BERKSHIRE BANCORP INC /DE/
Form 10-K
March 30, 2012

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended **December 31, 2011**

OR

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

For the transition period from _______________ to

Commission File Number **0-13649**

Berkshire Bancorp Inc.

(Exact name of registrant as specified in its charter)

Delaware	94-2563513
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification number)

160 Broadway, New York, New York	10038
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: **(212) 791-5362**

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Traded
Common Stock, par value $.10 per share	The NASDAQ Stock Market LLC (The NASDAQ Global Market)

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, 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 x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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 definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨ Accelerated filer ¨

Non-accelerated filer ¨ Smaller reporting company x
(Do not check if a smaller reporting company)

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

Aggregate market value of voting and non-voting common stock held by non-affiliates of the registrant as of June 30, 2011: $19,449,731.

Number of shares of Common Stock outstanding as of March 23, 2012: 14,443,183.

DOCUMENTS INCORPORATED BY REFERENCE: None

Forward-Looking Statements. *Statements in this Annual Report on Form 10-K that are not based on historical fact may be "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as "believe", "may", "will", "expect", "estimate", "anticipate", "continue" or similar terms identify forward-looking statements. A wide variety of factors could cause the actual results and experiences of Berkshire Bancorp Inc. (the "Company") to differ materially from the results expressed or implied by the Company's forward-looking statements. Some of the risks and uncertainties that may affect operations, performance, results of the Company's business, the interest rate sensitivity of its assets and liabilities, and the adequacy of its loan loss allowance, include, but are not limited to: (i) deterioration in local, regional, national or global economic conditions which could result, among other things, in an increase in loan delinquencies, a decrease in property values, or a change in the housing turnover rate; (ii) changes in market interest rates or changes in the speed at which market interest rates change; (iii) changes in laws and regulations affecting the financial services industry; (iv) changes in competition; (v) changes in consumer preferences, (vi) changes in banking technology; (vii) ability to maintain key members of management, (viii) possible disruptions in the Company's operations at its banking facilities, (ix) cost of compliance with new corporate governance requirements, rules and regulations, and other factors referred to in the sections of this Annual Report entitled "Business", "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."*

Certain information customarily disclosed by financial institutions, such as estimates of interest rate sensitivity and the adequacy of the loan loss allowance, are inherently forward-looking statements because, by their nature, they represent attempts to estimate what will occur in the future.

The Company cautions readers not to place undue reliance upon any forward-looking statement contained in this Annual Report. Forward-looking statements speak only as of the date they were made and the Company assumes no obligation to update or revise any such statements upon any change in applicable circumstances.

PART I

ITEM 1. Business.

General. Berkshire Bancorp Inc., a Delaware corporation, is a bank holding company registered under the Bank Holding Company Act of 1956. References herein to "Berkshire", the "Company" or "we" and similar pronouns shall be deemed to refer to Berkshire Bancorp Inc. and its wholly-owned consolidated subsidiaries unless the context otherwise requires. Berkshire's principal activity is the ownership and management of its indirect wholly-owned subsidiary, The Berkshire Bank (the "Bank"), a New York State chartered commercial bank. The Bank is owned through Berkshire's wholly-owned subsidiary, Greater American Finance Group, Inc. ("GAFG").

We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). You may read and copy our reports or other filings made with the SEC at the SEC's Public Reference Room, located at 100 F Street, N.E., Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. You can also access information that we file electronically on the SEC's website at WWW.SEC.GOV.

We do not presently have a website. However, as soon as practicable after filing with or furnishing to the SEC, upon request we will provide at no cost, paper or electronic copies of our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports. Requests should be directed to:

Berkshire Bancorp Inc.

Investor Relations

160 Broadway, First Floor

New York, NY 10038

Series A Preferred Shares. On October 31, 2008, the Company sold an aggregate of 60,000 shares of its 8% Non-Cumulative Mandatorily Convertible Perpetual Series A Preferred Stock (the "Preferred Stock") at $1,000 per share, or $60 million in the aggregate, to the Company's Chairman of the Board and majority stockholder, and two non-affiliated investors. Each share of Preferred Stock was entitled to receive non-cumulative cash dividends at the rate of 8% per annum, payable quarterly, and was mandatorily convertible into 123.153 shares of our Common Stock on October 31, 2011. Accordingly, on October 31, 2011, all 60,000 outstanding shares of Preferred Stock were mandatorily converted into 7,389,000 shares of the Common Stock, $.10 par value, of the Company at a conversion rate of 123.15 shares of Common Stock for each share of Preferred Stock converted, in accordance with the Certificate of Designation of the Preferred Stock.

Business of the Bank - General. The Bank's principal business consists of gathering deposits from the general public and investing those deposits primarily in loans, debt obligations issued by the U.S. Government and its agencies, debt obligations of business corporations, and mortgage-backed securities. The Bank currently operates from seven deposit-taking offices in New York City, four deposit-taking offices in Orange and Sullivan Counties, New York and one deposit taking office in Teaneck, NJ. In January 2011, the Company closed the branch that operated in Ridgefield, NJ.

Branch Locations of The Berkshire Bank
December 31, 2011

4 East 39th Street New York, NY	2 South Church Street Goshen, NY
5 Broadway New York, NY	214 Harriman Drive Goshen, NY
5010 13th Avenue Brooklyn, NY	80 Route 17M Harriman, NY
1421 Kings Highway Brooklyn, NY	60 Main Street Bloomingburg, NY
4917 16th Avenue Brooklyn, NY	1119 Avenue J Brooklyn, NY
517 Cedar Lane Teaneck, NJ	210 Pinehurst Avenue New York, NY 10033

Principal Loan Types. The Bank's principal loan types are residential and commercial mortgage loans and commercial non-mortgage loans, both unsecured and secured by personal property. The Bank's revenues come principally from interest on loans and investment securities. The Bank's primary sources of funds are deposits, borrowings and proceeds from principal and interest payments on loans and investment securities.

Operating Plan. The Bank's operating plan concentrates on obtaining deposits from a variety of businesses, professionals and retail customers and investing those funds in conservatively underwritten loans. Due to the Bank's underwriting criteria, its deposits have significantly exceeded the level of satisfactory loans available for investment in recent years. Hence, the Bank has invested a portion of its available funds primarily in U.S. Treasury Notes, U.S. Government Agency Securities and mortgage-backed securities.

Market Area. The Bank draws its customers principally from the New York City metropolitan area and the Villages of Goshen and Harriman, New York and their surrounding communities, representing most of Orange County, NY. The Bank also has a branch in Bloomingburg, New York, just over the border between Orange and Sullivan Counties. Predominantly rural with numerous small towns, many residents of Orange and Sullivan Counties work in New York City. Consequently, the health of the economy in the New York City metropolitan area has, and will continue to have a direct effect on the economic well being of residents and businesses in these counties. From time to time, the Bank may make loans or accept deposits from outside these areas, but such transactions generally represent extensions of existing local customer relationships.

Competition. The Bank's principal competitors for deposits are other commercial banks, savings banks, savings and loan associations and credit unions in the Bank's market areas, as well as money market mutual funds, insurance companies, securities brokerage firms and other financial institutions, many of which are substantially larger in size than the Bank. The Bank's competition for loans comes principally from commercial banks, savings banks, savings and loan associations, mortgage bankers, finance companies and other institutional lenders. Many of the institutions which compete with the Bank have much greater financial and marketing resources than the Bank. The Bank's principal methods of competition include loan and deposit pricing, maintaining close ties with its local communities, the quality of the personal service it provides, the types of business services it provides, and other marketing programs.

Operations of the Bank. Reference is made to the information set forth in Item 7 herein ("Management's Discussion and Analysis of Financial Condition and Results of Operations") for information as to various aspects of the Bank's operations, activities and conditions.

Subsidiary Activities. The Bank is permitted under New York State law and federal law to own subsidiaries for certain limited purposes, generally to engage in activities which are permissible for a subsidiary of a national bank. The Bank has two operating subsidiaries, Berkshire Agency, Inc., a company engaged in the title insurance agency business, and Berkshire 1031 Exchange, LLC, a company that acts as a qualified intermediary in connection with tax free exchanges under Section 1031 of the Internal Revenue Code of 1986.

Regulation. The Company is a bank holding company under federal law and registered as such with the Federal Reserve. The Bank is a commercial bank chartered under the laws of New York State. It is subject to regulation at the state level by the New York Superintendent of Banks and the New York Banking Board, while at the federal level its primary regulator is the Federal Deposit Insurance Corporation (the "FDIC").

Both the Company and the Bank are subject to extensive state and federal regulation of their activities. The following discussion summarizes certain banking laws and regulations that affect Berkshire and the Bank. Proposals to change these laws and regulations are frequently proposed in Congress, in the New York State legislature, and before state and federal bank regulatory agencies. The likelihood and timing of any changes and the impact such changes might have on the Company are impossible to determine with any certainty. A change in applicable laws or regulations, or a change in the way such laws or regulations are interpreted by regulatory agencies or courts, may have a material impact on the business, operations and earnings of the Company, the nature and effect of which cannot be predicted.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010

On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act"). The Dodd-Frank Act has and will continue to have a broad impact on the financial services industry, including significant regulatory and compliance changes including, among other things, (i) enhanced resolution authority of troubled and failing banks and their holding companies; (ii) increased capital and liquidity requirements; (iii) increased regulatory examination fees; (iv) changes to assessments to be paid to the FDIC for federal deposit insurance; and (v) numerous other provisions designed to improve supervision and oversight of, and strengthening safety and soundness for, the financial services sector.

Additionally, the Dodd-Frank Act establishes a new framework for systemic risk oversight within the financial system to be distributed among new and existing federal regulatory agencies, including the Financial Stability Oversight Council, the Consumer Financial Protection Bureau, the Federal Reserve, the Office of the Comptroller of the

Currency, and the FDIC. A summary of certain provisions of the Dodd-Frank Act is set forth below.

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* Source of Strength. According to Federal Reserve policy, bank holding companies are expected to act as a source of financial strength to each subsidiary bank and to commit resources to support each such subsidiary. The Dodd-Frank Act codifies the source-of-strength doctrine and expands upon the Federal Reserve policy, defining "source of strength" to mean the "ability of a company that directly or indirectly controls an insured depository institution to provide financial assistance to such insured depository institution in the event of the financial distress of the insured depository institution." As of January 2012, implementing regulations of the Dodd-Frank Act source of strength provision have not yet been promulgated.

* Increased Capital Standards and Enhanced Supervision. The federal banking agencies are required to establish minimum leverage and risk-based capital requirements for banks and bank holding companies. These new standards will be no lower than current regulatory capital and leverage standards applicable to insured depository institutions and may, in fact, be higher when established by the agencies. The Dodd-Frank Act requires capital requirements to be countercyclical such that the required amount of capital increases in times of economic expansion and decreases in times of economic contraction consistent with safety and soundness.

* The Consumer Financial Protection Bureau ("Bureau"). The Dodd-Frank Act creates the Bureau within the Federal Reserve. The Bureau is tasked with establishing and implementing rules and regulations under certain federal consumer protection laws with respect to the conduct of providers of certain consumer financial products and services. The Bureau has rulemaking authority over many of the statutes governing products and services offered to bank consumers. In addition, the Dodd-Frank Act permits states to adopt consumer protection laws and regulations that are more stringent than those regulations promulgated by the Bureau and state attorneys general are permitted to enforce consumer protection rules adopted by the Bureau against state-chartered institutions.

* Debit Card Interchange Fees. Effective July 21, 2011, the Dodd-Frank Act requires that the amount of any interchange fee charged by a debit card issuer with respect to a debit card transaction must be reasonable and proportional to the cost incurred by the issuer with respect to the transaction. While the restrictions on interchange fees do not apply to banks that, together with their affiliates, have assets of less than $10 billion, the rule could affect the competitiveness of debit cards issued by smaller banks.

* Deposit Insurance. The Dodd-Frank Act permanently increases the maximum deposit insurance amount to $250,000 for insured deposits. Amendments to the Federal Deposit Insurance Act also revise the assessment base against which an insured depository institutionÆs deposit insurance premiums paid to the Deposit Insurance Fund ("DIF") will be calculated. Under the amendments, the assessment base will no longer be the institution's deposit base, but rather its average consolidated total assets less its average tangible equity during the assessment period. Additionally, the Dodd-Frank Act makes changes to the minimum designated reserve ratio of the DIF, increasing the minimum from 1.15 percent to 1.35 percent of the estimated amount of total insured deposits by 2020 and eliminating the requirement that the FDIC pay dividends to depository institutions when the reserve ratio exceeds certain thresholds. In December 2010, the FDIC increased the reserve ratio to 2.0 percent. The Dodd-Frank Act also provides that, effective one year after the date of enactment, depository institutions may pay interest on demand deposits.

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* Transactions with Affiliates. Under federal law, we are subject to restrictions that limit certain types of transactions between Berkshire and its non-bank affiliates. In general, we are subject to quantitative and qualitative limits on extensions of credit, purchases of assets and certain other transactions involving us and our non-bank affiliates. Transactions between Berkshire and its non-bank affiliates are required to be on arms length terms. The Dodd-Frank Act enhances the requirements for certain transactions with affiliates under Section 23A and 23B of the Federal Reserve Act, including an expansion of the definition of "covered transactions" and "affiliates," as well as an increase in the amount of time for which collateral requirements regarding covered transactions must be maintained.

* Transactions with Insiders. Under the Dodd-Frank Act, insider transaction limitations are expanded through the strengthening of loan restrictions to insiders and the expansion of the types of transactions subject to the various limits, including derivative transactions, repurchase agreements, reverse repurchase agreements and securities lending or borrowing transactions. Restrictions are also placed on certain asset sales to and from an insider to an institution, including requirements that such sales be on market terms and, if representing more than 10% of capital, approved by the institution's board of directors.

* Enhanced Lending Limits. The Dodd-Frank Act strengthens the existing limits on a depository institution's credit exposure to one borrower. Current banking law limits a depository institution's ability to extend credit to one person (or group of related persons) in an amount exceeding certain thresholds. The Dodd-Frank Act expands the scope of these restrictions to include credit exposure arising from derivative transactions, repurchase agreements, and securities lending and borrowing transactions.

* Compensation Practices. The Dodd-Frank Act provides that the appropriate federal regulators must establish standards prohibiting as an unsafe and unsound practice any compensation plan of a bank holding company or other "covered financial institution" that provides an insider or other employee with "excessive compensation" or could lead to a material financial loss to such firm. In June 2010, prior to the Dodd-Frank Act, the bank regulatory agencies promulgated the Interagency Guidance on Sound Incentive Compensation Policies, which requires that financial institutions establish metrics for measuring the impact of activities to achieve incentive compensation with the related risk to the financial institution of such behavior. Together, the Dodd-Frank Act and the recent guidance on compensation may impact the current compensation policies at the Company.

* Holding Company Capital Levels. The Dodd-Frank Act requires bank regulators to establish minimum capital levels for holding companies that are at least as stringent as those applicable to depository institutions. All trust preferred securities, or TRUPs, issued by bank holding companies will be excluded from Tier 1 Capital unless such securities were issued prior to May 19, 2010, by a bank holding company with less than $15 billion in assets as of December 31, 2009. TRUPS issued before May 19, 2010, by a bank holding company with at least $15 billion in assets as of December 31, 2009, will continue to qualify as Tier 1 capital until January 2013, at which time the treatment of TRUPS as Tier 1 capital will be phased out over a 3 year period ending in January, 2016.

We expect that many of the requirements called for in the Dodd-Frank Act will be implemented over time, and most will be subject to implementing regulations over the course of several years. Given the uncertainty associated with the manner in which the provisions of the Dodd-Frank Act will be implemented by the various regulatory agencies and through regulations, the full extent of the impact such requirements will have on financial institutions' operations is unclear. The changes resulting from the Dodd-Frank Act may impact the profitability of our business activities, require changes to certain of our business practices, impose upon us more stringent capital, liquidity and leverage ratio requirements or otherwise adversely affect our business. These changes may also require us to invest significant management attention and resources to evaluate and make necessary changes in order to comply with new statutory and regulatory requirements.

Supervisory Actions. The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can prompt certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators involving factors such as the risk weights assigned to assets and what items may be counted as capital. Regulators also have broad discretion to require any institution to maintain higher capital levels than otherwise required by statute or regulation, even institutions that are considered "well-capitalized" under applicable regulations.

Bank Holding Company Regulation. The Federal Reserve is authorized to make regular examinations of the Company and its nonbank subsidiaries. Under federal law and Federal Reserve regulations, the activities in which the Company and its nonbank subsidiaries may engage are limited. The Company may not acquire direct or indirect ownership or control of more than 5% of the voting shares of any company, including a bank, without the prior approval of the Federal Reserve, except as specifically authorized under federal law and Federal Reserve regulations. The Company, subject to the approval of the Federal Reserve, may acquire more than 5% of the voting shares of non-banking corporations if those corporations engage in activities which the Federal Reserve deems to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. These limitations also apply to activities in which the Company engages directly rather than through a subsidiary.

The Federal Reserve has enforcement powers over the Company and its non-bank subsidiaries. This allows the Federal Reserve, among other things, to stop activities that represent unsafe or unsound practices or constitute violations of law, rules, regulations, administrative orders or written agreements with a federal bank regulator. These powers may be exercised through the issuance of cease-and-desist orders, the imposition of civil money penalties or other actions.

Federal Reserve Capital Requirements. The Federal Reserve requires that the Company, as a bank holding company, must maintain certain minimum ratios of capital to assets. The Federal Reserve's regulations divide capital into two categories. Primary capital includes common equity, surplus, undivided profits, perpetual preferred stock, mandatory convertible instruments, the allowance for loan and lease losses, contingency and other capital reserves, and minority interests in equity accounts of consolidated subsidiaries. Secondary capital includes limited-life preferred stock, subordinated notes and debentures and certain unsecured long term debt.

The Federal Reserve requires that bank holding companies maintain a minimum ratio of primary capital to total assets of 5.5% and a minimum level of total capital (primary plus secondary capital) equal to 6% of total assets. In calculating capital ratios, the allowance for loan losses, which is a component of primary capital, is added back in determining total assets. Certain capital components, such as debt and perpetual preferred stock, are includable as capital only if they satisfy certain definitional tests.

The Company must also meet a risk-based capital standard. Capital, for the risk-based capital requirement, is divided into Tier I capital and Supplementary capital, determined as discussed below in connection with the FDIC capital requirements imposed on the Bank. The Federal Reserve requires that the Bank maintain a ratio of total capital (defined as Tier I plus Supplementary capital) to risk-weighted assets of at least 8%, of which at least 4% must be Tier I capital. Risk weighted assets are also determined in a manner comparable to the determination of risk-weighted assets under FDIC regulations as discussed below.

At December 31, 2011 and 2010, the Company met the definition of a "well capitalized" bank holding company.

Inter-state Banking. Bank holding companies may generally acquire banks in any state. Federal law also permits a bank to merge with an out-of-state bank and convert any offices into branches of the resulting bank if both states have not opted out of interstate branching; permits a bank to acquire branches from an out-of-state bank if the law of the state where the branches are located permits the interstate branch acquisition; and permits banks to establish and operate new interstate branches whenever the host state opts-in to that authority. Bank holding companies and banks that want to engage in such activities must be adequately capitalized and managed.

The New York Banking Law generally authorizes interstate branching in New York as a result of a merger, purchase of assets or similar transaction. An out of state bank may not first enter New York by opening a new branch in New York, but once a branch is acquired as described in the preceding sentence, additional new branches may be opened state wide.

Regulation of the Bank. In general, the powers of the Bank are limited to the express powers described in the New York Banking Law and powers incidental to the exercise of those express powers. The Bank is generally authorized to accept deposits and make loans on terms and conditions determined to be acceptable to the Bank. Loans may be unsecured, secured by real estate, or secured by personal property. The Bank may also invest assets in bonds, notes or other debt securities which are not in default and certain limited classes of equity securities including certain publicly traded equity securities in an amount aggregating not more than 2% of assets or 20% of capital. The Bank may also engage in a variety of other traditional activities for commercial banks, such as the issuance of letters of credit.

The exercise of these state-authorized powers is limited by FDIC regulations and other federal laws and regulations. In particular, FDIC regulations limit the investment activities of state-chartered, FDIC-insured banks such as the Bank.

Under FDIC regulations, the Bank generally may not directly or indirectly acquire or retain any equity investment that is not permissible for a national bank. In addition, the Bank may not directly or indirectly through a subsidiary, engage as "principal" in any activity that is not permissible for a national bank unless the FDIC has determined that such activities would pose no risk to the applicable FDIC insurance fund and the Bank is in compliance with applicable regulatory capital requirements. FDIC regulations permit real estate investments under certain circumstances. The Bank does not engage in real estate investing activity.

In May 2009, in connection with the Bank's examination by the Federal Deposit Insurance Corporation (the "FDIC"), the Bank received a Joint Memorandum of Understanding (the "MOU") from the FDIC and the New York State Department of Financial Services (the "NYSDFS"), formerly called the New York State Banking Department, which the Bank executed. The MOU sets forth an informal understanding among the Bank, the FDIC and the NYSDFS addressing asset quality, loan review, underwriting and administration and certain other concerns identified in the examination. The Bank's board of directors appointed a committee comprised of three directors to monitor the Bank's compliance with the MOU. Compliance with the MOU has not had a material adverse effect on our results of operations or financial condition. As set forth in "Management's Discussion and Analysis of Financial Condition And Results of Operations - Capital Adequacy" and Note N to the Company's consolidated financial statements, the Bank meets the definition of well capitalized for regulatory purposes as of December 31, 2011.

Loans to One Borrower. With certain exceptions, the Bank may not make loans or other extensions of credit to a single borrower, or certain related groups of borrowers, in an aggregate amount in excess of 15% of the Bank's net worth, plus an additional 10% of the Bank's net worth if such amount is secured by certain types of readily marketable collateral. In addition, the Bank is not permitted to make a mortgage loan in excess of 15% of capital stock, surplus fund and undivided profits.

FDIC Capital Requirements. The FDIC requires that the Bank maintain certain minimum ratios of capital to assets. The FDIC's regulations divide capital into two tiers. The first tier ("Tier I") includes common equity, retained earnings, certain non-cumulative perpetual preferred stock (excluding auction rate issues) and minority interests in equity accounts of consolidated subsidiaries, minus goodwill and other intangible assets (except mortgage servicing rights and purchased credit card relationships subject to certain limitations). Supplementary ("Tier II") capital includes, among other items, cumulative perpetual and long-term limited-life preferred stock, mandatorily convertible securities, certain hybrid capital instruments, term subordinated debt and the allowance for loan losses, subject to certain limitations, less required deductions.

The FDIC requires that the highest rated banks maintain a Tier I leverage ratio (Tier I capital to adjusted total assets) of at least 3.0%. All other banks subject to FDIC capital requirements must maintain a Tier I leverage ratio of 4.0% to 5.0% or more. As of December 31, 2011 and 2010, the Bank's Tier I leverage capital ratio was 15.9% and 10.8%, respectively.

The Bank must also meet a risk-based capital standard. The risk-based standard requires the Bank to maintain total capital (defined as Tier I and Tier II capital) to risk-weighted assets of at least 8%, of which at least 4% must be Tier I capital. In determining the amount of risk-weighted assets, all assets, plus certain off-balance sheet assets, are multiplied by a risk-weight of 0% to 100%, based on the risks the FDIC believes are inherent in the type of asset. As of December 31, 2011 and 2010, the Bank maintained a 34.8% and 19.8% Tier I risk-based capital ratio and a 36.1% and 21.0% total risk-based capital ratio, respectively.

In addition to the foregoing regulatory capital requirements, the FDIC Improvements Act of 1991 created a "prompt corrective action" framework, under which decreases in a depository institution's capital category trigger various supervisory actions. Pursuant to implementing regulations adopted by the FDIC, for purposes of the prompt corrective action provisions, a state-chartered, nonmember bank, such as the Bank, is deemed to be well capitalized if it has: a total risk-based capital ratio of 10% or greater; a Tier I risk-based capital ratio of 6% or greater; and a leverage ratio of 5% or greater. As of December 31, 2011 and 2010, the Bank met the definition of a "well capitalized" financial institution.

Community Reinvestment Act. The Bank must, under federal law, meet the credit needs of its community, including low and moderate income segments of its community. The FDIC is required, in connection with its examination of the Bank, to assess whether the Bank has satisfied this requirement. Failure to satisfy this requirement could adversely affect certain applications which the Bank may make, such as branch applications, merger applications, and applications for permission to purchase branches. In the case of the Company, the Federal Reserve will assess the record of each subsidiary bank in considering certain applications made by the Company. The New York Banking Law contains similar provisions applicable to the Bank. As of the most recent Community Reinvestment Act examinations by the FDIC and the NYSDFS, the Bank received "satisfactory" ratings.

Dividends From the Bank to the Company. One source of funds for the Company to pay dividends to its stockholders is dividends from the Bank to the Company. Under the New York Banking Law, the Bank may pay dividends to the Company, without regulatory approval, equal to its net profits for the year in which the payment is made, plus retained net profits for the two previous years, subject to certain limits not generally relevant. The Bank's retained net income in 2011 was $51.6 million and retained net loss in fiscal 2010 was $12.0 million, resulting in an aggregate retained net income of $39.6 million. Therefore, subject to the restraints of the MOU discussed above, the Bank may be able to pay dividends to the Company during fiscal 2012.

Under federal law, the Bank may not make any capital distribution to the Company, including any dividend or repurchase of the Bank's stock, if, after making such distribution, the Bank fails to meet the required minimum capital ratio requirements discussed above. The FDIC may prohibit the Bank from paying dividends if, in its opinion, the payment of dividends would constitute an unsafe or unsound practice.

Transactions With Related Parties. The Company, its direct non-banking subsidiaries, the stockholders who control the Company and other companies controlled by stockholders who control the Company are affiliates, within the meaning of the Federal Reserve Act, of the Bank and its subsidiaries. The Bank's authority to engage in transactions with its "affiliates" is limited by Sections 23A and 23B of the Federal Reserve Act. Section 23A limits the aggregate amount of transactions with any individual affiliate to 10% of the capital and surplus of the Bank and also limits the aggregate amount of transactions with all affiliates to 20% of the Bank's capital and surplus. Extensions of credit to affiliates must be secured by certain specified collateral, and the purchase of low quality assets from affiliates is generally prohibited. Section 23B provides that certain transactions with affiliates, including loans and asset purchases, must be on terms and under circumstances, including credit standards, that are at least as favorable to the Bank as those prevailing at the time for comparable transactions with non-affiliated companies. In the absence of comparable transactions, such transactions may only occur under terms and circumstances, including credit standards, that in good faith would be offered to or would apply to non-affiliated companies.

In accordance with banking regulations, the Bank may make loans to its and the Company's directors, executive officers, and 10% stockholders, as well as to entities controlled by them, subject to specific federal and state limits. Among other things, these loans must (a) be made on terms that are substantially the same as, and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with unaffiliated persons and that do not involve more than the normal risk of repayment or present other unfavorable features and (b) not exceed certain limitations on the amount of credit extended to such persons, individually and in the aggregate, which limits are based, in part, on the amount of the Bank's capital. In addition, extensions of credit in excess of certain limits must be approved by the Bank's Board of Directors. However, the Bank may make loans to executive officers, directors and principal stockholders on preferential terms, provided the extension of credit is made pursuant to a benefit or compensation program of the Bank that is widely available to employees of the Bank or its affiliates and does not give preference to any insider over other employees of the Bank or affiliates. The Bank has no such benefit or compensation programs.

Enforcement. The FDIC and the NYSDFS have enforcement authority over the Bank. The Superintendent of Financial Services of the NYSDFS (the "Superintendent") may order the Bank to appear and explain an apparent violation of law, to discontinue unauthorized or unsafe practices and to keep prescribed books and accounts. If any director or officer of the Bank has violated any law, or has continued unauthorized or unsafe practices in conducting the business of the Bank after having been notified by the Superintendent to discontinue such practices, the Superintendent may remove the individual from office after notice and an opportunity to be heard. The Superintendent also may take over control of the Bank under specified statutory criteria.

The FDIC's enforcement authority includes, among other things, the ability to assess civil money penalties, to issue cease and desist orders and to remove directors and officers. As indicated above, the FDIC is required to take prompt action to correct deficiencies in banks which do not satisfy specified FDIC capital ratio requirements. Dividends, other capital distributions or the payment of management fees to any controlling person are prohibited if, following such distribution or payment, a bank would be undercapitalized. An undercapitalized bank must file a plan to restore its capital within 45 days after being notified that it is undercapitalized. Undercapitalized, significantly undercapitalized and critically undercapitalized institutions are subject to increasing prohibitions on permitted activities, and increasing levels of regulatory supervision, based upon the severity of their capital problems. The FDIC is required to monitor closely the condition of an undercapitalized bank. Enforcement action taken by the FDIC can escalate to the appointment of a conservator or receiver of a critically undercapitalized bank.

Insurance of Accounts. Deposit insurance premiums payable to the FDIC are based upon the perceived risk of the institution to the FDIC insurance fund. The FDIC assigns an institution to one of three capital categories: (a) well capitalized, (b) adequately capitalized or (c) undercapitalized. The FDIC also assigns an institution to one of three supervisory categories based on an evaluation by the institution's primary federal regulator and information that the FDIC considers relevant to the institution's financial condition and the risk posed to the deposit insurance funds ("DIF"). At present, the Bank pays no deposit insurance premium based upon its risk-based categorization.

The FDIC has raised insurance premiums to cover substantial losses incurred by the DIF due to the bank failures beginning in 2008. As a result, we expect deposit insurance premiums may be higher for the foreseeable future than they have been in the recent past. The Bank's FDIC assessments totalled $1.25 million in fiscal 2011 and $1.65 million in fiscal 2010.

In November 2009, the FDIC adopted a final rule imposing a 13 quarter prepayment of FDIC premiums. The Bank's original prepayment amount totaled $5.59 million which was paid in December 2009. At December 31, 2011, the FDIC prepayment totalled $2.9 million. This was an estimated prepayment for the fourth quarter of 2009 through the fourth quarter of 2012.

Reserve Requirements. The Bank must maintain non-interest-earning reserves against its transaction accounts (primarily NOW and regular checking accounts). The Bank is generally able to satisfy reserve requirements with cash on hand and other non-interest bearing deposits which it maintains for other purposes, so the reserve requirements do not impose a material financial burden on the Bank.

Governmental Policies. Our earnings are significantly affected by the monetary and fiscal policies of governmental authorities, including the Federal Reserve. Among the instruments of monetary policy used by the Federal Reserve to implement these objectives are open-market operations in U.S. Government securities and Federal funds, changes in the discount rate on member bank borrowings and changes in reserve requirements against member bank deposits. These instruments of monetary policy are used in varying combinations to influence the overall level of bank loans, investments and deposits, and the interest rates charged on loans and paid for deposits. The Federal Reserve frequently uses these instruments of monetary policy, especially its open-market operations and the discount rate, to influence the level of interest rates and to affect the strength of the economy, the level of inflation or the price of the dollar in foreign exchange markets. The monetary policies of the Federal Reserve have had a significant effect on the operating results of banking institutions in the past and are expected to continue to do so in the future. It is not possible to predict the nature of future changes in monetary and fiscal policies, or the effect which they may have on our business and earnings.

Personal Holding Company Status. For the fiscal years ended December 31, 2011 and 2010, the Company was deemed to be a Personal Holding Company (a "PHC"), as defined in the Internal Revenue Code. As a PHC, we may be required to pay an additional income tax or issue a dividend to our stockholders in an amount based upon the PHC Internal Revenue Code formulas, which is primarily based upon net income. No such dividend was required to be paid in fiscal 2011 or 2010. (See Dividends in Item 5).

Employees. On March 23, 2012, the Company had one full time employee and the Bank employed 107 full time and 5 part time employees. The Bank's employees are not represented by a collective bargaining unit, and the Bank considers its relationship with its employees to be good.

ITEM 1A. Risk Factors.

Our business faces significant risks. These risks include those described below and may include additional risks and uncertainties not presently known to us or that we currently deem immaterial. Our business, financial condition and results of operations could be materially adversely affected by any of these risks, and the trading price of our common stock could decline.

Our future success depends on our ability to compete effectively in a highly competitive market and geographic area.

Our ability to maintain profitability may depend in part on our ability to expand our scope of available financial services as needed to meet the needs and demands of our customers. Our business model focuses on using superior customer service to provide traditional banking services to a growing customer base. However, we face substantial competition in all phases of our operations from a variety of different competitors. We encounter competition from other commercial banks, savings and loan associations, mutual savings banks, credit unions and other financial institutions. Our competitors, including credit unions, consumer finance companies, factors, insurance companies and money market mutual funds, compete with lending and deposit-gathering services offered by us. In addition, our competitors now include securities dealers, brokers, mortgage bankers, investment advisors and finance and insurance companies who seek to offer one-stop financial services to their customers that may include services that they have not been able or allowed to offer to our customers in the past. This increasingly competitive environment is primarily a result of changes in regulation, changes in technology and product delivery systems and the accelerating pace of consolidation among financial services providers. There is very strong competition for financial services in the New York and New Jersey state areas in which we currently conduct our business. This geographic area includes offices of many of the largest financial institutions in the world. Many of those competing institutions have much greater financial and marketing resources than we have. Due to their size, many competitors can achieve larger economies of scale and as a result may offer a broader range of products and services than we do. If we are unable to offer competitive products and services, our earnings may be negatively affected. Some of the financial services organizations with which we compete are not subject to the same degree of regulation as is imposed on bank holding companies like ourselves and on federally insured financial institutions like our banking subsidiary, The Berkshire Bank. As a result, these nonbank competitors have certain advantages over us in accessing funding and in providing various services. The banking business in our current primary market area is very competitive, and the level of competition we face may increase further, which may limit our asset growth and profitability.

Economic conditions either nationally or locally in areas in which our operations are concentrated may be less favorable than expected.

Deterioration in local, regional, national or global economic conditions could result in, among other things, an increase in loan delinquencies, a decrease in property values, a change in housing turnover rate or a reduction in the level of bank deposits. Particularly, a weakening of the real estate or employment market in our primary market areas could result in an increase in the number of borrowers who default on their loans and a reduction in the value of the collateral securing their loans, which in turn could have an adverse effect on our profitability. Substantially all of our real estate loans are collateralized by properties located in these market areas, and substantially all of our loans are made to borrowers who live in and conduct business in these market areas. Any material economic deterioration in these market areas could have an adverse impact on our profitability.

Much of the Bank's lending is in New York City and upstate New York. As a result of this geographic concentration, a significant broad-based deterioration in economic conditions in the New York City metropolitan area and upstate New York could have a material adverse impact on the quality of the Bank's loan portfolio, and accordingly, our results of operations. Such a decline in economic conditions could restrict borrowers' ability to pay outstanding principal and interest on loans when due, and, consequently, adversely affect the cash flows of our business.

Negative developments in the financial services industry and U.S. and global credit markets may adversely impact our operations and results.

Negative developments in the capital markets during 2008 and 2009 resulted in uncertainty in the financial markets. Although conditions improved somewhat during 2010 and 2011, loan portfolio performances have deteriorated at many institutions, including the Bank, resulting from, among other factors, high unemployment and a decline in the value of the collateral supporting their loans. The competition for our deposits has increased significantly due to liquidity concerns at many of these same institutions. Stock prices of bank holding companies like ours have been negatively affected by the current condition of the financial markets, as has our ability, if needed, to raise capital or borrow in the debt markets compared to recent years. New federal laws such as the Dodd-Frank Act, or new state laws and regulations regarding lending and funding practices and liquidity standards may negatively affect our business. Financial institution regulatory agencies are expected to be very aggressive in responding to concerns and trends identified in examinations. Negative developments in the financial services industry and the impact of new legislation in response to those developments could negatively impact our operations by restricting our business operations, including our ability to originate or sell loans, and adversely impact our financial performance. See the Section of this Report entitled "Business - The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010."

Changes in interest rates could reduce our income and cash flows.

Our income and cash flow and the value of our assets and liabilities depend to a great extent on the difference between the interest rates earned on interest-earning assets such as loans and investment securities, and the interest rates paid on interest-bearing liabilities such as deposits and borrowings. These rates are highly sensitive to many factors which are beyond our control, including general economic conditions and policies of various governmental and regulatory agencies, in particular, the Board of Governors of the Federal Reserve System. Changes in monetary policy, including changes in interest rates, will influence the origination of loans, the returns on our portfolio of investment securities and the amounts paid on deposits. If the rate of interest we pay on deposits and other borrowings increases more than the rate of interest we earn on loans and other investments, our net interest income, and therefore our earnings, could be adversely affected. In addition, there is a risk that certain deposits would not be renewed. Our earnings could also be adversely affected if the rates on our loans and other investments fall more quickly than those on our deposits and other borrowings. During 2011, interest rates continued at historic lows, a situation which has negatively affected and continues to negatively affect the yield we achieve on interest-earning assets.

Due to the recent downturn in the market, certain of the marketable securities we own may take longer to auction than initially anticipated, if at all.

Since 2008, our portfolio of investment securities includes auction rate securities which have failed to auction due to sell orders exceeding buy orders. Unless we hold these securities to maturity, these funds will not be available to us until a successful auction occurs or a buyer is found outside the auction process.

Declines in value may adversely impact the investment portfolio.

As of December 31, 2011 and 2010, we had approximately $415.5 million and $341.9 million in available for sale and held to maturity investment securities, respectively. We may be required to record OTTI charges on our investment securities if they suffer a decline in value that is related to the credit quality of the issue. Numerous factors, including lack of liquidity for re-sales of certain investment securities, absence of reliable pricing information for investment securities, adverse changes in business climate, adverse actions by regulators, or unanticipated changes in the competitive environment, could have a negative effect on our investment portfolio in future periods. During 2010, we recorded approximately $1.2 million of OTTI charges. While no such OTTI charges were recorded in 2011, there can be no assurances that additional OTTI charges will not be necessary in the future.

We operate in a highly regulated environment; changes in laws and regulations and accounting principles may adversely affect us.

We are subject to extensive state and federal regulation, supervision, and legislation which govern almost all aspects of our operations. These laws may change from time to time and are primarily intended for the protection of customers, depositors, and the deposit insurance funds. The impact of any changes to these laws may negatively impact our ability to expand our services and to increase the value of our business. Regulatory authorities have extensive discretion in the exercise of their supervisory and enforcement powers. They may, among other things, impose restrictions on the operation of a banking institution, the classification of assets by such institution and such institution's allowance for loan losses. Regulatory and law enforcement authorities also have wide discretion and extensive enforcement powers under various consumer protection, civil rights and other laws, including the Gramm-Leach-Bliley Act, the Bank Secrecy Act, the Truth-in-Lending Act, the Equal Credit Opportunity Act, the Fair Housing Act and the Real Estate Settlement Procedures Act. These laws also permit private individual and class action lawsuits and provide for the recovery of attorneys fees in certain instances. Any changes to these laws or any applicable accounting principles may negatively impact our results of operations and financial condition.

In May 2009, in connection with the Bank's examination by the Federal Deposit Insurance Corporation (the "FDIC") the Bank received a Joint Memorandum of Understanding (the "MOU") from the FDIC and the New York State Department of Financial Services (the "NYSDFS"), formerly called the New York State Banking Department, which the Bank executed. The MOU sets forth an informal understanding among the Bank, the FDIC and the NYSDFS addressing asset quality, loan review, underwriting and administration and certain other concerns identified in the examination. The Bank's board of directors appointed a committee comprised of three directors to monitor the Bank's compliance. Compliance with the MOU has not had a material adverse effect on our results of operations or financial condition and we do not believe it will have a material adverse effect in the future. As set forth in "Management's Discussion and Analysis of Financial Condition And Results of Operations - Capital Adequacy" and Note N to the Company's consolidated financial statements, the Bank meets the definition of well capitalized for regulatory purposes as of December 31, 2011.

The Dodd-Frank Act may adversely impact our results of operations, financial condition or liquidity.

On July 21, 2010 the Dodd-Frank Act was signed into law by President Obama. The Dodd-Frank Act represents a comprehensive overhaul of the financial services industry within the United States, establishes a new federal Bureau, and requires the Bureau and other federal agencies to implement many new and significant rules and regulations. At this time it is difficult to predict the extent to which the Dodd-Frank Act or the resulting rules and regulations will impact our business. Compliance with these new laws and regulations will likely result in additional costs, and may adversely impact our results of operations, financial condition or liquidity. See the Section of this Report entitled "Business - The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010."

We are required to maintain an allowance for loan losses. These reserves are based on management's judgment and may have to be adjusted in the future. Any adjustment to the allowance for loan losses, whether due to regulatory changes, economic conditions or other factors, may affect our financial condition and earnings.

We maintain an allowance for loan losses at a level believed adequate by management to absorb losses specifically identifiable and inherent in the loan portfolio. Our loan customers may fail to repay their loans according to the terms, and the collateral securing the payment of these loans may be insufficient to assure repayment. Such loan losses could have a material adverse effect on our operating results. We make various assumptions, estimates and judgments about the collectibility of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of our loans. In determining the amount of the allowance for loan losses, we rely on a number of factors, including our own experience and our evaluation of economic conditions. If our assumptions prove to be incorrect, our current allowance for loan losses may not be sufficient to cover losses inherent in our loan portfolio, and adjustments may be necessary that would have a material adverse effect on our operating results.

We may be adversely affected by the soundness of other financial institutions.

Financial services institutions are interrelated as a result of trading, clearing, counterparty, or other relationships. We have exposure to many different industries and counterparties, and routinely execute transactions with counterparties in the financial service industry, including the Federal Home Loan Bank of New York (the "FHLB-NY"), commercial banks, brokers and dealers, investment banks, and other institutional clients. Many of these transactions expose us to credit risk in the event of a default by a counterparty or client. In addition, our credit risk may be exacerbated when the collateral held by us cannot be realized or is liquidated at prices not sufficient to recover the full amount due to us. Any such losses could have a material adverse effect on our financial condition and results of operations.

A failure in or breach of our operational or security systems or infrastructure, or those of our third party vendors and other service providers, including as a result of cyber attacks, could disrupt our businesses, result in the disclosure or misuse of confidential or proprietary information, damage our reputation, increase our costs and cause losses.

We depend upon our ability to process, record, and monitor our client transactions on a continuous basis. As client, public, and regulatory expectations regarding operational and information security have increased, our operational systems and infrastructure must continue to be safeguarded and monitored for potential failures, disruptions, and breakdowns. Our business, financial, accounting and data processing systems, or other operating systems and facilities may stop operating properly or become disabled or damaged as a result of a number of factors including events that are wholly or partially beyond our control. For example, there could be electrical or telecommunications outages; natural disasters such as earthquakes, tornadoes, and hurricanes; disease pandemics; events arising from local or larger scale political or social matters, including terrorist acts; and, as described below, cyber attacks. Although we have business continuity plans and other safeguards in place, our business operations may be adversely affected by significant and widespread disruption to our physical infrastructure or operating systems that support our businesses and clients.

Information security risks for financial institutions such as ours have generally increased in recent years in part because of the proliferation of new technologies, the use of the internet and telecommunications technologies to conduct financial transactions, and the increased sophistication and activities of organized crime, hackers, terrorists, activists, and other external parties. As noted above, our operations rely on the secure processing, transmission, and storage of confidential information in our computer systems and networks. Our business relies on our digital technologies, computer and email systems, software, and networks to conduct its operations. In addition, to access our products and services, our clients may use personal smartphones, tablet PC's, personal computers, and other mobile devices that are beyond our control systems. Although we have information security procedures and controls in place, our technologies, systems, networks, and our clients' devices may become the target of cyber attacks or information security breaches that could result in the unauthorized release, gathering, monitoring, misuse, loss or destruction of our or our clients' confidential, proprietary and other information, or otherwise disrupt our or our clients' or other third parties' business operations.

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Third parties with whom we do business or that facilitate our business activities, including financial intermediaries, or vendors that provide services or security solutions for our operations, could also be sources of operational and information security risk to us, including from breakdowns or failures of their own systems or capacity constraints.

Although to date we have not experienced any material losses relating to cyber attacks or other information security breaches, there can be no assurance that we will not suffer such losses in the future. Our risk and exposure to these matters remains heightened because of the evolving nature of these threats. As a result, cybersecurity and the continued development and enhancement of our controls, processes and practices designed to protect our systems, computers, software, data and networks from attack, damage or unauthorized access remain a focus for us. As threats continue to evolve, we may be required to expend additional resources to continue to modify or enhance our protective measures or to investigate and remediate information security vulnerabilities.

Disruptions or failures in the physical infrastructure or operating systems that support our businesses and clients, or cyber attacks or security breaches of the networks, systems or devices that our clients use to access our products and services could result in client attrition, regulatory fines, penalties or intervention, reputational damage, reimbursement or other compensation costs, and/or additional compliance costs, any of which could materially adversely affect our results of operations or financial condition.

The Company is authorized to issue "Blank Check" Preferred Stock; It may be difficult for a third party to acquire us and this could depress our common stock price.

Under our amended and restated certificate of incorporation, we have authorized 2,000,000 shares of preferred stock, all of which may be issued by the board of directors with terms, rights, preferences and designations as the board of directors may determine and without any vote of the stockholders, unless otherwise required by law. Issuing the preferred stock, depending upon the rights, preferences and designations set by the board of directors, may adversely affect the rights of holders of common stock.

In addition, federal and state banking laws may restrict the ability of the stockholders to approve a merger or business combination or obtain control of the Company. Moreover, one individual owns or controls more than 50% of our outstanding shares. These factors may tend to make it more difficult for stockholders to replace existing management or may prevent stockholders from receiving a premium for their shares of our common stock.

Thin Market for our Common Stock and Other Factors Could Depress our Common Stock Price.

We have authorized 25,000,000 shares of common stock of which 14,443,183 shares are issued and outstanding at December 31, 2011. The price of our common stock may be volatile at times since our common stock is thinly traded and less than 30% of our outstanding shares are owned by non-affiliates. It may be difficult for a stockholder to sell a significant number of shares at a chosen time and/or price or for a third party to purchase sufficient shares on the open market to cause a change in control of the Company, all of which could depress the price of the Company's common stock.

Our stock is not insured by any governmental agency and, therefore, investment in them involves risk.

Our securities are not deposit accounts or other obligation of any bank, and are not insured by the FDIC, or any other governmental agency, and are subject to investment risk, including the possible loss of principal.

The Financial Sector Is Experiencing An Economic Downturn. An Increase In The Number of Non-performing Loans Will Have An Adverse Effect On Our Operations.

Virtually all of our real estate loans are secured by real estate in New York. At December 31, 2011, loans secured by real estate, including home equity loans and lines of credit, represented 95% of our total loans. Both nationally and in the States of New York and New Jersey, we are experiencing an economic downturn that is having a significant impact on the prices of real estate and related assets. The residential and commercial real estate sectors have been adversely affected by weakening economic conditions and may negatively impact our loan portfolio. While we believe that our total non-performing loans as a percentage of total assets are relatively low by industry standards, if loans that are currently performing become non-performing, we may need to increase our allowance for loan losses, which would have an adverse impact on our financial condition and results of operations. We added approximately $1.6 million and $5.8 million to the allowance for loan losses during the fiscal years ended December 31, 2011 and 2010, respectively.

Our FDIC Premium Could Be Substantially Higher In The Future, Which Would Have An Adverse Effect On Our Future Earnings.

Our FDIC insurance assessment was $1.3 million for 2011 compared to $1.6 million for 2010. See "Insurance of Accounts."

ITEM 1B. Unresolved Staff Comments.

Not Applicable

ITEM 2. Properties.

The following are Berkshire's and the Bank's principal facilities as of March 5, 2012:

Location	Operations	Approximate Floor Area (Sq. Ft.)	Approximate Annual Lease Rent	Expiration
New York, NY	Executive Offices	1,500	$ 18,000	(1)(3)
New York, NY	Main Bank Office and Bank Branch	9,729	Owned	March 2013
Brooklyn, NY	Bank Branch	4,500	$ 238,000	March 2016
Brooklyn, NY	Bank Branch	2,866	$ 96,700	March 2016
Brooklyn, NY	Bank Branch	2,592	$ 129,200	December 2012
Brooklyn, NY	Bank Branch	1,640	$ 88,700	June 2015
New York, NY	Bank Branch	9,924	$ 464,500	June 2016 (2)(3)
New York, NY	Bank Branch	3,300	$ 72,900	November 2016 (2)(3)
Goshen, NY	Bank Branch	10,680	Owned	
Harriman, NY	Bank Branch	1,623	Owned	
Bloomingburg, NY	Bank Branch	1,530	$ 37,000	August 2015
Teaneck, NJ	Bank Branch	2,200	$ 44,000	June 2014

(1)Rented on a month to month basis from a company affiliated with Mr. Moses Marx, a director of the Company.

(2)Leased from a company affiliated with Mr. Marx, a director of the Company.

(3)Management believes the annual rent paid is comparable to the annual rent that would be paid to non-affiliated parties in a similar commercial transaction for similar commercial space.

ITEM 3. Legal Proceedings.

In the ordinary course of operations, the Bank is a party to routine litigation involving claims incidental to its banking business. Management believes that no current litigation, threatened or pending, to which we or our assets are a party, poses a substantial likelihood of potential loss or exposure which would have a material adverse effect on our financial condition or results of our operations.

ITEM 4. Mine Safety Disclosures

Not Applicable

PART II

ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

The Company's Common Stock trades on the Nasdaq Global Market under the symbol BERK. The following table sets forth, for the periods indicated, the high and low sales prices for the Company's Common Stock as reported by NASDAQ.

Fiscal Year Ended December 31, 2010	High	Low
January 1, 2010 to March 31, 2010	$7.17	$5.03
April 1, 2010 to June 30, 2010	6.30	4.58
July 1, 2010 to September 30, 2010	5.47	3.86
October 1, 2010 to December 31, 2010	5.66	3.97

Fiscal Year Ended December 31, 2011	High	Low
January 1, 2011 to March 31, 2011	$8.00	$5.35
April 1, 2011 to June 30, 2011	7.16	5.17
July 1, 2011 to September 30, 2011	7.39	5.98
October 1, 2011 to December 31, 2011	7.98	6.22

As of the close of business on March 22, 2012, there were 752 holders of record of the Company's Common Stock.

Dividends

For the fiscal years ended December 31, 2011 and 2010, the Company was deemed to be a PHC, as defined in the Internal Revenue Code. As a PHC, we may be required to pay an additional income tax or issue a dividend to our stockholders in an amount based upon applicable Internal Revenue Code formulas, which is primarily based upon net income. No such dividend was required to be paid in fiscal 2011 or 2010.

The Board of Directors did not declare or pay cash dividends during the fiscal years ended December 31, 2011 and 2010. The declaration, payment and amount of such dividends in the future are within the discretion of the Board of Directors and will depend upon our earnings, capital requirements, financial condition and other relevant factors.

On May 15, 2003, The Company's Board of Directors authorized the purchase of up to 450,000 shares of its Common Stock in the open market, from time to time, depending upon prevailing market conditions, thereby increasing the maximum number of shares which may be purchased by the Company from 1,950,000 shares of Common Stock to 2,400,000 shares of Common Stock. From 1990 through December 31, 2011, the Company has purchased a total of 1,898,909 shares of its Common Stock. During fiscal years 2010 and 2011 we did not purchase any shares, and at December 31, 2011 there were 501,091 shares of Common Stock which may yet be purchased under our stock repurchase plan.

Equity Compensation Plans

See Part III, Item 12 for information concerning the Company's equity compensation plans.

ITEM 6. Selected Financial Data

Not Applicable

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis is intended to provide a better understanding of the consolidated financial condition and results of operations of Berkshire Bancorp Inc. and subsidiaries for the fiscal years ended December 31, 2011 and 2010. The discussion should be read in conjunction with the consolidated financial statements and related notes (Located in Item 8 herein). Reference is also made to Part I, Item 1 "Business" herein.

Segments

Management has determined that the Company through its wholly owned bank subsidiary, the Bank, operates in one business segment, community banking. The Bank's principal business activity consists of gathering deposits from the general public and investing those deposits in residential and commercial mortgage loans and commercial non-mortgage loans, both unsecured and secured by personal property. In addition, the Bank invests those deposits in debt obligations issued by the U.S. Government, its agencies, business corporations and mortgage-backed securities.

Series A Preferred Shares

On October 31, 2008, the Company sold an aggregate of 60,000 shares of its 8% Non-Cumulative Mandatorily Convertible Perpetual Series A Preferred Stock (the "Preferred Stock") at $1,000 per share, or $60 million in the aggregate, to the Company's Chairman of the Board and majority stockholder, and two non-affiliated investors. Each share of Preferred Stock was entitled to receive non-cumulative cash dividends at the rate of 8% per annum, payable quarterly, and was mandatorily convertible into 123.153 shares of our Common Stock on October 31, 2011. Accordingly, on October 31, 2011, all 60,000 outstanding shares of Preferred Stock were mandatorily converted into 7,389,000 shares of the Common Stock, $.10 par value, of the Company at a conversion rate of 123.15 shares of Common Stock for each share of Preferred Stock converted, in accordance with the Certificate of Designation of the Preferred Stock.

Critical Accounting Policies, Judgments and Estimates

The accounting and reporting policies of the Company conform with accounting principles generally accepted in the United States of America ("U.S. GAAP") and general practices within the financial services industry. The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results could differ from those estimates.

The Company considers that the determination of the allowance for loan losses involves a higher degree of judgment and complexity than any of its other significant accounting estimates. The allowance for loan losses is calculated with the objective of maintaining a reserve level believed by management to be sufficient to absorb estimated credit losses. Management's determination of the adequacy of the allowance is based on periodic evaluations of the loan portfolio and other relevant factors. However, this evaluation is inherently subjective as it requires material estimates, including, among others, expected default probabilities, loss given default, the amounts and timing of expected future cash flows on impaired loans, mortgages, and general amounts for historical loss experience. The process also considers economic conditions, uncertainties in estimating losses and inherent risks in the loan portfolio. All of these factors may be susceptible to significant change. To the extent actual outcomes differ from management estimates, additional provisions for loan losses may be required that would adversely impact earnings in future periods. See further discussion of the allowance for loan losses in "Provision for Loan Losses."

The Company recognizes deferred tax assets and liabilities for the future tax effects of temporary differences, net operating loss carryforwards and tax credits. Deferred tax assets are subject to management's judgment based upon available evidence that future realization is more likely than not. If management determines that the Company may be unable to realize all or part of net deferred tax assets in the future, a direct charge to income tax expense may be required to reduce the recorded value of the net deferred tax asset to the expected realizable amount.

The Company conducts a periodic review and evaluation of its securities portfolio, taking into account the severity and duration of each unrealized loss, as well as management's intent and ability to hold the security until the unrealized loss is substantially eliminated, in order to determine if a decline in market value of any security below its carrying value is either temporary or other than temporary. Unrealized losses on held-to-maturity securities that are deemed temporary are disclosed but not recognized. Unrealized losses on debt or equity securities available-for-sale that are deemed temporary are excluded from net income and reported net of deferred taxes as other comprehensive income or loss. All unrealized losses that are deemed other than temporary on either available-for-sale or held-to-maturity securities are recognized immediately as a reduction of the carrying amount of the security, with a charge recorded in the Company's consolidated statements of operations.

The Company is required to disclose the estimated fair value of its assets and liabilities considered to be financial instruments. For the Company, as for most financial institutions, the majority of its assets and liabilities are considered financial instruments. The Company values those financial assets and financial liabilities in accordance with ASC Topic 820 "Fair Value Measurements and Disclosures." ASC Topic 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, establishes a framework for measuring fair value, and expands disclosures about fair value measurement.

Discussion of Financial Condition and Results of Operations

Overview

Fiscal Year Ended December 31, 2011 Compared to Fiscal Year Ended December 31, 2010. Net income, before dividends on our Series A Preferred Stock and the provision for income taxes, for the year ended December 31, 2011 was $51.7 million, compared to a net loss, before dividends on our Series A Preferred Stock and the benefit from income taxes, of $15.0 million for the year ended December 31, 2010. Net income allocated to common stockholders, after dividends on our Series A Preferred Stock and the provision for income taxes, for the year ended December 31, 2011 was $45.8 million, or $5.51 per common share, compared to a net loss allocated to common stockholders, after dividends on our Series A Preferred Stock and the benefit from income taxes, of $18.3 million, or $2.59 per common share, for the year ended December 31, 2010.

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	As of and for the Fiscal Year Ended December 31,		
	2011	2010	% Inc/(Dec)
	(In millions, except per share data and percentages and bank branch information)		
Total Assets	$ 862.1	$ 829.9	4 %
Loans, net	299.3	350.2	(15)%
Investment Securities	415.5	341.9	22 %
Total Liabilities	746.6	758.3	(2)%
Deposits	658.9	670.1	(2)%
Borrowings	78.8	83.3	(5)%
Stockholders' Equity	115.5	71.6	61 %
Total Income	79.4	42.1	89 %
Interest Income	34.5	40.0	(14)%
Total Expense	27.7	57.1	(51)%
Interest Expense	8.8	11.1	(21)%
Net Interest Income	25.7	28.9	(11)%
Net Income (Loss) Allocated to Common Stockholders	45.8	(18.3)	
Income (Loss) Per Common Share	5.51	(2.59)	
Bank Branches	12	13	

The Company's average balances, interest, and average yields are set forth on the following table (in thousands, except percentages):

	Twelve Months Ended December 31, 2011			Twelve Months Ended December 31, 2010			Twelve Months Ended December 31, 2009		
	Average Balance	**Interest and Dividends**	**Average Yield/Rate**	**Average Balance**	**Interest and Dividends**	**Average Yield/Rate**	**Average Balance**	**Interest and Dividends**	**Average Yield/Rate**
INTEREST-EARNING ASSETS:									
Loans (1)	$339,766	$21,764	6.41 %	$390,253	$25,559	6.55 %	$448,394	$29,777	6.63 %
Investment securities	394,279	12,530	3.18	360,022	14,174	3.94	312,966	15,506	4.95
Other (2)(5)	98,076	241	0.25	69,252	262	0.38	61,496	639	1.04
Total interest-earning assets	832,121	34,535	4.15	819,527	39,995	4.88	822,856	45,922	5.58
Noninterest-earning assets	30,649			58,617			58,828		
Total Assets	$862,770			$878,144			$881,684		
INTEREST-BEARING LIABILITIES:									
Interest bearing deposits	217,004	864	0.40	222,872	1,490	0.67	204,629	2,316	1.13
Time deposits	379,860	5,076	1.34	400,586	6,089	1.52	426,892	9,921	2.32
Other borrowings	80,995	2,907	3.59	90,981	3,508	3.86	115,869	4,866	4.20
Total interest-bearing liabilities	677,859	8,847	1.31	714,439	11,087	1.55	747,390	17,103	2.29
Demand deposits	76,900			69,963			56,544		
Noninterest-bearing liabilities	5,786			7,508			8,701		
Stockholders' equity (5)	102,225			86,234			69,049		
Total liabilities and stockholders' equity	$862,770			$878,144			$881,684		
Net interest income		$25,688			$28,908			$28,819	
Interest-rate spread (3)			2.84 %			3.33 %			3.29 %
Net interest margin (4)			3.09 %			3.53 %			3.50 %
Ratio of average interest-earning assets to average interest bearing liabilities	1.23			1.15			1.10		

(1)Includes nonaccrual loans.

(2)Includes interest-bearing deposits, federal funds sold and securities purchased under agreements to resell.

(3)Interest-rate spread represents the difference between the average yield on interest-earning assets and the average cost of interest bearing liabilities.

(4)Net interest margin is net interest income as a percentage of average interest-earning assets.

(5)Average balances for Berkshire Bancorp Inc. (parent only) have been calculated on a monthly basis.

Changes in net interest income may be analyzed by segregating the volume and rate components of interest income and interest expense. The following tables set forth certain information regarding changes in interest income and interest expense of the Company for the years indicated. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to (1) changes in rate (change in rate multiplied by prior volume), (2) changes in volume (changes in volume multiplied by prior rate) and (3) changes in rate-volume (change in rate multiplied by change in volume) (in thousands):

	Twelve Months Ended December 31, 2011 Versus Twelve Months Ended December 31, 2010 Increase (Decrease) Due To		
	Rate	Volume	Total
Interest-earning assets:			
Loans	$ (546)	$ (3,249)	$ (3,795)
Investment securities	(2,736)	1,092	(1,644)
Other	(90)	69	(21)
Total	(3,372)	(2,088)	(5,460)
Interest-bearing liabilities:			
Deposit accounts:			
Interest bearing deposits	(602)	(24)	(626)
Time deposits	(721)	(292)	(1,013)
Other borrowings	(246)	(355)	(601)
Total	(1,569)	(671)	(2,240)
Net interest income	$ (1,803)	$ (1,417)	$ (3,220)

	Twelve Months Ended December 31, 2010 Versus Twelve Months Ended December 31, 2009 Increase (Decrease) Due To		
	Rate	Volume	Total
Interest-earning assets:			
Loans	$(359)	$(3,859)	$(4,218)
Investment securities	(3,161)	1,829	(1,332)
Other	(406)	29	(377)
Total	(3,926)	(2,001)	(5,927)
Interest-bearing liabilities:			
Deposit accounts:			
Interest bearing deposits	(941)	115	(826)

Time deposits	(3,415)	(417)	(3,832)
Other borrowings	(394)	(964)	(1,358)
Total	(4,750)	(1,266)	(6,016)
Net interest income	$824	$(735)	$89

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Provision for Loan Losses.

The allowance for loan losses is the estimated amount considered necessary to cover credit losses inherent in the loan portfolio at the balance sheet date. The allowance is established through the provision for loan losses that is charged against income. In determining the allowance for loan losses, management makes significant estimates which involve a high degree of judgment, subjectivity of the assumptions utilized, and potential for changes in the economic environment that could result in changes to the amount of the recorded allowance for loan losses.

The allowance for loan losses has been determined in accordance with U.S. GAAP, principally FASB ASC 450, "Contingencies", ("ASC 450") and FASB ASC 310, "Receivables", ("ASC 310"). Under the above accounting principles, we are required to maintain an allowance for probable losses at the balance sheet date. We are responsible for the timely and periodic determination of the amount of the allowance required. Management believes that the allowance for loan losses is adequate to cover specifically identifiable losses, as well as estimated losses inherent in our portfolio for which certain losses are probable but not specifically identifiable.

Management performs a monthly evaluation of the adequacy of the allowance for loan losses. The analysis of the allowance for loan losses has two components: specific and general reserves. Specific reserves are made for loans determined to be impaired. Impairment is measured by determining the present value of expected future cash flows or, as a practical expedient for collateral-dependent loans, the fair value of the collateral adjusted for market conditions and selling expenses. Except for loans identified as troubled debt restructurings ("TDRs"), the Bank considers its investment in one-to-four family real estate loans and consumer loans to be smaller balance homogeneous loans and therefore excluded from separate identification for evaluation of impairment. These homogeneous loan groups are evaluated for impairment on a collective basis under ASC 310.

The general reserve is determined by segregating the remaining loans by type of loan, risk weighting (if applicable) and payment history. Management also analyzes historical loss experience, delinquency trends, general economic conditions, geographic concentrations, and industry and peer comparisons. This analysis establishes factors that are applied to the loan segments to determine the amount of the general reserves. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revisions based upon changes in economic and real estate market conditions. Actual loan losses may be significantly more than the allowance for loan losses management has established which could have a material negative effect on the Company's financial results.

On a monthly basis, the Bank's management committee reviews the current status of various loan assets in order to evaluate the adequacy of the allowance for loan losses. In this evaluation process, specific loans are analyzed to determine their potential risk of loss. This process includes all loans, concentrating on non-accrual and classified loans. Each non-accrual or classified loan is evaluated for potential loss exposure. Any shortfall results in a recommendation of a specific allowance if the likelihood of loss is evaluated as probable. To determine the adequacy of collateral on a particular loan, an estimate of the fair market value of the collateral is based on the most current appraised value available. This appraised value is then reduced to reflect estimated liquidation expenses.

As a substantial amount of our loan portfolio is collateralized by real estate, appraisals of the underlying value of property securing loans are critical in determining the amount of the allowance required for specific loans. Assumptions for appraisal valuations are instrumental in determining the value of properties. Overly optimistic assumptions or negative changes to assumptions could significantly impact the valuation of a property securing a loan and the related allowance determined. The assumptions supporting such appraisals are carefully reviewed by management to determine that the resulting values reasonably reflect amounts realizable on the related loans. Based on the composition of our loan portfolio, management believes the primary risks are increases in interest rates, a decline in the economy, generally, and a decline in real estate market values in the New York metropolitan area. Any one or combination of these events may adversely affect our loan portfolio resulting in increased delinquencies, loan losses and future levels of loan loss provisions. Management believes the allowance for loan losses reflects the inherent credit risk in our portfolio, the level of our non-performing loans and our charge-off experience.

A loan is considered nonperforming when it becomes delinquent ninety days or when other adverse factors become known to us. We generally order updated appraisals from independent third party licensed appraisers at the time the loan is identified as nonperforming. Depending upon the property type, we receive appraisals within thirty to ninety days from the date the appraisals are ordered. Upon receipt of the appraisal, which is discounted by us to take account of estimated selling and other holding costs, we compare the adjusted appraisal amount to the carrying amount of the real estate dependent loan and record any impairment through the allowance for loan loss at that time.

The majority of our real estate dependent loans are concentrated in the New York City metropolitan area. We do not make adjustments to the appraisals for this concentration. We do not increase the appraised value of any property. Any adjustments we make to the appraisals are to decrease the appraised value due to selling and other holding costs.

Although management believes that we have established and maintained the allowance for loan losses at adequate levels, additions may be necessary if future economic and other conditions differ substantially from the current operating environment. Although management uses what it believes is the best information available, the level of the allowance for loan losses remains an estimate that is subject to significant judgment and short-term change. In addition, the Federal Deposit Insurance Corporation, NYSDFS, and other regulatory bodies, as an integral part of their examination process, will periodically review our allowance for loan losses. Such agencies may require us to recognize adjustments to the allowance based on its judgments about information available to them at the time of their examination.

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Results of Operations - Fiscal Year Ended December 31, 2011 Compared to Fiscal Year Ended December 31, 2010.

Net Income (Loss) Allocated to Common Stockholders. Net income allocated to common stockholders for the fiscal year ended December 31, 2011 was $45.8 million, or $5.51 per common share, as compared to a net loss allocated to common stockholders of $18.3 million, or $2.59 per common share, for the fiscal year ended December 31, 2010. The number of common shares outstanding at December 31, 2011 increased by 7,395,000 shares to 14,443,183 shares from 7,048,183 shares outstanding at December 31, 2010, and the average number of common shares outstanding at December 31, 2011 increased by 1,255,118 shares to 8,309,301 shares from 7,054,183 shares at December 31, 2010. The increases were due to the mandatory conversion of our Series A Preferred Stock into common stock on October 31, 2011.

The net income allocated to common stockholders for the fiscal year ended December 31, 2011 was significantly affected by a settlement agreement we entered into in May 2011 with the selling financial institution of the auction rate securities in the Bank's investment portfolio. In January 2009, the Bank filed an arbitration proceeding with the Financial Industry Regulatory Authority against the selling financial institution of the auction rate securities in our investment portfolio. Pursuant to the agreement, in settlement of all claims made by the Bank, the institution paid to the Bank the sum of $42.5 million, or $5.11 per common share.

The net loss allocated to common stockholders for the fiscal year ended December 31, 2010 was primarily due to the write-off of goodwill of $18.5 million, or $2.63 per common share, the other than temporary impairment ("OTTI") charges on securities of $1.2 million, or $0.17 per common share, the loss on the termination of our pension plan of $1.9 million, or $0.27 per common share and dividends on our Series A Preferred Stock of $4.8 million, or $0.68 per common share, partially offset by the benefit for income taxes of $1.5 million, or $0.21 per common share.

The Company's net income is largely dependent on interest rate levels, the demand for the Company's loan and deposit products and the strategies employed to manage the interest rate and other risks inherent in the banking business.

Interest Income. Total interest income for the fiscal year ended December 31, 2011 decreased by $5.5 million to $34.5 million from $40.0 million for the fiscal year ended December 31, 2010. The decrease in total interest income in fiscal year 2011 was primarily due to the decrease in the average yields earned on interest-earning assets to 4.15% in fiscal year 2011 from 4.88% in fiscal year 2010, partially offset by the increase in the average amount of interest-earning assets to $832.1 million in fiscal year 2011 from $819.5 million in fiscal year 2010.

The following table presents the composition of interest income for the indicated periods:

	Fiscal 2011		Fiscal 2010	
	Interest Income	% of Total	Interest Income	% of Total
	(In thousands, except percentages)			
Loans	$21,764	63.02 %	$25,559	63.90 %
Investment Securities	12,530	36.28	14,174	35.44
Other	241	0.70	262	0.66
Total Interest Income	$34,535	100.00%	$39,995	100.00%

Loans, which are inherently risky and therefore command a higher return than our portfolio of investment securities and other interest-earning assets, decreased to 40.8% of total average interest-earning assets during fiscal 2011 from 47.6% of total interest-earning assets during fiscal 2010. The average amounts of investment securities increased to 47.4% of total average interest-earning assets during fiscal 2011 from 43.9% of total interest-earning assets during fiscal 2010. While we actively seek to originate new loans with qualified borrowers who meet the Bank's underwriting standards, our strategy has been to maintain those standards, sacrificing some current income to avoid possible large future losses in the loan portfolio.

At December 31, 2011, our portfolio of investment securities included approximately $65.7 million at cost of auction rate securities. The fair value of these securities, presently $44.5 million, could be negatively impacted in the future. Were this to occur, we may be required to reflect a write down of these securities in future periods as a charge to earnings if any of these securities are deemed to be other than temporarily impaired. Such impairment charge could be material to our results of operations.

As required by FASB ASC 320, "Investments-Debt and Equity Securities", securities are classified into three categories: trading, held-to-maturity and available-for-sale. Securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and are reported at fair value with unrealized gains and losses included in trading account activities in the statement of income. Securities that the Bank has the positive intent and ability to hold to maturity are classified as held-to-maturity and reported at amortized cost. All other securities are classified as available-for-sale. Available-for-sale securities are reported at fair value with unrealized gains and losses included, on an after-tax basis, as a separate component of stockholders' equity. The Company does not have a trading securities portfolio and has no current plans to maintain such a portfolio in the future. The Company generally classifies all newly purchased debt securities as available for sale in order to maintain the flexibility to sell those securities if the need arises. The Bank has a limited portfolio of securities classified as held to maturity, represented principally by securities purchased a number of years ago.

Federal Home Loan Bank Stock. The Bank owns stock of the Federal Home Loan Bank New York ("FHLB-NY") which is necessary for it to be a member of the FHLB-NY. Membership requires the purchase of stock equal to 1% of the Bank's residential mortgage loans or 5% of the outstanding borrowings, whichever is greater. The stock is redeemable at par, therefore, its cost is equivalent to its redemption value. The Bank's ability to dispose of FHLB-NY shares is dependent upon the redemption practices of the FHLB-NY. At December 31, 2011, the FHLB-NY neither placed restrictions on redemption of shares in excess of a member's required investment in stock, nor stated that it will cease paying dividends. The Bank did not consider this asset impaired at either December 31, 2011 or 2010.

The following table presents the composition of average interest-earning assets for the indicated periods:

	Fiscal 2011		Fiscal 2010	
	Average Amount	% of Total	Average Amount	% of Total
	(In thousands, except percentages)			
Loans	$339,766	40.83 %	$390,253	47.62 %
Investment Securities	394,279	47.38	360,022	43.93
Other	98,076	11.79	69,252	8.45
Total Interest-Earning Assets	$832,121	100.00%	$819,527	100.00%

Interest Expense. Total interest expense for the fiscal year ended December 31, 2011 decreased by $2.3 million to $8.8 million from $11.1 million for the fiscal year ended December 31, 2010. The decrease in total interest expense was due to the $36.6 million decrease in the average amounts of interest-bearing liabilities to $677.8 million during fiscal 2011 from $714.4 million during fiscal 2010 and the decrease in the average rates paid on such liabilities to 1.31% from 1.55% during fiscal years 2011 and 2010, respectively.

The following table presents the composition of interest expense for the indicated periods:

	Fiscal 2011		Fiscal 2010	
	Interest Expense	% of Total	Interest Expense	% of Total
	(In thousands, except percentages)			
Interest-Bearing Deposits	$864	9.76 %	$1,490	13.44 %
Time Deposits	5,076	57.38	6,089	54.92
Other Borrowings	2,907	32.86	3,508	31.64
Total Interest Expense	$8,847	100.00%	$11,087	100.00%

The following table presents the composition of average interest-bearing liabilities for the indicated periods:

	Fiscal 2011		Fiscal 2010	
	Average Amount	% of Total	Average Amount	% of Total
	(In thousands, except percentages)			
Interest-Bearing Deposits	$217,004	32.01 %	$222,872	31.20 %

Time Deposits	379,860	56.04	400,586	56.07
Other Borrowings	80,995	11.95	90,981	12.73
Total Interest-Bearing Liabilities	$677,859	100.00%	$714,439	100.00%

Net Interest Income. The Company's primary source of revenue is net interest income, or the difference between interest income earned on interest-earning assets, such as loans and investment securities, and interest expense on interest-bearing liabilities such as deposits and borrowings. The amount of interest income is dependent upon many factors including: (i) the amount of interest-earning assets that the Company can maintain based upon its funding sources; (ii) the relative amounts of interest-earning assets versus interest-bearing liabilities; and (iii) the difference between the yields earned on those assets and the rates paid on those liabilities. Non-performing loans adversely affect net interest income because they must still be funded by interest-bearing liabilities, but they do not provide interest income. Furthermore, when we designate an asset as non-performing, all interest which has been accrued but not actually received is deducted from current period income, further reducing net interest income.

For the fiscal year ended December 31, 2011, net interest income decreased by $3.2 million to $25.7 million from $28.9 million for the fiscal year ended December 31, 2010. The decrease in net interest income in fiscal 2011 was due to the decrease in interest income discussed above, partially offset by the decrease in the average amount of interest-bearing liabilities, the decrease in interest expense and the decrease in the average rates paid on interest-bearing liabilities as discussed above. The Company's interest-rate spread, the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities, decreased to 2.84% during fiscal 2011 from 3.33% during fiscal 2010.

Net Interest Margin. Net interest margin, or net interest income as a percentage of average interest-earning assets, decreased to 3.09% during fiscal 2011 from 3.53% during fiscal 2010. We seek to secure and retain customer deposits with competitive products and rates, while making strategic use of the prevailing interest rate environment to borrow funds at what we believe to be attractive rates. We invest such deposits and borrowed funds in what we believe to be a prudent mix of fixed and adjustable rate loans, investment securities and short-term interest-earning assets. The decrease in net interest margin during fiscal 2011 was primarily due to the decrease in the average yields earned on interest-earning assets, partially offset by the decrease in the average rates paid on interest-bearing liabilities.

Non-Interest Income. Non-interest income consists primarily of realized gains on sales of marketable securities and service fee income. In May 2011, we entered into a settlement agreement with the selling financial institution of the auction rate securities in the Bank's investment portfolio. Pursuant to the agreement, the institution paid to the Bank the sum of $42.5 million which is included in other non-interest income. In April 2011, we sold the property we owned in Ridgefield, New Jersey, a bank branch we closed in fiscal year 2010, for $941,000 and recorded a gain of $490,000 in other non-interest income. For the fiscal year ended December 31, 2011, total non-interest income increased by $42.8 million to $44.9 million from $2.1 million for the fiscal year ended December 31, 2010. The increase was due to the non-recurring items above.

The following table presents the composition of non-interest income for the indicated periods:

	Fiscal 2011 Non-Interest Income	Fiscal 2011 % of Total	Fiscal 2010 Non-Interest Income	Fiscal 2010 % of Total
	(In thousands, except percentages)			
Service Charges on Deposits	$479	1.07 %	$515	24.00 %
Investment Securities Gains	1,079	2.40	1,002	46.69
Other	43,335	96.53	629	29.31
Total Non-Interest Income	$44,893	100.00 %	$2,146	100.00 %

Non-Interest Expense. Non-interest expense includes salaries and employee benefits, occupancy and equipment expenses, legal and professional fees, other operating expenses associated with the day-to-day operations of the Company and OTTI charges on investment securities. For the fiscal year ended December 31, 2011, non-interest expense decreased by $23.0 million to $17.3 million from $40.3 million for the fiscal year ended December 31, 2010. The decrease was primarily due to the following non-recurring items. During the third quarter of fiscal 2010, the Company determined to close its bank branch in Ridgefield, NJ. Based upon an appraisal of the property, we recorded an impairment charge of $380,000 at December 31, 2010. During fiscal 2010 we recorded an OTTI charge of $1.2 million, a $1.9 million loss on the termination of our pension plan and an $18.5 million charge for the impairment of goodwill.

The following table presents the composition of non-interest expense for the indicated periods.

	Fiscal 2011 Non-Interest Expense	Fiscal 2011 % of Total	Fiscal 2010 Non-Interest Expense	Fiscal 2010 % of Total
	(In thousands, except percentages)			
Salaries and Employee Benefits	$9,517	55.03 %	$9,442	23.44 %
Net Occupancy Expense	2,545	14.72	2,109	5.24
Equipment Expense	330	1.91	360	0.89
FDIC Assessment	1,252	7.24	1,646	4.09
Data Processing Expense	447	2.58	489	1.21
Other than temporary impairment charges on securities	—	0.00	1,202	2.98
Loss on termination of pension plan	—	0.00	1,871	4.64
Impairment of goodwill	—	0.00	18,549	46.05
Other	3,203	18.52	4,615	11.46
Total Non-Interest Expense	$17,294	100.00 %	$40,283	100.00 %

Provision for Income Tax. For the fiscal year ended December 31, 2011, the Company recorded a provision for income taxes of $1.9 million. The provision for income taxes relates to the income before taxes and the decrease in the valuation allowance.

For the fiscal year ended December 31, 2010, the Company recorded a benefit for income taxes of $1.5 million. The tax benefit in fiscal 2010 relates to the loss before provision for income taxes and the decrease in the valuation allowance, offset by significant permanent item add backs mainly related to the goodwill write-off.

Investment Activities

General. The investment policy of the Bank is designed primarily to provide satisfactory yields while maintaining adequate liquidity, a balance of high quality, diversified investments, and minimal risk. Generally, the Bank does not invest in equity securities. However, the Company does invest in some equity securities. The largest component of the Bank's investments, representing more than 50% of total investment securities, are debt securities issued by U.S. Government agencies including Freddie Mac, Fannie Mae or the Government National Mortgage Association ("Ginnie Mae"). The remainder of the Bank's debt securities investments are primarily short term debt securities issued by the United States or its agencies. We have no exposure to the sovereign debt of any foreign country. The Bank maintains a portfolio of high-yield corporate debt securities. Recognizing the higher credit risks of these securities, the Bank underwrites these securities in a manner similar to its loan underwriting procedures.

The following is a summary of held to maturity investment securities:

	December 31, 2011			
	Amortized Cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(In thousands)			
U.S. Government Agencies	$ 298	$ 1	$ (6)	$ 293

	December 31, 2010			
	Amortized Cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(In thousands)			
U.S. Government Agencies	$ 319	$ 1	$ (4)	$ 316

	December 31, 2009			
	Amortized Cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(In thousands)			
U.S. Government Agencies	$ 340	$ —	$ (3)	$ 337

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The following is a summary of available-for-sale investment securities:

	December 31, 2011			
	Amortized Cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(In thousands)			
U.S. Treasury Notes	$80,072	$141	$—	$80,213
U.S. Government Agencies	130,389	510	(33)	130,866
Mortgage-backed securities	140,049	2,750	(440)	142,359
Corporate notes	12,949	103	(49)	13,003
Municipal securities	2,682	—	(687)	1,995
Auction rate securities	65,700	—	(21,205)	44,495
Marketable equity securities and other	2,284	—	(45)	2,239
Totals	$434,125	$3,504	$(22,459)	$415,170

	December 31, 2010			
	Amortized Cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(In thousands)			
U.S. Treasury Notes	$50,015	$61	$—	$50,076
U.S. Government Agencies	88,469	591	(1,533)	87,527
Mortgage-backed securities	117,724	4,099	(686)	121,137
Corporate notes	13,773	44	(639)	13,178
Single Issuer Trust Preferred CDO	1,023	271	—	1,294
Pooled Trust Preferred CDO	6,459	—	(6,000)	459
Municipal securities	2,632	102	(46)	2,688
Auction rate securities	73,993	397	(12,311)	62,079
Marketable equity securities and other	2,810	316	—	3,126
Totals	$356,898	$5,881	$(21,215)	$341,564

	December 31, 2009			
	Amortized Cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(In thousands)			
U.S. Treasury Notes	$50,236	$35	$(65)	$50,206
U.S. Government Agencies	76,259	59	(793)	75,525
Mortgage-backed securities	134,810	1,943	(710)	136,043
Corporate notes	19,029	1,011	(2,311)	17,729
Single Issuer Trust Preferred CDO	1,021	—	—	1,021
Pooled Trust Preferred CDO	6,463	—	(6,313)	150
Municipal securities	1,973	198	—	2,171

Auction rate securities	78,895	—	(11,953)	66,942
Marketable equity securities and other	7,648	69	(26)	7,691
Totals	$376,334	$3,315	$ (22,171)	$357,478

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Management uses a multi-factor approach to determine whether each investment security in an unrealized loss position is other-than-temporarily impaired ("OTTI"). An unrealized loss position exists when the current fair value of an investment is less than its amortized cost basis. The valuation factors utilized by management incorporate the ideas and concepts outlined in relevant accounting guidance. These include such factors as:

*The length of time and the extent to which the market value has been less than cost;

*The financial condition of the issuer of the security as well as the near and long-term prospect for the issuer;

*The rating of the security by a national rating agency;

*Historical volatility and movement in the fair market value of the security; and

*Adverse conditions relative to the security, issuer or industry.

The following table shows the outstanding auction rate securities aggregated by type of underlying collateral at December 31, 2011 and 2010:

	2011 Amortized Cost	Fair Value	2010 Amortized Cost	Fair Value
	(In thousands)			
Federal Home Loan Mortgage Corporation Preferred Shares	$—	$ —	$693	$ 1,089
Preferred Shares of Money Center Banks	63,700	42,495	71,300	58,990
Public Utility Debt and Equity Securities	2,000	2,000	2,000	2,000
Totals	$65,700	$ 44,495	$73,993	$ 62,079

In accordance with ASC 320-10, Investment - Debt and Equity Securities, Management's impairment analysis for the corporate and auction rate securities that were in a loss position as of December 31, 2011 began with management's determination that it had the intent to hold these securities for sufficient time to recover the cost basis. Management also concluded that it was unlikely that it would be required to sell any of the securities before recovery of the cost basis.

The fair value of the auction rate securities is determined by management using a discounted cash flow analysis and by valuing the underlying security. The auction rate securities allow for conversion to the underlying preferred security after two failed auctions. As of December 31, 2011, there have been more than two failed auctions for all outstanding auction rate securities. Because of the lack of liquidity in the market for the auction rate securities as compared to the market for the underlying preferred shares and as there is a possibility of an orderly transaction and market for the underlying preferred shares without significant adjustment to their carrying value, we considered the market value of the underlying preferred shares to be more objective and relevant. For the public utility debt and equity securities, the security is collateralized by a mutual fund in which the majority of the investments are public utility debt and equity securities. As this fund, as well as other mutual funds for public utilities, has not been severely impacted by the market dislocation, these funds, and consequently our auction rate securities, have continued to perform.

In determining whether there is OTTI, management considers the factors noted above. The financial performance indicators we review include, but are not limited to, net earnings, change in liquidity, and change in cash from operating activities, and, for money center banks, the regulatory capital ratios and the allowance for loan losses to the nonperforming loans. Through December 31, 2011, the auction rate securities have continued to pay interest at the highest rate as stipulated in the original prospectus, except for the auction rate securities collateralized by the Federal Home Loan Mortgage Corporation Preferred Shares which were sold for a gain of $2.8 million during the quarter ended June 30, 2011.

In addition to valuing the auction rate securities (ARS) by valuing the collateral, we completed discounted cash flow analyses. In determining the appropriate cash flow analysis for our auction rate securities, the Company reviewed multiple factors and prepared multiple discounted cash flow analyses. The four main factors affecting our cash flow analysis for each ARS were: the expected future interest rate of the ARS, the expected holding period, the expected principal to be received at the end of the holding period, and an assumed discount rate.

In determining the expected future interest rate, we used the current ARS rate at December 31, 2011 and kept the rate constant for future cash flow estimates. The current rates being paid on the majority of these securities are the maximum penalty rate and we believe that these rates will not change significantly in the future. In addition, if the rates do increase or decrease in future periods, we believe that this would increase or decrease the risk profile of these securities which would cause a corresponding change in the discount rate assumption so the discounted cash flow analysis would not be significantly affected by interest rate changes.

In determining the expected holding period of each security using discounted cash flow analysis, we ran several scenarios. These scenarios included holding the security until the trust dissolution date (maturity date), and a five year scenario, inasmuch as we believe four years from December 31, 2011 would be the earliest that the ARS market may resume the normal auction process.

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The expected principal that we would receive in the discounted cash flow analysis was based upon two scenarios. These scenarios included receiving par at the maturity date and at the five-year assumed recovery date and receiving the market value of the underlying preferred shares at the maturity date and at the five-year assumed recovery date. Under the terms of the ARS agreements, we would receive the assets of the Trust at the trust dissolution date which would constitute a conversion to the underlying preferred shares.

Finally, in determining the discount rate, we reviewed numerous industry rates and determined a separate discount rate for each ARS as follows: We obtained the 10 year credit default swap spread for each of the underlying issuers (we believed that this was the most readily available information that would most closely represent an equivalent yield). We then adjusted this rate by 25 - 50 basis points depending on how far out the actual maturity date was in excess of 10 years (maturity dates range from approximately 15 years to 25 years). We then added the 10-year swap rate at December 31, 2011, and finally added 25 or 50 basis points for the illiquidity and other market risks. The liquidity factor applied to these securities was based on the credit rating of the security (25 basis points for securities above investment grade and 50 basis points for securities slightly below investment grade). The final discount rates ranged from 2.5% - 6.7%.

Based on these analyses, the discounted cash flows ranged from a total of approximately $60.6 million to $55.0 million. We believe that of these scenarios, the most likely scenario as of December 31, 2011 is that we will hold these securities to the maturity based on the high interest rates and will receive par. However, we also verified the reasonableness of the value by analyzing receipt of the par value of the underlying preferred securities at maturity. The calculated fair values using the par value approach was $55.0 million as compared to $44.5 million using the underlying preferred securities. The current fair value that the Bank has recorded for the ARS portfolio based on the value of the underlying securities is approximately $44.5 million. As our current fair value falls below the range of the discounted cash flows analyses performed and lower than the most likely scenarios, we believe that our current fair value is a conservative representation of what a willing market participant would pay for these securities and is an accurate estimate of our ARS fair value at December 31, 2011.

Based upon our methodology for determining the fair value of the auction rate securities, we recorded an OTTI charge of $1.2 million for the year ended December 31, 2010, while no OTTI charge was required for 2011. We concluded that, as of December 31, 2011 and 2010, the unrealized loss for the remainder of the auction rate securities is due to the market interest volatility, the continued illiquidity of the auction rate markets, and uncertainty in the financial markets as there has not been a deterioration in the credit quality of the issuer of the auction rate securities or a downgrade of the auction rate security from investment grade. It is not more likely than not that the Company would be required to sell the auction rate securities prior to recovery of the unrealized loss, nor does the Company intend to sell the security at the present time.

At December 31, 2011, we had four auction rate securities totaling $15.3 million which were below investment grade. At December 31, 2010, we had six auction rate securities totaling $21.0 million which were below investment grade.

During the years ended December 31, 2011 and 2010 no auction rate securities were redeemed. During fiscal year 2011, $8.3 million of auction rate securities were sold with a net gain of $2.8 million recognized on the sale. During fiscal year 2010, $3.7 million of auction rate securities were sold at auction with no gain or loss recognized on the sale.

At December 31, 2010, we had a trust preferred security issued by a non-registrant regional bank with an amortized cost of $1.0 million (after OTTI charges) and a fair value of $1.3 million. When this asset was acquired it was an investment grade security that subsequently deteriorated to a non-rated security. We sold the security during fiscal year 2011 and recognized a gain of $510,000 on the sale.

At December 31, 2010, we had one pooled trust preferred CDO ("TPCDO") with an amortized cost of $6.5 million (after OTTI charges) and a fair value of $459,000. We owned a Class B tranche of the TPCDO, which was considered below investment grade at December 31, 2010. We sold the security during fiscal year 2011 and recognized a loss of $4.2 million on the sale.

Based upon the discounted cash flow analysis performed, there was no credit related OTTI for the years ended December 31, 2011 and 2010.

The table below reflects the amount of single issue debt securities below investment grade and the lowest rating by security type at December 31, 2011 and 2010 (in thousands):

	December 31, 2011			
	Amortized Cost	Fair Value	Unrealized Gain (Loss)	Lowest Credit Rating
Auction Rate Securities:				
Money Center Banks	$26,000	$15,293	$ (10,707)	Ba3

The below investment grade auction rate securities collateralized by preferred shares of money center banks consists of four securities, from two original issuers. In the first quarter of 2009, one of the issuers was acquired by the other.

	December 31, 2010			
	Amortized Cost	Fair Value	Unrealized Gain (Loss)	Lowest Credit Rating
Single Issuer Corporate Bonds:				
Student Lender	$5,000	$4,578	$ (422)	B
Trust Preferred Security	1,023	1,293	270	No rating
Auction Rate Securities:				
Federal Home Loan Mortgage Corporation	693	1,089	396	Ca
Money Center Banks	20,300	14,746	(5,554)	Ba3
Pooled Issuers:				
TPCDO	6,459	458	(6,001)	No rating

The below investment grade Federal Home Loan Mortgage Corporation auction rate securities were comprised of two securities. The below investment grade auction rate securities collateralized by preferred shares of money center banks consisted of four securities, from two original issuers. In the first quarter of 2009, one of the issuers was acquired by the other.

The below investment grade for the student lender was one factor evaluated in determining whether it was appropriate to recognize OTTI. We also considered and evaluated analysis prepared by two independent third party analysts and the financial data of the issuer. The financial factors we evaluated included but are not limited to, net income, return on assets, increased cash and cash equivalents, increased originations, and the amount of debt included in current liabilities. We also considered the effects of the student loan overhaul included in the Health Care legislation signed by President Obama in March 2010 which will eliminate the student lender's ability to originate new student loans. Management believes this security has a fair value below cost due to the weak economic environment, high unemployment, slow salary growth, and high consumer debt which has adversely affected income generation of the borrowers. As a result, student loans have exhibited increased delinquency and defaults. The student lender bond the Company owns was purchased in 2004 prior to the current credit crisis and for which the underlying loans are guaranteed by the Federal Government at 98%. Based upon the entirety of the evidence of the student lender corporate bond outlined above, management concluded that OTTI was not appropriate and that the unrealized loss was due to market factors.

At December 31, 2011 and 2010, all other single issuer debt securities had a credit rating of investment grade.

At December 31, 2011, the Company owned $83,000, at cost, of preferred stocks with a fair market value of $38,000. The fair market value was determined by quoted market prices. In order to determine whether an OTTI charge should be recognized, we evaluate the length of time and the extent to which the fair value is below cost, the financial condition and near term prospects of the issuer, and the Company's intent and ability to retain the equity security to allow for recovery. Accordingly, no OTTI was recognized on the unrealized loss of $45,000.

At December 31, 2010, the Company owned preferred and common stock (collectively "equities"). The fair value of the equities was determined by quoted market prices; unrealized gain or loss was determined by comparing the cost of the equity to its fair value.

The table below details certain information related to the equity securities as of December 31, 2011 and 2010 (in thousands):

	December 31, 2011
Industry	Cost

			Fair Value	Unrealized Gain (Loss)
Preferred	Airline	$ 61	$ 13	$ (48)
	Other	22	25	3

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	Industry	December 31, 2010 **Cost**	Fair Value	Unrealized Gain (Loss)
Common	Telecommunications	$91	$113	$ 22
	Airline	862	1,049	187
Preferred	Airline	61	73	12
	Flooring and other	33	38	5
	Mining	27	118	91

The Company has investments in certain debt securities, as noted in the table below, that have unrealized losses or may be otherwise impaired, but OTTI has not been recognized in the financial statements as management believes the decline is due to the credit markets coupled with the interest rate environment. In addition, these securities are making payments in accordance with the terms of the instruments.

The following table indicates the length of time individual securities that we consider temporarily impaired have been in a continuous unrealized loss position at December 31, 2011 (in thousands):

	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Description of Securities						
U.S. Government Agencies	$ 22,791	$ 33	$ 293	$ 6	$ 23,084	$ 39
Mortgage-backed securities	28,957	117	8,118	323	37,075	440
Corporate notes	1,244	15	3,954	34	5,198	49
Auction rate securities	—	—	42,495	21,205	42,495	21,205
Marketable equity securities and other	—	—	39	45	39	45
Municipal securities	1,995	687	—	—	1,995	687
Total temporarily impaired securities	$ 54,987	$ 852	$ 54,899	$ 21,613	$ 109,886	$ 22,465

The Company had a total of 43 debt securities with a fair market value of $67.4 million which were temporarily impaired at December 31, 2011. The total unrealized loss on these securities was $1.2 million, which is attributable to the market interest volatility, the continued illiquidity of the debt markets, and uncertainty in the financial markets. We also had 1 equity security with a fair market value of $39,000 with an unrealized loss of $45,000. The remaining unrealized loss of $21.2 million is on 9 auction rate securities which have declined in value due to auction failures beginning in February 2008. It is not more likely than not that we would sell these securities before maturity, and we have the intent to hold all of these securities to maturity and will not be required to sell these securities, due to our ratio of cash and cash equivalents of approximately 11.7% of total assets at December 31, 2011. Therefore, the unrealized losses associated with these securities are not considered to be other than temporary.

The following table indicates the length of time individual securities that we consider temporarily impaired have been in a continuous unrealized loss position at December 31, 2010 (in thousands):

	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Description of Securities						
U.S. Government Agencies	$ 37,071	$ 1,533	$ 31	$ —	$ 37,102	$ 1,533
Mortgage-backed securities	24,860	381	9,745	305	34,605	686
Corporate notes	1,373	9	8,314	630	9,687	639
Pooled Trust Preferred CDO	—	—	458	6,000	458	6,000
Auction rate securities	4,504	497	54,486	11,814	58,990	12,311
Municipal securities	1,747	46	—	—	1,747	46
Total temporarily impaired securities	$ 69,555	$ 2,466	$ 73,034	$ 18,749	$ 142,589	$ 21,215

The Company had a total of 40 debt securities with a fair market value of $81.9 million which were temporarily impaired at December 31, 2010. The total unrealized loss on these securities was $8.9 million, which is attributable to the market interest volatility, the continued illiquidity of the debt markets, and uncertainty in the financial markets. The remaining unrealized loss of $12.3 million is on 11 auction rate securities which have declined in value due to auction failures beginning in February 2008. It is not more likely than not that we would sell these securities before maturity, and we have the intent to hold all of these securities to maturity and will not be required to sell these securities, due to our ratio of cash and cash equivalents of approximately 9.3% of total assets at December 31, 2010. Therefore, the unrealized losses associated with these securities are not considered to be other than temporary.

The amortized cost and fair value of investment securities available for sale and held to maturity, by contractual maturity, at December 31, 2011 and 2010 are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	December 31, 2011			
	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
Due in one year or less	$81,847	$82,000	$ —	$ —
Due after one through five years	58,182	58,596	—	—
Due after five through ten years	41,987	42,594	—	—
Due after ten years	184,125	185,246	298	293
Auction rate securities	65,700	44,495	—	—
Marketable equity securities and other	2,284	2,239	—	—
Totals	$434,125	$415,170	$ 298	$ 293

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	December 31, 2010			
	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
Due in one year or less	$41,736	$41,805	$ —	$ —
Due after one through five years	37,074	36,812	—	—
Due after five through ten years	39,515	40,114	—	—
Due after ten years	161,770	157,628	319	316
Auction rate securities	73,993	62,079	—	—
Marketable equity securities and other	2,810	3,126	—	—
Totals	$356,898	$341,564	$ 319	$ 316

Gross gains realized on the sales of investment securities for the years ended December 31, 2011 and 2010 were approximately $7,637,000 and $1,224,000, respectively. Gross losses were approximately $6,558,000 and $222,000 for the years ended December 31, 2011 and 2010, respectively. During the year ended December 31, 2011, we sold single issuer trust preferred securities, pooled trust CDO's, auction rate securities and certain corporate notes. During the year ended December 31, 2010, we sold money center bank auction rate securities and certain corporate notes.

At both December 31, 2011 and 2010, securities sold under agreements to repurchase with a book value of approximately $50.0 million were outstanding. The book value of the securities pledged for these repurchase agreements was $55.6 million and $57.8 million, respectively. As of December 31, 2011 and 2010, we did not own investment securities of any one issuer where the carrying value exceeded 10% of stockholders' equity.

The following table sets forth the cost and fair value of available-for-sale and held-to-maturity securities as of the dates indicated:

	December 31,			
	2011		2010	
	Cost	Fair Value	Cost	Fair Value
	(In thousands)			
Available-For-Sale				
U.S. Treasury Notes	$80,072	$80,213	$50,015	$50,076
U.S. Government Agencies	130,389	130,866	88,469	87,527
Mortgage-backed securities	140,049	142,359	117,724	121,137
Corporate notes	12,949	13,003	13,773	13,178
Single Issuer Trust Preferred CDO	—	—	1,023	1,294
Pooled Trust Preferred CDO	—	—	6,459	459
Municipal securities	2,682	1,995	2,632	2,688
Auction rate securities	65,700	44,495	73,993	62,079
Marketable equity securities and other	2,284	2,239	2,810	3,126
Total	$434,125	$415,170	$356,898	$341,564
Held-To-Maturity				
U.S. Government Agencies	$298	$293	$319	$316

The following tables summarize the Company's available-for-sale and held- to-maturity securities:

	December 31, 2011		
	Weighted Average Yield	Cost	Fair Value
	(Dollars in thousands)		
Available-For-Sale			
U.S. Treasury Notes			
Due within one year	0.48 %	$80,072	$80,213
		80,072	80,213
U.S. Government Agencies Obligations			
Due after one year through five years	1.46	48,213	48,416
Due after five years through ten years	2.60	37,266	37,445
Due after ten years	2.83	44,910	45,005
		130,389	130,866
Municipal Obligations			
Due after ten years	6.92	2,682	1,995
		2,682	1,995
Mortgage-backed securities			
Due after one year through five years	4.61	2,489	2,625
Due after five years through ten years	4.62	4,721	5,149
Due after ten years	4.04	132,839	134,585
		140,049	142,359
Corporate Notes			
Due within one year	5.47	1,314	1,318
Due after one year through five years	3.70	7,941	8,025
Due after ten years	7.28	3,694	3,660
		12,949	13,003
Auction rate and other securities			
Common Stocks	2.25	80	80
Preferred Stocks	10.84	83	38
Auction Rate Securities	4.40	65,700	44,495
Money market funds	0.25	1,015	1,015
Federal Home Loan Bank Stock	1.09	1,106	1,106
		67,984	46,734
		$434,125	$415,170
Held-To-Maturity			
U.S. Government Agencies Obligations			
Due after ten years	6.54	298	293
		$298	$293

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Federal Home Loan Bank Stock. The Bank owns stock of the FHLB-NY which is necessary for it to be a member of the FHLB-NY. Membership requires the purchase of stock equal to 0.20% of the Bank's mortgage related assets (investments and loans) plus 4.5% of the outstanding borrowings. The stock is redeemable at par. Therefore, its cost is equivalent to its redemption value. The Bank's ability to dispose of FHLBNY shares is dependent upon the redemption practices of the FHLB-NY. At December 31, 2011, the FHLB-NY neither placed restrictions on redemption of shares in excess of a member's required investment in stock, nor stated that it will cease paying dividends. The Bank did not consider this asset impaired at either December 31, 2011 or 2010.

Loan Portfolio

Loan Portfolio Composition. The Company's loans consist primarily of mortgage loans secured by residential and non-residential properties as well as commercial loans which are either unsecured or secured by personal property collateral. Most of the Company's loans are either made to individuals or personally guaranteed by the principals of the business to which the loan is made. At December 31, 2011 and 2010, the Company had total loans, net of unearned income of $317.0 million and $366.3 million, respectively, and an allowance for loan losses of $17.7 million and $16.1 million, respectively. From time to time, the Bank may originate residential mortgage loans, sell them on the secondary market, normally recognizing fee income in connection with the sale.

Interest rates on loans are affected by the demand for loans, the supply of money available for lending, credit risks, the rates offered by competitors and other conditions. These factors are in turn affected by, among other things, economic conditions, monetary policies of the federal government, and legislative tax policies.

In order to manage interest rate risk, the Bank focuses its efforts on loans with interest rates that adjust based upon changes in the prime rate or changes in United States Treasury or similar indices. Generally, credit risks on adjustable-rate loans are somewhat greater than on fixed-rate loans primarily because, as interest rates rise, so do borrowers' payments, increasing the potential for default. The Bank seeks to impose appropriate loan underwriting standards in order to protect against these and other credit related risks associated with its lending operations.

In addition to analyzing the income and assets of its borrowers when underwriting a loan, the Bank obtains independent appraisals on all material real estate in which the Bank takes a mortgage. The Bank generally obtains title insurance in order to protect against title defects on mortgaged property.

Commercial Mortgage Loans. The Bank originates commercial mortgage loans secured by office buildings, retail establishments, multi-family residential real estate and other types of commercial property. Substantially all of the properties are located in the New York City metropolitan area.

The Bank generally makes commercial mortgage loans with loan to value ratios not to exceed 75% and with terms to maturity that do not exceed 15 years. Loans secured by commercial properties generally involve a greater degree of risk than one-to four-family residential mortgage loans. Because payments on such loans are often dependent on successful operation or management of the properties, repayment may be subject, to a greater extent, to adverse conditions in the real estate market or the economy. The Bank seeks to minimize these risks through its underwriting policies. The Bank evaluates the qualifications and financial condition of the borrower, including credit history, profitability and expertise, as well as the value and condition of the underlying property. The factors considered by the Bank include net operating income; the debt coverage ratio (the ratio of cash net income to debt service); and the loan to value ratio. When evaluating the borrower, the Bank considers the financial resources and income level of the borrower, the borrower's experience in owning or managing similar property and the Bank's lending experience with the borrower. The Bank's policy requires borrowers to present evidence of the ability to repay the loan without having to resort to the sale of the mortgaged property. The Bank also seeks to focus its commercial mortgage loans on loans to companies with operating businesses, rather than passive real estate investors.

Commercial Loans. The Bank makes commercial loans to businesses for inventory financing, working capital, machinery and equipment purchases, expansion, and other business purposes. These loans generally have higher yields than mortgage loans, with maturities of one year, after which the borrower's financial condition and the terms of the loan are re-evaluated. At December 31, 2011 and 2010, approximately $15.6 million and $19.3 million, respectively, or 4.9% and 5.3%, respectively, of the Company's total loan portfolio consisted of such loans.

Commercial loans tend to present greater risks than mortgage loans because the collateral, if any, tends to be rapidly depreciable, difficult to sell at full value and is often easier to conceal. In order to limit these risks, the Bank evaluates these loans based upon the borrower's ability to repay the loan from ongoing operations. The Bank considers the business history of the borrower and perceived stability of the business as important factors when considering applications for such loans. Occasionally, the borrower provides commercial or residential real estate collateral for such loans, in which case the value of the collateral may be a significant factor in the loan approval process.

Residential Mortgage Loans (1 to 4 family loans). The Bank makes residential mortgage loans secured by first liens on one-to-four family owner-occupied or rental residential real estate. At December 31, 2011 and 2010, approximately $104.9 million and $114.6 million, respectively, or 33.0% and 31.2%, respectively, of the Company's total loan portfolio consisted of such loans. The Bank offers both adjustable rate mortgages ("ARMS") and fixed-rate mortgage loans. The relative proportion of fixed-rate loans versus ARMs originated by the Bank depends principally upon current customer preference, which is generally driven by economic and interest rate conditions and the pricing offered by the Bank's competitors. At both December 31, 2011 and 2010, approximately 14% of the Bank's residential one-to-four family owner-occupied first mortgage portfolio were ARMs and approximately 86% were fixed-rate loans. The percentage represented by fixed-rate loans tends to increase during periods of low interest rates. The ARMs generally carry annual caps and life-of-loan ceilings, which limit interest rate adjustments.

The Bank's residential loan underwriting criteria are generally comparable to those required by Fannie Mae and other major secondary market loan purchasers. Generally, ARM credit risks are somewhat greater than fixed-rate loans primarily because, as interest rates rise, the borrowers' payments rise, increasing the potential for default. The Bank's teaser rate ARMs (ARMs with low initial interest rates that are not based upon the index plus the margin for determining future rate adjustments) were underwritten based on the payment due at the fully-indexed rate.

In addition to verifying income and assets of borrowers, the Bank obtains independent appraisals on all residential first mortgage loans and title insurance is required at closing. Private mortgage insurance is required on all loans with a loan-to-value ratio in excess of 80% and the Bank requires real estate tax escrows on such loans. Real estate tax escrows are voluntary on residential mortgage loans with loan-to-value ratios of 80% or less.

Fixed-rate residential mortgage loans are generally originated by the Bank for terms of 15 to 30 years. Although 30 year fixed-rate mortgage loans may adversely affect our net interest income in periods of rising interest rates, the Bank originates such loans to satisfy customer demand. Such loans are generally originated at initial interest rates which exceed the fully indexed rate on ARMs offered at the same time. Fixed-rate residential mortgage loans originated by the Bank generally include due-on-sale clauses, which permit the Bank to demand payment in full if the borrower sells the property without the Bank's consent.

Due-on-sale clauses are an important means of adjusting the rates on the Bank's fixed-rate mortgage loan portfolio, and the Bank will generally exercise its rights under these clauses if necessary to maintain market yields.

ARMs originated in recent years have interest rates that adjust annually based upon the movement of the one year treasury bill constant maturity index, plus a margin of 2.00% to 2.75%. These loans generally have a maximum interest rate adjustment of 2% per year, with a lifetime maximum interest rate adjustment, measured from the initial interest rate, of 5.5% or 6.0%.

The Bank offers a variety of other loan products including residential single family construction loans to persons who intend to occupy the property upon completion of construction, home equity loans secured by junior mortgages on one-to-four family owner-occupied residences, and short-term fixed-rate consumer loans either unsecured or secured by monetary assets such as bank deposits and marketable securities or personal property. At December 31, 2011 and 2010, approximately $197.2 million and $233.3 million, respectively, or 62.1% and 63.5%, respectively, of the Company's total loan portfolio consisted of such other loan products.

Origination of Loans. Loan originations can be attributed to depositors, retail customers, phone inquiries, advertising, the efforts of the Bank's loan officers, and referrals from other borrowers, real estate brokers and builders. The Bank originates loans primarily through its own efforts, occasionally obtaining loan opportunities as a result of referrals from loan brokers.

At December 31, 2011, the Bank was generally not permitted to make loans to one borrower in excess of approximately $21.6 million, with an additional amount of approximately $14.4 million being permitted if secured by readily marketable collateral. The Bank was also not permitted to make any single loan in an amount in excess of approximately $21.6 million. At December 31, 2011, the Bank was in compliance with these standards.

Delinquency Procedures. When a borrower fails to make a required payment on a loan, the Bank attempts to cause the deficiency to be cured by contacting the borrower. The Bank reviews past due loans on a case by case basis, taking the action it deems appropriate in order to collect the amount owed. Litigation may be necessary if other procedures are not successful. Judicial resolution of a past due loan can be delayed if the borrower files a bankruptcy petition because collection action cannot be continued unless the Bank first obtains relief from the automatic stay provided by the Bankruptcy Code.

If a non-mortgage loan becomes delinquent and satisfactory arrangements for payment cannot be made, the Bank seeks to realize upon any personal property collateral to the extent feasible and collect any remaining amount owed from the borrower through legal proceedings, if necessary.

It is the Bank's policy to discontinue accruing interest on a loan when it is 90 days past due or if management believes that continued interest accruals are unjustified. The Bank may continue interest accruals if a loan is more than 90 days past due if the Bank determines that the nature of the delinquency and the collateral are such that collection of the principal and interest on the loan in full is reasonably assured. When the accrual of interest is discontinued, all accrued but unpaid interest is charged against current period income. Once the accrual of interest is discontinued, the Bank records interest as and when received until the loan is restored to accruing status. If the Bank determines that collection of the loan in full is in reasonable doubt, then amounts received are recorded as a reduction of principal until the loan is returned to accruing status.

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The following table sets forth information concerning the Company's loan portfolio by type of loan at the dates indicated. (dollars in thousands):

	December 31, 2011		2010		2009		2008		2007	
	Amount	% of Total	**Amount**	% of Total	**Amount**	% of Total	**Amount**	% of Total	**Amount**	% of Total
Commercial and industrial and finance leases	$15,660	4.9 %	$19,321	5.3 %	$50,672	11.7 %	$68,148	14.6 %	$76,132	17.4 %
Secured by real estate										
Residential	104,854	33.0	114,594	31.2	129,925	30.1	140,150	30.0	142,140	32.6
Multi family	12,169	3.8	5,865	1.6	7,432	1.7	4,031	0.9	3,506	0.8
Commercial real estate and construction	183,819	57.9	226,667	61.7	242,927	56.4	254,831	54.4	212,850	48.8
Consumer	1,240	0.4	795	0.2	396	0.1	460	0.1	1,691	0.4
Total loans	317,742	100.0%	367,242	100.0%	431,352	100.0%	467,890	100.0%	436,319	100.0%
Less: Allowance for loan losses	(17,720)		(16,105)		(11,416)		(9,204)		(4,183)	
Deferred loan fees	(721)		(937)		(1,003)		(1,137)		(1,534)	
Loans, net	$299,301		$350,200		$418,933		$457,549		$430,602	

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Impaired loan balance, nonaccrual loans and loans greater than 90 days still accruing

The following table sets forth certain information regarding nonaccrual loans, including the ratio of such loans to total assets as of the dates indicated, and certain other related information. The Bank had no foreclosed real estate during these periods.

	December 31,				
	2011	2010	2009	2008	2007
	(Dollars in Thousands)				
Nonaccrual loans:					
Commercial and industrial and finance leases	$122	$137	$1,700	$—	$—
Consumer	—	—	—	—	—
Residential real estate	525	1,380	12,210	130	153
Total nonaccrual loans	647	1,517	13,910	130	153
Accruing loans delinquent 90 days or more	—	495	—	99	314
Total nonperforming loans	$647	$2,012	$13,910	$229	$467
Total nonperforming loans to total assets	0.08%	0.23 %	1.54 %	.02 %	.04 %

Average impaired loans for the twelve months ended December 31, 2011 and 2010 were approximately $20.2 million and $5.9 million, respectively. Interest income that would have been recognized had these loans performed in accordance with their contractual terms was approximately $70,000 and $325,000, respectively.

The following tables present information regarding the Company's total allowance for loan losses as well as the allocation of such amounts to the various categories of loans at the dates indicated. (dollars in thousands):

	December 31, 2011		
	Allowance for Loan Losses	**Percent of Allowance**	Percent of Total Loans
Commercial and industrial and finance leases	$1,076	6.1 %	4.9 %
Secured by real estate			
Residential	6,490	36.6	33.0
Multi family	411	2.3	3.8
Commercial real estate and construction	8,466	47.8	57.9
Consumer and other	53	0.3	0.4
General allowance (1)	1,224	6.9	
Total allowance for loan losses	$17,720	100.0 %	100.0 %

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(1)The allowance for loan losses is allocated to specific loans as necessary.

	December 31, 2010		
	Allowance for Loan Losses	**Percent of Allowance**	**Percent of Total Loans**
Commercial and industrial and finance leases	$836	5.2 %	5.3 %
Secured by real estate			
Residential	2,066	12.8	31.2
Multi family	147	0.9	1.6
Commercial real estate and construction	11,403	70.8	61.7
Consumer and other	25	0.2	0.2
General allowance (1)	1,627	10.1	
Total allowance for loan losses	$16,105	100.0 %	100.0 %

(1)The allowance for loan losses is allocated to specific loans as necessary.

The following table sets forth information regarding the aggregate maturities of the Company's loans in the specified categories and the amount of such loans which have fixed and variable rates.

	December 31, 2011			
	Within 1 Year	**1 to 5 Years**	**After 5 Years**	**Total**
	(In thousands)			
Fixed Rate				
Commercial and industrial and finance leases	$2,363	$5,596	$731	$8,690
Commercial real estate and construction	32,134	15,799	39,118	87,051
Total fixed rate	$34,497	$21,395	$39,849	$95,741
Adjustable Rate				
Commercial and industrial and finance leases	3,901	3,069	—	6,970
Commercial real estate and construction	6,387	45,425	44,956	96,768
Total adjustable rate	$10,288	$48,494	$44,956	$103,738
Total	$44,785	$69,889	$84,805	$199,479

Demand loans, loans with no stated maturity, are included in the table above in the Within One Year category.

The following table sets forth information with respect to activity in the Company's allowance for loan losses during the periods indicated (in thousands, except percentages):

	Years Ended December 31,				
	2011	2010	2009	2008	2007
Average loans outstanding	$339,766	$390,253	$448,394	$461,678	$389,520
Allowance at beginning of period	16,105	11,416	9,204	4,183	3,771
Charge-offs:					
Commercial and other loans	12	300	1,169	1	—
Real estate loans	—	767	6,025	—	—
Total loans charged-off	12	1,066	7,194	1	—
Recoveries:					
Commercial and other loans	27	5	106	118	57
Real estate loans	—	—	—	—	—
Total loans recovered	27	5	106	118	57
Net recoveries (charge-offs)	15	(1,061)	(7,088)	117	57
Provision for loan losses charged to operating expenses	1,600	5,750	9,300	4,904	355
Allowance at end of period	$17,720	$16,105	$11,416	$9,204	$4,183
Ratio of net recoveries (charge-offs) to average loans outstanding	0.00%	(0.27)%	(1.58)%	.03%	.01%
Allowance as a percent of total loans	5.58%	4.39%	2.65%	1.97%	0.96%
Total loans at end of period	$317,742	$367,242	$431,352	$467,890	$436,319

Deposits

The Bank concentrates on obtaining deposits from a variety of businesses, professionals and retail customers. The Bank offers a number of different deposit programs, including statement savings accounts, NOW accounts, money market deposits accounts, checking accounts and certificates of deposits with terms from seven days to five years. Deposit account terms vary according to the minimum balance required, the time period the funds must remain on deposit and the interest rate, among other factors. The Bank prices its deposit offerings competitively within the market it serves. These products are designed to attract new customers, retain existing customers and create opportunities to offer other bank products or services. While the market and pricing for deposit funds are very competitive, the Bank believes that personalized, quality service is also an important element in retaining core deposit customers.

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The following table summarizes the composition of the average balances of major deposit categories:

	December 31,					
	2011		2010		2009	
	Average Amount	**Average Yield**	**Average Amount**	**Average Yield**	**Average Amount**	**Average Yield**
	(Dollars in thousands)					
Demand deposits	$76,900	—	$69,963	—	$56,544	—
NOW and money market	25,688	0.36 %	26,274	0.30 %	23,900	0.31 %
Savings deposits	191,316	0.40	196,598	0.71	180,729	1.24
Time deposits	379,860	1.34	400,586	1.52	426,892	2.32
Total deposits	$673,764	0.87 %	$693,421	1.09 %	$688,065	1.78 %

The aggregate amount of jumbo certificates of deposit, each with a minimum denomination of $100,000, was approximately $176.7 million and $179.1 million at December 31, 2011 and 2010, respectively.

The following table summarizes the maturity distribution of time deposits of $100,000 or more as of December 31, 2011 and 2010:

	December 31,	
	2011	2010
	(In thousands)	
3 months or less	$35,513	$45,608
Over 3 months but within 6 months	22,374	55,736
Over 6 months but within 12 months	81,675	32,382
Over 12 months	37,172	45,330
Total	$176,734	$179,056

It has been the Bank's experience that the majority of these certificates will renew.

Short-Term Borrowings

Securities sold under agreements to repurchase generally mature within 30 days from the date of the transactions. Short-term borrowings consist of securities sold under agreements to repurchase and various other borrowings which generally have maturities of less than one year. The details of these categories are presented below:

	Years Ended December 31,		
	2011	2010	2009
	(Dollars in thousands)		
Securities sold under repurchase agreements and federal funds purchased			
Balance at year-end	$50,000	$50,000	$50,000
Average balance during the year	$50,000	$50,000	$56,436
Maximum month-end balance	$50,000	$50,000	$57,000
Weighted average rate during the year	3.57 %	4.02 %	4.08 %
Rate at December 31	3.51 %	3.97 %	4.02 %

Capital Resources and Liquidity

Liquidity

The management of the Company's liquidity focuses on ensuring that sufficient funds are available to meet loan funding commitments, withdrawals from deposit accounts, the repayment of borrowed funds, and ensuring that the Bank and the Company comply with regulatory liquidity requirements. Liquidity needs of the Bank have historically been met by deposits, investments in federal funds sold, principal and interest payments on loans, and maturities of investment securities. Additional liquidity, up to approximately $412.7 million is available from the Federal Reserve Bank and the FHLBNY.

The ongoing uncertainties in the credit markets have negatively impacted our ability to liquidate, if necessary, investments in auction rate securities. We are not certain as to when the liquidity issues relating to these investments will improve; however, we have the intent to hold these available for sale securities to maturity, and do not believe we will be required to sell these securities prior to maturity.

No auction rate securities came due during the years ended December 31, 2011 and 2010. During the year ended December 31, 2011, we sold a single issuer trust preferred, a pooled trust preferred CDO and $8.3 million of auction rate securities, realizing an aggregate loss of $2.3 million. During the year ended December 31, 2010, $3.7 million of auction rate securities were sold at auction with no gain or loss recognized.

At December 31, 2011, our portfolio of investment securities included $2.6 million, at cost, of municipal securities for which an OTTI charge has not been recorded in our financial statements. The fair value of these securities, presently $2.0 million, may be negatively impacted in the future.

At December 31, 2011 and 2010, our portfolio of investment securities included $65.7 million and $74.0 million at cost, respectively, of auction rate securities for which an OTTI charge has not been recorded in our financial statements. The fair value of these securities, $44.5 million and $62.1 million at December 31, 2011 and 2010, respectively, may be negatively impacted in the future.

OTTI is a non-cash charge and not necessarily an indicator of a permanent decline in value. Security valuations require significant estimates, judgments and assumptions by management and are considered a critical accounting policy of the Company.

Based on our expected operating cash flows, and our other sources of cash, we do not expect the potential lack of liquidity in these auction rate securities and municipal securities to affect our capital, liquidity or our ability to execute our current business plan. We have cash and cash equivalents totaling $101.0 million, or 11.7% of total assets at December 31, 2011.

For the parent company, Berkshire Bancorp Inc., liquidity means having cash available to fund its normal operating expenses and to pay stockholder dividends on its common stock, when and if declared by the Company's Board of Directors. On March 31, 2009, the Company announced that it would temporarily suspend its previously announced policy of paying a regular cash dividend on the Company's common stock. Due to a notification we received from the Federal Reserve Bank of New York restricting the payment of dividends without its consent, we have declared and accrued, but have not paid $4.0 million of dividends on our preferred stock through October 31, 2011, the date on which the preferred stock was converted into common stock, and are continuing the suspension of dividends on our common stock.

The ability of the Company to fund its normal operating expenses is not currently dependent upon the receipt of dividends from the Bank. At December 31, 2011, the Company had cash of approximately $731,000 and investment securities with a fair market value of $2.8 million. However, the payment of dividends on its common stock, when and if declared by the Board of Directors, will be dependent upon the receipt of dividends from the Bank.

Contingent Liabilities and Commitments

The Bank maintains financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. See Note M - Financial Instruments With Off-Balance-Sheet Risk and Concentrations of Credit Risk - to the Consolidated Financial Statements. These financial instruments include commitments to extend credit and stand-by letters of credit. The following table presents the Company's commitments at December 31, 2011.

	Expiration By Period				
	Total	**Less Than 1 Year**	**1-3 Years**	**3-5 Years**	**More Than 5 Years**
	(In thousands)				
Lines of Credit	$9,707	$5,972	$ 937	$1,059	$ 1,739
Standby Letters of Credit	491	491	—	—	—
Loan Commitments	1,218	1,218	—	—	—
Total	$11,416	$7,681	$ 937	$1,059	$ 1,739

Contractual Obligations

The following table presents the Company's contractual obligations at December 31, 2011.

	Payments Due By Periods				
	Total	**Less Than 1 Year**	**1-3 Years**	**3-5 Years**	**More Than 5 Years**
	(In thousands)				
Borrowings	$6,139	$789	$5,350	$ —	$ —
Operating Leases	4,597	1,135	3,049	413	—
Time Deposits	369,259	294,883	74,374	2	—
Total Contractual Obligations	$379,995	$296,807	$82,773	$ 415	$ —

Capital

The capital ratios of the Bank and the Company are presently in excess of the requirements necessary to meet the "well capitalized" capital category established by bank regulators. See Note N - "Regulatory Matters" to the Consolidated Financial Statements.

Interest Rate Risk

Fluctuations in market interest rates can have a material effect on the Bank's net interest income because the yields earned on loans and investments may not adjust to market rates of interest with the same frequency, speed and extent as the rates paid by the Bank on its deposits.

Most of the Bank's deposits are either interest-bearing demand deposits or short term certificates of deposit and other interest-bearing deposits with interest rates that fluctuate as market rates change. Management of the Bank seeks to reduce the risk of interest rate fluctuations by concentrating on loans and securities investments with either short terms to maturity or with adjustable rates or other features that cause yields to adjust based upon interest rate fluctuations. In addition, to cushion itself against the potential adverse effects of a substantial and sustained increase in market interest rates, the Bank has from time to time purchased off balance sheet interest rate cap contracts which generally provide that the Bank will be entitled to receive payments from the other party to the contract if interest rates exceed specified levels. These contracts, when written, are entered into with major financial institutions.

The Company seeks to maximize its net interest margin within an acceptable level of interest rate risk. Interest rate risk can be defined as the amount of the forecasted net interest income that may be gained or lost due to favorable or unfavorable movements in interest rates. Interest rate risk, or sensitivity, arises when the maturity or repricing characteristics of assets differ significantly from the maturity or repricing characteristics of liabilities.

In the banking industry, a traditional measure of interest rate sensitivity is known as "gap" analysis, which measures the cumulative differences between the amounts of assets and liabilities maturing or repricing at various time intervals. The following table sets forth the Company's interest rate repricing gaps for selected maturity periods:

Berkshire Bancorp Inc.
Interest Rate Sensitivity Gap at December 31, 2011
(in thousands, except for percentages)

	3 Months or Less	3 Through 12 Months	1 Through 3 Years	Over 3 Years	**Total**	**Fair Value**
Federal funds sold	—				—	
(Rate)						
Interest bearing deposits in banks	88,931	—	—	—	88,931	88,931
(Rate)	0.28 %				0.28 %	
Loans (1)(2)						
Adjustable rate loans	28,779	30,037	35,797	26,710	121,323	129,714
(Rate)	5.87 %	5.87 %	6.40 %	5.98 %	6.05 %	
Fixed rate loans	10,389	25,163	12,809	148,058	196,419	196,795
(Rate)	6.93 %	6.09 %	6.31 %	6.02 %	6.10 %	
Total loans	39,168	55,200	48,606	174,768	317,742	326,509
Investments (3)(4)	67,404	81,607	11,158	274,254	434,423	415,463
(Rate)	4.42 %	0.53 %	2.81 %	3.28 %	2.93 %	
Total rate-sensitive assets	195,503	136,807	59,764	449,022	841,096	
Deposit accounts (5)						
Savings and NOW	207,269	—	—	—	207,269	207,269
(Rate)	0.24 %				0.24 %	
Money market	8,291	—	—	—	8,291	8,291
(Rate)	0.25 %				0.25 %	
Time Deposits	73,419	221,462	74,376	2	369,259	361,630
(Rate)	1.10 %	1.15 %	1.71 %	1.00 %	1.25 %	
Total deposit accounts	288,979	221,462	74,376	2	584,819	
Repurchase Agreements	—	5,000	45,000	—	50,000	52,432
(Rate)		4.68 %	3.38 %		3.51 %	
Other borrowings	—	789	5,350	22,681	28,820	28,937
(Rate)		4.83 %	3.66 %	2.95 %	3.41 %	
Total rate-sensitive liabilities	288,979	227,251	124,726	22,683	663,639	
Interest rate caps	40,000	—	(40,000)	—	—	
Gap (repricing differences)	(133,476)	(90,444)	(24,962)	426,339	177,457	
Cumulative Gap	(133,476)	(223,920)	(248,882)	177,457		
Cumulative Gap to Total Rate Sensitive Assets	(15.87)%	(26.62)%	(29.59)%	21.10 %		

(1) Adjustable-rate loans are included in the period in which the interest rates are next scheduled to adjust rather than in the period in which the loans mature. Fixed-rate loans are scheduled according to their maturity dates.

(2) Includes nonaccrual loans.

(3) Investments are scheduled according to their respective repricing (variable rate investments) and maturity (fixed rate securities) dates.

(4) Investments are stated at book value.

(5) NOW accounts and savings accounts are regarded as readily accessible withdrawal accounts. The balances in such accounts have been allocated among maturity/repricing periods based upon The Berkshire Bank's historical experience. All other time accounts are scheduled according to their respective maturity dates.

Impact of Inflation and Changing Prices

The Company's financial statements measure financial position and operating results in terms of historical dollars without considering the changes in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increasing cost of the Company's operations. The assets and liabilities of the Company are largely monetary. As a result, interest rates have a greater impact on the Company's performance than do the effects of general levels of inflation. In addition, interest rates do not necessarily move in the direction, or to the same extent as the price of goods and services. However, in general, high inflation rates are accompanied by higher interest rates, and vice versa.

New Accounting Pronouncements

In January 2010, the FASB issued Accounting Standards Update ("ASU") No. 2010-06, which amends the authoritative accounting guidance under ASC Topic 820. The update requires the following additional disclosures: (1) separately disclose the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers; and (2) separately disclose information about purchases, sales, issuances and settlements in the reconciliation for fair value measurements using Level 3. The update provides for amendments to existing disclosures as follows: (1) fair value measurement disclosures are to be made for each class of assets and liabilities; and (2) disclosures are to be made about valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. The update also includes conforming amendments to guidance on employers' disclosures about postretirement benefit plan assets. The update is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Adoption of this update did not have a material effect on the Company's results of operations or financial condition.

In January 2011, the FASB issued ASU No. 2011-01, which temporarily delays the effective date of the required disclosures about troubled debt restructurings contained in ASU No. 2010-20. The delay is intended to allow the FASB additional time to deliberate what constitutes a troubled debt restructuring. All other amendments contained in ASU No. 2010-20 are effective as issued. Adoption of this update did not have a material effect on the Company's results of operations or financial condition.

In April 2011, the FASB issued ASU No. 2011-02, which amends the authoritative accounting guidance under ASC Topic 310 "Receivables." The update provides clarifying guidance as to what constitutes a troubled debt restructuring. The update provides clarifying guidance on a creditor's evaluation of the following: (1) how a restructuring constitutes a concession; and (2) if the debtor is experiencing financial difficulties. The amendments in this update are effective for the first interim or annual period beginning on or after June 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption. In addition, disclosures about troubled debt restructurings which were delayed by the issuance of ASU NO. 2011-01, are effective for interim and annual periods beginning on or after June 15, 2011. Adoption of this update did not have a material effect on the Company's results of operations or financial condition.

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In April 2011, the FASB issued ASU No. 2011-03, which amends the accounting for repurchase agreements and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. The amendments remove from the assessment of effective control (1) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and (2) the collateral maintenance implementation guidance related to that criterion. ASU No. 2011-03 is effective for the first interim or annual period beginning on or after December 15, 2011. Adoption of this update is not expected to have a material effect on the Company's results of operations or financial condition.

In May 2011, the FASB issued ASU No. 2011-04, which results in common fair value measurement and disclosure requirements for US GAAP and International Financial Reporting Standards. ASU No. 2011-04 is effective for the first interim or annual period beginning after December 15, 2011. Adoption of this update is not expected to have a material effect on the Company's results of operations or financial condition but may have an effect on disclosures.

In June 2011, the FASB issued ASU No. 2011-05 in order to improve the comparability, consistency and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. This standard eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity. This update requires all nonowner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In the two-statement approach, the first statement should present total net income and its components followed consecutively by a second statement that should present total other comprehensive income, the components of other comprehensive income, and the total of comprehensive income. This update is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Early adoption is permitted because compliance with the amendments is already permitted. Adoption of this update is not expected to have a material effect on the Company's results of operations or financial condition.

Internal Control Over Financial Reporting

The objective of the Company's Internal Control Program is to allow the Bank and management to comply with Part 363 of the FDIC's regulations ("FDICIA") and to allow the Company to comply with Sections 302 and 404 of the Sarbanes-Oxley Act of 2002 ("SOX"). In November 2005, the FDIC amended Part 363 of its regulations by raising the asset-size threshold from $500 million to $1 billion for internal control assessments by management and external auditors. The final rule was effective December 28, 2005.

Section 302 of SOX requires the CEOs and CFOs of the Company to, among other matters, (i) certify that the annual and quarterly reports filed with the Securities and Exchange Commission are accurate and (ii) acknowledge that they are responsible for establishing, maintaining and periodically evaluating the effectiveness of the disclosure controls and procedures. Section 404 of SOX requires management to (i) report on internal control over financial reporting, (ii) assess the effectiveness of such internal controls, and (iii) obtain an external auditor's report on management's assessment of its internal control.

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The Company is not an accelerated filer as defined in Rule 12b-2 of the Securities Exchange Act of 1934. On July 21, 2010, President Obama signed the Dodd-Frank Act into law. The Dodd-Frank Act includes a provision which permanently exempts non-accelerated filers, including the Company, from the requirement to obtain an external audit on the effectiveness of internal financial reporting controls provided in Section 404(b) of SOX. Disclosure of management's attestations on internal control over financial reporting under Section 404(a) of SOX is still required. See the Section of this Report entitled "Business - The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010."

The Committee of Sponsoring Organizations (COSO) methodology may be used to document and test the internal controls pertaining to the accuracy of Company issued financial statements and related disclosures. COSO requires a review of the control environment (including anti-fraud and audit committee effectiveness), risk assessment, control activities, information and communication, and ongoing monitoring.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk.

Not Applicable

ITEM 8. Financial Statements and Supplementary Data.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders

Berkshire Bancorp Inc.

We have audited the accompanying consolidated balance sheets of Berkshire Bancorp Inc. and Subsidiaries (the "Company") as of December 31, 2011 and 2010, and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss) and cash flows for each of the two years in the period ended December 31, 2011. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company was not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Berkshire Bancorp Inc. and Subsidiaries as of December 31, 2011 and 2010, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America.

/s/ GRANT THORNTON LLP

New York, New York

March 30, 2012

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BERKSHIRE BANCORP INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands)

	December 31, 2011	December 31, 2010
ASSETS		
Cash and due from banks	$ 12,105	$ 4,920
Interest bearing deposits	88,931	74,197
Total cash and cash equivalents	101,036	79,117
Investment Securities:		
Available-for-sale	415,170	341,564
Held-to-maturity, fair value of $293 in 2011 and $316 in 2010	298	319
Total investment securities	415,468	341,883
Loans, net of unearned income	317,021	366,305
Less: allowance for loan losses	(17,720)	(16,105)
Net loans	299,301	350,200
Accrued interest receivable	3,224	3,578
Premises and equipment, net	7,474	7,815
Other receivable	—	10,047
Other assets	35,626	37,257
Total assets	$ 862,129	$ 829,897
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	$ 74,073	$ 73,609
Interest bearing	584,819	596,527
Total deposits	658,892	670,136
Securities sold under agreements to repurchase	50,000	50,000
Borrowings	6,139	10,657
Subordinated debt	22,681	22,681
Accrued interest payable	6,996	2,743
Other liabilities	1,893	2,047
Total liabilities	746,601	758,264
Stockholders' equity		
Preferred stock - $.01 Par value: Authorized — 2,000,000 shares Issued — 60,000 shares Outstanding — December 31, 2011, 0 shares December 31, 2010, 60,000 shares	—	1
Common stock - $.10 par value Authorized — 25,000,000 shares Issued — 14,443,183 shares Outstanding — December 31, 2011, 14,443,183 shares December 31, 2010, 7,054,183 shares	1,444	770
Additional paid-in capital	143,900	150,985
Accumulated Deficit	(19,299)	(65,123)
Accumulated other comprehensive loss, net	(10,517)	(8,589)

Treasury Stock at cost December 31, 2011, 0 shares December 31, 2010, 644,102 shares	—	(6,411)
Total stockholders' equity	115,528	71,633
Total liabilities and stockholders' equity	$ 862,129	$ 829,897

The accompanying notes are an integral part of these statements

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BERKSHIRE BANCORP INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(In Thousands, Except Per Share Data)

	For The Years Ended December 31, 2011	2010
INTEREST INCOME		
Loans, including related fees	$ 21,764	$ 25,559
Investment securities	12,530	14,174
Interest bearing deposits	241	262
Total interest income	34,535	39,995
INTEREST EXPENSE		
Deposits	5,940	7,579
Securities sold under agreements to repurchase	1,925	2,012
Interest expense on borrowings	982	1,496
Total interest expense	8,847	11,087
Net interest income	25,688	28,908
PROVISION FOR LOAN LOSSES	1,600	5,750
Net interest income after provision for loan losses	24,088	23,158
NON-INTEREST INCOME		
Service charges on deposit accounts	479	515
Investment securities gains	1,079	1,002
Other income	43,335	629
Total non-interest income	44,893	2,146
NON-INTEREST EXPENSE		
Total other than temporary impairment ("OTTI") charges on securities	—	1,202
Less non-credit portion of OTTI recorded in Accumulated other comprehensive loss	—	—
Net OTTI recognized in earnings	—	1,202
Salaries and employee benefits	9,517	9,442
Net occupancy expense	2,545	2,109
Equipment expense	330	360
FDIC assessment	1,252	1,646
Data processing expense	447	489
Loss on termination of pension plan	—	1,871
Write-off goodwill	—	18,549
Other	3,203	4,615
Total non-interest expense	17,294	40,283
Income (loss) before provision for income taxes	51,687	(14,979)
Provision (benefit) for income taxes	1,863	(1,489)
Net income (loss)	$ 49,824	$ (13,490)
Dividends on preferred stock	4,000	4,800
Income (loss) allocated to common stockholders	$ 45,824	$ (18,290)
Net income (loss) per common share:		

Basic	$ 5.51	$ (2.59)
Diluted	$ 5.51	$ (2.59)
Number of shares used to compute net income (loss) per common share:		
Basic	8,309	7,054
Diluted	8,309	7,054
Dividends per common share	$ —	$ —

The accompanying notes are an integral part of these statements

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BERKSHIRE BANCORP INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands)

	For the Years Ended December 31, 2011	2010
Net earnings (losses)	$49,824	$(13,490)
Other comprehensive income (loss), net of tax:		
Unrealized gains (losses) on available-for-sale securities, net of taxes (benefits) of $(2,005) and $3,045, respectively	(2,575)	4,567
Reclassification adjustment for realized gains (losses) included in net earnings, net of taxes (benefits) of $432 and $(80), respectively	647	120
Other comprehensive income (loss)	$(1,928)	$4,687
Comprehensive income (loss)	$47,896	$(8,803)

The accompanying notes are an integral part of these statements

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BERKSHIRE BANCORP INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

and COMPREHENSIVE INCOME (LOSS)

For The Years Ended December 31, 2011 and 2010

(In Thousands)

	Common Shares	Preferred Shares	Common Stock Par value	Preferred Stock Par value	Additional paid-in capital	Accumulated other comprehensive (loss) net	Retained Earnings (Accumulated deficit)	Treasury stock	Total stockholders' equity
Balance at January 1, 2010	7,698	60	$ 770	$ 1	$ 150,985	$ (13,276)	$ (46,833)	$ (6,411)	$ 85,236
Net loss							(13,490)		(13,490)
Other comprehensive income net of taxes						4,687			4,687
Cash dividends - Preferred Stock							(4,800)		(4,800)
Balance at December 31, 2010	7,698	60	770	1	150,985	(8,589)	(65,123)	(6,411)	71,633
Net income							49,824		49,824
Other comprehensive (loss) net of taxes						(1,928)			(1,928)
Conversion of Preferred Stock into Common Stock	6,745	(60)	674	(1)	(7,085)			6,411	(1)
Cash dividends - Preferred Stock							(4,000)		(4,000)
Balance at December 31, 2011	14,443	—	$ 1,444	$ —	$ 143,900	$ (10,517)	$ (19,299)	$—	$ 115,528

The accompanying notes are an integral part of these statements

BERKSHIRE BANCORP INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	For The Years Ended December 31, 2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$49,824	$(13,490)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Realized (gains) on investment securities	(1,079)	(1,002)
Gain on sale of foreclosed real estate	—	(229)
Other than temporary impairment charges on securities	—	1,202
Net amortization of premiums of investment securities	1,454	2,182
Depreciation and amortization	487	513
Provision for loan losses	1,600	5,750
Loss on termination of pension plan	—	1,871
Write-off of goodwill	—	18,549
CHANGES IN ASSETS AND LIABILITIES:		
Decrease in accrued interest receivable	354	675
Decrease (increase) in other assets	11,678	(6,925)
Increase (decrease) in accrued interest payable and other liabilities	99	(3,983)
Net cash provided by operating activities	64,417	5,113
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment securities available for sale		
Purchases	(451,321)	(234,561)
Sales, maturities and calls	375,411	252,780
Investment securities held to maturity		
Payments	21	21
Net decrease in loans	49,299	50,664
Proceeds from sale of foreclosed real estate	—	12,548
(Acquisition) sale of premises and equipment	(146)	204
Net cash (used in) provided by investing activities	(26,736)	81,656
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in non interest bearing deposits	464	10,739
Net decrease in interest bearing deposits	(11,708)	(54,047)

Repayment of borrowings	(4,518)	(20,347)
Dividends paid on preferred stock	—	(4,800)
Net cash (used in) financing activities	(15,762)	(68,455)
Net increase in cash and cash equivalents	21,919	18,314
Cash and cash equivalents at beginning of year	$79,117	$60,803
Cash and cash equivalents at end of year	$101,036	$79,117
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash used to pay interest	$4,594	$11,922
Cash used to pay income taxes, net of refunds	$(151)	$(1,080)
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING ACTIVITIES		
Trade date securities receivable	$(10,047)	$10,047
Transfer from loans to real estate owned	$—	$12,318
SUPPLEMENTAL DISCLOSURES OF NON-CASH FINANCING ACTIVITIES		
Dividends declared and not paid	$4,000	$—

The accompanying notes are an integral part of these statements

BERKSHIRE BANCORP INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2011 and 2010

Note A - ORGANIZATION AND CAPITALIZATION

Organization

Berkshire Bancorp Inc., a Delaware corporation, is a bank holding company registered under the Bank Holding Company Act of 1956. References herein to "Berkshire", the "Company" or "we" and similar pronouns shall be deemed to refer to Berkshire Bancorp Inc. and its consolidated subsidiaries unless the context otherwise requires. Berkshire's principal activity is the ownership and management of its indirect wholly-owned subsidiary, The Berkshire Bank (the "Bank"), a New York State chartered commercial bank. The Bank is owned through Berkshire's wholly-owned subsidiary Greater American Finance Group, Inc. ("GAFG").

The Bank was established in 1989 to provide highly personalized services to high net worth individuals and to small and mid-sized commercial businesses primarily from the New York City metropolitan area. The Bank's main office and branch is in mid-town Manhattan. The Bank has two other branches in Manhattan, four branches in Brooklyn, New York, four branches in Orange and Sullivan Counties in New York State, and a branch in Teaneck, New Jersey.

The Bank competes with other banking and financial institutions in its markets. Commercial banks, savings banks, savings and loan associations, mortgage bankers and brokers, and credit unions actively compete for deposits and loans. Such institutions, as well as consumer finance, mutual funds, insurance companies, and brokerage and investment banking firms may be considered to be competitors of the Bank with respect to one or more of the services provided by the Bank.

The Company and the Bank are subject to the regulations of certain state and federal agencies and, accordingly, are periodically examined by those regulatory authorities. As a consequence of such regulation of banking activities, the Bank's business may be affected by state and federal legislation.

In May 2009, in connection with the Bank's examination by the Federal Deposit Insurance Corporation (the "FDIC") the Bank received a Joint Memorandum of Understanding (the "MOU") from the FDIC and the New York State

Department of Financial Services (the "NYSDFS"), formerly called the New York State Banking Department, which the Bank executed. The MOU sets forth an informal understanding among the Bank, the FDIC and the NYSDFS addressing asset quality, loan review, underwriting and administration and certain other concerns identified in the examination. The Bank's board of directors appointed a committee comprised of three directors to monitor the Bank's compliance with the MOU. Compliance with the MOU has not had a material adverse effect on our results of operations or financial condition. As set forth in "Management's Discussion and Analysis of Financial Condition And Results of Operations - Capital Adequacy" and Note N to the Company's consolidated financial statements, the Bank has been notified by the regulators that it is well capitalized for regulatory purposes as of December 31, 2011.

BERKSHIRE BANCORP INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Note B - SUMMARY OF ACCOUNTING POLICIES

1. **Basis of Financial Statement Presentation**

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and predominant practice within the banking industry, and include the accounts of Berkshire Bancorp Inc. and its wholly owned subsidiaries, Greater American Finance Group, Inc. ("GAFG"), and GAFG's wholly owned subsidiary, the Bank, and East 39, LLC, (collectively, the "Company"). All significant intercompany accounts and transactions have been eliminated.

In preparing the financial statements in conformity with U.S. GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the balance sheets, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The principal estimates that are susceptible to significant change in the near term relate to the allowance for loan losses, carrying value of investments designated as available for sale, and deferred tax assets and liabilities. The evaluation of the adequacy of the allowance for loan losses includes an analysis of the individual loans and overall risk characteristics and size of the different loan portfolios, and takes into consideration current economic and market conditions, the capability of specific borrowers to pay specific loan obligations, as well as current loan collateral values. However, actual losses on specific loans, which also are encompassed in the analysis, may vary from estimated losses.

The carrying value of investments designated as available for sale are based upon quoted market prices or prices for similar assets. If no quoted market prices or prices for similar assets exist, unobservable inputs are required. If the quoted market prices or unobservable inputs are not accurate, additional impairment charges may be required.

The Company recognizes deferred tax assets and liabilities for the future tax effects of temporary differences, net operating loss carryforwards and tax credits. Deferred tax assets are subject to management's judgment based upon available evidence that future realization is more likely than not. If management determines that the Company may be unable to realize all or part of net deferred tax assets in the future, a direct charge to income tax expense may be required to reduce the recorded value of the net deferred tax asset to the expected realizable amount.

2. **Investment Securities**

The Company accounts for its investment securities in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 320, "Investments-Debt and Equity Securities" ("FASB ASC 320"). As required by FASB ASC 320, investment securities are classified into three categories: trading, held-to-maturity and available-for-sale. Securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and are reported at fair value with all unrealized gains and losses included in trading account activities in the statement of income. Securities that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity and carried at cost, adjusted for the amortization of premiums and accretion of discounts computed by the interest method. Investments which management believes may be sold prior to maturity due to changes in interest rates, prepayment risk and equity, liquidity requirements or other factors, are classified as available for sale. Available-for-sale securities are carried at fair value, with the unrealized gains and losses, net of tax, reported as a separate component of stockholders' equity and excluded from the determination of net income. Gains or losses on disposition are based on the net proceeds and cost of the securities sold, adjusted for amortization of premiums and accretion of discounts, using the specific identification method.

BERKSHIRE BANCORP INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Note B - (continued)

The Company does not have a trading securities portfolio and has no current plans to maintain such a portfolio in the future. The Company generally classifies all newly purchased debt securities as available for sale in order to maintain the flexibility to sell those securities if the need arises. The Company has a limited portfolio of securities classified as held to maturity, represented principally by securities purchased a number of years ago.

3. **Loans and Allowance for Loan Losses**

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at the amount of unpaid principal and are net of unearned discount, unearned loan fees and an allowance for loan losses. The allowance for loan losses is established through a provision for loan losses charged to expense. Loan principal considered to be uncollectible by management is charged against the allowance for credit losses. The allowance is an amount that management believes will be adequate to absorb probable and estimateable losses and losses on existing loans that may become uncollectible based upon an evaluation of known and inherent risks in the loan portfolio. The evaluation takes into consideration such factors as changes in the nature and size of the loan portfolio, overall portfolio quality, specific problem or impaired loans, and current economic conditions which may affect the borrowers' ability to pay. The evaluation details historical losses by loan category, the resulting loss rates for which are projected at current loan total amounts.

Interest income is accrued as earned on a simple interest basis. Accrual of interest is discontinued on a loan when management believes, after considering economic and business conditions and collection efforts, that the borrower's financial condition is such that collection of contractual principal and interest is doubtful. When a loan is placed on such non-accrual status, all accumulated accrued interest receivable applicable to periods prior to the current year is charged off to the allowance for loan losses. Interest which had accrued in the current year is reversed out of current period income. The interest on these loans is accounted for on a cash basis, until qualifying for return to accrual. Loans 90 days or more past due and still accruing interest must have both principal and accruing interest adequately secured and must be in the process of collection.

The allowance for loan losses is the estimated amount considered necessary to cover credit losses inherent in the loan portfolio at the balance sheet date. The allowance is established through the provision for loan losses that is charged against income. In determining the allowance for loan losses, management makes significant estimates and therefore has identified the allowance as a critical accounting policy. The methodology for determining the allowance for loan losses is considered a critical accounting policy by management due to the high degree of judgment involved, the subjectivity of the assumptions utilized, and the potential for changes in the economic environment that could result in changes to the amount of the recorded allowance for loan losses.

BERKSHIRE BANCORP INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Note B - (continued)

The allowance for loan losses has been determined in accordance with U.S. GAAP, principally FASB ASC 450, "Contingencies", ("ASC 450") and FASB ASC 310, "Receivables", ("ASC 310"). Under the above accounting principles, we are required to maintain an allowance for probable losses at the balance sheet date. We are responsible for the timely and periodic determination of the amount of the allowance required. Management believes that the allowance for loan losses is adequate to cover specifically identifiable losses, as well as estimated losses inherent in our portfolio for which certain losses are probable but not specifically identifiable.

Management performs a monthly evaluation of the adequacy of the allowance for loan losses. The analysis of the allowance for loan losses has two components: specific reserves and general reserves. Specific reserves are made for loans determined to be impaired. Impairment is measured by determining the present value of expected future cash flows or, as a practical expedient for collateral-dependent loans, the fair value of the collateral adjusted for market conditions and selling expenses. The Bank considers its investment in one-to-four family real estate loans and consumer loans to be smaller balance homogeneous loans and therefore excluded from separate identification for evaluation of impairment. These homogeneous loan groups are evaluated for impairment on a collective basis under FASB ASC 310.

The general reserve is determined by segregating the remaining loans by type of loan, risk weighting (if applicable) and payment history. Management also analyzes historical loss experience, delinquency trends, general economic conditions, geographic concentrations, and industry and peer comparisons. This analysis establishes factors that are applied to the loan segments to determine the amount of the general reserve. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revisions based upon changes in economic and real estate market conditions. Actual loan losses may be significantly more than the allowance for loan losses management has established which could have a material negative effect on the Company's financial results.

On a monthly basis, the Bank's management committee reviews the current status of various loans as part of our evaluation of the adequacy of the allowance for loan losses. In this evaluation process, specific loans are analyzed to determine their potential risk of loss. This process includes all loans, concentrating on non-accrual and classified loans. Each non-accrual or classified loan is evaluated for potential loss exposure. Any shortfall results in a recommendation of a specific allowance if the likelihood of loss is evaluated as probable. To determine the adequacy of collateral on a particular loan, an estimate of the fair market value of the collateral is based on the most current appraised value available. This appraised value is then reduced to reflect estimated liquidation expenses.

As a substantial amount of our loan portfolio is collateralized by real estate, appraisals of the underlying value of property securing loans are critical in determining the amount of the allowance required for specific loans. Assumptions for appraisal valuations are instrumental in determining the value of properties. Overly optimistic assumptions or negative changes to assumptions could significantly impact the valuation of a property securing a loan and the related allowance determined. The assumptions supporting such appraisals are carefully reviewed by management to determine that the resulting values reasonably reflect amounts realizable on the related loans. Based on the composition of our loan portfolio, management believes the primary risks are increases in interest rates, a decline in the economy, generally, and a decline in real estate market values in the New York metropolitan area. Any one or combination of these events may adversely affect our loan portfolio resulting in increased delinquencies, loan losses and future levels of loan loss provisions.

BERKSHIRE BANCORP INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Note B - (continued)

Management believes the allowance for loan losses reflects the inherent credit risk in our portfolio, the level of our non-performing loans and our charge-off experience.

Although management believes that we have established and maintained the allowance for loan losses at adequate levels, additions may be necessary if future economic and other conditions differ substantially from the current operating environment. Although management uses what it believes is the best information available, the level of the allowance for loan losses remains an estimate that is subject to significant judgment and short-term change. In addition, the Federal Deposit Insurance Corporation, NYSDFS, and other regulatory bodies, as an integral part of their examination process, will periodically review our allowance for loan losses. Such agencies may require us to recognize adjustments to the allowance based on its judgments about information available to them at the time of their examination.

The Company accounts for its impaired loans in accordance with FASB ASC 310. These standards require that a creditor measure impairment based on the present value of expected future cash flows discounted at the loan's effective interest rate, except that as a practical expedient, a creditor may measure impairment based on a loan's observable market price, or the fair value of the collateral if the loan is collateral-dependent. Regardless of the measurement method, a creditor must measure impairment based on the fair value of the collateral when the creditor determines that foreclosure is probable. Management considers its investment in one-to-four family real estate loans and consumer loans to be homogeneous groups of loans. As such, these loans are not individually evaluated for impairment but rather are collectively evaluated under ASC 450.

4. **Interest Rate Swap**

The Company, from time to time, has entered into interest rate cap agreements in order to hedge its exposure to interest rate fluctuations. The Company adopted the provisions of FASB ASC 815, "Derivatives and Hedging Activities", on January 1, 2009. The statement requires the Company to recognize all derivative instruments at fair value as either assets or liabilities. Financial derivatives are reported at fair value in other assets or other liabilities. For derivatives not designated as hedges, the gain or loss is recognized in current earnings. Amounts reclassed into earnings, when the hedged transaction culminates, are included in interest income. At both December 31, 2011 and 2010, the Company had notional amounts of $40.0 million outstanding.

5. **Bank Premises and Equipment**

Bank premises and equipment, including leasehold improvements, are stated at cost less accumulated depreciation. Depreciation expense is computed on the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the shorter of the estimated useful lives of the improvements or the terms of the related leases. An accelerated depreciation method is used for tax purposes.

6. **Other Real Estate Owned**

Other real estate owned, representing property acquired through foreclosure, is recorded at estimated fair market value, less costs of disposal. When property is acquired, the excess, if any, of the loan balance over fair market value is charged to the allowance for loan losses. Periodically thereafter, the asset is reviewed for subsequent declines in the estimated fair market value. Subsequent declines, if any, and holding costs, as well as gains and losses on subsequent sale, are included in the consolidated statements of operations.

BERKSHIRE BANCORP INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Note B - (continued)

7. **Goodwill**

Goodwill resulting from acquisitions is accounted for under FASB ASC 350, "Intangibles-Goodwill and Other". Goodwill is subject to impairment testing at least annually or when triggering events occur to determine whether write-downs of the recorded balances are necessary. The Company tests for impairment based on the goodwill maintained at the Bank, the reporting unit. A fair value is determined for the reporting unit based on at least one of three various market valuation methodologies. If the fair value of the reporting unit exceeds the book value, no impairment of recorded goodwill is necessary. If the fair value of the reporting unit is less, a charge may be required on the Company's books to write down the related goodwill to the fair value, which would then become the new carrying value. The Company performed its annual test as of December 31, 2010 and determined that a write down of $18.5 million, all of the goodwill maintained at the reporting unit, was appropriate.

8. **Income Taxes**

The Company accounts for income taxes under the liability method of accounting for income taxes. Deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities as measured by the enacted tax rates that will be in effect when these differences reverse. Deferred tax expense is the result of changes in deferred tax assets and liabilities. The principal types of differences between assets and liabilities for financial statement and tax return purposes are allowance for loan losses, deferred loan fees, deferred compensation and securities available for sale.

9. **Net Earnings/Loss Per Share**

Basic earnings and/or loss per common share excludes dilution and is computed by dividing income and/or loss available to common stockholders by the weighted-average common shares outstanding during the period. Diluted earnings per share takes into account the potential dilution that could occur if securities or other contracts to issue common stock were exercised and converted into common stock.

10. **Cash Equivalents**

For purposes of reporting cash flows, cash and cash equivalents are comprised of cash and due from banks, interest bearing deposits in other financial institutions with an original maturity of less than ninety days, and federal funds sold.

11. **Restrictions on Cash and Due From Banks**

The Bank is required to maintain reserves against customer demand deposits by keeping cash on hand or cash balances with the Federal Reserve Bank in a non-interest bearing account. The amounts of those reserve and cash balances was approximately $3,055,000 and $4,737,000 at December 31, 2011 and 2010, respectively.

12. **Federal Home Loan Bank Stock**

The Company is required as a condition of membership in the Federal Home Loan Bank of New York ("FHLBNY") to maintain an investment in FHLBNY common stock. The stock is redeemable at par, and therefore, its cost is equivalent to its redemption value. At December 31, 2011 and 2010, management does not believe this asset is impaired.

BERKSHIRE BANCORP INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Note C - INVESTMENT SECURITIES

The following is a summary of held to maturity investment securities:

	December 31, 2011			
	Amortized Cost	Gross unrealized gains	Gross unrealized losses	Fair value
		(In thousands)		
U.S. Government Agencies	$298	$ 1	$ (6)	$293

	December 31, 2010			
	Amortized Cost	Gross unrealized gains	Gross unrealized losses	Fair value
		(In thousands)		
U.S. Government Agencies	$319	$ 1	$ (4)	$316

The following is a summary of available-for-sale investment securities:

	December 31, 2011			
	Amortized Cost	Gross unrealized gains	Gross unrealized losses	Fair value
		(In thousands)		
U.S. Treasury Notes	$80,072	$141	$—	$80,213
U.S. Government Agencies	130,389	510	(33)	130,866
Mortgage-backed securities	140,049	2,750	(440)	142,359
Corporate notes	12,949	103	(49)	13,003
Municipal securities	2,682	—	(687)	1,995
Auction rate securities	65,700	—	(21,205)	44,495
Marketable equity securities and other	2,284	—	(45)	2,239

Totals	$434,125	$3,504	$(22,459)	$415,170

BERKSHIRE BANCORP INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Note C - (continued)

	December 31, 2010			
	Amortized Cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(In thousands)			
U.S. Treasury Notes	$50,015	$61	$—	$50,076
U.S. Government Agencies	88,469	591	(1,533)	87,527
Mortgage-backed securities	117,724	4,099	(686)	121,137
Corporate notes	13,773	44	(639)	13,178
Single Issuer Trust Preferred CDO	1,023	271	—	1,294
Pooled Trust Preferred CDO	6,459	—	(6,000)	459
Municipal securities	2,632	102	(46)	2,688
Auction rate securities	73,993	397	(12,311)	62,079
Marketable equity securities and other	2,810	316	—	3,126
Totals	$356,898	$5,881	$(21,215)	$341,564

The following table shows the outstanding auction rate securities at December 31, 2011 and 2010:

	2011		2010	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
Federal Home Loan Mortgage Corporation Preferred Shares	$—	$ —	$693	$ 1,089
Preferred Shares of Money Center Banks	63,700	42,495	71,300	58,990
Public Utility Debt and Equity Securities	2,000	2,000	2,000	2,000
Totals	$65,700	$ 44,495	$73,993	$ 62,074

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BERKSHIRE BANCORP INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Note C - (continued)

The Company has investments in certain debt securities, as noted in the table below, that have unrealized losses or may be otherwise impaired, but OTTI has not been recognized in the financial statements as management believes the decline is due to the credit markets coupled with the interest rate environment. In addition, these securities are making payments in accordance with the terms of the instruments.

The following table indicates the length of time individual securities that we consider temporarily impaired have been in a continuous unrealized loss position at December 31, 2011 (in thousands):

	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Description of Securities						
U.S. Government Agencies	$ 22,791	$ 33	$ 293	$ 6	$ 23,084	$ 39
Mortgage-backed securities	28,957	117	8,118	323	37,075	440
Corporate notes	1,244	15	3,954	34	5,198	49
Auction rate securities	—	—	42,495	21,205	42,495	21,205
Marketable equity securities and other	—	—	39	45	39	45
Municipal securities	1,995	687	—	—	1,995	687
Total temporarily impaired securities	$ 54,987	$ 852	$ 54,899	$ 21,613	$ 109,886	$ 22,465

The Company had a total of 42 debt securities with a fair market value of $67.1 million which were temporarily impaired at December 31, 2011. The total unrealized loss on these securities was $1.2 million, which is attributable to the market interest volatility, the continued illiquidity of the debt markets, and uncertainty in the financial markets. We also had 1 equity security with a fair market value of $39,000 with an unrealized loss of $45,000. The remaining unrealized loss of $21.2 million is on 9 auction rate securities which have declined in value due to auction failures beginning in February 2008. It is not more likely than not that we would sell these securities before maturity, and we have the intent to hold all of these securities to maturity and will not be required to sell these securities, due to our ratio of cash and cash equivalents of approximately 11.7% of total assets at December 31, 2011. Therefore, the unrealized losses associated with these securities are not considered to be other than temporary.

BERKSHIRE BANCORP INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Note C - (continued)

The following table indicates the length of time individual securities that we consider temporarily impaired have been in a continuous unrealized loss position at December 31, 2010 (in thousands):

	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Description of Securities						
U.S. Government Agencies	$ 37,071	$ 1,533	$ 31	$ —	$ 37,102	$ 1,533
Mortgage-backed securities	24,860	381	9,745	305	34,605	686
Corporate notes	1,373	9	8,314	630	9,687	639
Pooled Trust Preferred CDO	—	—	458	6,000	458	6,000
Auction rate securities	4,504	497	54,486	11,814	58,990	12,311
Municipal securities	1,747	46	—	—	1,747	46
Total temporarily impaired securities	$ 69,555	$ 2,466	$ 73,034	$ 18,749	$ 142,589	$ 21,215

The Company had a total of 40 debt securities with a fair market value of $81.9 million which were temporarily impaired at December 31, 2010. The total unrealized loss on these securities was $8.9 million, which is attributable to the market interest volatility, the continued illiquidity of the debt markets, and uncertainty in the financial markets. The remaining unrealized loss of $12.3 million is on 11 auction rate securities which have declined in value due to auction failures beginning in February 2008. It is not more likely than not that we would sell these securities before maturity, and we have the intent to hold all of these securities to maturity and will not be required to sell these securities, due to our ratio of cash and cash equivalents of approximately 9.3% of total assets at December 31, 2010. Therefore, the unrealized losses associated with these securities are not considered to be other than temporary.

BERKSHIRE BANCORP INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Note C - (continued)

The amortized cost and fair value of investment securities available for sale and held to maturity, by contractual maturity, at December 31, 2011 are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	December 31, 2011			
	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
Due in one year or less	$81,847	$82,000	$ —	$ —
Due after one through five years	58,182	58,596	—	—
Due after five through ten years	41,987	42,594	—	—
Due after ten years	184,125	185,246	298	293
Auction rate securities	65,700	44,495	—	—
Marketable equity securities and other	2,284	2,239	—	—
Totals	$434,125	$415,170	$ 298	$ 293

Gross gains realized on the sales of investment securities for the years ended December 31, 2011 and 2010 were approximately $7,637,000 and $1,224,000, respectively. Gross losses were approximately $6,558,000 and $222,000 for the years ended December 31, 2011 and 2010, respectively. During the year ended December 31, 2011, we sold single issuer trust preferred securities, pooled trust CDO’s, auction rate securities and certain corporate notes. During the year ended December 31, 2010, we sold certain money center auction rate securities and certain corporate notes.

At both December 31, 2011 and 2010, securities sold under agreements to repurchase with a book value of approximately $50.0 million were outstanding. The book value of the securities pledged for these repurchase agreements was $55.6 million and $57.8 million, respectively. As of December 31, 2011 and 2010, the Company did not own investment securities of any one issuer where the carrying value exceeded 10% of stockholders' equity.

BERKSHIRE BANCORP INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Note D - LOANS

Major classifications of loans are as follows:

	December 31, 2011	December 31, 2010
	(In thousands)	
Commercial and Industrial and Finance Leases	$ 15,660	$ 19,321
Secured by Real Estate		
Residential	104,854	114,594
Multi family	12,169	5,865
Commercial Real Estate and Construction	183,819	226,667
Consumer	1,240	795
	317,742	367,242
Deferred loan fees	(721)	(937)
Allowance for loan losses	(17,720)	(16,105)
	$ 299,301	$ 350,200

Changes in the allowance for loan losses are as follows:

	For The Years Ended December 31, 2011	2010
	(In thousands)	
Balance at beginning of year	$ 16,105	$ 11,416
Provision charged to operations	1,600	5,750
Loans charged off	(12)	(1,066)
Recoveries	27	5
Balance at end of year	$ 17,720	$ 16,105

The Bank had $647,000 and $1.5 million of non-accrual loans as of December 31, 2011 and 2010, respectively, and no loans loans delinquent more than ninety days and still accruing interest at December 31, 2011 compared to $495,000 at December 31, 2010. The Bank classified the non-accrual loans as impaired loans at both December 31, 2011 and 2010. However, no specific reserves for impaired loans was made because the collateral underlying the non-accrual loans was deemed to be sufficient to cover any loss in the event of a default. Therefore, the allowance for loan loss is includable in the calculation of regulatory capital up to a maximum of 1.25% of risk-weighted assets or approximately $5.2 million and $5.8 million at December 31, 2011 and 2010, respectively.

Average impaired loans for the twelve months ended December 31, 2011 and 2010 were approximately $20.2 million and $5.9 million, respectively. Interest income that would have been recognized had these loans performed in accordance with their contractual terms was approximately $70,000 and $325,000, respectively.

BERKSHIRE BANCORP INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Note D - (continued)

Allowance for Credit Losses and Recorded Investment in Financing Receivables

The qualitative factors are determined based on the various risk characteristics of each loan class. Relevant risk characteristics are as follows:

Commercial and industrial loans - Loans in this class are made to businesses. Generally these loans are secured by assets of the business and repayment is expected from the cash flows of the business. A weakened economy, and resultant decreased consumer and/or business spending will have an effect on the credit quality in this loan class.

Commercial real estate - Loans in this class include income-producing investment properties and owner-occupied real estate used for business purposes. The underlying properties are generally located largely in our primary market area. The cash flows of the income producing investment properties are adversely impacted by a downturn in the economy as evidenced by increased vacancy rates, which in turn, will have an effect on credit quality. In the case of owner-occupied real estate used for business purposes a weakened economy and resultant decreased consumer and/or business spending will have an adverse effect on credit quality.

Construction loans - Loans in this class primarily include land loans to local individuals, contractors and developers for developing the land for sale or for the purpose of making improvements thereon. Repayment is derived from sale of the lots/units including any pre-sold units. Credit risk is affected by market conditions, time to sell at an adequate price and cost overruns. To a lesser extent this class includes commercial development projects we finance which in most cases have an interest-only phase during construction and then convert to permanent financing. Credit risk is affected by cost overruns, market conditions and the availability of permanent financing, to the extent such permanent financing is not being provided by us.

Residential real estate - Loans in this class are made to and secured by owner-occupied residential real estate and repayment is dependent on the credit quality of the individual borrower. The overall health of the economy, including unemployment rates and housing prices, will have an effect on the credit quality in this loan class. The Company generally does not originate loans with a loan-to-value ratio greater than 80 percent and does not grant subprime loans.

Multi-Family real estate - Loans in this class are made to and secured by owner-occupied residential real estate and repayment is dependent on the credit quality of the individual borrower. The overall health of the economy, including unemployment rates and housing prices, will have an effect on the credit quality in this loan class. The Company generally does not originate loans with a loan-to-value ratio greater than 80 percent and does not grant subprime loans.

Consumer loans - Loans in this class may be either secured or unsecured and repayment is dependent on the credit quality of the individual borrower and, if applicable, sale of the collateral securing the loan (such as automobile or other secured assets). Therefore the overall health of the economy, including unemployment rates and housing prices, will have an effect on the credit quality in this loan class.

Financing Leases - Loans in this class may be either secured or unsecured and repayment is dependent on the credit quality of the individual borrower and, if applicable, sale of the collateral securing the loan (such as equipment or other secured assets). Therefore the overall health of the economy, including unemployment rates and housing prices, will have an effect on the credit quality in this loan class.

BERKSHIRE BANCORP INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Note D - (continued)

Allowance for Credit Losses and Recorded Investment in Loans

For the Year Ended December 31, 2011

(In thousands)

	Commercial & Industrial	**Commercial Real Estate**	Construction	Multi Family	**Residential Real Estate**	Consumer	**Finance Leases**	Unallocated	Total
Allowance for credit losses:									
Beginning balance	$ 417	$ 8,610	$ 2,784	$ 147	$ 2,066	$ 25	$ 419	$ 1,637	$ 16,105
Charge-offs	(12)								(12)
Recoveries	27								27
Provision	518	(753)	(2,175)	264	4,424	28	(293)	(413)	1,600
Ending balance	$ 950	$ 7,857	$ 609	$ 411	$ 6,490	$ 53	$ 126	$ 1,224	$ 17,720
Ending balance: individually evaluated for impairment	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Ending balance: collectively evaluated for impairment	$ 950	$ 7,857	$ 609	$ 411	$ 6,490	$ 53	$ 126	$ 1,224	$ 17,720
Financing Receivables:									
Ending balance	$ 11,006	$ 169,015	$ 14,804	$ 12,169	$ 104,854	$ 1,240	$ 4,654	$ 0	$ 317,742
Ending balance: individually evaluated for impairment	$ 122	$ 23,343	$ 0	$ 0	$ 1,566	$ 0	$ 0	$ 0	$ 25,031
Ending balance: collectively	$ 10,884	$ 145,672	$ 14,804	$ 12,169	$ 103,288	$ 1,240	$ 4,654	$ 0	$ 292,711

evaluated for
impairment

The Company believes the unallocated amount included in the allowance for credit losses is appropriate given the nature of the portfolio with the size of individual loans and the current economy's impact on the real estate market. The Company will continue to closely monitor the environment and loan portfolio and make adjustments when appropriate.

Among the loans reviewed for impairment, $2.4 million of residential loans and $1.3 million of commercial real estate loans were identified as troubled debt restructurings ("TDRs"). TDRs are the result of an economic concession being granted to borrowers experiencing financial difficulties. Certain TDRs are classified as nonperforming at the time of restructuring and may only return to performing status after considering the borrower's sustained repayment performance under the revised payment terms for a reasonable period, generally six months. We evaluated all of the impaired loans by analyzing the collateral value and by evaluating the discounted cash flow. Based on the nature of the modifications no impairment was required.

BERKSHIRE BANCORP INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Note D - (continued)

Allowance for Credit Losses and Recorded Investment in Loans

For the Year Ended December 31, 2010

(In thousands)

	Commercial & Industrial	**Commercial Real Estate**	Construction	Multi Family	**Residential Real Estate**	Consumer	**Finance Leases**	Unallocated	Total
Allowance for credit losses:									
Beginning balance	$ 1,349	$ 2,592	$ 3,211	$ 30	$ 763	$ 57	$ 115	$ 3,299	$ 11,416
Charge-offs	(300)	(766)				(1)			(1,067)
Recoveries	6								6
Provision	(638)	6,784	(427)	117	1,303	(31)	304	(1,662)	5,750
Ending balance	$ 417	$ 8,610	$ 2,784	$ 147	$ 2,066	$ 25	$ 419	$ 1,637	$ 16,105
Ending balance: individually evaluated for impairment	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Ending balance: collectively evaluated for impairment	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 16,105
Financing Receivables:									
Ending balance	$ 10,498	$ 193,500	$ 33,167	$ 5,865	$ 114,594	$ 795	$ 8,823	$ 0	$ 367,242
Ending balance: individually evaluated for impairment	$ 0	$ 816	$ 0	$ 0	$ 1,998	$ 0	$ 0	$ 0	$ 2,814
Ending balance: collectively evaluated for	$ 10,498	$ 192,684	$ 33,167	$ 5,865	$ 112,596	$ 795	$ 8,823	$ 0	$ 364,428

impairment

The $2.0 million of residential impaired loans were identified as TDRs. We evaluated all of the impaired loans by analyzing the collateral value and by evaluating the discounted cash flow. Based on the nature of the modifications no impairment was required.

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BERKSHIRE BANCORP INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Note D - (continued)

Age Analysis of Past Due Loans

As of December 31, 2011

(In thousands)

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	Recorded Loans > 90 Days and Accruing
Commercial & industrial	$ 11	$ —	$ 122	$ 133	$10,873	$11,006	$ —
Construction	—	—	—	—	14,804	14,804	—
Commercial real estate	21	—	—	21	168,994	169,015	—
Consumer	—	—	—	—	778	778	—
Overdrafts	—	—	—	—	462	462	—
Residential - prime	63	—	525	588	104,266	104,854	—
Residential - multi family	—	—	—	—	12,169	12,169	—
Finance leases	—	—	—	—	4,654	4,654	—
Total	$ 95	$ —	$ 647	$ 742	$317,000	$317,742	$ —

Age Analysis of Past Due Loans

As of December 31, 2010

(In thousands)

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	Recorded Loans > 90 Days and Accruing
Commercial & industrial	$ 251	$ —	$ 166	$ 417	$10,081	$10,498	$ 29

Construction	900	—	—	900	32,267	33,167	—
Commercial real estate	1,356	2,000	—	3,356	190,144	193,500	—
Consumer	—	—	15	15	780	795	11
Residential - prime	404	387	695	1,486	113,108	114,594	451
Residential - multi family	—	—	—	—	5,865	5,865	—
Finance leases	—	—	—	—	8,823	8,823	—
Total	$ 2,911	$ 2,387	$ 876	$ 6,174	$361,068	$367,242	$ 495

BERKSHIRE BANCORP INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Note D - (continued)

Impaired Loans

For the Year Ended December 31, 2011

(In thousands)

	Recorded Loan	Unpaid Principal Balance	Related Allowance	Average Recorded Loan	Interest Income Recognized	Interest Income Foregone
With no related allowance recorded:						
Commercial & industrial	$ 122	$ 122	$ —	$ 31	$ —	$ 13
Construction	—	—	—	—	—	—
Commercial real estate	23,343	23,343	—	18,898	2,021	3
Consumer	—	—	—	—	—	—
Residential	1,566	1,566	—	1,235	56	54
Multi family	—	—	—	—	—	—
Finance leases	—	—	—	—	—	—
Total	$ 25,031	$ 25,031	$ —	$ 20,164	$ 2,077	$ 70
Commercial	23,465	23,465	—	18,929	2,021	16
Consumer	—	—	—	—	—	—
Residential	1,566	1,566	—	1,235	56	54
Finance leases	—	—	—	—	—	—

BERKSHIRE BANCORP INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Note D - (continued)

Impaired Loans

For the Year Ended December 31, 2010

(In thousands)

	Recorded Loan	Unpaid Principal Balance	Related Allowance	Average Recorded Loan	Interest Income Recognized	Interest Income Foregone
With no related allowance recorded:						
Commercial & industrial	$ —	$ —	$ —	$ 292	$ —	$ 22
Construction	—	—	—	4,211	—	303
Commercial real estate	816	816	—	400	99	—
Consumer	—	—	—	—	—	—
Residential	1,998	1,998	—	963	125	—
Multi family	—	—	—	—	—	—
Finance leases	—	—	—	—	—	—
Total	$ 2,814	$ 2,814	$ —	$ 5,866	$ 224	$ 325
Commercial	816	816	—	4,903	99	325
Consumer	—	—	—	—	—	—
Residential	1,998	1,998	—	963	67	—

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BERKSHIRE BANCORP INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Note D - (continued)

Loans on Nonaccrual Status

As of

	December 31, 2011	December 31, 2010
	(In thousands)	
Commercial & industrial	$ 122	$ 137
Construction	—	—
Commercial real estate	—	—
Consumer	—	—
Residential	525	1,380
Multi family	—	—
Finance leases	—	—
Total	$ 647	$ 1,517

Credit Exposure

Credit Risk Profile by Internally Assigned Grades

For the Year Ended December 31, 2011

(In thousands)

	Commercial & Industrial	**Commercial Real Estate Construction**	**Commercial Real Estate Other**
Grade:			
Pass	$ 10,840	$ 14,804	$ 114,508
Watch	—	—	8,650
Special Mention	—	—	19,489
Substandard	166	—	26,368
Total	$ 11,006	$ 14,804	$ 169,015

	Residential	Multi Family
Grade:		
Pass	$ 96,475	$ 12,169
Watch	731	—
Special Mention	1,561	—
Substandard	6,086	—
Total	$ 104,853	$ 12,169

	Consumer Overdrafts	**Consumer Other**	**Finance Leases**
Performing	$ 463	$ 778	$ 4,654
Nonperforming	—	—	—
Total	$ 463	$ 778	$ 4,654

BERKSHIRE BANCORP INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Note D - (continued)

Credit Exposure

Credit Risk Profile by Internally Assigned Grades

For the Year Ended December 31, 2010

(In thousands)

	Commercial & Industrial	**Commercial Real Estate Construction**	**Commercial Real Estate Other**
Grade:			
Pass	$ 10,344	$ 23,085	$ 151,200
Watch	—	—	8,624
Special Mention	—	10,082	15,344
Substandard	154	—	18,332
Total	$ 10,498	$ 33,167	$ 193,500

	Residential	**Residential Multi Family**
Grade:		
Pass	$ 106,165	$ 5,865
Watch	336	—
Special Mention	5,929	—
Substandard	2,164	—
Total	$ 114,594	$ 5,865

	Consumer Overdrafts	**Consumer Other**	**Finance Leases**
Performing	$ 61	$ 719	$ 8,823
Nonperforming	4	11	—
Total	$ 65	$ 730	$ 8,823

The Company utilizes a grade risk rating system for commercial and industrial, commercial real estate and construction loans as follows:

Pass: These loans have low to average risk.

Watch: A Watch loan is similar to a Pass classification and it is not a criticized or classified loan. Documentation exceptions require additional attention by management for corrective action. These loans are paying as agreed and meeting their loan agreement obligations; however existing and developing factors may elevate the risk levels requiring added attention by management. Those factors may include industry conditions, operating problems, pending litigation of a minor nature, declining collateral quality, and customer's failure to provide financial information, occasional payment difficulties (late payments, overdrafts, renewals) or other minor exceptions to policy.

Special mention: Includes loans, which are fundamentally sound, but exhibit potential credit risk or unsatisfactory characteristics, which, if not corrected, could lead to loan loss. A Special Mention loan has potential weaknesses that deserve management's close attention and dictate a higher level of attention and oversight. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or in the Bank's credit position at some future date. Special Mention loans are not adversely classified and do not expose the Bank to sufficient risk to warrant adverse classification.

BERKSHIRE BANCORP INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Note D - (continued)

Substandard: Includes loans with positive and well defined weaknesses which are inadequately protected by current net worth and paying capacity of borrower or pledged collateral. Substandard loans are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. Loans have one or more weaknesses (such as being on non-accrual status and 90 days or more past due) that could jeopardize the repayment of the debt and result in some form of loss to the Bank. This category includes loans that may be impaired. Substandard loans should be evaluated at least on a quarterly basis to determine if additional course of action would be required by management.

Doubtful: Loans classified as Doubtful have weaknesses that make collection or liquidation in full, on the basis of the currently known facts, conditions, and values, highly questionable and improbable. All Doubtful loans are placed on non-accrual status. Doubtful loans are considered impaired.

Loss: Loans classified as Loss are considered to be uncollectible and have such little value that their continuance on the Bank's books is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this loan even though partial recovery may be effected in the future. Loans classified Loss should be promptly charged off prior to the end of the calendar quarter in which they are identified.

The Company does assign risk ratings to residential real estate, home equity and consumer loans secured by real estate (such as 1-to-4 family homes) that are contractually past due 90 days or more or where legal action has commenced against the borrower. Consumer loans other than those secured by real estate are charged off when they become contractually past due 120 days. Those loans not assigned a rating watch, special mention, substandard or loss are considered "pass".

BERKSHIRE BANCORP INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Note D - (continued)

On a quarterly basis, or more often if needed, the Company formally reviews the ratings on all classified commercial and industrial, commercial real estate and construction loans. Semi-annually, the Company engages an independent third-party to review a significant portion of loans within these segments. Management uses the results of these reviews as part of its periodic review process.

Loan Modifications
(Dollars in Thousands)

	As of December 31, 2011		
	Number of Loans	Pre-Modification Outstanding Recorded Loans	Post-Modification Outstanding Recorded Loans
Troubled Debt Restructuring			
Residential	8	$ 2,388	$ 2,388
Commercial Real Estate	3	1,326	1,326
	11	$ 3,714	$ 3,714

	For The Year Ended December 31, 2010		
	Number of Loans	Pre-Modification Outstanding Recorded Loans	Post-Modification Outstanding Recorded Loans
Troubled Debt Restructuring			
Residential	6	$ 1,998	$ 1,998

The loans restructured as noted above were restructured by extending maturitiy dates or reducing interest rates. No loans were restructed into two notes nor are there any commitments to extend additional funds on any TDRs. The commercial real estate loans are individually evaluated for impairment with any loss recognized in the allowance for loan losses.

BERKSHIRE BANCORP INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Note D - (continued)

In accordance with banking regulations, the Bank, from time to time, enters into lending transactions in the ordinary course of business with directors, executive officers, principal stockholders and affiliates of such persons on the same terms as those prevailing for comparable transactions with other borrowers. The following table summarizes the activity in loans to related parties. (In thousands)

Balance at 12/31/10	$19,078
New Loans	—
Repayments	5,026
Balance at 12/31/11	$14,052

In April 2010, the Bank assigned its interest in real estate, that had previously secured a $13.5 million loan, to Momarm II Corporation ("Momarm") for $12.6 million, which represents the Bank's carrying value. Momarm is owned by immediate family members of the Company's and the Bank's Chairman of the Board, who are also immediate family members of two other directors of the Bank. The Bank received a fairness opinion with respect to the value received for the assignment and an independent appraisal of the real estate.

In April 2010, the Bank sold three loans that it had originally booked at $7.5 million to Momarm for an aggregate purchase price of $3.15 million, which represents the Bank's carrying value. The Bank received a fairness opinion with respect to the value received for the sale of each loan and an independent appraisal of the underlying assets.

In August 2010, the Bank sold to Terumah Foundation Inc., of which Mr. Marx is President and a Director, 77.273% interest in a loan for $1.7 million ,which represented 77.273% of the Bank's carrying value.

In December 2011, the Bank sold a loan to Farm Associates, of which the Company's and the Bank's Chairman of the Board and his immediate family members who serve as directors of the Bank are general partners, for approximately $4.5 million, respectively ,which represented the Bank's carrying value.

BERKSHIRE BANCORP INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Note E - PREMISES AND EQUIPMENT

Major classifications of premises and equipment are summarized as follows:

	Estimated useful lives	December 31, 2011	December 31, 2010
		(In thousands)	
Land	Indefinite	$3,572	$3,572
Buildings	39 years	4,019	4,884
Furniture and equipment	3 to 10 years	4,056	3,563
Leasehold improvements	2 to 10 years	2,767	2,316
		14,414	14,335
Accumulated depreciation and amortization		(6,940)	(6,520)
Total		$7,474	$7,815

Depreciation and amortization expense was approximately $487,000 and $513,000 for the years ended December 31, 2011 and 2010, respectively.

Note F - DEPOSITS

The aggregate amount of jumbo certificates of deposits greater than $100,000 were approximately $176.7 million and $179.1 million as of December 31, 2011 and 2010, respectively.

The scheduled maturities of all certificates of deposit are as follows:

	December 31, 2011
	(In thousands)
2012	$ 294,883
2013	69,750

2014		4,624
2015		2
2016		—
	$	369,259

It has been the Bank's experience that the majority of these certificates of deposit will renew with the Bank.

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BERKSHIRE BANCORP INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Note G - BORROWINGS AND SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Securities sold under agreements to repurchase generally mature within 30 days from the date of the transactions. Short-term borrowings consist of various borrowings which generally have maturities of less than one year. The details of these categories are presented below:

	Year Ended December 31,	
	2011	2010
	(Dollars in Thousands)	
Securities sold under repurchase agreements and federal funds purchased		
Balance at year-end	$ 50,000	$ 50,000
Average balance during the year	$ 50,000	$ 50,000
Maximum month-end balance	$ 50,000	$ 50,000
Weighted average rate during the year	3.57 %	4.02 %
Rate at December 31	3.51 %	3.97 %

Borrowings At December 31, 2011, advances from the FHLBNY totaling $6.1 million will mature within one to three years and are reported as long-term borrowings. The advances are collateralized by FHLBNY stock and certain first mortgage loans totaling $10.7 million. The advances had a weighted average rate of 3.81%. Unused lines of credit at the FHLB-NY were $120.6 million at December 31, 2011.

Outstanding long-term borrowings mature as follows (in thousands):

Year	Amount
2012	$ 789
2013	5,350
Total	$ 6,139

The borrowings with the Federal Home Loan Bank are generally renewed.

Subordinated Debentures

In 2004, the Company established Berkshire Capital Trust I, a Delaware statutory trust, ("BCTI"). The Company owns all the common capital securities of BCTI. BCTI issued $15.0 million of preferred capital securities to investors in a private transaction and invested the proceeds, combined with the proceeds from the sale of BCTI's common capital securities, in the Company through the purchase of $15.464 million aggregate principal amount of Floating Rate Junior Subordinated Debentures (the 2004 "Debentures") issued by the Company. The 2004 Debentures, the sole assets of BCTI, mature on July 23, 2034 and bear interest at a floating rate, three month LIBOR plus 2.70%, or 3.12% at December 31, 2011.

In 2005, the Company established Berkshire Capital Trust II, a Delaware statutory trust, ("BCTII"). The Company owns all the common capital securities of BCTII. BCTII issued $7.0 million of preferred capital securities to investors in a private transaction and invested the proceeds, combined with the proceeds from the sale of BCTII's common capital securities, in the Company through the purchase of $7.217 million aggregate principal amount of Floating Rate Junior Subordinated Debentures (the "2005 Debentures") issued by the Company. The 2005 Debentures, the sole assets of BCTII, mature on May 23, 2035 and bear interest at a floating rate, three month LIBOR plus 1.95%, or 2.45% at December 31, 2011.

BERKSHIRE BANCORP INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Note H - EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per common share is calculated by dividing loss available to common stockholders by the weighted average common stock outstanding, excluding stock options from the calculation. In calculating diluted earnings per share, the dilutive effect of stock options is calculated using the average market price for the Company's common stock during the period. There is no effect for dilutive shares for the years ended December 31, 2011 and 2010 due to the expiration of the stock option plan in 2009. The following tables present the Company's calculation of earnings (loss) per common share.

	Year Ended December 31, 2011 (In thousands, except per share data)		
	Income (numerator)	Shares (denominator)	Per share amount
Basic earnings per common share			
Net income	$ 49,824		
Dividends paid to preferred stockholders	(4,000)		
Net income available to common stockholders	$ 45,824	8,309	$ 5.51

	Year Ended December 31, 2010 (In thousands, except per share data)		
	Income (numerator)	Shares (denominator)	Per share amount
Basic loss per share			
Net loss	$ (13,490)		
Dividends paid to preferred stockholders	(4,800)		
Net loss available to common stockholders	$ (18,290)	7,054	$ (2.59)

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BERKSHIRE BANCORP INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Note I - INCOME TAXES

The components of income tax expense (benefit) are as follows: (In thousands)

	Years Ended December 31, 2011	2010
Federal:		
Current	$ —	$ 794
Deferred	225	(2,060)
State and Local:		
Current	166	1,048
Deferred	1,472	(1,271)
Total	$ 1,863	$ (1,489)

A reconciliation of the provision (benefit) for income taxes for the years ended December 31, 2011 and 2010 and the amount computed by applying the statutory Federal income tax rate to income/loss from continuing operations follows: (In thousands)

	Years Ended December 31, 2011	2010
Effective Tax Reconciliation		
Tax at statutory rate	$17,771	$(5,093)
State and City, net of federal income tax benefit	1,506	(200)
Permanent items	(738)	6,310
Decrease in Federal valuation allowance	(16,326)	(2,423)
Other	(350)	(83)
Actual provision (benefit) for income taxes	$1,863	$(1,489)

The tax effect of the principal temporary differences at December 31, 2011 and 2010 are as follows: (In thousands)

December 31,

	2011	2010
Net deferred tax assets		
Loan loss provision	$7,992	$7,299
Depreciation	(303)	(441)
Non accrual interest	104	1,081
Net operating loss	9,483	6,599
Other	402	748
Other than temporary impairment	425	25,972
Valuation reserve	(3,912)	(25,370)
Unrealized loss on investment securities	6,445	6,995
Net deferred tax asset included in other assets	$20,636	$22,883

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BERKSHIRE BANCORP INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Note I - (continued)

As of December 31, 2011, the Company had $24.4 million of net operating losses available to offset future taxable income for federal income tax purposes that will begin to expire in 2029.

For the fiscal year ended December 31, 2011, the Company recorded a valuation reserve of $3.9 million relating primarily to net operating losses. Of the remaining deferred tax asset, management has determined that it is more likely than not that it will realize the net deferred tax asset based upon the nature and timing of the items referred to above. In order to fully realize the net deferred tax asset, the Company will need to generate future taxable income. Management has projected that the Company will generate sufficient taxable income to utilize the net deferred tax asset. However, there can be no assurance that such levels of taxable income will be generated.

For the fiscal year ended December 31, 2010 the Company recorded a valuation reserve of $25.4 million relating primarily to OTTI and net operating losses. Of the remaining deferred tax asset, management has determined that it is more likely than not that it will realize the net deferred tax asset based upon the nature and timing of the items listed above. In order to fully realize the net deferred tax asset, the Company will need to generate future taxable income. Management has projected that the Company will generate sufficient taxable income to utilize the net deferred tax asset; however, there can be no assurance that such levels of taxable income will be generated.

In the normal course of business, the Company's Federal, New York State and New York City Corporation tax returns are subject to audit. The Company is currently open to audit by the Internal Revenue Service (the "IRS") under the statute of limitations for years after 2007. The Company is currently undergoing an examination by the IRS for the years 2008 and 2009. This examination has not yet been completed, however, no significant issues have been raised and we do not expect material adjustments.

The Company has performed an evaluation of its tax positions and has concluded that as of December 31, 2011, there were no significant uncertain tax positions requiring additional recognition in its financial statements and does not believe that there will be any material changes in its unrecognized tax positions over the next twelve months.

The Company's policy is to recognize interest and penalties related to unrecognized tax benefits as a component of income tax expense. There were no accruals for interest or penalties during the years ended December 31, 2011 and 2010.

BERKSHIRE BANCORP INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Note J - EMPLOYEE BENEFIT PLANS

1. Retirement Income Plan

The Company's Retirement Income Plan (the "Plan") was terminated on December 31, 2009 with the full settlement of all Plan benefits provided for in December 2010. The Plan was invested 100% in cash-equivalent instruments totalling $4.4 million. As of December 31, 2010, the Plan was settled by the purchase of annuity contracts for all benefit obligations. During 2010, the Company contributed $949,000 to the Plan and recorded a $1.9 million loss on the termination of the Plan.

2. Postretirement Welfare Plan

The Bank, as successor to Goshen Bank provides certain health care and life insurance benefits for retired employees and their spouses. The postretirement health care and life insurance benefits plan was terminated for persons retiring after December 31, 1998. Eligible employees retired on or before that date will have benefits paid through the plan under the agreed upon terms existing at the employee's retirement date.

	December 31,	
	2011	2010
	(In thousands)	
Change in benefit obligation		
Benefit obligation at beginning of year	$628	$722
Service cost	—	—
Interest cost	34	42
Adjustment for measurement date change	—	—
Actual loss (gain)	142	(66)
Benefits paid	(56)	(70)
Benefits obligation at end of year	748	628
Change in plan assets		
Fair value of plan assets at beginning of year	—	—
Actual return on plan assets	—	—
Employer contribution	56	70
Benefits paid	(56)	(70)

Fair value of plan assets at end of year	—	—
Funded status	(748)	(628)
Unrecognized net actuarial loss	—	—
Accrued benefit cost (included in other liabilities)	$748	$628

BERKSHIRE BANCORP INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Note J - (continued)

Net benefit cost included the following components:

	Year Ended December 31,	
	2011	2010
	(In thousands)	
Service cost	$ —	$ —
Interest cost on projected benefit obligation	34	42
Actual return on plan assets	—	—
Net periodic benefit cost	$ 34	$ 42

The assumed discount rate used in determining the actuarial present value of the projected benefit obligation was 6.13% and 5.50% in 2011 and 2010, respectively.

3. 401(k) Plans

The Bank has a 401(k) plan in which employees can contribute up to 15% of their salary. The Bank also matches 50% of the employee contribution up to a maximum of 3% of the employee's salary. The matching expense was $128,000 and $125,500 for the years ended December 31, 2011 and 2010, respectively.

4. Deferred Compensation Arrangements

GSB Financial and Goshen Bank established deferred compensation arrangements for certain directors and executives. These deferred compensation arrangements were terminated as a result of the acquisition. At December 31, 2011 and 2010, the balance accumulated under these arrangements was approximately $140,000 and $158,000, respectively, and will be paid out when the individual (i) ceases to be a director and/or executive of the Company; (ii) attains the age of 75; or (iii) specifies a particular date.

In July 2006, the Bank established the Deferred Compensation Plan of The Berkshire Bank (the "Plan") to provide for a systematic method by which key employees of the Bank may defer payment of all or part of the compensation that may be earned by them. The Plan is intended to be a nonqualified and unfunded plan maintained primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees pursuant to Sections 201(2), 301(a)(3) and 401(a)(1) of the Employee Retirement Income Security Act of 1974, as amended. At December 31, 2011 and 2010, the balances accumulated under the Plan were approximately $725,000 and $581,000, respectively.

BERKSHIRE BANCORP INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Note K - COMMITMENTS AND CONTINGENCIES

Leases and Other Commitments

The Company leases certain of its operating facilities under non-cancelable operating leases expiring in 2012 through 2016. The leases require payment by the Company of the real estate taxes and insurance on the leased properties. Approximate future minimum annual rental payments are as follows (in thousands):

Year Ending December 31,	
2012	$1,135
2013	1,031
2014	1,036
2015	982
2016	403
Thereafter	—
	$4,587

The Company's rental expense was approximately $2,060,000 and $1,539,000 for the fiscal years ended December 31, 2011 and 2010, respectively. Included in the Company's rental expense was approximately $571,000 and $504,000 for the fiscal years ended December 31, 2011 and 2010, respectively, which was paid to a company affiliated with a director of the Company. The two leases expire in June and November 2016.

BERKSHIRE BANCORP INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Note L - FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company is required to disclose the estimated fair value of its assets and liabilities considered to be financial instruments. For the Company, as for most financial institutions, the majority of its assets and liabilities are considered financial instruments. However, many such instruments lack an available trading market, as characterized by a willing buyer and seller engaging in an exchange transaction. Also, it is the Company's general practice and intent to hold its financial instruments to maturity and not to engage in trading or sales activities, except for certain loans. Therefore, the Company had to use significant estimations and present value calculations to prepare this disclosure.

Changes in the assumptions or methodologies used to estimate fair values may materially affect the estimated amounts. Also there may not be reasonable comparability between institutions due to the wide range of permitted assumptions and methodologies in the absence of active markets. This lack of uniformity gives rise to a high degree of subjectivity in estimating financial instrument fair values.

Estimated fair values have been determined by the Company using the best available data and an estimation methodology suitable for each category of financial instruments. The estimation methodologies used, the estimated fair values, and recorded book balances at December 31, 2011 and 2010 are outlined below.

	December 31,			
	2011		2010	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
	(In thousands)			
Investment securities	$415,468	$415,463	$341,883	$341,880
Loans, net of unearned income	317,021	359,989	366,305	371,110
Time Deposits	369,259	371,266	384,301	386,446
Repurchase Agreements	50,000	52,432	50,000	51,661
Borrowings	6,139	6,256	10,657	10,876
Subordinated debt	22,681	22,681	22,681	22,681

For cash and cash equivalents, the recorded book values of $101.0 million and $79.1 million at December 31, 2011 and 2010, respectively, approximate fair values.

The estimated fair values of investment securities are based on quoted market prices, if available. Estimated fair values are based on quoted market prices of comparable instruments if quoted market prices are not available. Estimated fair values are also determined using unobservable inputs that are supported by little or no market values and significant assumptions and estimates.

The net loan portfolio at December 31, 2011 and 2010 has been valued using a present value discounted cash flow where market prices were not available. The discount rate used in these calculations is the estimated current market rate adjusted for credit risk. The carrying value of accrued interest approximates fair value.

The estimated fair values of demand deposits (i.e. interest (checking) and non-interest bearing demand accounts, savings and certain types of money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e. their carrying amounts). The carrying amount of accrued interest payable approximates its fair value. The fair value of time deposits have been valued using net present value discounted cash flow.

BERKSHIRE BANCORP INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Note L - (continued)

The fair value of commitments to extend credit is estimated based upon the amount of unamortized deferred loan commitment fees. The fair value of letters of credit is based upon the amount of unearned fees plus the estimated cost to terminate letters of credit. Fair values of unrecognized financial instruments, including commitments to extend credit, and the fair value of letters of credit are considered immaterial.

The fair value of interest rate caps, included in borrowings, are based upon the estimated amount the Company would receive or pay to terminate the contracts or agreements, taking into account current interest rates and, when appropriate, the current creditworthiness of the counterparties. The aggregate fair value for the interest rate caps were approximately $0 and $26,000 at December 31, 2011 and 2010, respectively.

The fair value of borrowings and subordinated debt approximates the carrying value due to the re-pricing of the debt.

FASB ASC 820, "Fair Value Measurements and Disclosures", ("ASC 820") defines fair value, establishes a framework for measuring fair value, and expands disclosure about fair value. ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value. A financial instrument's level within the fair value hierarchy is based on the lowest level of input significant to the fair value measurement. There have been no material changes in valuation techniques as a result of the adoption of ASC 820.

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

Level 2 - Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities in active markets; quoted prices in markets that are not active for identical or similar assets or liabilities; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs that are supported by little or no market activity and significant to the fair value of the assets or liabilities that are developed using the reporting entities' estimates and assumptions, which reflect those that market participants would use.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

A description of the valuation methodologies used for financial instruments measured at fair value on a recurring basis, as well as the classification of the instruments pursuant to the valuation hierarchy, are as follows:

Securities Available for Sale

When quoted market prices are available in an active market, securities are classified within Level 1 of the fair value hierarchy. If quoted market prices are not available or accessible, then fair values are estimated using pricing models, matrix pricing, or discounted cash flow models. The fair values of securities estimated using pricing models or matrix pricing are generally classified within Level 2 of the fair value hierarchy. When discounted cash flow models are used there is omitted activity or less transparency around inputs to the valuation and securities are classified within Level 3 of the fair value hierarchy.

BERKSHIRE BANCORP INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Note L - (continued)

Level 1 securities generally include equity securities valued based on quoted market prices in active markets. Level 2 instruments include U.S. government agency obligations, state and municipal bonds, mortgage-backed securities, collateralized mortgage obligations and corporate bonds. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other things. Level 3 securities available for sale consist of instruments that are not readily marketable and may only be redeemed with the issuer at par such as Federal Home Loan Bank and Federal Reserve Bank stock. These securities are stated at par value.

Assets measured at fair value during fiscal year 2011 and fiscal year 2010 are summarized below.

	At December, 31, 2011 Fair Value Measurement Using			
	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Balance December 31, 2011**
	(Dollars in thousands)			
Assets				
Impaired Loans (1)	$—	$ —	$ 25,031	$ 25,031
Investment securities available for sale: (2)				
U.S. Treasury Notes	80,213	—	—	80,213
U.S. Government Agencies	—	130,866	—	130,866
Mortgage-backed securities	—	142,359	—	142,359
Corporate notes	13,003	—	—	13,003
Municipal securities	1,995	—	—	1,995
Auction rate securities	—	—	44,495	44,495
Marketable equity securities and other	803	1,436	—	2,239
Total Investment securities available for sale	96,014	274,661	44,495	415,170
Total assets	$96,014	$ 274,661	$ 48,209	$ 418,884

(1) Non-recurring basis

(2) Recurring basis

The above table includes $19.0 million in net unrealized losses on the Company's available for sale securities. The Company has reviewed its investment portfolio at December 31, 2011, and has determined that the unrealized losses, are temporary.

The fair value of the derivative is zero and valued as a Level 3 input. Further disclosures are waived due to materiality.

BERKSHIRE BANCORP INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Note L - (continued)

	At December, 31, 2010 Fair Value Measurement Using **Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Balance December 31, 2010**
	(Dollars in thousands)			
Assets				
Impaired Loans (1)	$—	$ —	$ 2,814	$ 2,814
Investment securities available for sale: (2)				
U.S. Treasury Notes	50,076	—	—	50,076
U.S. Government Agencies	24,930	62,597	—	87,527
Mortgage-backed securities	—	121,137	—	121,137
Corporate notes	10,246	2,932	—	13,178
Single Issuer Trust Preferred CDO	—	1,294	—	1,294
Pooled Trust Preferred CDO	—	459	—	459
Municipal securities	—	2,688	—	2,688
Auction rate securities	—	—	62,079	62,079
Marketable equity securities and other	—	3,126	—	3,126
Total Investment securities available for sale	85,252	194,233	62,079	341,564
Total assets	$85,252	$ 194,233	$ 64,893	$ 344,378

(1) Non-recurring basis

(2) Recurring basis

The above table includes $15.3 million in net unrealized losses on the Company's available for sale securities. The Company has reviewed its investment portfolio at December 31, 2010, and has determined that the unrealized losses, except as discussed in Note C - Investment Securities, are temporary.

The fair value of the derivative is approximately $26,000 and valued as a Level 3 input. Further disclosures are waived due to materiality.

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BERKSHIRE BANCORP INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Note L - (continued)

Assets and Liabilities Measured at Fair Value on a Recurring Basis Using Significant Unobservable Inputs (Level 3)

The following table presents a reconciliation for assets measured at fair value on a recurring basis for which the Company has utilized significant unobservable inputs (Level 3).

(Dollars in thousands)	Investment Securities Available for Sale
Balance, January 1, 2011	$ 62,079
Total gains/losses (realized/unrealized)	
Included in earnings	—
Included in other comprehensive income	(9,291)
Purchases	—
Sales	(8,293)
Issuances	—
Settlements	—
Redemptions	—
Interest	—
Other than temporary impairment expense	—
Capital deductions for operating expenses	—
Balance, December 31, 2011	$ 44,495
The amount of total gains (losses) for the period included in earnings attributable to the change in unrealized gains or losses relating to assets still held at December 31, 2011	$ —

Note M - FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK AND CONCENTRATIONS OF CREDIT RISK

The Bank is party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Such financial instruments are recorded in the financial statements when they become payable. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets. The contract or notional amounts of those instruments reflect the extent of involvement the Banks have in particular classes of financial instruments.

The Bank's exposure to credit loss in the event of non-performance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual or notional amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as they do for on-balance-sheet instruments.

BERKSHIRE BANCORP INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Note M - (continued)

Unless noted otherwise, the Bank does not require collateral or other security to support financial instruments with credit risk. The approximate contract amounts are as follows:

	December 31,	
	2011	2010
	(In thousands)	
Unused lines of credit	$9,707	$5,270
Commitments to extend credit	1,218	1,207
Standby letters of credit and financial guarantees written	491	139
	$11,416	$6,616
Interest rate caps-notional amount	$40,000	$40,000

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank holds residential or commercial real estate, accounts receivable, inventory and equipment as collateral supporting those commitments for which collateral is deemed necessary. The extent of collateral held for those commitments at December 31, 2011 varies up to 100%.

The Company defines the initial fair value of these letters of credit as the fee received from the customer. The maximum potential undiscounted amount of future payments of these letters of credit as of December 31, 2011 are $491,000 and they expire through 2012. Amounts due under these letters of credit would be reduced by any proceeds the Company would be able to obtain in liquidating the collateral for the loans, which varies depending on the customer.

The Bank grants loans primarily to customers in New York and its immediately adjacent suburban communities. Although the Bank has a diversified loan portfolio, a large portion of their loans are secured by commercial or residential real property. The Bank does not generally engage in non-recourse lending and typically will require the principals of any commercial borrower to obligate themselves personally on the loan. Although the Bank has diversified loan portfolios, a substantial portion of their debtors' ability to honor their contracts is dependent upon the economic sector. Commercial and standby letters of credit were granted primarily to commercial borrowers.

The Bank has entered into interest rate cap agreements in order to hedge its exposure to interest rate fluctuations, which are accounted for under the provisions of ASC 815, "Accounting for Derivative Instruments and Hedging Activities". The statement requires the Company to recognize all derivative instruments at fair value as either assets or liabilities. Financial derivatives are reported at fair value in other assets or other liabilities. For derivatives not designated as hedges, the gain or loss is recognized in current earnings. Amounts reclassed into earnings, when the hedged transaction culminates, are included in interest income.

BERKSHIRE BANCORP INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Note N - REGULATORY MATTERS

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory - and possible additional discretionary - actions by regulators that, if undertaken, could have a direct material effect on the Bank's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulations to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets, and of Tier 1 capital to average assets. Management believes that, as of December 31, 2011, the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2011, the Bank met all regulatory requirements for classification as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following table. There are no conditions or events since that date that management believes have changed the institution's category.

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can prompt certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators involving factors such as the risk weights assigned to assets and what items may be counted as capital. Regulators also have broad discretion to require any institution to maintain higher capital levels than otherwise required by statute or regulation, even institutions that are considered "well-capitalized" under applicable regulations.

New York banking regulations place certain restrictions on dividends paid by the Bank to the Company. The total amount of dividends which made by paid at any date is generally equal to the Bank's net profits for the year in which the payment is made, plus retained net profits for the previous two years subject to certain limits not generally relevant. The Bank's retained aggregate net income is $39.6 million for the two years ended December 31, 2011.

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BERKSHIRE BANCORP INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Note N - (continued)

The following table sets forth the actual and required regulatory capital amounts and ratios of, the Company and the Bank as of December 31, 2011 and 2010 (dollars in thousands):

	Actual		**For capital adequacy purposes**		**To be well capitalized under prompt corrective action provisions**	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2011						
Total Capital (to Risk-Weighted Assets)						
Company	$153,573	37.8 %	$32,503	≥8.0 %	$—	N/A
Bank	143,893	36.1 %	31,866	≥8.0 %	39,833	≥10.0 %
Tier I Capital (to Risk-Weighted Assets)						
Company	148,440	36.5 %	16,252	≥4.0 %	—	N/A
Bank	138,757	34.8 %	15,933	≥4.0 %	23,900	≥6.0 %
Tier I Capital (to Average Assets)						
Company	148,440	17.0 %	34,988	≥4.0 %	—	N/A
Bank	138,757	15.9 %	34,987	≥4.0 %	43,733	≥5.0 %

	Actual		**For capital adequacy purposes**		**To be well capitalized under prompt corrective action provisions**	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2010						
Total Capital (to Risk-Weighted Assets)						
Company	$105,939	22.6 %	$37,551	≥8.0 %	$—	N/A

Bank	96,426	21.0 %	36,682	≥8.0 %	45,853	≥10.0 %
Tier I Capital (to Risk-Weighted Assets)						
Company	100,072	21.3 %	18,776	≥4.0 %	—	N/A
Bank	90,566	19.8 %	18,341	≥4.0 %	27,512	≥6.0 %
Tier I Capital (to Average Assets)						
Company	100,072	11.4 %	35,126	≥4.0 %	—	N/A
Bank	90,566	10.8 %	33,602	≥4.0 %	42,003	≥5.0 %

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BERKSHIRE BANCORP INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Note O - CONDENSED FINANCIAL INFORMATION - PARENT COMPANY ONLY

The condensed financial information for Berkshire Bancorp Inc. (parent company only) is as follows:

CONDENSED BALANCE SHEETS

(In Thousands)

	December 31, 2011	2010
ASSETS		
Cash	$731	$2,278
Equity investment in subsidiaries	134,422	83,888
Investment in securities available for sale	2,799	4,079
Accrued interest receivable	38	38
Other assets	3,406	4,540
Total assets	$141,396	$94,823
LIABILITIES AND STOCKHOLDERS' EQUITY		
Subordinated debt	$22,681	$22,681
Other liabilities	3,187	509
Total liabilities	25,868	23,190
Stockholders' equity		
Common stock	1,444	770
Series A preferred stock	—	1
Additional paid-in capital	143,900	150,985
Accumulated deficit	(19,299)	(65,123)
Accumulated other comprehensive loss, net	(10,517)	(8,589)
Common stock in treasury, at cost	—	(6,411)
Total stockholders' equity	115,528	71,633
	$141,396	$94,823

BERKSHIRE BANCORP INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Note O - (continued)

CONDENSED STATEMENTS OF OPERATIONS

(In Thousands)

	For The Years Ended December 31, 2011	2010
INCOME		
Interest income from the Bank	$ 2	$ 1
Interest income	266	654
(Loss) gain on sales of investment securities	(155)	493
Other income	338	334
Total income	451	1,482
EXPENSES		
Salaries and employee benefits	373	370
Interest expense	668	668
Loss on termination of pension plan	—	1,871
Other expenses	808	1,329
Total expenses	1,849	4,238
Loss before income taxes and equity in undistributed net income of the Bank	(1,398)	(2,756)
Equity in undistributed net income (loss) of the Bank	51,630	(11,985)
Income (loss) before taxes	50,232	(14,741)
Provision (benefit) for income taxes	408	(1,251)
Net income (loss)	$ 49,824	$ (13,490)

BERKSHIRE BANCORP INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Note O - (continued)

CONDENSED STATEMENTS OF CASH FLOWS

(In Thousands)

	For The Years Ended December 31, 2011	2010
Operating activities:		
Net income (loss)	$49,824	$(13,490)
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:		
Loss (gain) on sales of investment securities	155	(494)
Equity in undistributed net (income) loss of the Bank	(51,630)	11,985
Equity in undistributed net income of East 39, LLC	(338)	(332)
Loss on termination of pension plan	—	1,871
Increase in other liabilities	(1,322)	(1,281)
Increase (decrease) in other assets	1,134	(327)
Net cash used in operating activities	(2,177)	(2,068)
Investing activities:		
Investment securities available for sale		
Sales and redemptions	838	2,222
Other	(208)	—
Net cash provided by investing activities	630	2,222
Financing activities:		
Dividends paid on preferred stock	—	(4,800)
Net cash used in financing activities	—	(4,800)
Net decrease in cash and cash equivalents	(1,547)	(4,646)
Cash and cash equivalents at beginning of year	2,278	6,924
Cash and cash equivalents at end of year	$731	$2,278
Schedule of non-cash financing activities:		

Dividends declared and not paid	$4,000	$—

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ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

Not Applicable.

ITEM 9A. Controls and Procedures

Disclosure Controls and Procedures.

As of the end of the period covered by this Annual Report on Form 10-K, the Company evaluated the effectiveness of the design and operation of its "disclosure controls and procedures" as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934 ("Disclosure Controls"). The Disclosure Controls are designed to allow the Company to reach a reasonable level of assurance that information required to be disclosed by the Company is recorded, processed, summarized and reported within the time period specified in the SEC's rules and forms and that any information relating to the Company is accumulated and communicated with management, including its principal executive/financial officer to allow timely decisions regarding required disclosure. The evaluation of the Disclosure Controls ("Controls Evaluation") was done under the supervision and with the participation of the Company's management, including the Chief Executive Officer ("CEO"), who is also the Chief Financial Officer ("CFO"). Based upon the Controls Evaluation, the CEO/CFO has concluded that as of December 31, 2011

the Disclosure Controls were effective.

Management's Report on Internal Control over Financial Reporting.

Management of the Company is responsible for establishing and maintaining adequate "internal control over financial reporting" for the Company as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934 ("Internal Control"). The Company's Internal Control is designed to provide reasonable assurance to the Company's management and Board of Directors regarding the preparation and fair presentation of published financial statements and the reliability of financial reporting.

Management of the Company, including the CEO/CFO, assessed the effectiveness of the Company's Internal Control as of December 31, 2011. In making this assessment, management used the criteria set forth by COSO in Internal Control-Integrated Framework. Based on its assessment, management concluded that, as of December 31, 2011, the Company's Internal Control was effective based on those criteria.

This Annual Report on Form 10-K does not include an attestation report of the Company's registered public accounting firm regarding Internal Control. The Company's Internal Control is not subject to attestation by the Company's registered public accounting firm pursuant to the provisions of the Dodd-Frank Act that permit the Company to provide only management's report in this Annual Report.

Limitations on the Effectiveness of Controls.

The Company's management, including the CEO/CFO, does not expect that its Disclosure Controls and/or its Internal Control will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs.

Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Changes in Internal Control over Financial Reporting.

In accordance with SEC requirements, the CEO/CFO notes that during the fiscal quarter ended December 31, 2011 no changes in the Company's Internal Control have occurred that have materially affected or are reasonably likely to materially affect the Company's Internal Control.

ITEM 9B. Other Information

Not Applicable.

PART III

ITEM 10. Directors, Executive Officers and Corporate Governance

The following are the current directors and executive officers of the Company:

Name	Age	Position(s)
Steven Rosenberg	63	President, Chief Executive Officer, Chief Financial Officer and Director
William L. Cohen	70	Director
Martin A. Fischer	74	Director
Moses Marx	76	Director
Randolph B. Stockwell	65	Director
Moses Krausz	71	President of The Berkshire Bank and Director
David Lukens	62	Executive Vice President, Chief Financial Officer of The Berkshire Bank

Mr. Rosenberg has served as President and Chief Executive Officer of the Company since March 1999 and as Vice President and Chief Financial Officer of the Company from April 1990 to March 1999. He continues to serve as Chief Financial Officer. Mr. Rosenberg was elected a director in May 1995. From September 1987 through April 1990, he served as President and Director of Scomel Industries, Inc., a company engaged in international marketing and consulting. Mr. Rosenberg is a director of The Cooper Companies, Inc. (a developer and manufacturer of healthcare products).

Mr. Cohen was elected a director in July 1993. He has served as the Chief Executive Officer of Andover Properties, LLC, a real estate development company specializing in self storage facilities, since November 2003, and has been a private investor for over five years. Mr. Cohen served as President, Chief Executive Officer and Chairman of the Board of The Andover Apparel Group, Inc., an apparel manufacturing company, from 1980 to 2000.

Mr. Fischer was elected a director on December 6, 2006. He has been the President and Chief Executive of Mount Carmel Cemetery Association, a New York State not-for-profit corporation since April 2001. Mr. Fischer was counsel to Warshaw, Burstein, Cohen, Schlesinger and Kuh, a New York City law firm, from 1987 until 2001 and served as President, Chief Operating Officer and a director of Kinney System, Inc. and The Katz Parking System, Inc. from 1981 to 1986. Mr. Fischer was appointed Commissioner of the New York State Insurance Fund in 1977 and served as its Chairman until January 1995.

Mr. Marx was elected a director in May 1995. Mr. Marx has been the Managing Member of United Equities Company LLC since 2000 and the General Partner in its predecessor, United Equities Company, since 1954, and General Partner in United Equities Commodities Company since 1972. He is also President of Momar Corp. All of these are private investment companies. Mr. Marx served as a director of The Cooper Companies, Inc. from 1995 to March 2010.

Mr. Stockwell was elected a director in July 1988. He has been a private investor for over five years. Since April 1999, Mr. Stockwell has served as President of Yachting Systems of America, LLC. In addition, he served in various capacities with the Community Bank, a commercial bank, from September 1972 to January 1987.

Mr. Krausz has held the position of President of the Bank since March 1992 and Chief Executive Officer since November 1993. He was elected a director of the Company in May 2007. Prior to joining the Bank, Mr. Krausz was Managing Director of SFS Management Co., L.P., a mortgage banker, from 1987 to 1992 and was President of UMB Bank and Trust Company, a New York State chartered bank, from 1978 to 1987.

Mr. Lukens has held the position of Senior Vice President and Chief Financial Officer of the Bank since December 1999 and Executive Vice President since December 2003. Prior to joining the Bank, Mr. Lukens was Senior Vice President and Chief Financial officer of First Washington State Bank, a New Jersey commercial bank, from 1994 to 1999 and was Vice President and Controller at the Philadelphia, PA branch of Bank Leumi Le-Israel B.M., an international commercial bank, from 1978 to 1994.

There are no family relationships (whether by blood, marriage or adoption) among any of the Company's current directors or executive officers.

At each annual meeting of stockholders, the successors to the directors then serving are elected to serve from the time of their election and qualification until the next annual meeting following their election or until their successors have been duly elected and qualified, or until their earlier death, resignation or removal. All of our current directors have been elected to serve until the annual meeting of stockholders to be held in 2012. The Company's officers, in their capacities as such, serve at the discretion of the Board of Directors.

Director Qualifications

In evaluating a director candidate, the Company, through its Board, seeks directors who represent a mix of backgrounds and experiences that it believes will enhance the quality of the Board's deliberations and decisions. Candidates are required to have substantial experience with commercial or financial companies, or shall have achieved a high level of distinction in their chosen professions. While the Board does not have a specific policy with regard to the consideration of diversity in identifying Board nominees, the Board seeks to maintain a diverse director mix that includes active or retired chief executive officers and senior executives and individuals with experience in law, finance and community banking. Finally, in considering candidates for director, all potential board members are expected to display the personal attributes necessary to be an effective director: integrity, sound judgement, ability to operate collaboratively, and commitment to the Company, its stockholders, employees and other constituencies. The Company's Board members represent a desirable mix of backgrounds, skills, and experiences, and they all share the personal attributes of effective directors described above and represent diverse viewpoints. The specific experience and qualifications of our Board members that contribute to the effectiveness of our Board and led to our conclusion that they should serve as Board members are discussed above.

The Board may, but has not, employed professional search firms (for which it would pay a fee) to assist it in identifying potential members of the Board of Directors with the desired qualifications.

Audit Committee Members, Financial Expert and Independence

Our Board of Directors has established an Audit Committee comprised of three independent directors, Messrs. William L. Cohen, Martin A. Fischer and Randolph B. Stockwell. All of the members of the Audit Committee meet the independence requirements under current NASDAQ corporate governance standards for companies whose securities are listed on NASDAQ. Based upon their education and relevant experience, our Board has determined that Messrs. Cohen and Stockwell each qualify as financial experts as defined by the Sarbanes-Oxley Act of 2002 and the rules of the Securities and Exchange Commission.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires the Company's executive officers (as defined therein), directors and persons owning more than ten (10%) percent of a registered class of the Company's equity securities to file reports of ownership and changes in ownership of all equity and derivative securities of the Company with the SEC. SEC regulations also require that a copy of all such Section 16(a) forms filed be furnished to the Company by the filer.

Based solely on a review of the copies of such forms and amendments thereto received by the Company, or on written representations from our executive officers and directors that no Forms 5 were required to be filed, we believe that during fiscal 2011, all Section 16(a) filing requirements applicable to our executive officers, directors and beneficial owners of more than ten (10%) percent of our Common Stock were met.

Corporate Code of Ethics

We have adopted a Corporate Code of Ethics that applies to the directors, officers and employees, including the senior management: the chief executive officer, chief financial officer, controller and persons performing similar functions, of Berkshire Bancorp Inc. and its subsidiaries. Copies of our Corporate Code of Ethics are available without charge upon written request to the Company, Attention President, at its principal executive office.

ITEM 11. Executive Compensation

Our Board of Directors has delegated primary authority for executive compensation to the three independent members of the Board, or Independent Directors, who, though not a formal compensation committee of the Board, act in such capacity.

Executive Compensation

The following table shows the compensation paid in or with respect to the periods indicated to the individual who served as our Chief Executive Officer and Chief Financial Officer for the fiscal year ended December 31, 2011 and to each of the other executive officers of the Bank whose total compensation was more than $100,000 during the fiscal year ended December 31, 2011 (our "named executive officers").

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Summary Compensation Table

Name and Principal Position	Year	Salary $	Bonus $	Nonqualified Deferred Compensation Earnings $	All Other Compensation $	Total $
Steven Rosenberg	2009	241,500	45,000	278,445	—	564,945
President, Chief Executive Officer and	2010	250,000	55,000	—	—	305,000
Chief Financial Officer	2011	250,000	55,000	—	—	305,000
Moses Krausz	2009	481,418	200,000	16,678	7,756	705,852
President and Chief Executive Officer	2010	513,123	225,000	15,149	6,653	759,925
of The Berkshire Bank	2011	538,779	250,000	15,907	6,551	811,237
David Lukens	2009	192,000	30,000	21,147	7,882	251,029
Executive Vice President and Chief	2010	193,920	30,000	5,818	6,555	236,293
Financial Officer of The Berkshire Bank	2011	199,738	30,000	5,992	6,619	242,349

Narrative To Summary Compensation Table

Mr. Rosenberg does not have an employment agreement with us. The amounts reported for Nonqualified Deferred Compensation Earnings includes only the change in the value of his benefit payable under our Retirement Income Plan which was terminated on December 31, 2009. Mr. Rosenberg does not participate in the Bank's 401(k) Plan or its Deferred Compensation Plan.

Mr. Krausz has an employment agreement with the Bank. The agreement expires on April 30, 2013 unless automatically renewed for up to three additional years as provided for in the agreement. The agreement provides for the payment to Mr. Krausz of a specified base salary with fixed annual increases, the payment of a discretionary bonus and participation in our employee benefit plans. There are no change in control provisions in Mr. Krausz's employment agreement. Mr. Krausz is a participant in the Bank's 401(k) Plan and its Deferred Compensation Plan. The amounts reported for Nonqualified Deferred Compensation Earnings includes only the earnings on the Deferred Compensation Plan. Mr. Krausz did not participate in the Retirement Income Plan. The amounts reported in All Other Compensation consists of contributions we made to Mr. Krausz's 401(k) account of $6,125, $6,227 and $7,350 in 2011, 2010 and 2009, respectively, and income associated with life insurance coverage.

Mr. Lukens has an employment agreement with the Bank. The agreement will expire on June 30, 2013 unless automatically renewed for up to three additional years as provided for in the agreement. The agreement provides for the payment to Mr. Lukens of a base salary and annual bonus, and participation in our employee benefit plans. There are no change in control provisions in Mr. Lukens' employment agreement. Mr. Lukens is a participant in the Bank's 401(k) Plan and its Deferred Compensation Plan. The amounts reported for Nonqualified Deferred Compensation Earnings includes the earnings on the Deferred Compensation Plan of $5,992, $5,818 and $6,569 in 2011, 2010 and 2009, respectively, and the change in the value of Mr. Lukens' benefit payable under our Retirement Income Plan of $14,578 in 2009. The amounts reported in All Other Compensation consists of contributions we made to Mr. Lukens' 401(k) account of $5,743, $5,679 and $6,687, in 2011, 2010 and 2009, respectively, and income associated with life insurance coverage.

1999 Stock Incentive Plan. Our 1999 Stock Incentive Plan terminated in March 2009. No options are outstanding and no options are available for future grant.

Post-Employment Compensation

Retirement Income Plan. Our Retirement Income Plan, a non-contributory defined benefit plan, was terminated on December 31, 2009.

Deferred Compensation Plan. The Bank's deferred compensation plan was established in July 2006 to provide for a systematic method by which key employees of the Bank may defer payment of not less than 3% and not more than 50% of his or her compensation that would otherwise be payable during the year. The Deferred Compensation Plan is intended to be a nonqualified and unfunded plan maintained primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees pursuant to Sections 201(2), 301(a)(3) and 401(a)(1) of the Employee Retirement Income Security Act of 1974, as amended.

On June 30 and December 31 of each year, account balances are credited with the applicable earnings rate, the highest deposit rate paid by the Bank on its generally available interest bearing deposit accounts (excluding time deposits), in effect at that time. Distributions from the Deferred Compensation Plan may be made upon (i) termination of employment, (ii) an unforeseeable emergency, (iii) death, (iv) disability, as defined under Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), and (v) a Change in Control Event, to the extent such distribution upon such Change in Control Event constitutes permissible payment under Section 409A of the Code.

Compensation of Directors

Director Compensation for the Fiscal Year Ended December 31, 2011.

Name	Fees Earned or Paid in Cash $	Total $
William L. Cohen	31,500	31,500
Moses Marx	27,500	27,500

Martin A. Fischer	31,500	31,500
Randolph B. Stockwell	30,500	30,500

Each director who is not also an employee receives a stipend of $25,000 per annum and $1,500 for each day during which he participates in a meeting of the Board or a Committee of the Board. Each of these directors also receives a fee of $1,000 for telephonic meetings of the Board or a Board Committee.

ITEM 12.Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The following table sets forth certain information as of March 1, 2012 with respect to the beneficial ownership of our Common Stock by (i) each person who is known by us to own beneficially more than 5% of our Common Stock, (ii) each of our directors and persons named in the Summary Compensation Table, and (iii) all executive officers and directors as a group, based on information obtained from such persons. The address for each beneficial owner, unless otherwise noted, is c/o Berkshire Bancorp Inc., 160 Broadway, New York, NY 10038

Title of Class	Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership		Percent of Class	
Common Stock	William L. Cohen	0			*
Common Stock	Martin A. Fischer	10,800			*
Common Stock	Moses Krausz	90,464	(1)		*
Common Stock	David Lukens	600			*
Common Stock	Moses Marx 160 Broadway New York, NY 10038	9,977,047	(2)	69.1	%
Common Stock	Steven Rosenberg	62,580			*
Common Stock	Randolph B. Stockwell	21,000			*
Common Stock	All executive officers and directors as a group (7 persons)	10,162,491		70.4	%
Common Stock	The George Karfunkel 2007 Grantor Retained Annuity Trust #1 c/o Jay Miller 430 East 57th Street New York, NY 10022	1,416,225		9.8	%
	* Less than 1%				

(1)Includes 2,100 shares owned by Mr. Krausz's spouse.

(2)Includes (i) 334,979 shares owned by Momar Corporation, (ii) 141,063 shares owned by Terumah Foundation, Inc. (iii) 157,261 shares owned by Marneu Holding Company, (iv) 10,681 shares owned by United Equities (Commodities) Company and (v) 190,284 shares owned by KF Investors LLC. Mr. Marx and KF Investors LLC entered into an agreement to act as a "group" within the meaning of Section 13(d)(3) of the Securities Exchange Act of 1934, as amended, for the purpose of acquiring, holding or disposing of shares of Common Stock of the Company.

Equity Compensation Plans

The equity compensation plan approved by security holders expired in March 2009. Therefore, no securities remain available for future issuance and no securities are to be issued upon exercise of outstanding options, warrants and rights.

ITEM 13. Certain Relationships and Related Transactions and Director Independence.

The Bank has made loans to certain of its directors and their affiliates and, assuming continued compliance with generally applicable credit standards, it expects to continue to make such loans. All of these loans (i) were made in the ordinary course of business, (ii) were made on substantially the same terms, including interest rates and collateral, as those available to other persons not related to the Company, and (iii) did not involve more than the normal risk of collectibility or present other unfavorable features.

The Bank has lease agreements with Bowling Green Associates, LP and Verda Realty, the principal owner of which is Mr. Marx, for commercial space to operate bank branches. We obtained an appraisal of the market rental value of each space from an independent appraisal firm and management believes that the terms of the leases, including the annual rent paid, $571,000 and $504,000 in fiscal 2011 and 2010, is comparable to the terms and annual rent that would be paid to non-affiliated parties in a similar commercial transaction for similar commercial spaces.

On October 31, 2008, the Company's Chairman of the Board purchased 30,000 Series A Preferred Shares for an aggregate purchase price of $30,000,000. On October 31, 2011, the Series A Preferred Shares were mandatorily converted into shares of the Company's Common Stock.

In April 2010, the Bank assigned its interest in real estate, that had previously secured a $13.5 million loan, to Momarm II Corporation ("Momarm") for $12.6 million, which represents the Bank's carrying value. Momarm is owned by immediate family members of the Company's and the Bank's Chairman of the Board, who are also immediate family members of two other directors of the Bank. The Bank received a fairness opinion with respect to the value received for the assignment and an independent appraisal of the real estate.

In April 2010, the Bank sold three loans that it had originally booked at $7.5 million to Momarm for an aggregate purchase price of $3.15 million, which represents the Bank's carrying value. The Bank received a fairness opinion with respect to the value received for the sale of each loan and an independent appraisal of the underlying assets.

In August 2010, the Bank sold to Terumah Foundation Inc., of which Mr. Marx is President and a Director, 77.273% interest in a loan for $1.7 million ,which represents 77.273% of the Bank's carrying value.

In December 2011, the Bank sold a loan to Farm Associates, of which the Company's and the Bank's Chairman of the Board and his immediate family members who serve as directors of the Bank are general partners, for approximately $4.5 million, which represented the Bank's carrying value.

See Item 1. Business - Transactions With Related Parties and Item 2. Properties for additional information.

Independence of Directors

Our board has determined that Messrs. William L. Cohen, Martin A. Fischer and Randolph B. Stockwell are independent under the independence standards of the NASDAQ Stock Market LLC.

The NASDAQ listing standards require that a majority of the members of a company's board of directors must qualify as independent unless the Company is a controlled company. A controlled company is a company in which more than 50% of the voting power is held by an individual, group or other company. The Company is a controlled company because Mr. Marx beneficially holds more than 50% of the voting power of the Company's common stock and the Company as such is not required to have a majority of the members of the board be independent.

ITEM 14. Principal Accounting Fees and Services

The Company's principal accountant is Grant Thornton LLP ("Grant Thornton"). The total fees for services rendered by Grant Thornton as of and for the years ended December 31, 2011 and 2010 were:

Services Rendered (1)	Fiscal Year Ended December 31, 2011	Fiscal Year Ended December 31, 2010
Audit Fees	$ 174,550	$ 486,452
Audit Related Fees: Professional services rendered for employee benefit plan audits, accounting assistance in connection with acquisitions and consultations related to financial accounting and reporting standards	—	—
Tax Fees: Tax consulting, preparation of returns	67,378	74,365
All Other Fees: Professional services rendered for corporate support	—	—

(1) The aggregate fees included in Audit Fees are fees billed for the fiscal years. The aggregate fees included in each of the other categories are fees billed in the fiscal year.

The Audit Committee has established its pre-approval policies and procedures, pursuant to which the Audit Committee approved the foregoing audit and permissible non-audit services provided by Grant Thornton LLP in 2011 and 2010. Consistent with the Audit Committee's responsibility for engaging our independent auditors, all audit and permitted non-audit services require pre-approval by the Audit Committee. The full Audit Committee approves proposed services and fee estimates for these services. The Audit Committee chairperson has been designated by the Audit Committee to approve any services arising during the year that were not pre-approved by the Audit Committee and services that were pre-approved. Service approved by the Audit Committee chairperson are communicated to the full Audit Committee at its next regular quarterly meeting and the Audit Committee reviews services and fees for the fiscal year at each such meeting. Pursuant to these procedures, the Audit Committee approved the foregoing audit and permissible non-audit services provided by Grant Thornton LLP.

PART IV

ITEM 15. Exhibits, Financial Statement Schedules.

(a) Documents filed as part of this Report:

(1) Financial Statements

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of December 31, 2011 and 2010

Consolidated Statements of Income for the Years Ended December 31, 2011 and 2010

Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2011 and 2010

Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2011 and 2010

Consolidated Statements of Cash Flows for the Years Ended December 31, 2011 and 2010

Notes to Consolidated Financial Statements

(2) Financial Statement Schedules

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Schedule Number	Description
None	

All schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are not applicable and, therefore, have been omitted.

(3) Exhibits

Exhibit Number	**Description**
2.1	Agreement and Plan of Reorganization, dated as of August 16, 2000, by and between Berkshire Bancorp Inc., Greater American Finance Group, Inc., The Berkshire Bank, GSB Financial Corporation and Goshen Savings Bank (incorporated by reference to the Companies Registration Statement on Form S-4 dated October 13, 2000.
3.1	Amended and Restated Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K dated March 30, 1999, and the Company's Quarterly Report on Form 10-Q for the Quarterly Period Ended June 30, 2004).
3.2	Certificate of Amendment to the Certificate of Incorporation of the Company effective December 15, 2008 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K dated December 16, 2008).
3.3	Certificate of Designations of the Series A Preferred Stock of the Company (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K dated November 5, 2008).
3.4	Amended and Restated By-laws of the Company (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K dated March 30, 1999).
10.1	Employment Agreement, dated as of May 1, 1999, between The Berkshire Bank and Moses Krausz (incorporated by reference to Exhibit 10.3 to the Company's Annual Report on Form 10-K for the Fiscal Year Ended December 31, 2000).+
10.2	Employment Agreement, dated as of January 1, 2001, between The Berkshire Bank and David Lukens (incorporated by reference to Exhibit 10.4 to the Company's Annual Report on Form 10-K for the Fiscal Year Ended December 31, 2000).+

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Exhibit

Number **Description**

10.3Lease Agreement, dated October 26, 1999, between Braun Management, Inc. as agent for Bowling Green Associates, L.P., and The Berkshire Bank (incorporated by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q for the Quarterly Period Ended March 31, 2001).

10.4Deferred Compensation Plan of The Berkshire Bank, effective July 1, 2006, (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the Quarterly Period Ended June 30, 2006).+

10.5Amendment No. 1 to Deferred Compensation of The Berkshire Bank, dated August 17, 2006 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the Quarterly Period Ended September 30, 2006).+

10.6Amendment No. 2 to Deferred Compensation of The Berkshire Bank, dated November 29, 2007 (incorporated by reference to Exhibit 10.9 to the Company's Annual Report on Form 10-K for the Fiscal Year Ended December 31, 2007).

10.7Amendment No. 3 to Deferred Compensation of The Berkshire Bank, dated December 31, 2008 (incorporated by reference to Exhibit 10.10 to the Company's Annual Report on Form 10-K for the Fiscal Year Ended December 31, 2008).+

10.8Amendment No. 5, dated as of December 2, 2011, to Employment Agreement, dated as of May 1, 1999, by and between The Berkshire Bank and Moses Krausz.

10.9Amendment No. 5, dated as of December 2, 2011, to Employment Agreement, dated as of January 1, 2001, by and between The Berkshire Bank and David Lukens.

21.Subsidiaries of the Company.

23.Consent of Independent Registered Public Accounting Firm

31.Certification of Principal Executive and Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.Certification of Principal Executive and Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101.The following materials from the Company's Annual Report on Form 10-K for the year ended December 31, 2011, formatted in Extensible Business Reporting Language (XBRL), pursuant to Rule 406T of Regulation S-T: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Stockholders' Equity and Comprehensive Income and (v) related notes to consolidated financial statements. Users of this data are advised pursuant to Rule 401 of Regulation S-T that the information contained in the XBRL documents is unaudited and these are not the official publicly filed financial statements of the Company.

+ Denotes a management compensation plan or arrangement.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BERKSHIRE BANCORP INC.

By: /s/ Steven Rosenberg
Steven Rosenberg
President, (Chief Executive Officer)

Date: March 30, 2012

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Steven Rosenberg Steven Rosenberg	President, (Chief Executive Officer, Principal Financial Officer and Principal Accounting Officer); Director	March 30, 2012
/s/ William L. Cohen William L. Cohen	Director	March 30, 2012
/s/ Martin A. Fischer Martin A. Fischer	Director	March 30, 2012
/s/ Moses Krausz Moses Krausz	Director	March 30, 2012
/s/ Moses Marx Moses Marx	Director	March 30, 2012
/s/ Randolph B. Stockwell Randolph B. Stockwell	Director	March 30, 2012

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