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# Commonwealth National sale
# Local bank to be acquired by Berkshire

**By Bob Kievra and Martin Luttrell TELEGRAM & GAZETTE STAFF**

**WORCESTER** — Pittsfield-based Berkshire Hills Bancorp Inc. will buy CNB Financial Corp, the parent of Commonwealth National Bank, in an all-stock deal valued at $19.5 million.

CNB President and Chief Executive Officer Charles R. Valade said he will remain with CNB, which will be rebranded under the Berkshire Hills name later this year.

Under the terms of the merger announced Wednesday night, CNB stockholders will receive .3696 shares of Berkshire Hills stock for each share of CNB stock. That is equivalent to $8.50 per CNB share, based on an assumed price of $23 per share for Berkshire Hills stock. Commonwealth National has about 680 stockholders and approximately 2.2 million shares outstanding.

“It’s a good deal in many regards,” Mr. Valade said yesterday. “There’s a lot of upside potential, and Berkshire pays a dividend.”

The sale price was slightly below the bank’s book value but was comparable with other recent bank deals, Mr. Valade said.

Commonwealth National was founded in 2001 after successfully raising $13.8 million from 750 investors. At the time it was the first new bank in Worcester since 1987, when Flagship Bank & Trust Co. opened.

Mr. Valade said the long-term plan was to grow Commonwealth National for five to seven years and then examine possible options. The bank would have had to raise additional capital to either grow organically or make its own acquisitions. That has become more difficult because of the faltering economy and credit crunch.

“Most of the capital-raising markets are turned off right now,” Mr. Valade said. “And capital is always something we were going to need.”

Mr. Valade said he expected no immediate changes for the bank’s 71 full- and part-time employees who work in six Central Massachusetts offices.

CNB reported a net loss for 2008 of $1.6 million, or 69 cents per diluted share, compared with net income of $397,000, or 17 cents per diluted share, for 2007. The loss in 2008 was because of a $3 million non-cash other-than-temporary impairment charge on investments in Fannie Mae and Freddie Mac preferred stock.

During a conference call yesterday, Michael P. Daly, president and chief executive officer of Berkshire Hills, said the transaction will be made final during the third quarter. Transaction costs are estimated at $4.5 million, he said.

“I’m excited on our entrance into the second-largest city in New England,” he said. “Worcester is a natural expansion for this franchise.”

Asked if there would be any changes in management or other personnel at Commonwealth National, Mr. Daly said there would be some changes, but held off on offering any specifics.

“There are a lot of great people there,” he replied. “In any acquisition there will be some displacement of workers. I don’t have details of that right now.”

Berkshire Hills, the parent company of Berkshire Bank, had total assets of $2.7 billion March 31, up 2 percent from Dec. 31. Berkshire Wednesday reported first-quarter earnings of $3.2 million, or 27 cents per share, compared with $6 million, or 58 cents per share, for the comparable period a year earlier.

An inverted to flat yield curve for much of 2007 limited Commonwealth National’s ability to make money in 2007, officials said. The bank’s net interest margin was pinched until the Federal Reserve began cutting interest rates in the third quarter of 2007. Net interest income is the difference between what the bank earns on loans and investments and what it pays to depositors and for borrowed funds.

Commonwealth National’s $239 million loan portfolio felt the affects of the recession last year. Net charge-offs were $1.3 million, up from $43,000 in 2007. Nonperforming assets at the end of 2008 totaled $4.3 million, up from $1.5 million on Dec. 31, 2007.

“For those types of measures, we’re below the norm for the country,” Mr. Valade said. “Over our time frame we really prospered in an environment that gave us some challenges,” he said.

**Gary H. Sherr, vice president of Carl P. Sherr & Co. in Worcester, said the merger is good for consumers and bolsters a Massachusetts-based bank.**

**“It’s certainly a surprise. You usually don’t see a lot of transactions in the banking industry these days unless it’s a forced marriage by the FDIC,” he said.**

**“On a broad stroke, it’s good for Massachusetts. There are not many local banks. This could easily have been an out-of-state bank or a large bank. From consumer perspective, it’s a win-win for a lot of folks.”**

**Mr. Sherr said shareholders who invested early in Commonwealth National may not break even, but the shareholders are getting a good premium.**

**“I can’t imagine any regulatory issues,” he said. “The stock is trading like it’s a done deal.”**

Laurie Hunsicker, an analyst at St. Louis-based Stifel Nicholas & Co., said the acquisition is a good business fit for Berkshire Hills.

“It’s a very good fit,” she said. “It takes them into a growth market that’s contiguous with their existing market. Heading east is a logical expansion.”

She said Commonwealth National had started to experience some credit issues, especially on the commercial construction side.

“It made sense for them to consider a sale,” she said.

In an all-stock transaction it is important which stock shareholders get, and Berkshire Hills will provide a good value for CNB shareholders.

“It’s important to consider whose currency they take,” she said. “They got Berkshire Hills stock at one and a half of book value. They are a best-of-breed bank, and they got their stock. They’re getting good currency.”

Shares of CNB closed yesterday at $8 per share, up 163 percent. Shares of Berkshire Hills were down 3.8 percent, closing at $22.56 a share.