2,641	139
Other commercial and industrial loans	50	52	2
Residential mortgages - 1-4 family	298	335	37
Consumer - home equity	284	308	24
Consumer - other	—	—	—
Total			
Commercial real estate	\$3,885	\$ 4,067	\$ 182
Commercial and industrial loans	365	367	2
Residential mortgages	298	335	37
Consumer	436	460	24
Total impaired loans	\$4,984	\$ 5,229	\$ 245

Acquired Loans

(In thousands)	December 31, 2015		
	Recorded	Unpaid Principal Investment Balance	Related Allowance
With no related allowance:			
Other commercial real estate loans	\$1,722	\$ 1,722	\$ —
Residential mortgages - 1-4 family	274	274	—
Consumer - home equity	117	117	—
Consumer - other	177	177	—
With an allowance recorded:			
Commercial real estate - single and multifamily	\$638	\$ 655	\$ 17
Other commercial real estate loans	1,964	2,032	68
Residential mortgages - 1-4 family	266	296	30
Consumer - home equity	167	192	25
Total			
Other commercial real estate loans	\$4,324	\$ 4,409	\$ 85
Other commercial and industrial loans	—	—	—
Residential mortgages	540	570	30

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Consumer - home equity	461	486	25
Total impaired loans	\$5,325	\$ 5,465	\$ 140

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The following is a summary of the average recorded investment and interest income recognized on impaired loans as of March 31, 2016 and 2015:

Business Activities Loans

(in thousands)	Three Months Ended March 31, 2016		Three Months Ended March 31, 2015	
	Average Recorded Investment	Cost Basis Interest Income Recognized	Average Recorded Investment	Cost Basis Interest Income Recognized
With no related allowance:				
Commercial real estate - construction	\$ —	\$ —	\$ 2,628	\$ 1
Commercial real estate - single and multifamily	—	—	180	—
Other commercial real estate loans	3,166	—	15,315	131
Commercial and industrial loans	734	13	578	3
Residential mortgages - 1-4 family	1,520	2	3,108	28
Consumer - home equity	663	4	334	—
Consumer - other	1	—	115	1
With an allowance recorded:				
Commercial real estate - construction	\$ 2,000	\$ 28	\$ —	\$ —
Commercial real estate - single and multifamily	97	1	—	—
Other commercial real estate loans	8,143	81	5,267	—
Commercial and industrial loans	5,962	84	—	—
Residential mortgages - 1-4 family	1,619	19	—	—
Consumer - home equity	1,197	8	—	—
Consumer - other	106	1	—	—
Total				
Commercial real estate	\$ 13,406	\$ 110	\$ 23,390	\$ 132
Commercial and industrial loans	6,696	97	578	3
Residential mortgages	3,139	21	3,108	28
Consumer loans	1,967	13	449	1
Total impaired loans	\$ 25,208	\$ 241	\$ 27,525	\$ 164

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Acquired Loans

(in thousands)	Three Months Ended March 31, 2016		Three Months Ended March 31, 2015	
	Average Recorded Investment	Carried Basis Interest Income Recognized	Average Recorded Investment	Carried Basis Interest Income Recognized
With no related allowance:				
Commercial real estate - construction	\$ —	\$ —	\$ —	\$ —
Commercial real estate - single and multifamily	126	2	2,892	24
Other commercial real estate loans	760	—	1,662	3
Other commercial and industrial loans	261	—	64	3
Residential mortgages - 1-4 family	12	—	670	3
Consumer - home equity	—	—	197	2
Consumer - other	169	1	—	—
With an allowance recorded:				
Commercial real estate - construction	\$ —	\$ —	\$ 666	\$ 44
Commercial real estate - single and multifamily	825	11	397	—
Other commercial real estate loans	2,569	44	691	—
Other commercial and industrial loans	53	—	—	—
Residential mortgages - 1-4 family	334	3	569	—
Consumer - home equity	309	2	349	—
Consumer - other	—	—	—	—
Total				
Other commercial real estate loans	\$ 4,280	\$ 57	\$ 6,308	\$ 71
Commercial and industrial loans	314	—	64	3
Residential mortgages	346	3	1,239	3
Consumer loans	478	3	546	2
Total impaired loans	\$ 5,418	\$ 63	\$ 8,157	\$ 79

Troubled Debt Restructuring Loans

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

The following tables include the recorded investment and number of modifications identified during the three months ended March 31, 2016 and for the three months ended March 31, 2015, respectively. The table includes the recorded investment in the loans prior to a modification and also the recorded investment in the loans after the loans were restructured. The modifications for the three months ending March 31, 2016 were attributable to interest rate concessions, maturity date extensions, modified payment terms, reamortization, and accelerated maturity. The modifications for the three months ending March 31, 2015 were attributable to concessions granted as ordered by bankruptcy court, interest rate concessions and maturity date extensions.

Three Months Ended March 31, 2016

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(Dollars in thousands)	Pre-Modification		Post-Modification	
	Number of	Recorded	Number of	Recorded
	Outstanding	Investment	Outstanding	Investment
Troubled Debt Restructurings				
Commercial - Other	2	1,049		1,049
Commercial and industrial - Other	2	151		151
Total	4	1,200		1,200

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(Dollars in thousands)	Three Months Ended March 31, 2015	
	Pre-Modification Number of Outstanding Modifications Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings		
Commercial - Construction	1 \$ 123	\$ 123
Commercial - Other	1 2,000	2,000
Commercial and industrial - Other	1 33	33
Total	3 \$ 2,156	\$ 2,156

The following table discloses the recorded investment and number of modifications for TDRs for the prior year where a concession has been made, that then defaulted in the respective reporting period. For the three months ended March 31, 2016, there were no loans that were restructured that had subsequently defaulted during the period.

Modifications that Subsequently Defaulted	
Three Months Ended March 31, 2015	
Number of Outstanding Recorded Investment	
Troubled Debt Restructurings	
Commercial - Other	1 \$ 668

The following table presents the Company's TDR activity for the three months ended March 31, 2016 and 2015:

(In thousands)	Three Months Ended March 31,	
	2016	2015
Balance at beginning of the period	\$22,048	\$16,714
Principal payments	(342)	(484)
TDR status change (1)	2,235	—
Other reductions/increases (2)	(1,487)	(1,182)
Newly identified TDRs	1,200	2,156
Balance at end of the period	\$23,654	\$17,204

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

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

As of March 31, 2016, the Company maintained foreclosed residential real estate property with a fair value of \$390 thousand. Additionally, residential mortgage loans collateralized by real estate property that are in the process of foreclosure as of March 31, 2016 and December 31, 2015 totaled \$5.5 million and \$7.5 million, respectively. As of December 31, 2015, foreclosed residential real estate property totaled \$675 thousand.

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NOTE 5. LOAN LOSS ALLOWANCE

Activity in the allowance for loan losses for the three months ended March 31, 2016 and 2015 was as follows:

Business Activities Loans (In thousands)	Commercial real estate	Commercial and industrial loans	Residential mortgages	Consumer	Unallocated	Total
March 31, 2016						
Balance at beginning of period	\$ 14,508	\$ 7,317	\$ 7,566	\$ 4,956	\$ 227	\$34,574
Charged-off loans	1,044	965	547	401	—	2,957
Recoveries on charged-off loans	128	74	—	67	—	269
Provision/(releases) for loan losses	2,451	2,203	42	(553)	(531)	3,612
Balance at end of period	\$ 16,043	\$ 8,629	\$ 7,061	\$ 4,069	\$ (304)	\$35,498
Individually evaluated for impairment	340	130	151	56	—	677
Collectively evaluated	15,703	8,499	6,910	4,013	(304)	34,821
Total	\$ 16,043	\$ 8,629	\$ 7,061	\$ 4,069	\$ (304)	\$35,498

Business Activities Loans (In thousands)	Commercial real estate	Commercial and industrial loans	Residential mortgages	Consumer	Unallocated	Total
March 31, 2015						
Balance at beginning of period	\$ 14,690	\$ 5,206	\$ 6,836	\$ 5,928	\$ 135	\$32,795
Charged-off loans	1,605	223	128	202	—	2,158
Recoveries on charged-off loans	3	5	67	61	—	136
Provision/(releases) for loan losses	1,330	1,460	(702)	(751)	158	1,495
Balance at end of period	\$ 14,418	\$ 6,448	\$ 6,073	\$ 5,036	\$ 293	\$32,268
Individually evaluated for impairment	1,086	—	—	—	—	1,086
Collectively evaluated	13,332	6,448	6,073	5,036	293	31,182
Total	\$ 14,418	\$ 6,448	\$ 6,073	\$ 5,036	\$ 293	\$32,268

Acquired Loans (In thousands)	Commercial real estate	Commercial and industrial loans	Residential mortgages	Consumer	Unallocated	Total
March 31, 2016						
Balance at beginning of period	\$ 1,903	\$ 1,330	\$ 976	\$ 525	\$ —	\$4,734
Charged-off loans	126	25	310	286	—	747
Recoveries on charged-off loans	(1)	69	83	25	—	176
Provision for loan losses	187	(99)	145	161	—	394
Balance at end of period	\$ 1,963	\$ 1,275	\$ 894	\$ 425	\$ —	\$4,557
Individually evaluated for impairment	182	2	37	24	—	245
Purchased credit-impaired loans	—	—	—	—	—	—
Collectively evaluated	1,781	1,273	857	401	—	4,312
Total	\$ 1,963	\$ 1,275	\$ 894	\$ 425	\$ —	\$4,557

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Acquired Loans (In thousands)	Commercial			Consumer	Unallocated	Total
	Commercial real estate	and industrial loans	Residential mortgages			
March 31, 2015						
Balance at beginning of period	\$ 790	\$ 1,093	\$ 615	\$ 369	\$	—\$2,867
Charged-off loans	405	198	238	433	—	1,274
Recoveries on charged-off loans	—	41	—	28	—	69
Provision for loan losses	1,579	(11)	372	416	—	2,356
Balance at end of period	\$ 1,964	\$ 925	\$ 749	\$ 380	\$	—\$4,018
Individually evaluated for impairment	455	—	52	61	—	568
Purchased credit-impaired loans	—	—	—	—	—	—
Collectively evaluated	1,509	925	697	319	—	3,450
Total	\$ 1,964	\$ 925	\$ 749	\$ 380	\$	—\$4,018

Credit Quality Information

Business Activities Loans Credit Quality Analysis

The Company monitors the credit quality of its portfolio by using internal risk ratings that are based on regulatory guidance. Loans that are given a Pass rating are not considered a problem credit. Loans that are classified as Special Mention loans are considered to have potential credit problems and are evaluated closely by management. Substandard and non-accruing loans are loans for which a definitive weakness has been identified and which may make full collection of contractual cash flows questionable. Doubtful loans are those with identified weaknesses that make full collection of contractual cash flows, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

For commercial credits, the Company assigns an internal risk rating at origination and reviews the rating annually, semiannually or quarterly depending on the risk rating. The rating is also reassessed at any point in time when management becomes aware of information that may affect the borrower's ability to fulfill their obligations.

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

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

Acquired Loans Credit Quality Analysis

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

The Bank utilizes an eleven grade internal loan rating system for each of its acquired commercial real estate, construction and commercial loans as outlined in the Credit Quality Information section of this Note. The ratings system is similar to loans originated through business activities.

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

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

A decrease in the expected cash flows in subsequent periods requires the establishment of an allowance for loan losses at that time for ASC 310-30 loans. At March 31, 2016 the allowance for loan losses related to acquired loans under ASC 310-30 and ASC 310-20 was \$4.6 million using the above mentioned criteria.

The following tables present the Company's loans by risk rating at March 31, 2016 and December 31, 2015:

Business Activities Loans

Commercial Real Estate

Credit Risk Profile by Creditworthiness Category

	Construction		Single and multi-family		Other		Total commercial real estate	
(In thousands)	March 31, 2016	December 31, 2015	March 31, 2016	December 31, 2015	March 31, 2016	December 31, 2015	March 31, 2016	December 31, 2015
Grade:								
Pass	\$214,685	\$208,138	\$222,153	\$212,900	\$1,198,961	\$1,155,770	\$1,635,799	\$1,576,808
Special mention	—	—	72	—	4,339	3,449	4,411	3,449
Substandard	2,060	2,058	2,516	1,923	47,714	49,716	52,290	53,697
Doubtful	—	—	—	—	73	73	73	73
Total	\$216,745	\$210,196	\$224,741	\$214,823	\$1,251,087	\$1,209,008	\$1,692,573	\$1,634,027

Commercial and Industrial Loans

Credit Risk Profile by Creditworthiness Category

	Asset based lending		Other		Total comm. and industrial loans	
(In thousands)	March 31, 2016	December 31, 2015	March 31, 2016	December 31, 2015	March 31, 2016	December 31, 2015
Grade:						
Pass	\$336,749	\$331,253	\$474,141	\$455,710	\$810,890	\$786,963
Special mention	—	—	20,303	24,578	20,303	24,578
Substandard	—	—	22,298	15,691	22,298	15,691
Total	\$336,749	\$331,253	\$516,742	\$495,979	\$853,491	\$827,232

Residential Mortgages

Credit Risk Profile by Internally Assigned Grade

	1-4 family		Construction		Total residential mortgages	
(In thousands)	March 31, 2016	December 31, 2015	March 31, 2016	December 31, 2015	March 31, 2016	December 31, 2015
Grade:						
Pass	\$1,410,096	\$1,449,073	\$20,319	\$26,704	\$1,430,415	\$1,475,777
Special mention	819	857	—	—	819	857
Substandard	3,423	4,303	—	—	3,423	4,303
Total	\$1,414,338	\$1,454,233	\$20,319	\$26,704	\$1,434,657	\$1,480,937

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Consumer Loans

Credit Risk Profile Based on Payment Activity

	Home equity		Auto and other		Total consumer loans	
(In thousands)	March 31, 2016	December 31, 2015	March 31, 2016	December 31, 2015	March 31, 2016	December 31, 2015
Performing	\$304,585	\$305,562	\$340,748	\$310,777	\$645,333	\$616,339
Nonperforming	1,866	1,597	379	551	2,245	2,148
Total	\$306,451	\$307,159	\$341,127	\$311,328	\$647,578	\$618,487

Acquired Loans

Commercial Real Estate

Credit Risk Profile by Creditworthiness Category

	Construction		Single and multi-family		Other		Total commercial real estate	
(In thousands)	March 31, 2016	December 31, 2015	March 31, 2016	December 31, 2015	March 31, 2016	December 31, 2015	March 31, 2016	December 31, 2015
Grade:								
Pass	\$38,266	\$42,176	\$29,898	\$32,796	\$312,590	\$324,614	\$380,754	\$399,586
Special mention	—	—	—	655	2,403	352	2,403	1,007
Substandard	1,276	1,298	5,766	3,332	17,295	20,517	24,337	25,147
Total	\$39,542	\$43,474	\$35,664	\$36,783	\$332,288	\$345,483	\$407,494	\$425,740

Commercial and Industrial Loans

Credit Risk Profile by Creditworthiness Category

	Asset based lending		Other		Total comm. and industrial loans	
(In thousands)	March 31, 2016	December 31, 2015	March 31, 2016	December 31, 2015	March 31, 2016	December 31, 2015
Grade:						
Pass	\$ —	\$ —	\$193,102	\$212,825	\$ 193,102	\$ 212,825
Special mention	—	—	180	487	180	487
Substandard	—	—	7,367	7,719	7,367	7,719
Total	\$ —	\$ —	\$200,649	\$221,031	\$ 200,649	\$ 221,031

Residential Mortgages

Credit Risk Profile by Internally Assigned Grade

	1-4 family		Construction		Total residential mortgages	
(In thousands)	March 31, 2016	December 31, 2015	March 31, 2016	December 31, 2015	March 31, 2016	December 31, 2015
Grade:						
Pass	\$314,550	\$329,375	\$1,339	\$1,351	\$ 315,889	\$ 330,726
Special mention	775	311	—	—	775	311
Substandard	2,301	3,061	—	—	2,301	3,061
Total	\$317,626	\$332,747	\$1,339	\$1,351	\$ 318,965	\$ 334,098

Consumer Loans

Credit Risk Profile Based on Payment Activity

	Home equity		Auto and other		Total consumer loans	
	March	December	March	December	March 31,	December
(In thousands)	31, 2016	31, 2015	31, 2016	31, 2015	2016	31, 2015
Performing	\$50,949	\$52,719	\$118,992	\$129,345	\$169,941	\$182,064
Nonperforming	585	727	757	893	1,342	1,620
Total	\$51,534	\$53,446	\$119,749	\$130,238	\$171,283	\$183,684

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The following table summarizes information about total loans rated Special Mention or lower as of March 31, 2016 and December 31, 2015. The table below includes consumer loans that are special mention and substandard accruing that are classified in the above table as performing based on payment activity.

(In thousands)	March 31, 2016			December 31, 2015		
	Business Activities	Acquired Loans	Total	Business Activities	Acquired Loans	Total
Non-Accrual	\$15,636	\$ 5,165	\$20,801	\$15,484	\$ 5,391	\$20,875
Substandard Accruing	64,718	30,317	95,035	60,549	32,560	93,109
Total Classified	80,354	35,482	115,836	76,033	37,951	113,984
Special Mention	25,717	3,598	29,315	29,036	2,259	31,295
Total Criticized	\$106,071	\$ 39,080	\$145,151	\$105,069	\$ 40,210	\$145,279

NOTE 6. DEPOSITS

A summary of time deposits is as follows:

(In thousands)	March 31, 2016	December 31, 2015
Time less than \$100,000	\$549,189	\$ 545,819
Time \$100,000 or more	1,507,625	1,440,781
Total time deposits	\$2,056,814	\$ 1,986,600

Included in time deposits are brokered deposits of \$812.2 million and \$784.1 million at March 31, 2016 and December 31, 2015, respectively. Included in the deposit balances contained on the balance sheet, the Company maintained reciprocal deposits of \$102.6 million and \$101.5 million at March 31, 2016 and December 31, 2015, respectively.

NOTE 7. BORROWED FUNDS

Borrowed funds at March 31, 2016 and December 31, 2015 are summarized, as follows:

(dollars in thousands, except rates)	March 31, 2016			December 31, 2015		
	Principal	Weighted Average Rate		Principal	Weighted Average Rate	
Short-term borrowings:						
Advances from the FHLBB	\$930,700	0.52 %		\$1,071,200	0.43 %	
Other Borrowings	10,000	2.09		—	—	
Total short-term borrowings	940,700	0.53		1,071,200	0.43	
Long-term borrowings:						
Advances from the FHLBB	140,196	1.58		103,135	1.89	
Subordinated notes	73,563	7.00		73,519	7.00	
Junior subordinated borrowings	15,464	2.47		15,464	2.23	
Total long-term borrowings	229,223	3.38		192,118	3.88	
Total	\$1,169,923	1.09 %		\$1,263,318	0.96 %	

Short term debt includes Federal Home Loan Bank of Boston ("FHLBB") advances with an original maturity of less than one year and a short-term line-of-credit drawdown through a correspondent bank. The Bank also maintains a \$3.0 million secured line of credit with the FHLBB that bears a daily adjustable rate calculated by the FHLBB. There was

no outstanding balance on the FHLBB line of credit during the three month periods ending March 31, 2016 and December 31, 2015.

The Bank is approved to borrow on a short-term basis from the Federal Reserve Bank of Boston as a non-member bank. The Bank has pledged certain loans and securities to the Federal Reserve Bank to support this arrangement. No borrowings with the Federal Reserve Bank of Boston took place for the three month periods ended March 31, 2016 and December 31, 2015.

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Long-term FHLBB advances consist of advances with an original maturity of more than one year. The advances outstanding at March 31, 2016 include callable advances totaling \$11.0 million, and amortizing advances totaling \$1.2 million. The advances outstanding at December 31, 2015 include callable advances totaling \$11.0 million, and amortizing advances totaling \$1.2 million. All FHLBB borrowings, including the line of credit, are secured by a blanket security agreement on certain qualified collateral, principally all residential first mortgage loans and certain securities.

A summary of maturities of FHLBB advances as of March 31, 2016 and December 31, 2015 is as follows:

		March 31, 2016	
		Principal	Weighted Average Rate
(in thousands, except rates)			
Fixed rate advances maturing:			
2016	\$970,903	0.55	%
2017	83,316	1.49	
2018	1,026	2.62	
2019	—	—	
2020 and beyond	15,651	2.41	
Total FHLBB advances	\$1,070,896	0.66	%

The Company does not have variable-rate FHLBB advances for the three month periods ended March 31, 2016 and December 31, 2015. In September 2012, the Company issued fifteen year subordinated notes in the amount of \$75.0 million at a discount of 1.15%. The interest rate is fixed at 6.875% for the first ten years. After ten years, the notes become callable and convert to an interest rate of three-month LIBOR rate plus 511.3% basis points. The subordinated note includes reduction to the note principal balance of \$798 thousand and \$829 thousand for unamortized debt issuance costs as of March 31, 2016 and December 31 2015, respectively.

The Company holds 100% of the common stock of Berkshire Hills Capital Trust I (“Trust I”) which is included in other assets with a cost of \$0.5 million. The sole asset of Trust I is \$15.5 million of the Company’s junior subordinated debentures due in 2035. These debentures bear interest at a variable rate equal to LIBOR plus 1.85% and had a rate of 2.47% and 2.23% at March 31, 2016 and December 31, 2015, respectively. The Company has the right to defer payments of interest for up to five years on the debentures at any time, or from time to time, with certain limitations, including a restriction on the payment of dividends to shareholders while such interest payments on the debentures have been deferred. The Company has not exercised this right to defer payments. The Company has the right to redeem the debentures at par value. Trust I is considered a variable interest entity for which the Company is not the primary beneficiary. Accordingly, Trust I is not consolidated into the Company’s financial statements.

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NOTE 8. CAPITAL RATIOS AND SHAREHOLDERS' EQUITY

The actual and required capital ratios were as follows:

	March 31, 2016		Regulatory Minimum to be Well Capitalized		December 31, 2015		Regulatory Minimum to be Well Capitalized	
Company (consolidated)								
Total capital	11.8	%	10.0	%	11.9	%	10.0	%
Common Equity Tier 1 Capital	9.7		6.5		9.8		6.5	
Tier 1 capital	9.9		8.0		9.9		8.0	
Tier 1 leverage	7.7		5.0		7.7		5.0	
Bank								
Total capital	11.1	%	10.0	%	11.2	%	10.0	%
Common Equity Tier 1 Capital	9.9		6.5		9.9		6.5	
Tier 1 capital	9.9		8.0		9.9		8.0	
Tier 1 leverage	7.7		5.0		7.7		5.0	

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

Effective January 1, 2015, the Company and the Bank became subject to the Basel III rule that requires the Company and the Bank to assess their Common Equity Tier 1 Capital to risk weighted assets and the Company and the Bank each exceed the minimum to be well capitalized. In addition, the final capital rules added a requirement to maintain a minimum conservation buffer, composed of Common equity tier 1 capital, of 2.5% of risk-weighted assets, to be phased in over three years and applied to the Common equity tier 1 risk-based capital ratio, the Tier 1 risk-based capital ratio and the Total risk-based capital ratio. Accordingly, banking organizations, on a fully phased in basis no later than January 1, 2019, must maintain a minimum Common equity tier 1 risk-based capital ratio of 7.0%, a minimum Tier 1 risk-based capital ratio of 8.5% and a minimum Total risk-based capital ratio of 10.5%.

The required minimum conservation buffer began to be phased in incrementally, starting at 0.625% on January 1, 2016 and will increase to 1.25% on January 1, 2017, 1.875% on January 1, 2018 and 2.5% on January 1, 2019. The final capital rules impose restrictions on capital distributions and certain discretionary cash bonus payments if the minimum capital conservation buffer is not met.

At March 31, 2016, the capital levels of both the Company and the Bank exceeded all regulatory capital requirements and their regulatory capital ratios were above the minimum levels required to be considered well capitalized for regulatory purposes. The capital levels of both the Company and the Bank at March 31, 2016 also exceeded the minimum capital requirements including the currently applicable capital conservation buffer of 0.625%.

Accumulated other comprehensive income (loss)

Components of accumulated other comprehensive income is as follows:

(In thousands)	March 31, 2016	December 31, 2015
Other accumulated comprehensive income, before tax:		
Net unrealized holding gain on AFS securities	\$ 24,023	\$ 6,316
Net (loss) on effective cash flow hedging derivatives	(13,038)	(8,532)
Net unrealized holding (loss) on pension plans	(3,469)	(3,469)

Income taxes related to items of accumulated other comprehensive income:

Net unrealized holding gain on AFS securities	(9,293)	(2,437)
Net (loss) on effective cash flow hedging derivatives	5,232		3,425	
Net unrealized holding (loss) on pension plans	1,392		1,392	
Accumulated other comprehensive income	\$4,847		\$ (3,305)

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The following table presents the components of other comprehensive income for the three months ended March 31, 2016 and 2015:

(In thousands)	Before Tax	Tax Effect	Net of Tax
Three Months Ended March 31, 2016			
Net unrealized holding gains on AFS securities:	x	x	
Net unrealized gains arising during the period	\$ 17,742	\$ (6,869)	\$ 10,873
Less: reclassification adjustment for (gains) realized in net income	(36)	13	(23)
Net unrealized holding gain on AFS securities	17,706	(6,856)	10,850
Net loss on cash flow hedging derivatives:			
Net unrealized loss arising during the period	(4,914)	1,972	(2,942)
Less: reclassification adjustment for (gains) losses realized in net income	408	(164)	244
Net loss on cash flow hedging derivatives	(4,506)	1,808	(2,698)
Net unrealized holding loss on pension plans			
Net unrealized loss arising during the period	—	—	—
Less: reclassification adjustment for (gains) losses realized in net income	—	—	—
Net unrealized holding loss on pension plans	—	—	—
Other comprehensive income	\$ 13,200	\$ (5,048)	\$ 8,152
Three Months Ended March 31, 2015			
Net unrealized holding loss on AFS securities:			
Net unrealized loss arising during the period	\$ 9,371	\$ (3,617)	\$ 5,754
Less: reclassification adjustment for (gains) realized in net income	(34)	12	(22)
Net unrealized holding loss on AFS securities	9,337	(3,605)	5,732
Net gain on cash flow hedging derivatives:			
Net unrealized gain arising during the period	(3,901)	1,572	(2,329)
Less: reclassification adjustment for losses realized in net income	—	—	—
Net gain on cash flow hedging derivatives	(3,901)	1,572	(2,329)
Net unrealized holding loss on pension plans			
Net unrealized loss arising during the period	(1,596)	643	(953)
Less: reclassification adjustment for gains (losses) realized in net income	65	(26)	39
Net unrealized holding loss on pension plans	(1,531)	617	(914)
Other comprehensive income	\$ 3,905	\$ (1,416)	\$ 2,489

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The following table presents the changes in each component of accumulated other comprehensive income (loss), for the three months ended March 31, 2016 and 2015:

(in thousands)	Net unrealized holding gain on AFS Securities	Net loss on effective cash flow hedging derivatives	Net unrealized holding loss on pension plans	Total
Three Months Ended March 31, 2016				
Balance at Beginning of Period	\$ 3,880	\$ (5,108)	\$ (2,077)	\$ (3,305)
Other Comprehensive Gain (Loss) Before reclassifications	10,873	(2,942)	—	7,931
Amounts Reclassified from Accumulated other comprehensive income	(23)) 244	—	221
Total Other Comprehensive Income (Loss)	10,850	(2,698)	—	8,152
Balance at End of Period	\$ 14,730	\$ (7,806)	\$ (2,077)	\$ 4,847
Three Months Ended March 31, 2015				
Balance at Beginning of Period	\$ 9,916	\$ (1,969)	\$ (1,368)	\$ 6,579
Other Comprehensive Gain (Loss) Before reclassifications	5,754	(2,329)	(953)	2,472
Amounts Reclassified from Accumulated other comprehensive income	(22)) —	39	17
Total Other Comprehensive Income (Loss)	5,732	(2,329)	(914)	2,489
Balance at End of Period	\$ 15,648	\$ (4,298)	\$ (2,282)	\$ 9,068

The following table presents the amounts reclassified out of each component of accumulated other comprehensive income (loss) for the three months ended March 31, 2016 and 2015:

(in thousands)	Three Months Ended March 31, 2016	2015	Affected Line Item in the Statement where Net Income is Presented
Realized (gains) on AFS securities:			
	\$(36)	\$(34)	Non-interest income
	13	12	Tax expense
	(23)	(22)	Net of tax
Realized losses on cash flow hedging derivatives:			
	408	—	Interest income
	(164)	—	Tax expense
	244	—	Net of tax
Realized loss on pension plans:			
	—	65	Non-interest income