

**This document represents an internal script used by management and is not an actual transcript of the quarterly conference call. Please visit [ir.berkshirebank.com](http://ir.berkshirebank.com) to access the archived webcast of the second quarter conference call.**

### **Forward Looking Statements**

This document contains forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. There are several factors that could cause actual results to differ significantly from expectations described in the forward-looking statements. For a discussion of such factors, please see Berkshire's most recent reports on Forms 10-K and 10-Q filed with the Securities and Exchange Commission and available on the SEC's website at [www.sec.gov](http://www.sec.gov). Berkshire does not undertake any obligation to update forward-looking statements.

## **Berkshire Hills Bancorp (BHLB) 2Q15 Earnings Conference Call**

**Thursday, July 23, 2015 10:00 am**

*Ali O'Rourke, SVP Investor Relations Officer:*

Good morning and thank you for joining this discussion of second quarter results. Our news release is available on the Investor Relations section of our website, [berkshirebank.com](http://berkshirebank.com), and will be furnished to the SEC. None of today's discussion is intended as a proxy solicitation.

Our discussion will include forward-looking statements and actual results could differ materially from those statements. For a discussion of related factors, please see our earnings release and our most recent SEC reports on Forms 10-K and 10-Q.

With that, I will turn the call over to Mike Daly, President and CEO.

*Mike Daly, President and CEO:*

Thank you, Ali. Good morning everyone. Thanks for joining us this morning for our second quarter call. I'll provide an overview of the quarter, then I'll turn it over to Josephine Iannelli our CFO. She'll take you through some of the details in our financials and then I'll wrap it up.

We're pleased with our outcome this quarter as we continue to post better results and maintain ongoing momentum. Core EPS grew by 2% over the first quarter and 16% year over year.

The second quarter was marked by:

- solid organic loan and deposit growth,
- improving profitability
- and an expanding net interest margin.

Importantly, we achieved these results while managing through the integration of Hampden Bank and putting together an agreement for the acquisition of Firestone Financial.

I want to start by pointing out how proud I am of the team here for executing a seamless integration for Hampden. You know there are several important components of M&A, not the least of which are: due diligence, understanding culture and chemistry, and the ability to integrate with little customer disruption.

I think that last one often gets overlooked. Having done a dozen transactions in recent years, integration has become a core competency for this company. And that was demonstrated by successfully converting Hampden's customers and operations about as smoothly as any integration we've seen. Good execution like that makes an enormous difference going forward in our ability to retain and grow the combined businesses, so we're off to a good start.

With regards to our organic operations, we grew the loan portfolio at a 5% annualized rate this quarter led by strong mortgage originations and solid commercial loan production.

The market was favorable to our mortgage business, and I'm expecting equally good portfolio growth in the third quarter.

On the commercial side, we produced a net 8% annualized organic growth, while executing on our margin strategy. We saw good results across our geography, with particular strength in eastern MA and solid contributions from our newer team members in CT and NY. Pricing remains competitive, especially on the C&I side, so we're asking our people to work harder to bring in the right deals - meaning solid credit with reasonable rates - and they've been successful, frankly, in doing that.

The commercial book reflects some timing factors and I expect to see more robust CRE growth in the third quarter, while C&I production normalizes. The commercial pipeline remains steady for new production, and we continue to target double-digit annualized growth for the third quarter and the year.

Looking at third quarter total loan growth, I'm expecting double-digit organic annualized growth, even while we continue to manage down low margin business in commercial and consumer.

Before we turn to deposits, I'd like to comment on the success we're seeing in ramping up our SBA programs. In the second quarter, we were named the top SBA lender in our Central New York region. I'm proud of the focus these guys have put on building that piece of the business. SBA production takes systems, training and discipline to do well and Peter Rice and his team have achieved that. We now run every small business application through SBA channels and the targeted growth here in the next couple of years should allow us to package and sell the SBA production, turning it into a solid fee generating business.

Turning to deposits. We posted double-digit organic deposit growth this quarter and, importantly, double-digit organic DDA growth. NOW accounts saw some run-off reflecting flux between account types and some strategic repositioning efforts we began last year.

We benefited from both seasonal impacts and some targeted promotions in our newer markets that proved successful. We also rolled out Apple-pay and made enhancements to our debit cards and payroll services for our customers. With the current momentum, we are expecting double-digit annualized deposit growth once again next quarter.

Now, as you know, we've been focused on our branch footprint and optimizing that network. We've tagged a total of 8 branches in the last two quarters for consolidation or sale which brings us to 26 branches over the last four years – that's nearly 30% of our current footprint. We'll continue to evaluate our overall branch needs as we've been doing and where it makes sense.

Turning to our fee income strategies. We continue to pursue strategic growth options for our wealth business. In addition to our private banking and wealth advisor staff adds in the first quarter, we further expanded our wealth team in the second quarter – with a focus on our New York markets. Our assets under management have grown to over \$1.4 billion and we expect to see some of that additional revenue impact in the back half of the year.

We also expanded our insurance team this quarter, with an emphasis on the benefits business. We're continuing to look at other fee revenue drivers including expanding our SBA platform as I mentioned earlier. Our goal remains driving fee revenue to 30% of our operations.

Moving on from revenues, I'll just mention that our asset performance continues to be favorable and improving. We further whittled down our non-performers, which have been declining sequentially for many quarters. As you know, under accounting rules, the 500 million in Hampden loans came over as all "performing" and with no allowance. Our Hampden credit marks came in where we expected and I'm pleased with our overall credit profile and expectations.

Before I turn it over to Josephine, I'll take a minute to talk about the Firestone acquisition. We're excited about this addition to our lending portfolio. As a specialty finance business it complements both our ABL and SBA platforms and enables us to further diversify our assets while expanding our client offerings.

The company will operate as a subsidiary, under its own brand, and continue to be run by the same experienced management team that helped to grow it successfully over the last 15 years.

Firestone is located in-market and is an existing customer of ours, so we're familiar with their loans and overall organization going in. From a strategic growth perspective, we think there will be opportunities for revenue synergies as we go along, including SBA loans and insurance cross sales.

At a little under \$200 million in assets, this acquisition isn't a game changer, but it is a nice add-on that helps to grow our C&I book with high margin, relationship-based business. Their

national business book provides attractive diversification for us and their strong credit track record has demonstrated their expertise in maintaining profitable operations through several economic cycles.

Now I'd like to turn it over to Josephine to walk you through more of the financial details. Jo?

***Josephine Iannelli, EVP, Chief Financial Officer:***

Thanks Mike and good morning everyone.

We'll go ahead and jump right into the financials. This was another strong quarter for us. We saw good improvement in core earnings, including our fee income, along with core ROA, core ROE, and our efficiency ratio.

Core EPS came in at \$0.51 for the second quarter, compared to \$0.44 per share for the same period in 2014. Our GAAP EPS was \$0.35 reflecting non-core charges related to the Hampden acquisition and restructurings.

The results this quarter reflect a lot of the hard work the team has been putting in. I'll walk through the balance sheet, income statement highlights and outlook – and then will provide a financial update on the Hampden and Firestone acquisitions before turning it back over to Mike.

As Mike said, we had solid loan and deposit generation this quarter. We continue to benefit from our efforts to shift the balance sheet mix towards higher yielding commercial loans and away from lower yielding assets – which has resulted in our improved profitability metrics. We expect to increase our organic loan and deposit growth rates in the third quarter while we also onboard the Firestone loans.

Through this balance sheet management and Hampden's impact, our net interest margin expanded one basis point to 316 before purchased loan accretion. Our reported NIM, including the impacts of purchased loan accretion, rose to 330 from 318 in the first quarter. With the acquisition of Firestone expected to close next month, I do expect the net interest margin, excluding accretion, to expand by at least another 5 basis points in Q3.

Purchased loan accretion came in at an elevated \$2.2 million for the second quarter. This was primarily due to recoveries which will likely be bouncy for the next several quarters as a result of the Hampden acquisition and soon the Firestone acquisition. Scheduled accretion is expected to remain under half a million next quarter including Hampden and Firestone. We had higher expenses to produce these recoveries and I'll return to that shortly.

Turning to Fee income now, we grew these revenues 14% for the quarter, including the Hampden operations. We saw strong growth in loan related fees, including interest rate swaps and gains on loan sales. Our mortgage banking fees also remained elevated due to favorable market conditions. Customer service fees benefitted from a seasonal pick-up and Hampden's impact was primarily in that category.

We continue to target significant growth in fee income over the next couple of years. For Q3 we expect some pick-up in insurance and wealth revenues, but overall loan related income should show some contraction. As a result, our total fee income is expected to decline modestly, while still showing solid gains on a year over year basis.

The provision increased to \$4.2 million in the quarter and exceeded net charge-offs of \$3.3 million as we built the allowance alongside our organic loan growth. We expect the provision to be in the area of \$4 million in the third quarter.

Core expenses increased by 11% in the second quarter and were generally in-line with our guidance. This was mostly due to the integration of Hampden, but we also saw increased costs related to the acquired loan recoveries and overall loan fee income. In addition, we had the reinvestment of tax related revenues used to develop fee business lines and support future growth. We continue to focus on positive operating leverage, and I'm pleased to report our efficiency ratio improved to 61.5% for the quarter. Overall, organic expenses are targeted to be flat to slightly down next quarter as the costs of loan growth and franchise investment are offset by additional Hampden cost saves – which will further improve operating leverage.

Our core tax rate for the second quarter was 17%, in-line with our guidance. As with Q1, we got a tax credit benefit related to commercial development projects. This is detailed on table F-9 of our earnings release.

We expect to continue to receive this tax benefit through 2015 and we anticipate a core tax rate of around 15% in Q3. We're actively working on identifying additional tax advantaged strategies for future years and have already identified potential opportunities. Of note, we expect the Q3 GAAP tax rate to be below 10% due to the benefit of non-core charges recorded in the first half of the year.

Having said all this, for Q3, we expect to deliver the same kind of core EPS as we did this quarter, with less expected purchased loan recoveries.

Non-core charges for the quarter totaled \$8.7 million and were tied to the Hampden acquisition and the branch restructuring we've discussed. Most of the Hampden charges are behind us, but we will see some non-core charges in Q3 related to the Firestone acquisition and the branch restructurings that have not yet been completed. These should be significantly less than we've seen this quarter.

Turning to profitability now, we saw sequential improvements in our core return on equity and core return on assets. Core ROE improved to 7.3% for the quarter and core ROA rose to 81 basis points. As you know, ROA has been a critical focus for us. We remain committed to a target of 1% or better and I expect to end the year with further improvement towards this goal.

Core return on tangible equity also rose to 12.3% and our capital ratios improved modestly. Our tangible equity was 7% of tangible assets at quarter end.

Tangible book value per share ended the quarter at \$17.16 and was impacted by the Hampden dilution as well as the effect of rising interest rates on unrealized securities gains in equity. I'd note that we remain asset sensitive under most of our planning scenarios and we're keeping a close eye on this as we manage the 16% increase in our assets this year and support revenue growth without reaching for duration.

As Mike has said, the Hampden integration has gone very smoothly. We're on our way to meeting or exceeding the 35% cost saves and I expect a penny or two of EPS accretion before the end of the year.

Lastly, I'd like to touch on the Firestone deal. We're excited about bringing this company on board. In addition to benefitting the margin, this deal is expected to be further accretive to our capital, ROE and ROA, as well as EPS in 2016. There is minimal tangible book value dilution and an earn-back of less than 2.5 years – all of which makes this deal a home-run. Their shareholder meeting is today, so there's not much more to add at this point, but we expect to be able to provide more guidance about their contribution on our next call.

With that, I'd like to turn it back over to Mike.

***Mike Daly, President and CEO:***

Thanks, Josephine.

So, as Jo said, we think 51 cents is a good number for next quarter and we'll work to do a little better than that if we can.

I'm pleased to welcome our new shareholders from Hampden and I look forward to being able to soon welcome new shareholders from Firestone. We'll have issued more than \$150 million in

new equity for those transactions and we appreciate this investment in our company, which has further contributed to our growing profile and to the liquidity of our stock.

Our core strategies continue to produce a lift in earnings and profitability. We're posting solid organic loan and deposit growth, while expanding our margin and improving our overall returns.

Capital is being generated at a rate that supports our growth and we remain focused on further enhancing our return on assets and capital as we deliver on our franchise investments.

As Josephine noted, we continue to invest in team recruitment and other revenue generating sources to support the market share opportunities we see. While we're growing our business, we're also deepening our infrastructure and controls. Importantly, we're maintaining our disciplines in these competitive markets, which is clear from the trends in our margin and credit metrics.

Our outlook remains positive and we look forward to further delivering on the power of this franchise to all of our constituencies.

And, with that, I'll open it up to questions.

<CONCLUSION OF CALL>

Thanks everyone for joining us. We look forward to speaking with you again in October to discuss third quarter results.

## **NON-GAAP FINANCIAL MEASURES**

This document contains certain non-GAAP financial measures in addition to results presented in accordance with Generally Accepted Accounting Principles ("GAAP"). These non-GAAP measures provide supplemental perspectives on operating results, performance trends, and financial condition. They are not a substitute for GAAP measures; they should be read and used in conjunction with the Company's GAAP financial information. A reconciliation of non-GAAP financial measures to GAAP measures is included in the accompanying financial tables. In all cases, it should be understood that non-GAAP per share measures do not depict amounts that accrue directly to the benefit of shareholders. The Company utilizes the non-GAAP measure of core earnings in evaluating operating trends, including components for core revenue and expense. These measures exclude amounts which the Company views as unrelated to its normalized operations, including securities gains/losses, losses recorded for hedge terminations, merger costs, restructuring costs, systems conversion costs, and out-of-period adjustments. Non-core adjustments are presented net of an adjustment for income tax expense. This adjustment is determined as the difference between the GAAP tax rate and the effective tax rate applicable to core income. The efficiency ratio is adjusted for non-core revenue and expense items and for tax

preference items. The Company also calculates measures related to tangible equity, which adjust equity (and assets where applicable) to exclude intangible assets due to the importance of these measures to the investment community. Charges related to merger and acquisition activity consist primarily of severance/benefit related expenses, contract termination costs, and professional fees. Systems conversion costs relate primarily to the Company's core systems conversion and related systems conversions costs. Restructuring costs primarily consist of costs and losses associated with the disposition of assets. In the most recent quarter, the Company reported organic growth of loans and deposits, which excluded the balances of accounts acquired in the Hampden acquisition.

## **CONTACTS**

Investor Relations Contact

Allison O'Rourke; Senior Vice President, Investor Relations Officer; 413-236-3149