

ISTAR FINANCIAL INC
Form DEF 14A
May 01, 2006
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
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istar financial inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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 - (3) Filing Party:
 - (4) Date Filed:

1114 Avenue of the Americas, 27th Floor
New York, New York 10036

April 30, 2006

Dear Shareholder:

We cordially invite you to attend our 2006 annual meeting of shareholders. We will hold the meeting at The Harvard Club of New York City, 35 West 44th Street, 3rd Floor, West Room, New York, New York on Wednesday, May 31, 2006 at 9:00 a.m. local time.

At the annual meeting, we will ask our shareholders to:

- (1) elect eight directors to the Board of Directors;
- (2) consider and vote upon a proposal to amend our charter;
- (3) consider and vote upon a proposal to approve the iStar Financial Inc. 2006 Long-Term Incentive Plan; and
- (4) consider and vote upon a proposal to ratify the appointment of PricewaterhouseCoopers LLP as our independent public accountants for the year ending December 31, 2006.

The attached Proxy Statement contains details of the proposals to be voted on at the annual meeting and other important matters. We encourage you to read the Proxy Statement carefully.

YOUR BOARD OF DIRECTORS HAS CONCLUDED THAT THE ELECTION OF THE EIGHT NOMINEES AS DIRECTORS, THE APPROVAL OF THE AMENDMENT OF OUR CHARTER, THE APPROVAL OF THE iSTAR FINANCIAL INC. 2006 LONG-TERM INCENTIVE PLAN AND THE RATIFICATION OF THE APPOINTMENT OF PRICEWATERHOUSECOOPERS LLP AS OUR INDEPENDENT PUBLIC ACCOUNTANTS ARE IN iSTAR FINANCIAL'S BEST INTERESTS AND THE BEST INTERESTS OF OUR SHAREHOLDERS. THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE **FOR** EACH OF THE NOMINEES FOR DIRECTOR AND **FOR** APPROVAL OF THESE PROPOSALS.

All shareholders are cordially invited to attend the annual meeting in person. Any shareholder attending the annual meeting may vote in person even if he or she previously returned a proxy.

Sincerely,

Jay Sugarman
Chairman of the Board and
Chief Executive Officer

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

NOTICE IS HEREBY GIVEN that the annual meeting of shareholders (Annual Meeting) of iStar Financial Inc., a Maryland corporation, will be held at The Harvard Club of New York City, 35 West 44th Street, 3rd Floor, West Room, New York, New York on Wednesday, May 31, 2006 at 9:00 a.m. local time, for the following purposes as further described in the accompanying proxy statement:

1. To elect to the Board of Directors (the Board) eight nominees as directors of iStar Financial, to hold office until the annual meeting of shareholders to be held in 2007 and when their successors are duly elected and qualify. The nominees to the Board are: Willis Andersen, Jr., Glenn R. August, Robert W. Holman, Jr., Robin Josephs, John G. McDonald, George R. Puskar, Jay Sugarman and Jeffrey A. Weber.
2. To consider and vote upon a proposal to amend iStar Financial s charter.
3. To consider and vote upon a proposal to approve the iStar Financial Inc. 2006 Long-Term Incentive Plan.
4. To consider and vote upon a proposal to ratify the appointment of PricewaterhouseCoopers LLP as our independent accountants for the fiscal year ending December 31, 2006.
5. To transact such other business as may properly come before the Annual Meeting or any postponement or adjournment of the meeting.

The Board has fixed the close of business on April 3, 2006 as the record date for the determination of shareholders entitled to receive notice of and to vote at the Annual Meeting or any postponement or adjournment of the meeting. Holders of record of our common stock, par value \$.01 per share (Common Stock) and 8.00% Series D preferred stock (Series D Preferred Stock) at the close of business on that day will be entitled to vote at the Annual Meeting.

By Order of the Board of Directors

Geoffrey M. Dugan
Secretary
New York, NY
April 30, 2006

WHETHER OR NOT YOU EXPECT TO ATTEND THE ANNUAL MEETING, TO ENSURE YOUR REPRESENTATION AT THE ANNUAL MEETING, PLEASE MARK, SIGN, DATE AND RETURN THE ENCLOSED PROXY CARD AS PROMPTLY AS POSSIBLE IN THE POSTAGE PREPAID ENVELOPE ENCLOSED FOR THAT PURPOSE.

1114 Avenue of the Americas, 27th Floor
New York, New York 10036

PROXY STATEMENT
Annual Meeting of Shareholders
To Be Held May 31, 2006

We are sending this proxy statement to holders of our common stock, par value \$.01 per share (Common Stock), and holders of our 8.00% Series D preferred stock (Series D Preferred Stock) on or about April 30, 2006 in connection with the solicitation by our Board of Directors of proxies to be voted at our 2006 annual meeting of shareholders (the Annual Meeting) or at any postponement or adjournment of the Annual Meeting. Our Common Stock includes both our regular Common Stock and our high performance common stock. Our Common Stock is listed on the New York Stock Exchange (NYSE) and is traded under the symbol SFI.

This proxy statement is accompanied by a copy of our Annual Report to Shareholders for the year ended December 31, 2005. Additional copies of the Annual Report including our financial statements at December 31, 2005 may be obtained at our website at www.istarfinancial.com, or by contacting our Investor Relations department at (212) 940-9400, 1114 Avenue of the Americas, 27th Floor, New York, NY 10036. Copies will be furnished at no additional expense.

About the Meeting

Who is entitled to vote at the meeting?

Only holders of record of our Common Stock and our Series D Preferred Stock at the close of business on April 3, 2006 are entitled to receive notice of and to vote at the Annual Meeting or at any postponement or adjournment of the meeting. On the record date, there were 114,699,208 issued and outstanding shares of Common Stock and 4,000,000 issued and outstanding shares of Series D Preferred Stock.

What constitutes a quorum?

The presence, either in person or by proxy, of the holders of a majority of the voting power of the outstanding Common Stock and Series D Preferred Stock, considered as a single class, on the record date is necessary to constitute a quorum at the Annual Meeting.

What are the voting rights of shareholders and what vote is needed to approve each proposal?

Each shareholder is entitled to one vote for each share of regular Common Stock registered in the shareholder's name on the record date and 0.25 votes for each share of high performance common stock or Series D Preferred Stock registered in the shareholder's name on the record date. A plurality of votes cast of the outstanding Common Stock and Series D Preferred Stock, all voting as one class, is required to elect each nominee as director. An affirmative vote of a majority of the votes entitled to be cast by the holders of our Common Stock and Series D Preferred Stock, all voting as one class, is required for the approval of the proposed charter amendment. An affirmative vote of a majority of the votes cast at the meeting by holders of our Common Stock and Series D Preferred Stock, all voting as one class, is required for the approval and ratification of each other matter, provided that, in the case of the proposal to approve the 2006 Long-Term Incentive Plan, at least a majority of the outstanding shares of Common Stock cast votes on the proposal.

How is my vote counted?

If you properly execute a proxy in the accompanying form, and if we receive it prior to voting at the Annual Meeting, your votes will be cast in the manner you specify on the proxy. If you submit a properly executed proxy but fail to specify how your votes should be cast, your votes will be cast FOR the proposals and as recommended by the Board with regard to all other matters in its discretion.

Votes cast by proxy or in person at the Annual Meeting will be tabulated by the election inspectors appointed for the meeting, who will determine whether or not a quorum is present. The election inspectors will treat abstentions as shares that are present and entitled to vote for purposes of determining the presence of a quorum but as unvoted for purposes of determining the approval of any matter submitted to the shareholders for a vote. If your shares are held by a broker, bank or other nominee (i.e., in street name), you will receive instructions from your nominee which you must follow in order to have your shares voted. Such shareholders who wish to vote in person at the meeting will need to obtain a proxy form from the broker, bank or other nominee that holds their shares of record. If a broker indicates on the proxy that it does not have discretionary authority as to certain shares to vote on a particular matter, those shares will be considered as present for purposes of determining a quorum but will not be considered votes cast.

Can I change my vote after I submit my proxy card?

If you submit a proxy, you may revoke it at any time before it is exercised by giving written notice to our Secretary expressly revoking the proxy, by signing and forwarding to us a later dated proxy, or by attending the Annual Meeting and personally casting your votes at the meeting.

Who pays the costs of soliciting proxies?

We will pay the costs of soliciting proxies from our shareholders. In addition to solicitation by mail, certain of our directors, officers and regular employees may solicit the return of proxies by telephone, facsimile, personal interview or otherwise without being paid additional compensation. We will also reimburse brokerage firms and other persons representing the beneficial owners of our shares for their reasonable expenses in forwarding proxy solicitation material to the beneficial owners in accordance with the proxy solicitation rules and regulations of the Securities and Exchange Commission (SEC) and the NYSE. Georgeson Shareholder Communications has been engaged to solicit proxies on our behalf for a fee of \$8,000 plus expenses.

PROPOSAL 1:

ELECTION OF DIRECTORS

In accordance with the provisions of our charter, directors are elected annually and serve until their successors are duly elected and qualify.

All of the nominees for director are presently directors. If a nominee becomes unavailable to serve as a director for any reason, the persons named as proxy holders on the enclosed proxy card will cast all the votes they are entitled to cast for the person, if any, who may be designated by the Board to replace that nominee. At this time, the Board has no reason to believe that any nominee will be unavailable to serve as a director if elected.

All of the nominees for director, other than Mr. Sugarman and Mr. August, are independent within the standards prescribed by the NYSE.

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The following table sets forth the name, age and the position(s) with us (if any) currently held by each person nominated as a director:

Name	Age	Title
Jay Sugarman(1)	43	Chairman and Chief Executive Officer
Willis Andersen, Jr.(2)(3)	74	Lead Director
Glenn R. August	44	Director
Robert W. Holman, Jr.(1)(2)	62	Director
Robin Josephs(2)(4)	46	Director
John G. McDonald(3)(4)	68	Director
George R. Puskar(1)(3)	62	Director
Jeffrey A. Weber(4)	41	Director

- (1) Member of Investment Committee.
- (2) Member of Audit Committee.
- (3) Member of Nominating and Governance Committee.
- (4) Member of Compensation Committee.

Jay Sugarman is our Chairman of the Board and Chief Executive Officer. Mr. Sugarman has served as one of our (and our predecessor s) directors since 1996 and Chief Executive Officer since 1997. Through a series of innovative investment strategies, Mr. Sugarman has built iStar Financial into one of the leading providers of custom-tailored financial solutions to high-end private and corporate owners of real estate, growing its total market capitalization from under \$50 million to over \$10 billion. Previously, Mr. Sugarman founded and was co-general partner of Starwood Mezzanine Investors, L.P., a private investment partnership specializing in structured real estate finance. Prior to forming Starwood Mezzanine, Mr. Sugarman managed diversified investment funds on behalf of the Burden family, a branch of the Vanderbilts, and the Ziff family. While in that position, he was jointly responsible for the formation of Starwood Capital Group L.P., a leading private real estate investment firm, and the formation of HBK Investments, one of the nation s largest multi-strategy trading operations. Mr. Sugarman received his undergraduate degree summa cum laude from Princeton University, where he was nominated for valedictorian and received the Paul Volcker Award in Economics, and his M.B.A. with highest distinction from Harvard Business School, graduating as a Baker Scholar and recipient of the school s academic prizes for both finance and marketing.

Willis Andersen, Jr. has served as one of our directors since November 1999. Previously, Mr. Andersen served as a director of TriNet Corporate Realty Trust, Inc. (TriNet), a company that we acquired in 1999, since June 1993. Mr. Andersen serves as our Lead Director, with duties that include presiding at all executive sessions of the independent directors and serving as principal liaison between the Chairman and the independent directors. Mr. Andersen is also chairman of our Audit Committee. He is a real estate and REIT industry consultant with over 35 years of experience as an advisor, financial consultant and principal in the real estate industry. Mr. Andersen currently specializes in advisory work for publicly-traded real estate companies. Mr. Andersen s real estate career has involved work with Allied Properties Inc. of San Francisco; Bankoh Advisory Corp. of Honolulu; RAMPAC and ICM Property Investors, Inc., which were formerly NYSE-listed REITs, and Bedford Properties, Inc., a commercial property investment and development firm. He is an active member of the National Association of Real Estate Investment Trusts, and is a former governor and past president (1980-81) of this organization. He received his B.A. from the University of California at Berkeley.

Glenn R. August has served as one of our directors since May 2005. Mr. August is the President and Senior Partner of Oak Hill Advisors, L.P. and supervises all investment, trading and operational activities. Mr. August joined Oak Hill s predecessor in 1987 as a co-founder of Acadia Partners. Since then, he has been responsible for more than \$25 billion

of investments in leveraged loans, high yield bonds and

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distressed securities. In addition, he co-founded all of the Oak Hill leveraged securities investment partnerships including Oak Hill Securities Fund I and II, Oak Hill Credit Partners I, II, III and IV, Oak Hill Credit Alpha Fund and Oak Hill Credit Opportunities Fund. Mr. August is also a Managing Partner of the advisor to Oak Hill Special Opportunities Fund, a \$500 million investment partnership focused on investments in distressed companies. Mr. August previously worked in the mergers and acquisitions department at Morgan Stanley in New York and London. He earned an M.B.A. from Harvard Business School, where he was a Baker Scholar, and a B.S. from Cornell University. He currently serves on the Board of Directors of TeleCity Group plc, the 92nd St. Y and The Mount Sinai Children's Center Foundation.

Robert W. Holman, Jr. has served as one of our directors since November 1999. Mr. Holman was the co-founder of TriNet and served as its chief executive officer, co-chairman and chairman of the board. He was chief executive officer and chairman of TriNet's predecessor, Holman/Shidler Corporate Capital, Inc., for ten years. Mr. Holman co-founded and was a senior executive and director of Watkins Pacific Corporation, a multi-national conglomerate. Additionally, Mr. Holman has served as a senior executive, director, owner or board advisor for numerous companies in the United States, Great Britain, Australia and Mexico in the finance, real estate, internet commerce, construction, building materials and travel industries. Currently, he is the chairman of the board and lead director of Amerivest Properties, Inc. and serves as the chairman of their compensation committee and as a member of their investment committee. He holds a B.A. degree in international economics from the University of California at Berkeley, an M.A. degree with honors from Lancaster University in England, where he was a British Council Fellow, and did post-graduate work at Harvard University where he was awarded a Loeb Fellowship.

Robin Josephs has served as one of our (and our predecessor's) directors since March 1998. Ms. Josephs is chairperson of our Compensation Committee. Ms. Josephs is the managing director of Ropasada, LLC, a private investment and consulting firm. Ms. Josephs was a senior executive with Goldman Sachs from 1986 to 1996 in various capacities. Prior to working at Goldman, Ms. Josephs served as an analyst for Booz Allen & Hamilton Inc. in New York from 1982 to 1984. She currently serves as a director of Plum Creek Timber Co., Inc. Ms. Josephs received a B.S. degree in economics from the Wharton School and a M.B.A. from Columbia University. Ms. Josephs is co-chair of the Reunion Committee at University of Pennsylvania and a trustee of the University of Chicago Cancer Research Foundation.

John G. McDonald has served as one of our directors since November 1999. Previously, Professor McDonald served as a director of TriNet since June 1993. Professor McDonald is chairman of our Nominating and Governance Committee. He is the Stanford Investors Professor of Finance in the Graduate School of Business at Stanford University, where he has taught since 1968. Professor McDonald has taught M.B.A. courses and executive programs in subject areas including investment management, private equity, venture capital and corporate finance. He currently serves as a director of Scholastic Corporation, Varian, Inc., Plum Creek Timber Co., Inc. and eight mutual funds managed by Capital Research and Management Company.

George R. Puskar has served as one of our directors since November 1999. Previously, Mr. Puskar served as a director of TriNet since January 1998. Mr. Puskar is chairman of our Investment Committee. From June 1997 until June 2000, Mr. Puskar served as chairman of the board of Lend Lease Real Estate Investments (formerly known as ERE Yarmouth), the U.S. real estate unit of Lend Lease Corporation, an international financial services and real estate company based in Sydney, Australia. From 1988 until June 1997, Mr. Puskar was chairman and chief executive officer of Equitable Real Estate Investment Management, Inc., where he was responsible for directing the business operations of a full service commercial real estate investment management company with approximately \$30 billion in assets under management. Prior to its acquisition by Lend Lease Corporation in June 1997, Equitable Real Estate Investment Management, Inc. operated as a subsidiary of The Equitable Life Assurance Society of the United States. Mr. Puskar is a member of the Counselors of Real Estate. Mr. Puskar currently serves as the chairman of Solutions Manufacturing, Inc., a manufacturer of electronic components based in Rockledge, Florida, and serves as a director of New Plan Excel Realty Trust, Inc. Mr. Puskar has

previously served as a member of the board of directors of Carr Real Estate Investment Trust, a NYSE-listed REIT, from 1993 to 1997, and on an advisory board at Georgia State University. Mr. Puskar has also served on the boards of the Urban Land Institute, the International Council of Shopping Centers, the National Council of Real Estate Fiduciaries and the National Realty Committee, and as chairman of a campaign to endow a real estate chair at Clark Atlanta University/Morehouse College. Mr. Puskar received a B.A. degree from Duquesne University.

Jeffrey A. Weber has served as a director of iStar Financial since June 2003. Mr. Weber is the president of York Capital Management, a multi-billion dollar event-driven investment management firm organized in 1991 with offices in New York, London and Singapore. Mr. Weber is a director of the York Enhanced Strategies Fund, LLC, a \$650 million RIC and market value CDO. Mr. Weber is a director of the Burden Center for the Aging, Inc. and serves on the Advisory Board of the Department of Medicine of Mount Sinai Medical Center. Prior to his current position, Mr. Weber was the president and chief executive officer of William A.M. Burden & Co., L.P. where his tenure spanned twelve years. Mr. Weber also worked at Chemical Venture Partners, the venture capital and leveraged buyout arm of Chemical Bank, and in the corporate finance department of Drexel Burnham Lambert Incorporated. Mr. Weber holds a B.A. degree from Williams College and an M.B.A. from Harvard Business School.

Recommendation Regarding the Election of Directors

The Board recommends that you vote FOR the eight named nominees to be elected as our directors.

PROPOSAL 2:

AMENDMENT OF OUR CHARTER TO MODIFY THE PURPOSE

PROVISIONS OF ARTICLE III AND RELATED MODIFICATIONS

We are submitting to our shareholders for their approval a proposal to amend our charter in order to eliminate certain potential limitations contained in Article III(b) of our charter on the types of investments we may make and to make certain other modifications. Our charter currently contains both a general description of our purpose and a more limited description of our primary purpose. The general purpose clause, which is contained in Article III(a) of our charter, provides that we may engage in any lawful act or activity (including, without limitation or obligation, engaging in business as a REIT) for which corporations may be organized under the General Corporation Laws of the State of Maryland. Article III(b) of our charter further provides as follows:

(b) The primary purposes of the Corporation include to acquire a diversified portfolio of debt and/or debt like interests in real estate and/or real estate related assets, including (i) originating mortgage loans and/or acquiring mortgage loans or acquiring securities collateralized, in whole or in part, by such mortgage loans, as well as making equity investments in real estate and real estate-related assets, (ii) acquiring direct or indirect interests in short term, medium and long-term real estate-related debt securities and mortgage interests, which may include warrants, equity participations or similar rights incidental to a debt investment by the Corporation, (iii) making, holding and disposing of purchase money loans with respect to assets sold by the Corporation, and (iv) acquiring positions in non-performing and sub-performing debt for the purpose of either restructuring it as performing debt or if such efforts are unsuccessful, of obtaining shortly thereafter primary management rights over or equity interests in the underlying assets securing such debt (the Diversified Portfolio). Such investments may incorporate a variety of real property equity and financing techniques, including, without limitation, partnerships, joint ventures, purchase and leasebacks, land purchase-leases, net lease financings, purchase and installment salebacks, and Mortgages. The Corporation's authority with respect to the Diversified Portfolio includes the power to acquire, hold, own, develop, redevelop, construct, improve, maintain, operate, manage, sell, lease, rent, transfer, encumber, mortgage, convey, exchange and otherwise dispose of all or part of the

Diversified Portfolio and the Diversified Portfolio may be held by the Corporation directly or indirectly.

We propose amending our charter to repeal this subsection (b) and retain only the general purpose clause in subsection (a). While the language of subsection (b) encompasses the types of instruments on which we have primarily focused and expect to continue to focus in the foreseeable future, we believe that it is more customary for publicly-traded companies in our industry to have a general purpose clause without further definition of the company's primary purpose. As a finance company that seeks to provide custom-tailored financing solutions to its customers, we wish to be able to continue to develop and explore a variety of investment opportunities, without concern for whether the investments fall squarely within the types of investments specifically described in Article III(b). The limitations of Article III(b) were originally put in place at the inception of our predecessor company at the request of the controlling shareholders of the predecessor. These controlling shareholders, who no longer hold any investment in our company, were two opportunity funds that were formed to invest solely in the types of investments described in Article III(b). As a large, publicly-traded company involved in an increasingly dynamic industry, it is appropriate for our charter to permit us to make investments that we believe will meet our business objectives, without restriction on the particular form of the investments.

Consistent with the proposed amendment eliminating Article III(b), we also propose amending Article VIII, which describes our investment policy, to repeal the first paragraph of subsection (a). The first paragraph of Article VIII(a) of our charter provides as follows:

(a) While the Directors are authorized, pursuant to Article VI, to invest the Corporation Assets in a wide variety of investments, it is the present intention of the Corporation that it shall be a principal investment objective and policy of the Corporation to invest the Corporation Assets in the Diversified Portfolio.

Upon the elimination of Article III(b), as proposed, the reference in Article VIII(a) to the Diversified Portfolio will no longer be necessary or relevant. For the reasons described above, we believe it is appropriate to repeal this paragraph to eliminate ambiguity and potential restrictions on our investment activities.

Lastly, we propose amending our charter to repeal two other provisions that are no longer applicable:

- Article III(c) prohibits certain activities unless the provisions of certain non-competition agreements involving Starwood Capital Group, L.P. are amended, terminated or waived. Starwood Capital Group, L.P. was formerly affiliated with controlling shareholders of our predecessor company, which no longer hold any investment in the company. Starwood Capital Group, L.P. has not had any involvement with our company for several years and these non-competition agreements are no longer in effect. Accordingly, it is no longer necessary or appropriate for our charter to contain any reference to these agreements. Article III(c) provides as follows:

(c) Without the amendment, termination or waiver of provisions of certain non-competition agreements between Starwood Capital Group, L.P. and Starwood Hotels & Resorts, Inc., a publicly traded hotel corporation and Starwood Hotels & Resorts Worldwide, Inc., the Corporation is prohibited from: (i) making investments in loans collateralized by hotel assets where it is anticipated that the underlying equity will be acquired by the debt holder within one (1) year from the acquisition of such debt, (ii) acquiring equity interests in hotels (other than acquisitions of warrants, equity participations or similar rights incidental to a debt investment by the Corporation or that are acquired as a result of the exercise of remedies in respect of a loan in which the Corporation has an interest) or (iii) selling or contributing to or acquiring any interests in Starwood Hotels & Resorts, Inc., including debt positions or equity interests obtained by the Corporation under, pursuant to or by reason of the holding of debt positions.

- Article VI(g) of our charter requires that a stated minimum number of our directors must not be affiliated with Starwood Capital Group, L.P. Since Starwood Capital Group, L.P. has not had any involvement with our company for several years, this provision is also no longer necessary or appropriate. Article VI(g) provides as follows:

(g) A minimum of the greater of (i) 33-1/3% of the total number of Directors or (ii) three (3) members of the Board and the Executive Committee (as established in the Bylaws) of the Board shall be Persons who are not Affiliates of Starwood Capital Group, L.L.C.; provided, however, that if at any time the number of Directors or members of the Executive Committee who are not Affiliates of such Person becomes less than the minimum number set forth above, whether because of the death, resignation, removal, or change in affiliation of one or more Directors or members of the Executive Committee or otherwise, then such requirement shall not be applicable for a period of ninety (90) days after such event occurs, during which period the continuing Directors or Director then in office shall appoint, pursuant to paragraph (b) of Article VI, a sufficient number of other individuals as Directors or as members of the Executive Committee so that again a minimum of the greater of (i) 33-1/3% of the total number of Directors or (ii) three (3) members of the Board and the Executive Committee then in office are not Affiliates of such Person. The Directors shall at all times endeavor to comply with the requirement of this paragraph (i) of Article VI as to independence, but failure so to comply with such requirement shall not affect the validity or effectiveness of any action of the Directors or of the Executive Committee.

The proposed charter amendments would not affect our REIT status, nor would they change our focus away from being the leading publicly traded finance company focused primarily on the commercial real estate industry. We intend to continue to primarily provide custom tailored financing to high end private and corporate owners of real estate, including senior and mezzanine real estate debt, senior and mezzanine corporate capital, and corporate net lease financing. However, we believe that modifying our charter as proposed will provide us with additional flexibility to adapt our products and investments to meet the needs of our customers, ultimately for the benefit of our shareholders.

The proposed amendments, if approved by shareholders, will become effective on the date the amendments are filed with the Maryland Department of Assessments and Taxation. It is anticipated that the appropriate filing to effect the amendments will be made as soon after the Annual Meeting as practicable.

Recommendation Regarding Amendment of Our Charter

The Board of Directors has approved and recommends that shareholders vote FOR the proposal to amend our charter.

PROPOSAL 3:

APPROVAL OF iSTAR FINANCIAL INC.

2006 LONG-TERM INCENTIVE PLAN

The Board of Directors believes that the adoption and approval of a new long-term stock incentive plan will facilitate our continued use of long-term equity-based incentives and rewards for the foreseeable future and is in the best interests of the Company and our shareholders. We expect equity-based incentives to continue to comprise an important part of the compensation packages needed to provide long-term incentives and rewards to those individuals responsible for our success and to attract qualified executives, key employees, directors and consultants to our company. Our current Long-Term Incentive Plan (the 1996 Plan) was originally adopted in 1996 and is scheduled to expire in March 2008. As of December 31, 2005, a total of approximately 981,000 shares remain available for awards under the 1996 Plan. During the first quarter of 2006, awards consisting of approximately 440,000 restricted stock units were granted to officers and other employees, as a result of which approximately 541,000 shares currently remain available under the 1996 Plan.

Accordingly, the Board of Directors has approved, subject to the approval of our shareholders, the iStar Financial Inc. 2006 Long-Term Incentive Plan (the Plan). Shareholder approval of the Plan will

help ensure that we will have a sufficient number of long-term equity-based incentives and rewards to issue in the future to our employees and other eligible participants. In addition, shareholders are being asked to approve the Plan to ensure, for federal tax purposes, the deductibility of compensation recognized by certain participants in the Plan which may otherwise be limited by Section 162(m) of the Internal Revenue Code (the Code). Section 162(m) of the Code, under certain circumstances, causes compensation in excess of \$1 million to an employee in a year not to be deductible to the employer.

Summary of the Plan

The material features of the Plan are summarized below. This summary of the plan provisions is qualified in its entirety by reference to the full text of the Plan, a copy of which is attached to this proxy statement as Exhibit A. To the extent that there is a conflict between this summary and the Plan, the Plan shall govern. Capitalized terms used but not defined herein shall have their meanings as defined in the Plan.

Purpose

The purpose of the Plan is to provide equity-based incentives as a means of attracting and retaining qualified key employees, directors, officers, advisors, consultants and other personnel and encouraging them to increase their efforts to make our business more successful whether directly or through our subsidiaries or other affiliates. Awards under the Plan may be in the form of options, restricted stock, phantom shares, dividend equivalent rights or other forms of equity-based compensation. We will consider awards pursuant to the Plan in light of our overall compensation philosophy and competitive conditions in the marketplace.

Duration

Awards may be granted under the Plan until the 10th anniversary of the date on which it is approved by our shareholders. However, the Plan may be terminated at any time prior to that date by the Board. No awards have been made under the Plan prior to its approval by our shareholders.

Administration

The Plan will be administered by the Compensation Committee of our Board. If no committee exists, the functions of the Compensation Committee will be exercised by the Board. Nevertheless, any grants to members of the Compensation Committee will be made and administered by the Board rather than the Compensation Committee.

The Compensation Committee has the full authority to administer and interpret the Plan, to authorize the granting of awards, to determine the eligibility of a person to receive an award, and to determine the number of shares of Common Stock to be covered by each award (subject to the individual participant limitations provided in the Plan). The award agreement will contain other terms, provisions and conditions not inconsistent with the Plan, as determined by the Compensation Committee. The Compensation Committee may (subject to such considerations as may arise under Section 16 of the Exchange Act, or under other corporate, securities or tax laws) take any steps it deems appropriate, that are not inconsistent with the purposes and intent of the Plan, to establish performance-based criteria applicable to awards otherwise permitted to be granted under the Plan, and to attempt to procure shareholder approval with respect thereto, to take into account the provisions of Section 162(m) of the Code.

The Compensation Committee, in its discretion, may delegate to our chief executive officer all or part of the Compensation Committee's authority and duties with respect to awards; however, the Compensation Committee may not delegate its authority and duties with respect to awards that have been, or will be, granted to our chief executive officer. Any such delegation by the Compensation Committee may, in the sole discretion of the Compensation Committee, include a limitation as to the amount of awards that may be awarded during the period of the delegation and may contain guidelines as to the determination of the option exercise price, or price of other awards and the vesting criteria. The Compensation Committee may revoke or amend the terms of a delegation at any time but such action shall not invalidate any prior actions of the Compensation Committee's delegate that were consistent with the terms of the Plan.

Eligibility and Types of Awards

Persons who are eligible to be granted awards under the Plan are key employees, directors, officers, advisors, consultants or other personnel of our company and our subsidiaries or other persons expected to provide significant services (of a type expressly approved by the Compensation Committee as covered services for these purposes) to us or our subsidiaries, joint venture affiliates or other entities designated in the discretion of the Compensation Committee, or employees of the foregoing. The Compensation Committee generally determines eligibility for awards under the Plan.

Available Shares

Subject to adjustment upon certain corporate transactions or events, a maximum of 4,550,000 shares of Common Stock may be subject to stock options, shares of restricted stock, phantom shares, dividend equivalent rights and other equity-based awards under the Plan (including shares that would have been otherwise issuable under the 1996 Plan) at the time of the award. In addition, subject to adjustment upon certain corporate transactions or events, a maximum of 1,000,000 shares of Common Stock may underlie awards of incentive stock options. The maximum number of shares of Common Stock that may underlie awards, other than options, in any one year to any person, may not exceed 1,000,000. In addition, subject to adjustment upon certain corporate transactions or events, a participant may not receive options for more than 1,000,000 shares of our Common Stock in one year. In the event an option or other award granted under the Plan is forfeited or canceled, is settled in cash, including the settlement of tax withholding obligations using shares of Common Stock, or otherwise expires or terminates, or if shares of Common Stock are delivered in full or partial payment of the exercise price in connection with an option, the shares subject to any portion of such award will again become available for the issuance of additional awards.

Stock Options

Other than as specifically set forth under the terms of the Plan, the Compensation Committee shall determine the terms of specific options, including whether options shall constitute incentive stock options. The award agreement evidencing an award of options will specify the extent to which, and period during which, an option may be exercised after termination of employment. Generally, an option cannot be exercised after a termination of employment (or other service) to the extent it was not exercisable at the time of termination. The exercise price of an option shall be determined by the Compensation Committee and reflected in the applicable award agreement, but unless otherwise determined by the Compensation Committee, in no event shall the exercise price be less than 100% of the fair market value of a share of Common Stock on the date of grant. The exercise price with respect to incentive stock options may not be lower than 100%, or 110% in the case of an incentive stock option granted to a 10% shareholder, of the fair market value of our Common Stock on the date of grant. The aggregate fair market value (determined as of the date the option is granted) of the shares for which any option holder may be awarded incentive stock options that become exercisable for the first time during any calendar year (under the Plan or any other stock option plan required to be taken into account under Section 422(d) of the Code) may not exceed \$100,000. Each option will be exercisable for the period or periods specified in the award agreement, which will generally not exceed 10 years from the date of grant (or five years in the case of an incentive stock option granted to a 10% shareholder). The Compensation Committee shall determine the time or times at which an option may be exercised in whole or in part, and the method or methods by which, and the form or forms in which, payment of the option price with respect thereto may be made or deemed to have been made (including, without limitation, by cash, loans or third-party sale programs, or by the tender of previously-owned shares). Each option granted under the Plan will generally not be transferable except by will or the laws of descent and distribution; provided, however, that the Compensation Committee may permit other transfers. The Compensation Committee may establish a program under which participants will have phantom shares credited upon their exercise of options, rather than receiving shares at that time.

Restricted Stock

Restricted stock is an award of Common Stock that is subject to restrictions (including, without limitation, any limitations on transferability, or the right to vote a share of restricted stock) as the Compensation Committee shall determine. Unless otherwise provided in the applicable award agreement, dividends paid on shares of restricted stock while the shares are unvested will, unless otherwise provided by the Compensation Committee, be held by us until the period of forfeiture lapses, and paid to the grantee

as soon as practicable after such period lapses. Restrictions on the shares will lapse in accordance with the terms of the applicable award agreement, as determined by the Compensation Committee. Unless otherwise provided in the applicable award agreement, upon a termination of employment or other service for cause or by the grantee for any reason other than death or disability, all shares of restricted stock still subject to restrictions shall be forfeited to us and we will pay an amount equal to the lesser of the amount paid by the grantee for such shares and the fair market value on the date of forfeiture. It is generally expected that, upon a termination of employment or other service on account of death, disability or retirement of a grantee, or if the grantee has a termination of service by us for any reason other than cause, during the applicable period of forfeiture, then restrictions under the Plan will immediately lapse on all restricted stock granted to the applicable grantee.

Subject to the other terms of the Plan, the Compensation Committee may provide a specified purchase price for the restricted stock, determine the restrictions applicable to restricted stock and determine or impose other conditions to the grant of restricted stock under the Plan as it may deem appropriate.

Phantom Shares

A phantom share represents a right to receive the fair market value of a share of our Common Stock, or, if provided by the Compensation Committee, the right to receive the fair market value of a share of our Common Stock in excess of a base value established by the Compensation Committee at the time of grant. The Compensation Committee may provide in an award agreement that any particular phantom share shall expire at the end of a specified term. Phantom shares will vest as provided in the applicable award agreement. Unless otherwise determined by the Compensation Committee at the time of the grant, phantom shares will be settled by a transfer of shares of Common Stock. Phantom shares will be settled with a single-sum distribution; however, the Compensation Committee may, in its discretion and under certain circumstances, permit a participant to receive as settlement of the phantom shares installments over a period not to exceed 10 years. Unless otherwise provided in the applicable award agreement, the settlement date with respect to a phantom share is the first day of the month to follow the date on which the phantom share vests; provided that a grantee may elect, in accordance with procedures to be established by the Compensation Committee, that such settlement date will follow the grantee's termination of service, or such other time as may be permitted by the Compensation Committee.

Dividend Equivalents

A dividend equivalent is a right to receive (or have credited) the equivalent value (in cash or shares of Common Stock) of dividends declared on shares of Common Stock otherwise subject to an award. The Compensation Committee may provide that amounts payable with respect to dividend equivalents shall be converted into cash or additional shares of our Common Stock. The Compensation Committee will establish all other limitations and conditions of awards of dividend equivalents.

Other Equity-Based Awards

The Plan authorizes the granting of other awards based upon the Common Stock (including the grant of securities convertible into our Common Stock and stock appreciation rights), and subject to terms and conditions established by the Board.

Performance Goals

As mentioned above, the Compensation Committee may, in its discretion, in the case of awards intended to qualify for an exception from the limitation imposed by Section 162(m) of the Code, establish one or more performance goals as a precondition to the issuance or vesting of awards, and provide, in connection with the establishment of the performance goals, for predetermined awards to those participants with respect to whom the applicable performance goals are satisfied. The performance goals shall be based upon one or more of the following criteria: pre-tax income, after tax income, net income, operating income, cash flow, earnings per share, return on equity, return on invested capital or assets, cash and/or funds available for distribution, appreciation in the fair market value of the common stock, return on investment, shareholder return, net earnings growth, stock appreciation, related return ratios, increase in revenues, net earnings, changes in the per share or aggregate market price of our common stock, number of securities sold, earnings before any one or more of the following: interest, taxes, depreciation or

amortization for the applicable period, as reflected in our financial reports for the applicable period, total revenue growth, our published ranking against its peer group of real estate investment trusts based on total shareholder return, and funds from operations.

Special Rules Upon Reorganizations, Changes in Control, Etc.

If we are involved in a merger, consolidation, dissolution, liquidation, reorganization, exchange of shares, sale of substantially all of our assets or stock or a transaction similar thereto, or upon certain changes in our capital structure and other similar events, the Compensation Committee may make related adjustments in its discretion to outstanding awards and various Plan provisions (including, without limitation, to the number and kind of shares available under the Plan).

Without limiting the foregoing, upon a change in control (as defined in the Plan), the Compensation Committee may make such adjustments as it, in its discretion, determines are necessary or appropriate in light of the change in control, but only if the Compensation Committee determines that the adjustments do not have an adverse economic impact on the participants (as determined at the time of the adjustments).

Amendment and Termination

The Board may amend the Plan as it deems advisable, except that it may not amend the Plan in any way that would adversely affect a participant with respect to an award previously granted unless the amendment is required in order to comply with applicable laws. In addition, the Board may not amend the Plan if the amendment would cause the Plan to fail to comply with any requirement of applicable law or regulation, unless and until such amendment is approved by our shareholders.

Prohibition on Re-Pricing

The Plan provides that no option or stock appreciation right issued under the Plan may be amended to reduce the exercise price of the option or stock appreciation right below the exercise price of such option or stock appreciation right on the date of grant. In addition, no option or stock appreciation right may be granted in exchange for, or in connection with, the cancellation or surrender of an option, stock appreciation right or other award having a lower exercise price.

Prohibition on Loans to Executives

The Plan prohibits the extension of any loans by us to any officer in respect of the exercise of options or with respect to any other award granted under the Plan.

Certain U.S. Federal Income Tax Consequences

Non-Qualified Stock Options

No income will be recognized by an option holder at the time a non-qualified stock option is granted. Ordinary income will generally be recognized by an option holder, however, at the time a non-qualified stock option is exercised in an amount equal to the excess of the fair market value of the underlying Common Stock on the exercise date over the exercise price. We will generally be entitled to a deduction for federal income tax purposes in the same amount as the amount included in ordinary income by the option holder with respect to his or her non-qualified stock option. Gain or loss on a subsequent sale or other disposition of the shares acquired upon the exercise of a non-qualified stock option will be measured by the difference between the amount realized on the disposition and the tax basis of such shares, and will generally be long-term or short-term capital gain depending on the holding period involved. The tax basis of the shares acquired upon the exercise of any non-qualified stock option will be equal to the sum of the exercise price of the non-qualified stock option and the amount included in income with respect to the option. Notwithstanding the foregoing, in the event that exercise of the option is permitted other than by cash payment of the exercise price, various special tax rules may apply.

Incentive Stock Options

In general, neither the grant nor the exercise of an incentive stock option will result in taxable income to an option holder or a deduction for us. To receive special tax treatment as an incentive stock option under the Code as to shares acquired upon exercise of an incentive stock option, an option holder must neither dispose of the shares within two years after the incentive stock option is granted nor within one year after the transfer of the shares to the option holder pursuant to exercise of the option. In addition, the option holder must be an employee of us or a qualified subsidiary at all times between the date of grant and the date three months (one year in the case of disability) before exercise of the option. (Special rules apply in the case of the death of the option holder.) Incentive stock option treatment under the Code generally allows the sale of shares of our Common Stock received upon the exercise of an incentive stock option to result in any gain being treated as a capital gain to the option holder, but we will not be entitled to a tax deduction. The exercise of an incentive stock option (if the holding period rules described in this paragraph are satisfied), however, will give rise to income includable by the option holder in his or her alternative minimum taxable income for purposes of the alternative minimum tax in an amount equal to the excess of the fair market value of the stock acquired on the date of the exercise of the option over the exercise price.

If the holding period rules noted above are not satisfied, gain recognized on the disposition of the shares acquired upon the exercise of an incentive stock option will be characterized as ordinary income. This gain will be equal to the difference between the exercise price and the fair market value of the shares at the time of exercise. (Special rules may apply to disqualifying dispositions where the amount realized is less than the value at exercise.) We will generally be entitled to a deduction equal to the amount of such gain included by an option holder as ordinary income. Any excess of the amount realized upon such disposition over the fair market value at exercise will generally be long-term or short-term capital gain depending on the holding period involved. Notwithstanding the foregoing, if exercise of the option is permitted other than by cash payment of the exercise price, various special tax rules may apply.

Restricted Stock

Unless a holder of restricted stock makes an 83(b) election (as discussed below), there generally will be no tax consequences as a result of the grant of restricted stock until the restricted stock is no longer subject to a substantial risk of forfeiture or is transferable (free of the risk). Dividends paid on unvested shares, if retained by the grantee, will generally be treated as compensation income for U.S. federal income tax purposes (unless an 83(b) election has been made, as discussed below). Generally, when the restrictions are lifted, the holder will recognize ordinary income, and we will be entitled to a deduction, equal to the difference between the fair market value of the stock at that time and the amount, if any, paid by the holder for the restricted stock. Subsequently realized changes in the value of the stock generally will be treated as long-term or short-term capital gain or loss, depending on the length of time the shares are held prior to disposition of the shares. In general terms, if a holder makes an 83(b) election (under Section 83(b) of the Code) upon the award of restricted stock, the holder will recognize ordinary income on the date of the award of restricted stock, and we will be entitled to a deduction, equal to (i) the fair market value of the restricted stock as though the stock were (A) not subject to a substantial risk of forfeiture or (B) transferable, minus (ii) the amount, if any, paid for the restricted stock. If an 83(b) election is made, there will generally be no tax consequences to the holder upon the lifting of restrictions, and all subsequent appreciation in the restricted stock generally would be eligible for capital gains treatment. In the event of a forfeiture after an 83(b) election is made, no deduction or loss will be available, other than with respect to amounts actually paid for the stock.

Phantom Shares

It is generally expected that any phantom shares would be designed with the intention that there will be no tax consequences as a result of the granting of a phantom share until payment is made with respect to the phantom share. When payment is made, the participant generally would recognize ordinary income, and we would generally be entitled to a deduction, equal to the fair market value of the Common Stock and cash, as applicable, received upon payment.

Dividend Equivalents

There generally will be no tax consequences as a result of the award of a dividend equivalent. When payment is made, the holder of the dividend equivalent generally will recognize ordinary income, and we will be entitled to a deduction, equal to the amount received in respect of the dividend equivalent.

Recommendation Regarding Approval of iStar Financial Inc. 2006 Long-Term Incentive Plan

The Board of Directors has approved and recommends that shareholders vote FOR approval of the iStar Financial Inc. 2006 Long-Term Incentive Plan.

PROPOSAL 4:

RATIFICATION OF APPOINTMENT OF INDEPENDENT PUBLIC ACCOUNTANTS

The Board has appointed PricewaterhouseCoopers LLP as our independent auditors for the fiscal year ending December 31, 2006, subject to ratification by our shareholders. We expect a representative of PricewaterhouseCoopers LLP to attend the Annual Meeting to make a statement, if he or she desires, and to respond to appropriate questions.

Recommendation Regarding Ratification of the Appointment of PricewaterhouseCoopers LLP

The Board recommends that you vote FOR the ratification of this appointment.

OTHER INFORMATION

Information Regarding the Board of Directors and Its Committees

How often did the Board meet during 2005?

During the fiscal year ended December 31, 2005, the Board held 10 meetings. All directors are expected to attend a majority of the Board meetings. All directors attended at least 75% of all of the Board meetings and applicable committee meetings. In addition, all of the directors who were elected at the 2005 annual meeting were present in person at that annual meeting.

What Committees has the Board Established?

Our Board has standing Audit, Compensation, Nominating and Governance and Investment Committees.

How does the Company Determine Director Independence?

Our Board has determined that a majority of our directors are independent. In determining director independence, the Board considers all relevant facts and circumstances and the NYSE listing standards. Under the NYSE listing standards, no director qualifies as independent unless the Board affirmatively determines that the director has no material relationship with our company, either directly or as a partner, stockholder or officer of an organization that has a relationship with the Company. The Board has

determined that the following directors qualify as independent: Willis Andersen, Jr., Robert W. Holman, Jr., John G. McDonald, George R. Puskar, Jeffrey A. Weber and Robin Josephs.

The Audit Committee

The Audit Committee is responsible for, among other things, retaining or dismissing our independent auditors, reviewing with the auditors the plan and scope of the audit and audit fees, monitoring the adequacy of reporting and internal controls and meeting periodically with management and our independent auditors.

The members of the Audit Committee are Willis Andersen, Jr. (Chairman), Robert W. Holman, Jr. and Robin Josephs. Each of the current members of the Audit Committee is independent, as defined by the Audit Committee's charter and the NYSE listing standards. Each of the current members of the Audit Committee qualifies as an audit committee financial expert as defined by the SEC. The Audit Committee operates under a written charter that was originally adopted in 2001 and was amended in 2003. A copy of the charter is attached to this proxy statement as Exhibit B and may be found on our website at www.istarfinancial.com. The Audit Committee met nine times during 2005.

The Compensation Committee

The members of the Compensation Committee are Robin Josephs (Chairperson), John G. McDonald and Jeffrey A. Weber. Each of the current members of the Compensation Committee is independent, as defined by the Compensation Committee's charter and the NYSE listing standards. The functions of the Compensation Committee are described under the Report of the Compensation Committee contained elsewhere in this proxy statement. The Compensation Committee operates under a written charter that was originally adopted by the Board in 2001 and was amended in 2003. A copy of the charter may be found on our website at www.istarfinancial.com. The Compensation Committee met 11 times during 2005.

The Nominating and Governance Committee

The Nominating and Governance Committee is responsible for, among other things, considering and recommending actions relating to corporate governance matters. In addition, the Committee considers and recommends to the Board individuals to serve as our directors and executive officers. In making such recommendations, the Nominating and Governance Committee considers such factors as it deems appropriate. These factors may include judgment, skill, diversity, experience with businesses and other organizations comparable to our company, the interplay of the candidate's experience with the experience of other Board members, and the extent to which the candidate would be a desirable addition to the Board and any committees. The Committee may solicit and consider suggestions of the directors or management regarding possible nominees, may consider nominees suggested by shareholders and generally shall guide the process of recruiting new directors. The Nominating and Governance Committee may employ professional search firms or consultants (for which it pays a fee) to assist it in identifying potential members of the Board with the desired skills and disciplines. Candidates proposed by shareholders will be considered using the same criteria and in the same manner as all other candidates are considered. Nominations made by shareholders should be made in accordance with the procedures set forth in this proxy statement under "Corporate Governance Matters - Shareholder Nominations for Directors."

The members of the Nominating and Governance Committee are John G. McDonald (Chairman), Willis Andersen, Jr. and George R. Puskar. Each of the current members of the Nominating and Governance Committee is independent as defined by the applicable NYSE listing standards. The Nominating and Governance Committee operates under a written charter that was originally adopted by the Board in 2000 and was amended in 2002. A copy of the charter may be found on our website at www.istarfinancial.com. The Nominating and Governance Committee met three times during 2005.

The Investment Committee

The Board has delegated to the Investment Committee the authority to authorize certain of our investment transactions. Investment transactions up to \$10 million are subject to the approval of the Chairman and Chief Executive Officer and investment transactions greater than \$10 million but less than or equal to \$75 million are subject to the approval of an internal senior management investments committee. The Investment Committee of the Board is authorized to approve our investment transactions involving commitments greater than \$75 million but less than or equal to \$150 million. Transactions of more than \$150 million, and strategic investments such as a corporate merger or acquisition of another business entity (other than a corporate net lease financing) or any other material transaction in an amount greater than \$75 million involving our entry into a new line of business, must be approved by our Board of Directors.

The members of the Investment Committee are George R. Puskar (Chairman), Robert W. Holman, Jr. and Jay Sugarman. The Investment Committee met eight times during 2005.

Are there any special arrangements under which members of our Board serve as Directors?

No arrangement or understanding exists between any director and any other person or persons pursuant to which any director was, or is, to be selected as a director or nominee.

Executive Officers and Other Officers

Who Are Our Key Officers?

Information for Jay Sugarman is contained above under the heading PROPOSAL 1: ELECTION OF DIRECTORS. Information with regard to some of our other key officers is set forth below. All of our officers serve at the pleasure of the Board and are customarily appointed as officers at the annual organizational meeting of the Board held following each annual meeting of shareholders.

Jay S. Nydick has served as our President since November 2004. Mr. Nydick has primary responsibility for identifying, evaluating and executing strategic expansion opportunities for the Company. Previously, Mr. Nydick spent 14 years at Goldman, Sachs & Co. He most recently served as a managing director based in Hong Kong heading the Corporate Finance Group for non-Japan Asia, and as a member of the Products and Financial Sponsors Group based in New York. Prior to his assignment in Asia, Mr. Nydick was in Goldman's Real Estate Investment Banking Group, co-headed the firm's Lodging and Gaming Business and spent time in the Debt Capital Markets and Derivatives Group. During his career, he has been involved in a broad range of transactions including mergers, acquisitions, debt and equity financings, leveraged buyout transactions and the development of innovative products across many different markets in the world. Mr. Nydick holds a bachelors degree from Cornell University where he graduated as a Presidential Scholar and an M.B.A. from Columbia University.

Timothy J. O Connor has served as our (and our predecessor's) Chief Operating Officer since March 1998 and Executive Vice President since March 2000. Mr. O Connor is responsible for developing and managing our company's risk management and due diligence operations, participating in the evaluation and approval of new investments and coordinating our information systems. Previously, Mr. O Connor was a vice president of Morgan Stanley & Co. responsible for the performance of more than \$2 billion of assets acquired by the Morgan Stanley Real Estate Funds. Prior to joining Morgan Stanley, Mr. O Connor was a vice president of Greystone Realty Corporation involved in the firm's acquisition and asset management operations. Previously, Mr. O Connor was employed by Exxon Co. USA in its real estate and engineering group. Mr. O Connor is a former vice president of the New York City/Fairfield County chapter of the National Association of Industrial and Office Parks. Mr. O Connor received a B.S. degree from the United States Military Academy at West Point and an M.B.A. from the Wharton School.

Catherine D. Rice has served as our Chief Financial Officer since November 2002. Ms. Rice is responsible for managing all of our capital-raising initiatives, financial reporting and investor relations activities, as well as overseeing all other finance, treasury and accounting functions. Prior to joining our company, Ms. Rice served as managing director in both the financial sponsors group and the real estate investment banking group of Banc of America Securities. Prior to Banc of America Securities, Ms. Rice was a managing director at Lehman Brothers, where she was responsible for the firm's West Coast real estate investment banking effort. She spent the first ten years of her career at Merrill Lynch in its real estate investment banking group. Ms. Rice has over 17 years of experience in the public and private capital markets, and has been involved in over \$15 billion of capital-raising and financial advisory transactions, including public and private debt and equity offerings, mortgage financings, merger and acquisition assignments, leveraged buyouts, asset dispositions, debt restructurings and rating advisory assignments. Ms. Rice received a B.A. degree from the University of Colorado and an M.B.A from Columbia University.

Nina B. Matis has served as our (and our predecessor's) General Counsel since 1996 and Executive Vice President since November 1999. Ms. Matis is responsible for legal, tax, structuring and regulatory aspects of our operations and investment and financing transactions. Ms. Matis is a partner, and a member of the executive committee, of the law firm of Katten Muchin Rosenman LLP, one of our principal outside law firms. From 1984 through 1987, Ms. Matis was an adjunct professor at Northwestern University School of Law where she taught real estate transactions. Ms. Matis is a director of New Plan Excel Realty Trust, Inc. and a member of the American College of Real Estate Lawyers, Ely Chapter of Lambda Alpha International, the Chicago Finance Exchange, the Urban Land Institute, REFF, the Chicago Real Estate Executive Women, The Chicago Network and The Economic Club of Chicago, and she is listed in both *The Best Lawyers of America* and *Sterling's Who's Who*. Ms. Matis received a B.A. degree, with honors, from Smith College and a J.D. degree from New York University School of Law.

Daniel S. Abrams has served as an Executive Vice President of our company since November 2001 and is the Head of Originations for our Investments group. Previously, Mr. Abrams was a founding principal of Citadel Realty Group, LLC, a New York based boutique investment bank specializing in advisory work and debt and equity placements for all forms of commercial real estate properties and companies in North America and Europe. Prior to forming Citadel, Mr. Abrams was a managing director at Donaldson, Lufkin and Jenrette, where he was responsible for the hospitality and leisure practice, focusing on debt originations, equity offerings and advisory assignments to public and private companies in that area. Before DLJ, Mr. Abrams was a managing director and the head of the Hospitality Finance Group of Nomura Capital. While at Nomura Capital, Mr. Abrams led the financing of over \$6.5 billion in the hospitality sector and over \$600 million in the office, multifamily and retail sectors. Before joining Nomura Capital in 1993, Mr. Abrams had been a partner at Rosenman & Colin, a major New York City law firm. He received an LL.M. in Taxation from the New York University School of Law; a JD from the National Law Center of the George Washington University, where he was editor-in-chief of the Law Review; and a B.S. in Economics from the Wharton School. He has served as a member of the American Hotel & Lodging Association's Industry Real Estate Finance Advisory Council (IREFAC) and the ULI's Hotel Development Council.

Roger M. Cozzi has served as an Executive Vice President of our company since January 2002 and is our Chief Investment Officer. From 2002 through 2005, he also served as co-head of our internal senior management investment committee. Prior to that, he served as Senior Vice President in our (and our predecessor's) Investments group since 1998. Mr. Cozzi is responsible for the origination of structured financing transactions, including first mortgage, mezzanine and corporate finance investments. From 1995 to 1998, Mr. Cozzi was an investment officer of Starwood Mezzanine Investors, L.P. and Starwood Opportunity Fund IV, two private investment funds that specialized in structured real estate finance and opportunistic equity investments. Prior to joining Starwood, Mr. Cozzi spent three years at Goldman,

Sachs & Co. While at Goldman Sachs, he spent two years in the real estate department, where he focused on securitizing and selling investment grade and non-investment grade securities backed by pools of commercial mortgages, evaluating performing commercial mortgage loans for potential principal investment by the Whitehall funds and consulting large corporate tenants on lease alternatives. After two years in real estate, Mr. Cozzi transferred into the investment management industry group, where he worked on several merger transactions, created a conduit to lend directly to mutual funds, and helped create a vehicle to securitize 12b-1 financing fees. Mr. Cozzi graduated magna cum laude from the Wharton School with a B.S. degree in Economics (with concentrations in Finance and Entrepreneurial Management).

Jeffrey R. Digel has served as an Executive Vice President of iStar Financial since March 2000. From 2002 through 2005, he also served as co-head of our internal senior management investment committee. Prior to 2000, he was Senior Vice President in our Investments group since May 1998. Mr. Digel is responsible for the origination of new structured financing and strategic portfolio investment transactions. Previously, Mr. Digel was a vice president-mortgage finance at Aetna Life Insurance Company responsible for commercial mortgage securitizations, management of Aetna's mortgage correspondent network, management of a \$750 million real estate equity portfolio for Aetna's pension clients and origination of new equity investments. Prior to joining Aetna, Mr. Digel was a member of Hart Advisors, responsible for the development and supervision of the portfolio, asset management and client communications functions for Hart's real estate pension advisory business. In addition, Mr. Digel is a member of the Mortgage Bankers Association and the International Council of Shopping Centers. Mr. Digel received a B.A. degree from Middlebury College and an M.M. from Northwestern University.

REPORT OF THE AUDIT COMMITTEE

We oversee iStar Financial Inc.'s financial reporting process on behalf of the Board. All members of the Committee meet the independence requirements of the Securities and Exchange Commission (the "SEC") and the New York Stock Exchange ("NYSE"). We operate under a written charter approved by the Board, consistent with the corporate governance rules issued by the SEC and the NYSE. Our charter is attached to this proxy statement as Exhibit B and is also available on the Company's website at www.istarfinancial.com.

The Company's management is responsible for the financial reporting process and preparation of the quarterly and annual consolidated financial statements, including maintaining a system of internal controls over financial reporting and disclosure controls and procedures. We are directly responsible for the appointment, compensation, retention, oversight and termination of the Company's outside or external auditors, PricewaterhouseCoopers LLP, an independent registered public accounting firm. The independent auditors are responsible for auditing management's assessment of the effectiveness of the Company's internal controls over financial reporting and for expressing their opinion about the effectiveness of those controls, in addition to auditing the annual consolidated financial statements and expressing an opinion on the conformity of those financial statements with GAAP. The Committee reviews the performance of the Company's internal audit function and the qualifications of its audit personnel. We do not prepare financial statements or conduct audits.

In connection with the December 31, 2005 audited consolidated financial statements, we have:

- reviewed and discussed with management and the independent auditors the Company's internal controls over financial reporting, including a review of management's and the independent auditors' assessments of and reports on the effectiveness of internal controls over financial reporting and any significant deficiencies or material weaknesses;
- reviewed and discussed with management and the independent auditors the Company's audited financial statements, including discussions regarding critical accounting policies, other financial

accounting and reporting principles and practices appropriate for the Company, the quality of such principles and practices, and the reasonableness of significant judgments;

- discussed with the independent auditors the items that are required to be discussed under applicable professional auditing standards and regulations, including discussions about the quality of the financial statements and clarity of the related disclosures; and
- reviewed and considered the written disclosures in the letter received from PricewaterhouseCoopers LLP, as required by Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees, including a discussion about their independence from the Company and management.

Based on the reviews and discussions above, we recommended to the Board that the audited financial statements for 2005 be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2005, which is filed with the SEC. The Board approved our recommendation.

Submitted by the Audit Committee, April 10, 2006:

Willis Andersen, Jr. (Chairman)
Robert W. Holman, Jr.
Robin Josephs

The above report will not be deemed to be incorporated by reference into any filing by us under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that we specifically incorporate the same by reference.

CORPORATE GOVERNANCE MATTERS

Corporate Governance Guidelines

Our Board has approved a set of guidelines that provide the framework for the governance of our company. The Board reviews these guidelines and other aspects of our corporate governance periodically, as necessary. Our corporate governance guidelines may be found on our website at www.istarfinancial.com.

Committee Charters

Our Audit, Compensation and Nominating and Governance Committees have adopted charters that meet the standards established by the NYSE. Copies of these charters are available on our website at www.istarfinancial.com.

Lead Director

Our Board, by vote of its independent members, has designated a lead independent director (Lead Director) whose duties include the following:

- Preside at all meetings of the Board at which the Chairman is not present, including executive sessions of the independent directors.
- Serve as principal liaison between the Chairman and the independent directors.
- Advise the Chairman on the quality, quantity and timeliness of the information presented to the Board.
- Advise the Chairman on the agendas for Board meetings.
- Advise the Chairman on the schedule of meetings of the Board to assure that there is sufficient time for discussion of agenda items.
- Call meetings of the independent directors, if deemed necessary or appropriate by the Lead Director.
- If requested by major shareholders, be available for consultation and direct communication with major shareholders and their representatives.
- Such other matters as the Board may determine from time to time.

The Lead Director does not receive any additional compensation for his services. Willis Andersen, Jr. currently serves as our Lead Director.

Service on Other Boards

In view of the commitment of time and effort that is required of a director of a public company, our Board has established a guideline that its directors should not serve on the boards of more than six public companies. For this purpose, we treat service on the boards of mutual funds having the same investment adviser as service on the board of one company.

Code of Conduct

The Code of Conduct documents the principles of conduct and ethics to be followed by our directors, officers and employees. The purpose of the Code is to promote honest and ethical conduct, compliance with applicable governmental rules and regulations, full, fair, accurate, timely and understandable disclosure in periodic reports, prompt internal reporting of violations of the Code and a culture of honesty and accountability. A copy of the Code has been provided to each of our directors, officers and employees,

who are required to acknowledge that they have received and will comply with the Code. Among its many features, the Code describes how employees can report any matter that may be of concern to a named Compliance Officer, any other member of our Compliance Committee, our Chief Executive Officer or the Chairman of the Audit Committee. This reporting may be done on an anonymous basis. We have also established an independent hotline telephone service that may be used by employees who wish to report any concerns or suspected violations of our standards of conduct, policies or laws and regulations, on an anonymous basis or otherwise. A copy of our Code of Conduct may be found on our website at www.istarfinancial.com and is included as an exhibit to our Annual Report on Form 10-K for the year ended December 31, 2005.

Audit Committee Financial Experts

The Board has determined that Willis Andersen, Jr. (Chairman), Robert W. Holman, Jr. and Robin Josephs, the members of our Audit Committee, each meet the criteria of an audit committee financial expert, as adopted by the SEC. These directors have agreed to serve as the Company's Audit Committee financial experts.

Disclosure Committee

We maintain a Disclosure Committee consisting of members of our executive management and senior staff. The purpose of the Committee is to oversee our system of disclosure controls, assist and advise the Chief Executive Officer and Chief Financial Officer in making the required certifications in SEC reports and evaluate our company's internal control function. The Disclosure Committee was established to bring together on a regular basis representatives from our core business lines and employees involved in the preparation of our financial statements to discuss any issues or matters of which the members are aware that should be considered for disclosure in our public SEC filings. The Disclosure Committee reports to our Chief Executive Officer and, as appropriate, to our Audit Committee. The Disclosure Committee meets quarterly and otherwise as needed. The Disclosure Committee has adopted a written charter to memorialize the Committee's purpose and procedures. A copy of the charter may be found on our website at www.istarfinancial.com.

Communications with Shareholders and Other Interested Parties

Our company provides the opportunity for interested parties, including shareholders, to communicate with members of the Board. Interested parties may communicate with our Lead Director, the other independent directors or the chairperson of any of the committees of the Board by e-mail or regular mail. All communications by e-mail should be sent to CorporateSecretary@istarfinancial.com. Communications sent by regular mail should be sent to the attention of the Lead Director, the Independent Directors, the Audit Committee Chairman, the Compensation Committee Chairman, the Nominating and Governance Committee Chairman, or the Investment Committee Chairman, as the case may be, in each instance in care of the Corporate Secretary of our company at our headquarters office at 1114 Avenue of the Americas, New York, NY 10036.

Our General Counsel and our Secretary will review each communication received in accordance with this process to determine whether the communication requires immediate action. These officers will forward all appropriate communications received, or a summary of such communications, to the appropriate Board member(s). However, we reserve the right to disregard any communication that our General Counsel and our Secretary determine is unduly hostile, threatening, illegal, does not reasonably relate to the Company or its business, or is similarly inappropriate. These officers have the authority to disregard any inappropriate communications or to take other appropriate actions with respect to any such inappropriate communications.

Shareholder Proposals for Nominations for the Board

Shareholder proposals for potential nominees for election to the Board should be sent to the attention of our Secretary at the address appearing on the notice accompanying this proxy statement, describing the candidate's qualifications and accompanied by the candidate's written statement of willingness and affirmative desire to serve in a manner representing the interest of all shareholders. Shareholders may also make nominations directly by following the procedure specified in the Company's Bylaws.

Candidates proposed by shareholders will be considered using the same criteria and in the same manner utilized by the Nominating and Governance Committee of the Board in considering all candidates for election to the Board. See **Other Information** **The Nominating and Governance Committee**.

EXECUTIVE COMPENSATION

Report of the Compensation Committee

The Board of Directors has delegated to the Compensation Committee responsibility for overseeing the executive compensation programs of iStar Financial Inc. (the **Company**). The Compensation Committee is composed exclusively of independent directors. The three directors whose names appear at the end of this report comprise the Compensation Committee.

The principal responsibilities of the Committee are:

- To review management's recommendations and advise management and the Board on broad compensation programs and policies such as salary ranges, annual incentive bonuses and long-term incentive plans, including equity-based compensation programs.
- To establish performance objectives for the Chief Executive Officer, review performance objectives established for other senior executives of the Company and evaluate the performance of such executives relative to these objectives, in connection with the Committee's overall review of executive compensation.
- To make recommendations to the Board regarding the base salary, cash incentive bonus, equity-based incentive awards and other compensation for the Chief Executive Officer of the Company.
- To approve base salaries, cash incentive bonuses, equity-based incentive awards and other compensation for other officers and employees of the Company with base salaries in excess of \$200,000 per year (which includes all officers who are subject to Section 16(b) of the Securities Exchange Act of 1934, as amended).
- To administer the Company's 1996 Plan and any future long term incentive plans and other equity compensation programs.
- To retain and oversee third party consultants to assist with the Committee's activities, from time to time.
- To oversee the Company's performance evaluation practices and procedures.
- To perform such other duties and responsibilities pertaining to compensation matters as may be assigned to the Committee by the Board or the Chairman of the Board.

What procedures does the Committee follow?

The Compensation Committee typically meets at the beginning of each year to consider compensation for the Chief Executive Officer and the other executives whose compensation is subject to Committee approval, and to consider senior management's recommendations for base salary adjustments for the upcoming year and incentive bonuses and equity awards in respect of the preceding year for officers and

other eligible employees. The Committee also meets periodically during the year to evaluate the performance of management relative to objectives and to perform our other functions. When deemed appropriate, from time to time the Committee retains third party consultants to assist the Committee in the performance of its responsibilities. As more fully described below, the compensation of the Chief Executive Officer and the President has been established under employment agreements entered into with these executives.

What is our general compensation philosophy?

In the Committee's view, the Company's success in implementing its investment strategies and other strategic initiatives depends on the talent, skills and commitment of the Company's employees, and in particular its senior executives. The Company's compensation practices and programs are intended to achieve the following objectives:

- To attract, retain, motivate and reward key employees to drive achievement of the Company's current and long-term strategic, business and financial goals in the creation of shareholder value.
- To provide an appropriate mix of current compensation and long-term rewards, which is properly balanced between salary and performance-based pay and includes cash, equity compensation and other benefits.
- To align shareholder interests and employee rewards.
- To establish appropriate incentives for management and employees that are consistent with the Company's culture and values.

In accordance with these objectives, a significant part of executive compensation is subject to the overall performance of the Company and the total return generated for the Company's shareholders. We believe that this approach best enables us to achieve our objectives and satisfy the interests of our shareholders.

One primary performance measure that we use is the total rate of return to our shareholders, which we define as dividends paid (assuming reinvestment) plus appreciation in the price of our Common Stock. Among other things, this is the performance measure that determines the value of our high performance unit (HPU) programs. In addition, total shareholder return is one of the performance measures used in determining the annual bonus to be awarded to our Chief Executive Officer. The following chart shows the total rate of return for the Company from December 31, 2000 through December 31, 2005 as compared to several key indices that we consider relevant benchmarks.

	Total Shareholders Returns
iStar Financial	166.0 %
Morgan Stanley REIT Index	135.8 %
Russell 1000 Financial Index	14.2 %
S&P 500	2.5 %

How do we compensate our Chief Executive Officer?

Employment Agreement Effective March 31, 2004

The Company has entered into an employment agreement with Jay Sugarman, our Chief Executive Officer, effective March 31, 2004.

The Committee retained the services of Pearl Meyer & Partners, independent executive compensation consultants, to assist the Committee with: (1) gathering information about chief executive compensation and the relationship between compensation and performance at peer companies; (2) analyzing the information gathered about the peer companies; (3) considering the reasonableness of the level and form of compensation proposed for Mr. Sugarman; and (4) advising the Committee and the Board during the negotiations and review of the new employment arrangement.

Under the three-year employment agreement in effect as of March 31, 2004, the material terms of Mr. Sugarman's compensation are as follows:

- An annual salary of \$1.0 million.
- A potential annual cash incentive award of up to \$5.0 million if performance goals set by the Committee in consultation with Mr. Sugarman are met. Performance goals are set with respect to financial performance, shareholder return and areas such as succession planning, investor and employee relations and strategic objectives.
- A one-time award of Common Stock issued on March 31, 2004 having a value of \$10.0 million at the time of issuance (236,167 shares). The award was fully vested when granted and dividends will be paid on the shares from the date of grant, but the shares cannot be sold for five years (or upon a Change of Control, as defined, if earlier) unless the price of our Common Stock during the 12 months ending March 31 of each year increases by at least 15%, in which case the sale restrictions on 25% of the shares awarded will lapse with respect to each 12-month period.

Mr. Sugarman notified the Company that, subsequent to this award, he contributed an equivalent number of shares to a newly-established charitable foundation.

In considering the compensation provisions of Mr. Sugarman's employment agreement, the Committee reviewed information and analyses of 18 peer companies. The peer companies were selected to reflect the diversified nature of the company's business and included companies in the financial services, real estate, mortgage lending and insurance industries. The Company's equity market capitalization of over \$4.0 billion at that time was slightly higher than the median of the market capitalization of the peer companies. The peer company information was obtained from publicly available reports filed by the peer companies with the SEC. The most recent peer company compensation data that was available at the time of analysis was for the 2002 fiscal year.

In comparing the Company's performance to that of the peer companies, our independent consultants noted the following:

- During the one, three and five years ended December 31, 2002, the Company's revenue growth placed it in the 66th, 91st and 100th percentiles, respectively (meaning we outperformed 66%, 91% and 100% of the peer companies, respectively, during those periods).
- The Company's revenue growth for the five years ended December 31, 2002 exceeded 200%, while the revenues of the next highest performing peer grew 45% over the same period.
- During the one, three and five years ended December 31, 2002, the Company experienced exceptional growth in earnings before interest, taxes, depreciation and amortization, or EBITDA, with rankings in the 61st, 75th and 100th percentiles, respectively.
- The Company's EBITDA growth for the five years ended December 31, 2002 was 219%, while the EBITDA of the next highest performing peer grew 54% for the same period.
- The Company's growth in net income as determined in accordance with GAAP during the one, three and five years ended December 31, 2002 placed it in the 19th, 100th and 100th percentiles, respectively.
- The Company's net income growth for the five years ended December 31, 2002 was 622%, while the net income of the next highest performing peer grew 31% for the same period.
- The total and annualized shareholder returns (reflecting increases in stock price and dividends paid) for the Company's shareholders during the one, three and six years ended December 31, 2002 placed the Company in the 56th, 100th and 64th percentiles, respectively (note that the consultant used a six year rather than five year measurement period for this metric in order to include an additional year before the Company acquired TriNet Corporate Realty Trust, Inc. in November 1999).

The independent consultants compared the maximum compensation that could be paid to Mr. Sugarman during 2004 through 2007 under the new employment agreement with the compensation actually received by the peer group chief executive officers in 2002. At the outset, the consulting firm noted that, since the analysis compares Mr. Sugarman's maximum potential future compensation with compensation actually paid to the peer chief executives in 2002, the comparison likely overstates Mr. Sugarman's rank relative to the other peer chief executives. Based upon this analysis, Mr. Sugarman's annualized potential maximum compensation for 2004 through 2007 ranks in the 68th percentile when compared to the compensation actually paid to the peer group executives in 2002, although Mr. Sugarman's potential cash incentive bonus was at the higher end of the amounts paid to the peer executives in 2002.

The Board considered it very important for the Company to retain Mr. Sugarman's services thereby enabling the Company to continue to benefit from Mr. Sugarman's leadership. The Board carefully reviewed and considered the report of the independent consultants, including the consultants' opinion that the level of compensation to be paid to Mr. Sugarman was reasonable and appropriate in light of Mr. Sugarman's tenure, personal achievement and contributions to the Company, as well as the Company's superior financial results and shareholder value created under his leadership. Based on this consideration, the Board (excluding Mr. Sugarman) unanimously approved the new employment agreement with Mr. Sugarman.

Pursuant to the terms of Mr. Sugarman's employment agreement, for the most recent fiscal year ended December 31, 2005, Mr. Sugarman received a base salary of \$1.0 million and was also awarded a cash bonus of \$2.5 million. The Compensation Committee approved this bonus award for Mr. Sugarman based upon consideration of Mr. Sugarman's performance relative to goals established with respect to financial performance, shareholder return and areas such as succession planning, investor and employee relations and strategic objectives. This bonus award is in the midpoint of the potential bonus range set forth in Mr. Sugarman's employment agreement. In determining that Mr. Sugarman should receive this bonus (which was less than the maximum amount prescribed under his employment agreement), the Committee considered many factors, including the following:

- The Company originated more than \$4.7 billion in financing transactions in 2005, the largest single year of originations in the Company's history and an increase of more than 64% over the volume of financing transactions originated the previous year.
- The Company's total revenues, total assets, and equity market capitalization increased by 16%, 18%, and 20.4% respectively for fiscal year ended December 2005; however, the Company's total shareholder return for the year was (14.8%), while the returns for the Morgan Stanley REIT Index, the Russell 1000 Index and the S&P 500 were 12.1%, 6.6% and 4.8%, respectively.
- The Company again increased its Common Stock dividend by 5% over the dividend rate for 2004 and has increased its dividend rate by approximately 22.6% over the past five years.
- The Company's investment grade unsecured corporate credit ratings were again upgraded by both Moody's Investors Service and Standard & Poors, which has further improved the pricing at which the Company can borrow funds, increased the speed and efficiency with which the Company can borrow funds through the issuance of debt securities, and enabled the Company to protect information regarding its investments that the Company considers to be proprietary.
- Mr. Sugarman continues to lead the Company's implementation of important strategic initiatives, including several Company-branded investment platforms designed to enable the Company to expand its asset base and penetrate markets where the Company can offer customers custom-tailored financing and service at attractive risk-adjusted returns. Examples of these initiatives in 2005 include (1) the creation of the Company's AutoStar platform for the automotive dealer market, which has been expanded by the Company's acquisition of Falcon Financial Investment Trust, (2) the Company's acquisition of a substantial minority investment in Oak Hill Advisors, L.P., a respected corporate credit investment and asset management firm, and (3) the Company's role as the lead investor in the acquisition financing for the acquisition of LNR Property Corporation by Cerberus Capital Management.

How do we compensate our executives, other than the Chief Executive Officer?

Other Executive Employment Agreements

We have entered into an employment agreement with Jay S. Nydick, our President. The provisions of this agreement, including compensation, is described below under EXECUTIVE COMPENSATION Other Employment Agreement.

Compensation Policies and Programs

Salaries. Our policy is to set salaries at levels we believe will attract, retain and motivate highly-competent individuals. In establishing base salary levels for the Company's key executives, we consider the executive's position and responsibility, experience, length of service with the Company, and overall performance, as well as the compensation practices of other companies in the markets where the Company competes for executive talent.

Bonuses. We also award bonuses to executive officers and other employees based upon: (1) overall Company performance; (2) business segment or departmental performance; (3) individual performance; and (4) other factors we determine to be appropriate. Bonuses typically consist of a cash component and an equity component. The equity awards that are part of annual bonuses may consist of stock options, restricted shares, restricted stock units, high performance units or other types of equity awards, as described below. The equity component for 2005 bonuses for executive officers and other key employees was comprised of High Performance Unit awards and restricted stock units.

Equity Awards (including Stock Options, Restricted Shares and Restricted Stock Units). During 2005, no stock options were awarded to employees or others under our current 1996 Plan. During 2005, we granted restricted shares and restricted stock units to our employees representing a total of 68,730 shares of Common Stock. Typically, restricted shares and restricted stock units vest in equal annual installments over three years. As of December 31, 2005, approximately 981,000 shares remain available for new awards under the 1996 Plan. During the first quarter of 2006, awards consisting of approximately 440,000 restricted stock units were granted to officers and other employees, as a result of which approximately 541,000 shares currently remain available under the 1996 Plan. The proposed 2006 Long-Term Incentive Plan, if approved by shareholders, provides that, subject to adjustment upon certain corporate transactions or events, a maximum of 4,750,000 shares of Common Stock are reserved and available to be granted as equity awards, including stock options, shares of restricted stock, phantom shares, dividend equivalent rights and other equity-based awards under the 2006 Plan (including shares that would have been otherwise issuable under the 1996 Plan).

High Performance Units. In May 2002, the Company's shareholders approved the Company's High Performance Unit (HPU) Program for employees other than our Chief Executive Officer and our President. The HPU program is a performance-based employee compensation plan that has significant value to the participants only if the Company provides superior returns to its shareholders. There are currently seven active plans within the HPU program, for each year from 2002 through 2008. The Company is authorized to issue 5,000 shares of high performance common stock to each HPU plan. Employee participants must purchase interests in the program with their own funds. The Company's performance is measured over a three-year valuation period (except in the case of the 2002 and 2003 HPU plans, which were measured over one year and two years, respectively). The end of a valuation period (i.e., the valuation date) will be accelerated if there is a change in control of the Company. If the total rate of return on the Company's Common Stock (share price appreciation plus dividends) for the relevant valuation period exceeds the greater of: (1) 30% (except in the case of the 2002 and 2003 HPU plans, for which performance thresholds of 10% and 20%, respectively, were established), or a proportionate amount thereof in the case of an accelerated valuation date; and (2) a weighted industry index total rate of return consisting of equal weightings of the Russell 1000 Financial Index and the Morgan Stanley REIT Index for

the relevant period, then a portion of the amount of the excess total return is multiplied by the weighted average market value of our common equity capitalization during the valuation period, and divided by the market value of our Common Stock on the valuation date. This calculation determines a hypothetical equivalent amount of our Common Stock and the HPU participants will receive cash distributions in the nature of dividends payable on that amount of Common Stock after the valuation date. However, if the total rate of shareholder return for the relevant valuation period does not exceed these performance thresholds, then the HPU interests have only a nominal value.

The HPU participants have purchased their interests in high performance common stock through a limited liability company at purchase prices equal to the fair market value of such interests and approved by the Board's Compensation Committee. The Compensation Committee has established the prices of the HPU interests based, among other things, upon an independent valuation analysis prepared by a major investment banking firm. The aggregate initial purchase prices for interests in the current HPU plans are as follows:

2002 HPU Plan: approximately \$2.8 million

2003 HPU Plan: approximately \$1.8 million

2004 HPU Plan: approximately \$1.4 million

2005 HPU Plan: approximately \$0.6 million

2006 HPU Plan: approximately \$0.6 million

2007 HPU Plan: approximately \$0.6 million

2008 HPU Plan: approximately \$0.7 million.

An employee who holds an HPU interest is not permitted to exchange his or her interest in the limited liability company for shares of high performance common stock prior to the applicable valuation date. The additional equity from the issuance of the high performance common stock is recorded as a separate class of stock and disclosed within shareholders' equity. Future distributions, if any, will be deducted from net income available for common shareholders.

Our total shareholder return for the valuation periods under the 2002, 2003 and 2004 HPU plans exceeded both the fixed performance thresholds and the industry index returns set forth in the plans. As a result of this superior performance, the participants in these plans are entitled to receive distributions in the nature of cash dividends and other distributions payable on our Common Stock. Our total shareholder return for the valuation period under the 2005 HPU plan, however, did not exceed the fixed performance threshold and the industry index returns set forth in the 2005 HPU plan. As a consequence, the high performance common stock associated with the 2005 HPU plan has only a nominal value.

The participants in the 2002-2005 HPU plans, for which valuation dates have occurred, will receive aggregate cash distributions equivalent to the amount of cash dividends and other distributions payable on the following amounts of our Common Stock, as and when such dividends and other distributions are paid:

2002 HPU Plan: 819,254 shares

2003 HPU Plan: 987,149 shares

2004 HPU Plan: 1,031,875 shares

2005 HPU Plan: 0 shares

The valuation dates for the 2006, 2007 and 2008 HPU plans have not yet occurred.

Upon a change of control as defined in the HPU Plan documents, the HPU participants in the 2002, 2003 and 2004 Plans will be entitled to receive, in the aggregate, the per share consideration paid to our

common shareholders in the change of control transaction multiplied by 819,254; 987,149; and 1,031,875, respectively.

Senior Executive High Performance Unit Program. In June 2003, the Company's shareholders approved another High Performance Unit Program which is modeled after the regular employee High Performance Unit Program described in the preceding paragraphs. To date, interests have been purchased under this program, called the Senior Executive High Performance Unit Program, by Jay Nydick, the Company's President, in the 2005 HPU plan, the 2006 HPU plan, the 2007 HPU plan and the 2008 HPU plan, and by Mr. Sugarman, the Company's Chief Executive Officer, in the 2006 HPU plan, the 2007 HPU plan and the 2008 HPU plan. Mr. Nydick's employment agreement provides that he will have the opportunity to purchase interests in a 2009 HPU plan. Our total shareholder return for the valuation period under the 2005 Senior Executive High Performance Unit Program did not exceed the fixed performance threshold and the industry index returns set forth in the 2005 plan. As a consequence, the high performance common stock associated with the 2005 HPU plan has only a nominal value. The valuation dates for the 2006, 2007 and 2008 HPU plans have not yet occurred.

Other Benefits. Employee compensation also includes various benefits, such as health insurance and retirement plans, in which substantially all of our employees participate. At the present time, we provide health, life and disability insurance plans and a 401(k) plan, standard paid time off benefits and other standard employee benefits.

How do we compensate non-employee directors?

The Company pays non-employee directors an annual retainer of \$50,000, paid in quarterly installments of \$12,500. In addition, non-employee directors receive \$2,000 for attendance at full Board meetings. Committee chairpersons receive \$2,250 for attendance at committee meetings and other committee members receive \$1,500 per committee meeting. Each non-employee director also receives an annual grant of 2,500 Common Stock Equivalents at the time of the annual shareholders meeting. The Common Stock Equivalents generally vest at the time of the next subsequent annual shareholders meeting, although vesting is accelerated in limited circumstances. An amount equal to the dividends paid on 2,500 shares of iStar Common Stock is paid on the Common Stock Equivalents from the date of grant, as and when dividends are paid on the Common Stock. Under the Non-Employee Directors' Deferral Plan approved by shareholders in 2004, directors have the opportunity to defer the receipt of some or all of their compensation in accordance with the provisions of the plan.

Submitted by the Compensation Committee, April 10, 2006:

Robin Josephs (Chairperson)
John G. McDonald
Jeffrey A. Weber

The above report will not be deemed to be incorporated by reference into any filing by us under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that we specifically incorporate the same by reference.

Executive Compensation Summary Table

The following table sets forth the compensation awarded, earned by, or paid to Jay Sugarman, our Chief Executive Officer, and our four other most highly-compensated officers during the fiscal year ended December 31, 2005 and the two preceding years.

Name and Principal Position	Year	Annual Compensation (\$)			Long-Term Compensation (\$)			
		Salary	Bonus(1)	Other Annual Compensation(2)	Restricted Stock Awards(3)	Securities Underlying Options/SARs	LTIP Payouts	All Other Compensation (\$)
Jay Sugarman	2005	1,000,000	2,500,000	8,983	1,583,364			
Chairman and Chief Executive Officer(4)	2004	1,000,000	5,000,000	19,852	10,000,000 (4)			
Jay S. Nydick	2005	350,000	650,000	9,070	1,579,257		84,799,994	
President	2004	58,333	108,000	4,391				
	2003							
Timothy J. O Connor	2005	225,000	775,000	9,616	986,300			
Executive Vice President and Chief Operating Officer	2004	225,000	400,000	11,435				
	2003	224,813	350,000	10,731				
Catherine D. Rice	2005	225,000	1,025,000	9,280	1,319,489			
Chief Financial Officer	2004	225,000	400,000	11,435				
	2003	225,000	325,000	28,876				
Daniel S. Abrams	2005	210,000	1,500,000	10,456	1,479,449			
Executive Vice President	2004	210,000	325,000	11,588				
	2003	210,000	250,000	10,878				

(1) Amounts included in the Bonus column represent cash incentive bonuses paid for services during the year noted and are paid in January of the succeeding year.

(2) Includes the Company's matching contributions to the named officer's account in our Savings and Retirement Plan (401(k) Plan) and additional compensation attributable to certain life insurance and disability insurance premiums and, for 2003 and 2004, compensation for accrued and unused sick time, in accordance with our general policy applicable to all employees. In addition, Mr. Sugarman's Other Annual Compensation for 2003 includes dividend equivalents paid in respect of the 2.0 million phantom units awarded to him pursuant to a prior employment agreement dated March 31, 2001, which expired March 30, 2004, described in footnote 4 below. Mr. Sugarman was entitled to receive dividend equivalents on phantom units that were contingently vested or fully vested. Ms. Rice's Other Annual Compensation for 2003 also includes reimbursement of moving and other relocation expenses. These dividend equivalents were paid to Mr. Sugarman in the same amount and at the same time as dividends were paid on equivalent amounts of our Common Stock.

(3) Amounts included in the Restricted Stock Awards column represent restricted stock units awarded for services during the year noted and issued in the succeeding year (except in the case of Mr. Sugarman's 2004 award, which is described in footnote 4 below). These restricted stock units represent the right to receive an equivalent number of shares of our common stock if and when the units have vested. The Units will vest in annual installments over three years. Vesting is based on continued employment. Units that are not vested may not be sold, transferred or pledged except by will, the laws of descent or to or for the benefit of the named officer's family. If the named officer voluntarily terminates employment with iStar, or iStar terminates the named officer's employment for cause (as defined in the award), any unvested portion of the units will be forfeited automatically as of the date of termination. The named officer is entitled to receive common stock dividend equivalents on vested and unvested units at the same times as dividends are paid on our Common Stock. The value of these awards shown in the table has been determined by multiplying the number of restricted stock units by the closing price of our Common Stock on the trading day preceding the date of the award.

(4) Pursuant to an employment agreement effective as of March 31, 2004, Mr. Sugarman receives annual salary of \$1.0 million, an annual cash incentive award which for 2005 was \$2.5 million based on his performance and a one-time award of Common Stock made in 2004 with a value of \$10.0 million at the time of issuance on March 31, 2004 (236,167 shares), which is vested but subject to restrictions on transfer. 2003 LTIP payout reflects the dollar value on the payment date of the settlement of an award of performance-based phantom units made pursuant to a prior employment agreement which expired March 30, 2004. All of these units contingently vested as of December 31, 2003, as certain performance targets for the price of our Common Stock were satisfied, and became fully vested on March 30, 2004, at which time they were settled by us through the delivery of 728,552 shares of Common Stock under the LTIP. In addition, we retained \$53.9 million in cash that would otherwise have been delivered to Mr. Sugarman and used the funds to cover Mr. Sugarman's tax withholding obligations and the exercise price payable by Mr. Sugarman to exercise employee stock options to acquire 500,000 shares of our Common Stock that he continues to hold.

Equity Compensation Plan Information

The following table sets forth information regarding our equity compensation plans as of December 31, 2005. As described in this proxy statement, a new 2006 Long Term Incentive Plan is being presented to shareholders for approval at the Annual Meeting.

Plan category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders stock options(1)	1,231,992	\$ 17.86	980,818
Equity compensation plans approved by security holders restricted stock awards(2)	141,143	N/A	N/A
Equity compensation plans approved by security holders high performance units(3)		N/A	N/A
Equity compensation plans not approved by security holders			
Total	1,373,135	\$ 17.86	980,818

(1) **Stock Options** As more fully discussed in Note 12 to our Consolidated Financial Statements, included in the Annual Report on Form 10-K for the year ended December 31, 2005, incorporated herein by reference, there were approximately 1.2 million stock options outstanding as of December 31, 2005. These 1.2 million options, together with their weighted-average exercise price, have been included in columns (a) and (b), above. The 980,818 figure in column (c) represents the aggregate amount of stock options or restricted stock awards that could be granted under compensation plans approved by our security holders after giving effect to previously issued awards of stock options, shares of restricted stock and other performance awards (see Note 12 to the Company's Consolidated Financial Statements, included in the Annual Report on Form 10-K for the year ended December 31, 2005, incorporated herein by reference, for a more detailed description of our 1996 Plan).

(2) **Restricted Stock** As of December 31, 2005, we have issued 929,980 shares of restricted stock. The restrictions on 93,643 of such shares primarily relate to the passage of time for vesting periods which have not lapsed, and are thus not included in our outstanding share balance. These shares, which do not have dividend equivalent rights attached, have been included in column (a), above. The amounts shown in column (a) also include 47,500 common stock equivalents awarded to our non-employee directors in consideration of their service to us as directors. The Company awards 2,500 common stock equivalents to each non-employee director on the date of each annual meeting of shareholders pursuant to the Company's Non-Employee Directors' Deferral Plan, which was approved by the Company's shareholders in May 2004. Common stock equivalents represent rights to receive shares of Common Stock, or cash in an amount equal to the fair market value of the Common Stock, at the date common stock equivalents are settled based upon individual elections made by each director. Common stock equivalents have dividend equivalent rights beginning on the date of grant. During the first quarter of 2006, awards consisting of approximately 440,000 restricted stock units, with dividend equivalent rights attached, were granted to officers and other employees. As a result of these awards, together with the award of 236,167 shares of Common Stock made to Mr. Sugarman in 2004 (which are vested and entitled to dividends, but subject to restrictions on transfer), the Company currently has outstanding a total of approximately 676,167 restricted stock awards with dividend equivalent rights attached.

(3) **High Performance Unit Program** In May 2002, our shareholders approved the iStar Financial High Performance Unit (HPU) program. The program is more fully described elsewhere in this proxy statement and in Note 12 to our Consolidated Financial Statements, included in the Annual Report on Form 10-K for the year ended December 31, 2005, incorporated herein by reference. The HPU program entitles the employee participants to receive distributions in the nature of Common Stock dividends if the total rate of return on the Company's Common Stock exceeds certain performance levels. The first, second and third plans under the HPU program were valued on December 31, 2002, 2003 and 2004, respectively. As a result of the Company's superior performance during the valuation periods for the 2002, 2003 and 2004 HPU plans, the program participants are entitled to receive distributions equivalent to dividends payable on 819,254 shares, 987,149 shares and 1,031,875 shares of the Company's Common Stock, in the aggregate, as and when such dividends are paid by the Company. Such distributions for the 2002 HPU plan began with the first quarter 2003 dividend, for the 2003 HPU Plan began with the first quarter dividend 2004 and for the 2004 HPU Plan began with the first quarter 2005 dividend and will reduce net income allocable to common shareholders when paid. Our total shareholder return for the valuation period under the 2005 HPU plan, however, did not exceed the fixed performance threshold and the industry index returns set forth in the 2005 HPU plan. As a result, the high performance common stock associated with the 2005 HPU plan has only a nominal value, the participants in the 2005 HPU plan are not entitled to any future dividend payments and no shares of the Company's Common Stock will be issued in connection with this HPU program.

Aggregate Option Exercises in 2005 and Fiscal Year-End Option Values

The following table presents information for the named officers relating to stock option exercises during 2005 and the value of unexercised stock options at the end of the year.

Name	Shares Acquired On Exercise (#)		Value Realized \$(1)		Number Of Securities Underlying Unexercised Options At Fiscal Year End (#) Exercisable / Unexercisable		Value Of Unexercised In-The-Money Options At Fiscal Year End (\$) Exercisable / Unexercisable(2)	
Jay Sugarman	0		0		671,444	0	13,334,990	0
Catherine D. Rice	0		0		0	0	0	0
Timothy J. O Connor	0		0		0	0	0	0
Jay Nydick	0		0		0	0	0	0
Daniel S. Abrams	0		0		0	0	0	0

- (1) Based on market value of underlying securities at exercise, minus the option exercise price.
- (2) Based on market value of underlying securities on December 31, 2005, minus the option exercise price.

Stock Option/SAR Grants in 2005

No stock options or stock appreciation rights were granted during 2005.

High Performance Unit Purchases in 2005

In 2005, Ms. Rice purchased a 12.5% interest and Mr. Abrams purchased a 4.0% interest in our 2007 High Performance Unit Plan. As required, the purchases were made at fair market value established by the Board's Compensation Committee based, among other things, upon an independent valuation analysis prepared by a major investment banking firm. The aggregate purchase price paid for all interests in the 2007 High Performance Unit Plan was \$0.6 million.

Also in 2005, Mr. Sugarman purchased a 75% interest and Mr. Nydick purchased a 25% interest in the 2007 Senior Executive High Performance Unit Plan, at fair market value established by the Board's Compensation Committee based, among other things, upon an independent valuation analysis prepared by a major investment banking firm. The aggregate purchase price paid for all interests in the 2007 Senior Executive High Performance Unit Plan was \$0.4 million.

Compensation Committee Interlocks and Insider Participation

The members of the Compensation Committee are Robin Josephs (Chairperson), John G. McDonald and Jeffrey A. Weber. No member of the Compensation Committee is or was formerly an officer or an employee of the Company. No executive officer of the Company serves as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving as a member of the Company's Board, nor has such interlocking relationship existed in the past.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our directors, executive officers and persons who own more than 10% of a registered class of our equity securities, to file with the SEC initial reports of ownership and reports of changes in ownership of Common Stock and other of our equity securities. Directors, officers and greater than 10% shareholders are required to furnish us with copies of all Section 16(a) forms they file.

To our knowledge, based solely on a review of the copies of such reports furnished to us, during the fiscal year ended December 31, 2005, all Section 16(a) filing requirements applicable to our directors, officers and greater than 10% beneficial owners were met.

Directors Compensation

Mr. Sugarman does not receive any compensation from us for his services as a director. The compensation paid to our non-employee directors is described elsewhere in this proxy statement in the Report of the Compensation Committee.

The Company and each of our directors and executive officers have entered into indemnification agreements. The indemnification agreements provide that we will indemnify the directors and the executive officers to the fullest extent permitted by our Amended and Restated Charter and Maryland law against certain liabilities (including settlements) and expenses actually and reasonably incurred by them in connection with any threatened or pending legal action, proceeding or investigation to which any of them is, or is threatened to be, made a party by reason of their status as our director, officer or agent, or by reason of their serving as a director, officer or agent of another company at our request. We will not indemnify the directors and executive officers if it is established that: (1) the act or omission was material to the matter giving rise to the proceeding and was committed in bad faith or the result of active and deliberate dishonesty; (2) the director or officer actually received an improper personal benefit; or (3) in the case of a criminal proceeding, the director or officer had reasonable cause to believe the act or omission was unlawful. In addition, we will not indemnify the directors and executive officers for a proceeding brought by a director or officer against us, except to enforce indemnification. If an amendment to the Amended and Restated Charter or Maryland law with respect to removal of limitations on indemnification is approved, the indemnification agreements will be amended accordingly. We are not required to indemnify any director or executive officer for liabilities: (1) for which he or she has already been unconditionally reimbursed from other sources; or (2) resulting from an accounting of profits under Section 16(b) of the Securities Exchange Act of 1934. In addition, we have obtained directors and officers liability insurance, which covers our directors and executive officers.

Employment Agreements

As discussed in the Report of the Compensation Committee, we entered into a three-year employment agreement with Jay Sugarman, our Chairman of the Board and Chief Executive Officer, effective March 31, 2004. In addition to the compensation provisions described in the Report of Compensation Committee, the agreement also provides that if Mr. Sugarman's employment is terminated without cause or if he resigns within 90 days after the first anniversary of a change of control, we will pay him a lump sum of \$2.0 million. If Mr. Sugarman resigns for good reason, we will pay him a lump sum of \$5.0 million.

We have agreed to pay Mr. Sugarman amounts necessary to cover the excise tax obligations, if any, resulting from a change of control. In addition, during the term of Mr. Sugarman's agreement, we have agreed to nominate him to serve as our Chairman of the Board and Chief Executive Officer.

Mr. Sugarman has agreed that, during the term of his employment and for 12 months (or 24 months under certain circumstances) thereafter, he will not engage in a business that directly and materially competes with us at the date of termination and he will not solicit any of our borrowers, lenders or employees.

In November 2004, Jay S. Nydick was appointed as our President and entered into a three-year employment agreement with the Company. The initial three-year term, and any subsequent one-year renewal term, will automatically be extended for an additional year, unless earlier terminated by prior notice from the Company or Mr. Nydick. Mr. Nydick will receive a base salary of \$350,000 per year and will

be eligible to receive an annual cash incentive award, based upon his performance, in respect of each fiscal year of the Company that ends during his term, beginning with the fiscal year ending December 31, 2005. His annual bonus target is \$650,000, subject to annual review and adjustment. Mr. Nydick is eligible to purchase interests in the Company's High Performance Unit Program and to participate in certain of the Company's strategic business initiatives upon the achievement of specified performance thresholds. The agreement provides that if Mr. Nydick's employment is terminated without cause or if he resigns for good reason, he will be entitled to receive a one-time payment equal to one year's base salary and his interests in the 2006 HPU Plan will become vested and not subject to repurchase by us. If Mr. Nydick resigns his employment without good reason or if his employment is terminated by us for cause, he has agreed that for 12 months thereafter he will not engage in any business that directly and materially competes with us as of the date of termination and he will not solicit any of our borrowers, lenders or employees.

Performance Graph

The following graph compares the total cumulative shareholder returns on our Common Stock from December 31, 2000 to December 31, 2005 to that of: (1) the Russell 1000 Financial Services Index (the Russell Index), a capitalization-weighted index of 1,000 companies that provide financial services; and (2) the Standard & Poor's 500 Index (the S&P 500).

Accounting Fees and Services

Fees paid to PricewaterhouseCoopers LLP, our independent auditors, during the last two fiscal years were as follows:

Audit Fees: The aggregate fees in the fiscal years ended December 31, 2005 and December 31, 2004 for professional services rendered by PricewaterhouseCoopers LLP in connection with its audit of the Company's consolidated financial statements and the separate financial reporting for the Company's leasing subsidiary and its limited reviews of the unaudited consolidated interim financial statements for each of these entities, were approximately \$1,309,080 (including \$324,000 in 2005 related to Section 404 internal control assessment under the Sarbanes-Oxley Act of 2002) and \$1,445,345 (including \$413,090 in 2004 related to Section 404 internal control assessment under the Sarbanes-Oxley Act of 2002), respectively. In each of these years, these services included the issuance of consents and comfort letters for filings initiated by the Company (e.g., a shelf registration and related debt offerings), the issuance of mortgage servicing compliance reports, audits of wholly-owned consolidated secured financing subsidiaries, and the Company's pro rata portion of fees for audits of unconsolidated joint ventures.

Audit-Related Fees: The aggregate fees in the fiscal years ended December 31, 2005 and December 31, 2004 for assurance and related services rendered by PricewaterhouseCoopers LLP that are reasonably related to the performance of the audit or review of the Company's and the Company's leasing subsidiary's financial statements and are not disclosed under "Audit Fees" above, were approximately \$30,000 and \$358,610, respectively. These audit-related fees include fees related to the Company's employee benefit audit.

Tax Fees: The aggregate fees in the fiscal years ended December 31, 2005 and December 31, 2004 for professional services rendered by PricewaterhouseCoopers LLP for tax compliance, tax advice and tax planning were approximately \$849,588 and \$529,800, respectively. These services included income tax compliance and related tax services.

All Other Fees: The aggregate fees in the fiscal years ended December 31, 2005 and December 31, 2004 for all other professional services rendered by PricewaterhouseCoopers LLP (including financial due diligence relating to an acquisition) were approximately \$48,871 and \$4,128, respectively.

Our Audit Committee is responsible for retaining and terminating our independent auditors (subject, if applicable, to shareholder ratification) and for approving the performance of any non-audit services by the independent auditors. In addition, the Audit Committee is responsible for reviewing and evaluating the qualifications, performance and independence of the lead partner of the independent auditors and for presenting its conclusions with respect to the independent auditors to the full Board.

Our Audit Committee must pre-approve all auditing services (including providing comfort letters in connection with securities offerings) and non-audit services (including tax services) provided to us or our subsidiaries by our independent registered public accounting firm, except for non-audit services covered by the de minimus exception in Section 10A of the Securities Exchange Act of 1934. During fiscal 2005, the Audit Committee pre-approved all services provided by PricewaterhouseCoopers LLP.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information available to us as of April 3, 2006 with respect to any Common Stock owned by our continuing directors and executive officers, and any individual or group of shareholders known to be the beneficial owner of more than 5% of the issued and outstanding Common Stock. This table includes options that are currently exercisable or exercisable within 60 days of the date of this proxy statement and Common Stock equivalents awarded to non-employee directors under the iStar Financial Inc. Non-Employee Directors Deferral Plan. There are no other directors, nominees for director or executive officers who beneficially own Common Stock.

Name and Address of Beneficial Owner(1)	Common Stock Beneficially Owned		% of Basic Common Stock Outstanding	
Willis Andersen, Jr.(2)	42,326	(3)	*	
Glenn R. August(2)	584,655	(4)	*	
Robert W. Holman, Jr.(2)	392,532	(5)	*	
Robin Josephs(2)	46,844	(6)	*	
John G. McDonald(2)	70,372	(7)	*	
Jay S. Nydick(2)	41,073	(8)	*	
George R. Puskar(2)	42,700	(9)	*	
Catherine D. Rice(2)	208,875	(10)	*	
Jay Sugarman(2)	3,611,553	(11)	3.2	%
Jeffrey A. Weber(2)	7,500	(12)	*	
Capital Research and Management Company(13)	14,305,500		12.6	%
All executive officers, directors and nominees for director as a group (10 persons)	5,007,357		4.4	%

* Less than 1%.

- (1) Except as otherwise indicated and subject to applicable community property laws and similar statutes, the person listed as the beneficial owner of shares has sole voting power and dispositive power with respect to the shares.
- (2) c/o iStar Financial Inc., 1114 Avenue of the Americas, 27th Floor, New York, NY 10036.
- (3) Includes 16,000 shares of Common Stock owned indirectly by Mr. Andersen through an Individual Retirement Account, 8,112 shares owned indirectly through a family trust, 10,000 shares subject to options that are currently exercisable or exercisable within 60 days and 8,214 Common Stock equivalents held under the iStar Financial Inc. Non-Employee Directors Deferral Plan, which are or will be fully vested within 60 days.
- (4) Includes 512,739 shares of Common Stock owned directly by Mr. August, 69,416 shares owned indirectly through a family trust and 2,500 Common Stock equivalents held under the iStar Financial Inc. Non-Employee Directors Deferral Plan, which are or will be fully vested within 60 days.
- (5) Includes 242,186 shares of Common Stock owned indirectly by Mr. Holman through a partnership, 112,846 shares owned indirectly through a family trust, 30,000 shares subject to options that are currently exercisable or exercisable within 60 days and 7,500 Common Stock equivalents held under the iStar Financial Inc. Non-Employee Directors Deferral Plan, which are or will be fully vested within 60 days.
- (6) Includes 14,190 shares of Common Stock owned directly by Ms. Josephs, 60 shares owned indirectly by her spouse, 5,100 shares owned indirectly through a family trust, 19,994 shares subject to options that are currently exercisable or exercisable within 60 days and 7,500 Common Stock equivalents held under the iStar Financial Inc. Non-Employee Directors Deferral Plan, which are or will be fully vested within 60 days.
- (7) Includes 11,550 shares of Common Stock owned indirectly by Mr. McDonald through an Individual Retirement Account, 13,450 shares owned indirectly through a family trust, 36,900 shares subject to options that are currently exercisable or exercisable within 60 days and 8,472 Common Stock equivalents held under the iStar Financial Inc. Non-Employee Directors Deferral Plan, which are or will be fully vested within 60 days.
- (8) Includes 41,073 restricted stock units representing the right to receive shares of Common Stock, awarded to Mr. Nydick in March 2006 and which vest over three years.
- (9) Includes 6,100 shares of Common Stock owned directly by Mr. Puskar, 18,500 shares owned indirectly by his spouse, 10,600 shares owned indirectly through an Individual Retirement Account, and 7,500 common stock equivalents held under the iStar Financial Inc. Non-Employee Directors Deferral Plan, which are or will be fully vested within 60 days.
- (10) Includes 174,647 shares of Common Stock owned directly by Ms. Rice and 34,228 restricted stock units representing the right to receive shares of Common Stock, awarded to Ms. Rice in March 2006 and which vest over three years.
- (11) Includes 1,936,073 shares of Common Stock owned directly by Mr. Sugarman, 962,963 shares owned indirectly through family trusts, 671,444 shares subject to options that are currently exercisable or exercisable within 60 days and 41,073 restricted stock units representing the right to receive shares of Common Stock, awarded to Mr. Sugarman in March 2006 and which vest over three years.

(12) Includes 7,500 Common Stock equivalents held by Mr. Weber under the iStar Financial Inc. Non-Employee Directors Deferral Plan, which are or will be fully vested within 60 days.

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(13) This information, as of December 30, 2005, was obtained from a Schedule 13G filed with the SEC. This shareholder disclaims beneficial ownership of these shares. This shareholder's address is 333 South Hope Street, 55th Floor, Los Angeles, CA 90071-1449. Mr. McDonald, one of our directors, is a director of eight mutual funds managed by Capital Research and Management Company but does not have any responsibility for investment decisions of those eight mutual funds.

Certain Relationships and Related Transactions

Since 2002, we have authorized a total of 35,000 shares of high performance common stock under the iStar Financial High Performance Unit Program in seven plans for the years 2002 through 2008. Fifty-two of our employees currently participate in the High Performance Unit Program. The employees paid an aggregate of approximately \$2.8 million, \$1.8 million, \$1.4 million, \$0.6 million, \$0.6 million, \$0.6 million and \$0.7 million for the shares of the 2002 plan, 2003 plan, 2004 plan, 2005 plan, 2006 plan, 2007 plan and 2008 plan, respectively. All of our senior officers and other key employees are participants in the program.

We have also authorized a total of 20,000 additional shares of high performance common stock under the iStar Financial Senior Executive High Performance Unit Program in four plans for the years 2005 through 2008. Two executives, Jay Sugarman, our Chairman and Chief Executive Officer, and Jay Nydick, our President, currently participate in this program, as described more fully elsewhere in this proxy statement.

In 2005 we acquired a 47.5% interest in Oak Hill Advisors, L.P. and related entities for an aggregate purchase price of approximately \$200 million, consisting of \$151 million in cash and \$49 million in shares of our Common Stock (1,164,310 shares). In connection with that acquisition, we appointed Glenn R. August, the president of the ultimate general partner of Oak Hill Advisors, L.P., to our board of directors. Mr. August, entities controlled by him and trusts for the benefit of Mr. August and his family received approximately half of the transaction consideration. We have invested an aggregate of \$10.9 million in four funds managed by Oak Hill Advisors, L.P. As of December 31, 2005, these investments have a carrying value of \$10.2 million.

Other Matters

When Are Shareholder Proposals Due for the 2007 Annual Meeting?

Shareholder proposals intended to be presented at the annual meeting to be held in 2007 must be sent in writing, by certified mail, return receipt requested, to us at our principal office, addressed to our Secretary, and must be received by us no later than January 1, 2007, for inclusion in the 2007 proxy materials.

Householding of Proxy Materials

The SEC has adopted rules that permit companies and intermediaries (such as banks and brokers) to satisfy the delivery requirements for proxy statements and annual reports with respect to two or more stockholders sharing the same address by delivering a single proxy statement addressed to those stockholders. This process, which is commonly referred to as householding, potentially means extra convenience for stockholders and cost savings for companies.

This year, a number of brokers with account holders who are our stockholders will be householding our proxy materials. A single proxy statement will be delivered to multiple stockholders sharing an address unless contrary instructions have been received from the impacted stockholders. Once you have received notice from your broker that they will be householding communications to your address, householding will continue until you are notified otherwise or until you revoke your consent. If, at any time, you no longer wish to participate in householding and would prefer to receive a separate proxy statement and

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annual report, please notify your broker, by directing your written request to: iStar Financial Inc., 1114 Avenue of the Americas, 27th Floor, New York, New York 10036, Attn: Investor Relations. Stockholders who currently receive multiple copies of the proxy statement at their address and would like to request householding of their communications should contact their broker as specified above.

Are there any other matters coming before the 2006 Annual Meeting?

Our management does not intend to bring any other matters before the Annual Meeting and knows of no other matters that are likely to come before the meeting. In the event any other matters properly come before the Annual Meeting, the persons named in the accompanying proxy will cast the votes represented by such proxy in accordance with their discretion on such matters.

The Company urges you to submit your vote on the accompanying proxy card by completing, signing, dating and returning it in the accompanying postage-paid return envelope at your earliest convenience, whether or not you presently plan to attend the meeting in person.

Availability of Annual Report on Form 10K

Our 2005 Annual Report, including our audited financial statements as of and for the year ended December 31, 2005 is being mailed to our stockholders with this proxy statement. A copy of our Annual Report on Form 10-K for the year ended December 31, 2005, without exhibits, may be obtained, without charge, by writing to us at iStar Financial Inc., 1114 Avenue of the Americas, 27th Floor, New York, NY 10036, Attention: Investor Relations, or by visiting our website at www.istarfinancial.com.

By Order of the Board of Directors

Geoffrey M. Dugan
Secretary
New York, NY
April 30, 2006

EXHIBIT A

iSTAR FINANCIAL, INC.

2006 LONG-TERM INCENTIVE PLAN

iStar Financial, Inc., a Maryland corporation, wishes to attract officers, key employees, Directors, consultants and advisers to the Company and its Subsidiaries and induce officers, key employees, Directors, consultants and advisers to remain with the Company and its Subsidiaries, and encourage them to increase their efforts to make the Company's business more successful whether directly or through its Subsidiaries. In furtherance thereof, the iStar Financial, Inc. 2006 Long-Term Incentive Plan is designed to provide equity-based incentives to officers, key employees, Directors, consultants and advisers of the Company and its Subsidiaries. Awards under the Plan may be made to selected officers, key employees, Directors, consultants and advisers of the Company and its Subsidiaries in the form of Options, Restricted Stock, Phantom Shares, Dividend Equivalent Rights or other forms of equity-based compensation.

1. DEFINITIONS.

Whenever used herein, the following terms shall have the meanings set forth below:

Award, except where referring to a particular category of grant under the Plan, shall include Incentive Stock Options, Non-Qualified Stock Options, Restricted Stock, Phantom Shares, Dividend Equivalent Rights and other equity-based Awards as contemplated herein.

Award Agreement means a written agreement in a form approved by the Committee to be entered into between the Company and the Participant as provided in Section 3. An Award Agreement may be, without limitation, an employment or other similar agreement containing provisions governing grants hereunder, if approved by the Committee for use under the Plan.

Board means the Board of Directors of the Company.

Cause means, unless otherwise provided in the Participant's Award Agreement: (i) engaging in (A) willful or gross misconduct or (B) willful or gross neglect; (ii) repeatedly failing to adhere to the directions of superiors or the Board or the written policies and practices of the Company or its Subsidiaries or its affiliates; (iii) the commission of a felony or a crime of moral turpitude, dishonesty, breach of trust or unethical business conduct, or any crime involving the Company or its Subsidiaries, or any affiliate thereof; (iv) fraud, misappropriation or embezzlement of the Company's funds or other assets or other acts deemed by the Committee in the good faith exercise of its sole discretion to be an act of dishonesty in respect to the Company; (v) material violation of any statutory or common law duty of loyalty to the Company; (vi) a material breach of the Participant's employment agreement (if any) with the Company or its Subsidiaries or its affiliates (subject to any cure period therein provided); (vii) willfully and repeatedly refusing to perform or substantially disregarding the duties properly assigned to the Participant by the Company (other than as a result of Disability); (viii) any significant activities materially harmful to the reputation of the Company or its Subsidiaries or its affiliates; or (ix) repeated failure to devote substantially all of Participant's business time and efforts to the Company if required by Participant's employment agreement; provided, however, that, if at any particular time the Participant is subject to an effective employment agreement with the Company, then, in lieu of the foregoing definition, **Cause** shall at that time have such meaning as may be specified in such employment agreement.

Change in Control means the happening of any of the following:

(i) the acquisition by any individual, entity or group (a **Person**), including any **person** within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act, of beneficial ownership within the meaning of the Rule 13d-3 promulgated under the Exchange Act, of 51% or more of either (A) the then outstanding Shares, (collectively, the **Outstanding Shares**) or (B) the combined voting power of the then outstanding securities of the Company entitled to vote generally in the election of Directors

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(the Outstanding Voting Securities); excluding, however, the following: (1) any acquisition by the Company; (2) any acquisition by an employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation or trust controlled by the Company or (3) any acquisition by any corporation or trust pursuant to a transaction which complies with clause (A), (B) or (C) of subsection (iii) of this definition;

(ii) individuals who, as of the Effective Date constitute the Board (the Incumbent Board) cease for any reason to constitute at least a majority of such Board; provided that any individual who becomes a Director of the Company subsequent to the Effective Date whose election or nomination for election by the Company's shareholders was approved (other than in connection with a material transaction relating to the Company or its assets or the Shares or the Class B Shares of the Company) by the vote of at least a majority of the Directors then comprising the Incumbent Board shall be deemed a member of the Incumbent Board; and provided further, that any individual who was initially elected as a Director of the Company as a result of an actual or threatened election contest, as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act, or any other actual or threatened solicitation of proxies or consent by or on behalf of any Person other than the Board shall not be deemed a member of the Incumbent Board;

(iii) consummation by the Company of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Company (a Corporate Transaction); excluding, however, a Corporate Transaction pursuant to which (A) all or substantially all of the individuals or entities who are the beneficial owners, respectively, of the Outstanding Shares and the Outstanding Voting Securities immediately prior to such Corporate Transaction will beneficially own, directly or indirectly, more than $66\frac{2}{3}\%$ of, respectively, the outstanding shares of beneficial interest or common stock, and the combined voting power of the outstanding securities of such trust or corporation entitled to vote generally in the election of Directors or directors, as the case may be, of the trust or corporation resulting from such Corporate Transaction (including, without limitation, an entity which as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly or indirectly in substantially the same proportions relative to each other as their ownership, immediately prior to such Corporate Transaction, of the Outstanding Shares and the Outstanding Voting Securities as the case may be); (B) no Person (other than: the Company; any employee benefit plan (or related trust) sponsored or maintained by the Company or any trust or corporation controlled by the Company, the trust or corporation resulting from such Corporate Transaction, and any Person which beneficially owned, immediately prior to such Corporate Transaction, directly or indirectly, $33\frac{1}{3}\%$ or more of the Outstanding Shares or the Outstanding Voting Securities, as the case may be) will beneficially own, directly or indirectly, $33\frac{1}{3}\%$ or more of, respectively, the outstanding shares of beneficial interest or common stock of the trust or corporation resulting from such Corporate Transaction or the combined voting power of the outstanding securities of such trust or corporation entitled to vote generally in the election of Directors or directors; or (C) individuals who were members of the Incumbent Board will constitute at least a majority of the members of the board of Directors or directors of the trust or corporation resulting from such Corporate Transaction; or

(iv) approval by the shareholders of the Company of a plan of complete liquidation or dissolution of the Company.

Notwithstanding the foregoing, no event or condition shall constitute a Change in Control to the extent that, if it were, a 20% tax would be imposed under Section 409A of the Code; provided that, in such a case, the event or condition shall continue to constitute a Change in Control to the maximum extent possible (e.g., if applicable, in respect of vesting without an acceleration of distribution) without causing the imposition of such 20% tax.

Code means the Internal Revenue Code of 1986, as amended.

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Committee means the committee appointed by the Board under Section 3.

Common Stock means the Company's Common Stock, par value \$.001 per share, either currently existing or authorized hereafter.

Company means iStar Financial, Inc., a Maryland corporation.

Director means a non-employee director of the Company or its Subsidiaries.

Disability means, unless otherwise provided by the Committee in the Participant's Award Agreement, a disability which renders the Participant incapable of performing all of his or her material duties for a period of at least 180 consecutive or non-consecutive days during any consecutive twelve-month period. Notwithstanding the foregoing, no circumstances or condition shall constitute a Disability to the extent that, if it were, a 20% tax would be imposed under Section 409A of the Code; provided that, in such a case, the event or condition shall continue to constitute a Disability to the maximum extent possible (e.g., if applicable, in respect of vesting without an acceleration of distribution) without causing the imposition of such 20% tax.

Dividend Equivalent Right means a right awarded under Section 8 of the Plan to receive (or have credited) the equivalent value of dividends paid on Common Stock.

Effective Date means April 19, 2006.

Eligible Person means an officer, Director, key employee, consultant or adviser of the Company or its Subsidiaries or other person expected to provide significant services (of a type expressly approved by the Committee as covered services for these purposes) to the Company or its Subsidiaries.

Exchange Act means the Securities Exchange Act of 1934, as amended.

Fair Market Value per Share as of a particular date means the closing transaction price of a Share as reported in the New York Stock Exchange on the first business day immediately preceding the date as of which such value is being determined, or, if there shall be no reported transaction on such day, on the next preceding business day for which a transaction was reported; provided that if the Fair Market Value of a Share for any date cannot be determined as above provided, Fair Market Value of a Share shall be determined by the Committee by whatever means or method as to which the Committee, in the good faith exercise of its discretion, shall at such time deem appropriate.

Grantee means an Eligible Person granted Restricted Stock, Phantom Shares, Dividend Equivalent Rights or such other equity-based Awards (other than an Option) as may be granted pursuant to Section 9.

Incentive Stock Option means an incentive stock option within the meaning of Section 422(b) of the Code.

Non-Qualified Stock Option means an Option which is not an Incentive Stock Option.

Option means the right to purchase, at a price and for the term fixed by the Committee in accordance with the Plan, and subject to such other limitations and restrictions in the Plan and the applicable Award Agreement, a number of Shares determined by the Committee.

Optionee means an Eligible Person to whom an Option is granted, or the Successors of the Optionee, as the context so requires.

Option Price means the price per share of Common Stock, determined by the Board or the Committee, at which an Option may be exercised.

Participant means a Grantee or Optionee.

Performance Goals have the meaning set forth in Section 10.

Performance Period means any period designated by the Committee for which the Performance Criteria (as defined in Exhibit A) shall be calculated; provided however, that Performance Period shall be the five-year period commencing on the Effective Date unless otherwise designated by the Committee.

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Permanent and Total Disability means the permanent and total disability within the meaning of Section 22(e)(3) of the Code.

Phantom Share means a right, pursuant to the Plan, of the Grantee to payment of the Phantom Share Value.

Phantom Share Value, per Phantom Share, means the Fair Market Value of a Share or, if so provided by the Committee, such Fair Market Value to the extent in excess of a base value established by the Committee at the time of grant.

Plan means the Company's 2006 Long-Term Incentive Plan, as set forth herein and as the same may from time to time be amended.

REIT Requirements means the requirements to qualify as a real estate investment trust under the Code and the rules and regulations promulgated thereunder.

Restricted Stock means an award of Shares that are subject to restrictions hereunder.

Securities Act means the Securities Act of 1933, as amended.

Settlement Date means the date determined under Section 7.4(c).

Shares means shares of Common Stock of the Company.

Subsidiary means any corporation (other than the Company) that is a subsidiary corporation with respect to the Company under Section 424(f) of the Code. In the event the Company becomes a subsidiary of another company, the provisions hereof applicable to subsidiaries shall, unless otherwise determined by the Committee, also be applicable to any company that is a parent corporation with respect to the Company under Section 424(e) of the Code, any corporation, partnership or other entity at least 50% of the economic interest in the equity of which is owned by the Company or by another subsidiary.

Successor of the Optionee means the legal representative of the estate of a deceased Optionee or the person or persons who shall acquire the right to exercise an Option by bequest or inheritance or by reason of the death of the Optionee.

Termination of Service means a Participant's termination of employment or other service, as applicable, with the Company and its Subsidiaries. Unless otherwise provided in the Award Agreement, cessation of service as an officer, employee, Director or consultant, or other covered positions shall not be treated as a Termination of Service if the Participant continues without interruption to serve thereafter in another one (or more) of such other capacities, and Termination of Service shall be deemed to have occurred when service in the final covered capacity ceases.

2. EFFECTIVE DATE AND TERMINATION OF PLAN.

The effective date of the Plan is April 19, 2006. The Plan shall not become effective unless and until it is approved by the requisite percentage of the holders of the Common Stock of the Company. The Plan shall terminate on, and no Award shall be granted hereunder on or after, the 10-year anniversary of the earlier of the approval of the Plan by (i) the Board or (ii) the shareholders of the Company; provided, however, that the Board may at any time prior to that date terminate the Plan.

3. ADMINISTRATION OF PLAN.

(a) The Plan shall be administered by the Committee appointed by the Board. The Committee shall consist of at least two individuals each of whom shall be a nonemployee director as defined in Rule 16b-3 as promulgated by the Securities and Exchange Commission (Rule 16b-3) under the Exchange Act and shall, at such times as the Company is subject to Section 162(m) of the Code (to the extent relief from the limitation of Section 162(m) of the Code is sought with respect to Awards), qualify as outside directors for purposes of Section 162(m) of the Code. The acts of a majority of the members present at any meeting of the Committee at which a quorum is present, or acts approved in writing by a majority of the entire

Committee, shall be the acts of the Committee for purposes of the Plan. If and to the extent applicable, no member of the Committee may act as to matters under the Plan specifically relating to such member. Notwithstanding the other foregoing provisions of this Section 3(a), any Award under the Plan to a person who is a member of the Committee shall be made and administered by the Board. If no Committee is designated by the Board to act for these purposes, the Board shall have the rights and responsibilities of the Committee hereunder and under the Award Agreements.

(b) Subject to the provisions of the Plan, the Committee shall in its discretion as reflected by the terms of the Award Agreements (i) authorize the granting of Awards to Eligible Persons; and (ii) determine the eligibility of Eligible Persons to receive an Award, as well as determine the number of Shares to be covered under any Award Agreement, considering the position and responsibilities of the Eligible Person, the nature and value to the Company of the Eligible Person's present and potential contribution to the success of the Company whether directly or through its Subsidiaries and such other factors as the Committee may deem relevant. Notwithstanding the foregoing, to the extent permitted by applicable law, and other than with respect to Awards intended to qualify for relief from the limitations of Section 162(m) of the Code, Awards made to individuals covered by Section 16 of the Exchange Act, and Awards issued to the Chief Executive Officer of the Company, the Committee may delegate all or part of its authority and duties with respect to Awards issued under the Plan to the Chief Executive Officer.

(c) The Award Agreement shall contain such other terms, provisions and conditions not inconsistent herewith as shall be determined by the Committee. In the event that any Award Agreement or other agreement hereunder provides (without regard to this sentence) for the obligation of the Company or any affiliate thereof to purchase or repurchase Shares from a Participant or any other person, then, notwithstanding the provisions of the Award Agreement or such other agreement, such obligation shall not apply to the extent that the purchase or repurchase would not be permitted under New York law. The Participant shall take whatever additional actions and execute whatever additional documents the Committee may in its reasonable judgment deem necessary or advisable in order to carry out or effect one or more of the obligations or restrictions imposed on the Participant pursuant to the express provisions of the Plan and the Award Agreement.

4. SHARES AND UNITS SUBJECT TO THE PLAN.

4.1 In General.

(a) Subject to adjustments as provided in Section 14, the total number of Shares subject to Awards granted under the Plan, in the aggregate, may not exceed 4,550,000. The maximum number of Shares that may underlie Awards, other than Options, granted in any one year to any Eligible Person, shall not exceed 1,000,000 Shares distributed under the Plan may be treasury Shares or authorized but unissued Shares. Any Shares that have been granted as Restricted Stock or that have been reserved for distribution in payment for Options, Phantom Shares or other equity-based Awards but are later forfeited or for any other reason are not payable or otherwise not made available for payment under the Plan may again be made the subject of Awards under the Plan. Any Shares covered by an Award (or portion of an Award) granted under the Plan, which is forfeited or cancelled, expires or is settled in cash, including the settlement of tax-withholding obligations using Shares, shall be deemed not to have been issued for purposes of determining the maximum number of Shares available for delivery under the Plan. If any Option is exercised by delivery of Shares to the Company as full or partial payment for such exercise under this Plan, only the number of Shares issued net of the Shares delivered shall be deemed issued for purposes of determining the maximum number of Shares available for issuance under the Plan. This Section 4.1(a) shall apply to the Share limit imposed to conform to Section 422(b)(1) of the Code (and the regulations issued thereunder) only to the extent consistent with applicable regulations relating to Incentive Stock Options.

(b) Shares subject to Dividend Equivalent Rights, other than Dividend Equivalent Rights based directly on the dividends payable with respect to Shares subject to Options or the dividends payable on a number of Shares corresponding to the number of Phantom Shares awarded, shall be subject to the limitation of Section 4.1(a). Notwithstanding Section 4.1(a), except in the case of Awards intended to qualify for relief from the limitations of Section 162(m) of the Code, there shall be no limit on the number of Phantom Shares or Dividend Equivalent Rights to the extent they are paid out in cash that may be granted under the Plan. If any Phantom Shares, Dividend Equivalent Rights or other equity-based Awards under Section 9 are paid out in cash, then, notwithstanding the first sentence of Section 4.1(a) above (but subject to the second sentence thereof) the underlying Shares may again be made the subject of Awards under the Plan.

(c) Notwithstanding any provision hereunder, no Award hereunder shall be exercisable or eligible for settlement if, as a result of either the ability to exercise or settle, or the exercise or settlement of such Award, the Company would not satisfy the REIT Requirements in any respect.

4.2 *Options.*

Subject to adjustments pursuant to Section 14, and subject to Section 4.1(a), Incentive Stock Options with respect to an aggregate of no more than 1,000,000 Shares may be granted under the Plan. Subject to adjustments pursuant to Section 14, in no event may any Optionee receive Options for more than 1,000,000 Shares in any one year.

5. PROVISIONS APPLICABLE TO STOCK OPTIONS.

5.1 *Grant of Option.*

Subject to the other terms of the Plan, the Committee shall, in its discretion as reflected by the terms of the applicable Award Agreement: (i) determine and designate from time to time those Eligible Persons to whom Options are to be granted and the number of Shares to be optioned to each Eligible Person; (ii) determine whether to grant Options intended to be Incentive Stock Options, or to grant Non-Qualified Stock Options, or both (to the extent that any Option does not qualify as an Incentive Stock Option, it shall constitute a separate Non-Qualified Stock Option); provided that Incentive Stock Options may only be granted to employees; (iii) determine the time or times when and the manner and condition in which each Option shall be exercisable and the duration of the exercise period; (iv) designate each Option as one intended to be an Incentive Stock Option or as a Non-Qualified Stock Option; and (v) determine or impose other conditions to the grant or exercise of Options under the Plan as it may deem appropriate.

5.2 *Option Price.*

The Option Price shall be determined by the Committee on the date the Option is granted and reflected in the Award Agreement, as the same may be amended from time to time. Any particular Award Agreement may provide for different exercise prices for specified amounts of Shares subject to the Option. Unless otherwise permitted by the Committee, the Option Price with respect to each Option shall not be less than 100% of the Fair Market Value of a Share on the day the Option is granted.

5.3 *Period of Option and Vesting.*

(a) Unless earlier expired, forfeited or otherwise terminated, each Option shall expire in its entirety upon the 10th anniversary of the date of grant or shall have such other term (which may be shorter, but not longer, in the case of Incentive Stock Options) as is set forth in the applicable Award Agreement (except that, in the case of an individual described in Section 422(b)(6) of the Code (relating to certain 10% owners) who is granted an Incentive Stock Option, the term of such Option shall be no more than five years from the date of grant). The Option shall also expire, be forfeited and terminate at such times and in such circumstances as otherwise provided hereunder or under the Award Agreement.

(b) Each Option, to the extent that the Optionee has not had a Termination of Service and the Option has not otherwise lapsed, expired, terminated or been forfeited, shall first become exercisable

according to the terms and conditions set forth in the Award Agreement, as determined by the Committee at the time of grant. Unless otherwise provided in the Award Agreement or herein, no Option (or portion thereof) shall ever be exercisable if the Optionee has a Termination of Service before the time at which such Option (or portion thereof) would otherwise have become exercisable, and any Option that would otherwise become exercisable after such Termination of Service shall not become exercisable and shall be forfeited upon such termination. Notwithstanding the foregoing provisions of this Section 5.3(b), Options exercisable pursuant to the schedule set forth by the Committee at the time of grant may be fully or more rapidly exercisable or otherwise vested at any time in the discretion of the Committee. Upon and after the death of an Optionee, such Optionee's Options, if and to the extent otherwise exercisable hereunder or under the applicable Award Agreement after the Optionee's death, may be exercised by the Successors of the Optionee.

5.4 Exercisability Upon and After Termination of Optionee.

(a) Subject to provisions of the Award Agreement, if an Optionee has a Termination of Service other than by the Company or its Subsidiaries for Cause and other than by reason of death, or Disability, then no exercise of an Option may occur after the expiration of the three-month period to follow the termination, or if earlier, the expiration of the term of the Option as provided under Section 5.3(a). If the Optionee should die during the three-month period after a Termination of Service for any reason other than Disability or Cause, the Option (if and to the extent otherwise exercisable by the Optionee at the time of death) may be exercised until the earlier of (i) the date which is three months from the date of death of the Optionee, or (ii) the date on which the term of the Option expires in accordance with Section 5.3(a).

(b) Subject to provisions of the Award Agreement, in the event the Optionee has a Termination of Service on account of death or Disability, the Option (whether or not otherwise exercisable) may be exercised until the earlier of (i) one year from the date of the Termination of Service of the Optionee, or (ii) the date on which the term of the Option expires in accordance with Section 5.3(a). If the Optionee should die during the one-year period following a Termination of Service due to Disability, but while the Option is still in effect, the Option (if and to the extent otherwise exercisable by the Optionee at the time of death) may be exercised until the earlier of (i) the date which is one year from the date of death of the Optionee, or (ii) the date on which the term of the Option expires in accordance with Section 5.3(a).

(c) Notwithstanding any other provision hereof, unless otherwise provided in the Award Agreement, if the Optionee has a Termination of Service by the Company for Cause, then the Optionee's Options, to the extent then unexercised, shall thereupon cease to be exercisable and shall be forfeited forthwith.

5.5 Exercise of Options.

(a) Subject to vesting, restrictions on exercisability and other restrictions provided for hereunder or otherwise imposed in accordance herewith, an Option may be exercised, and payment in full of the aggregate Option Price made, by an Optionee only by written notice (in the form prescribed by the Committee) to the Company specifying the number of Shares to be purchased.

(b) Without limiting the scope of the Committee's discretion hereunder, the Committee may impose such other restrictions on the exercise of Incentive Stock Options (whether or not in the nature of the foregoing restrictions) as it may deem necessary or appropriate.

(c) Notwithstanding any other provision of this Section 5, in the event of a Change in Control, Option shall become immediately exercisable for the full amount of Shares subject thereto and shall be exercisable until expiration of the term of such Option.

5.6 Payment.

(a) The aggregate Option Price shall be paid in full upon the exercise of the Option. Payment must be made by one of the following methods:

(i) cash or a certified or bank cashier's check;

(ii) shares of previously owned Common Stock, which have been previously owned for more than six months or which were purchased on the open market and for which the Optionee has good title, free and clear of all liens and encumbrances, having an aggregate Fair Market Value on the date of exercise equal to the aggregate Option Price;

(iii) cash by a broker-dealer acceptable to the Company to whom the Optionee has submitted an irrevocable notice of exercise;

(iv) a combination of (i) and (ii);

(v) subject to Section 13(e), the proceeds of a Company loan program or third-party sale program or a notice acceptable to the Committee given as consideration under such a program, in each case if permitted by the Committee in its discretion, if such a program has been established and the Optionee is eligible to participate therein;

(vi) if approved by the Committee in its discretion, through the written election of the Optionee to have Shares withheld by the Company from the Shares otherwise to be received, with such withheld Shares having an aggregate Fair Market Value on the date of exercise equal to the aggregate Option Price; or

(vii) by any combination of such methods of payment or any other method acceptable to the Committee in its discretion.

(b) Except in the case of Options exercised by certified or bank cashier's check, the Committee may impose limitations and prohibitions on the exercise of Options as it deems appropriate, including, without limitation, any limitation or prohibition designed to avoid accounting consequences which may result from the use of Common Stock as payment upon exercise of an Option.

(c) No Option may be exercised with respect to any fractional Share. Any fractional Shares resulting from an Optionee's exercise that is accepted by the Company shall be paid in cash.

5.7 Stock Appreciation Rights.

The Committee, in its discretion, may also permit (taking into account, without limitation, the application of Section 409A of the Code, as the Committee may deem appropriate) the Optionee to elect to exercise an Option by receiving a combination of Shares and cash, or, in the discretion of the Committee, either Shares or solely in cash, with an aggregate Fair Market Value (or, to the extent of payment in cash, in an amount) equal to the excess of the Fair Market Value of the Shares with respect to which the Option is being exercised over the aggregate Option Price, as determined as of the day the Option is exercised.

5.8 Exercise by Successors.

An Option may be exercised, and payment in full of the aggregate Option Price made, by the Successors of the Optionee only by written notice (in the form prescribed by the Committee) to the Company specifying the number of Shares to be purchased. Such notice shall state that the aggregate Option Price will be paid in full, or that the Option will be exercised as otherwise provided hereunder, in the discretion of the Company or the Committee, if and as applicable.

5.9 Nontransferability of Option.

Each Option granted under the Plan shall be nontransferable by the Optionee except by will or the laws of descent and distribution of the state wherein the Optionee is domiciled at the time of his death; provided, however, that the Committee may (but need not) permit other transfers, where the Committee concludes that such transferability (i) does not result in accelerated U.S. federal income taxation, (ii) does

not cause any Option intended to be an Incentive Stock Option to fail to be described in Section 422(b) of the Code, and (iii) is otherwise appropriate and desirable.

5.10 *Deferral.*

The Committee (taking into account, without limitation, the possible application of Section 409A of the Code, as the Committee may deem appropriate) may establish a program under which Participants will have Phantom Shares subject to Section 7 credited upon their exercise of Options, rather than receiving Shares at that time.

5.11 *Certain Incentive Stock Option Provisions.*

(a) The aggregate Fair Market Value, determined as of the date an Option is granted, of the Common Stock for which any Optionee may be awarded Incentive Stock Options which are first exercisable by the Optionee during any calendar year under the Plan (or any other stock option plan required to be taken into account under Section 422(d) of the Code) shall not exceed \$100,000.

(b) If Shares acquired upon exercise of an Incentive Stock Option are disposed of in a disqualifying disposition within the meaning of Section 422 of the Code by an Optionee prior to the expiration of either two years from the date of grant of such Option or one year from the transfer of Shares to the Optionee pursuant to the exercise of such Option, or in any other disqualifying disposition within the meaning of Section 422 of the Code, such Optionee shall notify the Company in writing as soon as practicable thereafter of the date and terms of such disposition and, if the Company (or any affiliate thereof) thereupon has a tax-withholding obligation, shall pay to the Company (or such affiliate) an amount equal to any withholding tax the Company (or affiliate) is required to pay as a result of the disqualifying disposition.

(c) The Option Price with respect to each Incentive Stock Option shall not be less than 100%, or 110% in the case of an individual described in Section 422(b)(6) of the Code (relating to certain 10% owners), of the Fair Market Value of a Share on the day the Option is granted. In the case of an individual described in Section 422(b)(6) of the Code who is granted an Incentive Stock Option, the term of such Option shall be no more than five years from the date of grant.

(d) Subject to provisions of the Award Agreement, if an Optionee has a Termination of Service other than by the Company or its Subsidiaries for Cause and other than by reason of death or Permanent and Total Disability, then no exercise of an Incentive Stock Option may occur after the expiration of the three-month period to follow the termination, or if earlier, the expiration of the term of the Incentive Stock Option as provided under Section 5.3(a); provided that, if the Optionee should die during the one-year period following a Termination of Service due to Permanent and Total Disability or if the Optionee should die during the three-month period following a Termination of Service for any reason other than Permanent and Total Disability or Cause, but while the Incentive Stock Option is still in effect, the Incentive Stock Option (if and to the extent otherwise exercisable by the Optionee at the time of death) may be exercised until the earlier of (i) the date which is three months from the date of death of the Optionee, or (ii) the date on which the term of the Incentive Stock Option expires in accordance with Section 5.3(a).

(e) Subject to provisions of the Award Agreement, in the event the Optionee has a Termination of Service on account of death or Permanent and Total Disability, the Incentive Stock Option (whether or not otherwise exercisable) may be exercised until the earlier of (i) one year from the date of the Termination of Service of the Optionee, or (ii) the date on which the term of the Option expires in accordance with Section 5.3(a).

(f) Notwithstanding any other provision hereof, unless otherwise provided in the Award Agreement, if the Optionee has a Termination of Service by the Company for Cause, then the Optionee's Incentive

Stock Options, to the extent then unexercised, shall thereupon cease to be exercisable and shall be forfeited forthwith.

6. PROVISIONS APPLICABLE TO RESTRICTED STOCK.

6.1 Grant of Restricted Stock.

(a) In connection with the grant of Restricted Stock, whether or not Performance Goals (as provided for under Section 10) apply thereto, the Committee shall establish one or more vesting periods with respect to the shares of Restricted Stock granted, the length of which shall be determined in the discretion of the Committee. Subject to the provisions of this Section 6, the applicable Agreement and the other provisions of the Plan, restrictions on Restricted Stock shall lapse if the Grantee satisfies all applicable employment or other service requirements through the end of the applicable vesting period.

(b) Subject to the other terms of the Plan, the Committee may, in its discretion as reflected by the terms of the applicable Award Agreement: (i) authorize the granting of Restricted Stock to Eligible Persons; (ii) provide a specified purchase price for the Restricted Stock (whether or not the payment of a purchase price is required by any state law applicable to the Company); (iii) determine the restrictions applicable to Restricted Stock and (iv) determine or impose other conditions, including any applicable Performance Goals, to the grant of Restricted Stock under the Plan as it may deem appropriate.

6.2 Certificates.

(a) Unless otherwise provided by the Committee, each Grantee of Restricted Stock may be issued a stock certificate in respect of Shares of Restricted Stock awarded under the Plan. Each such certificate shall be registered in the name of the Grantee. The certificates for Shares of Restricted Stock issued hereunder may include any legend which the Committee deems appropriate to reflect any restrictions on transfer hereunder or under the Award Agreement, or as the Committee may otherwise deem appropriate, and, without limiting the generality of the foregoing, shall bear a legend referring to the terms, conditions, and restrictions applicable to such Award, substantially in the following form:

THE TRANSFERABILITY OF THIS CERTIFICATE AND THE SHARES OF STOCK REPRESENTED HEREBY ARE SUBJECT TO THE TERMS AND CONDITIONS (INCLUDING FORFEITURE) OF THE iSTAR FINANCIAL, INC. 2006 LONG-TERM INCENTIVE PLAN AND AN AWARD AGREEMENT ENTERED INTO BETWEEN THE REGISTERED OWNER AND iSTAR FINANCIAL, INC. COPIES OF SUCH PLAN AND AWARD AGREEMENT ARE ON FILE IN THE OFFICES OF iSTAR FINANCIAL, INC. AT 1114 AVENUE OF THE AMERICAS, 27TH FLOOR, NEW YORK, NEW YORK 10036.

(b) The Committee may require that any stock certificates evidencing such Shares be held in custody by the Company until the restrictions hereunder shall have lapsed, and that, as a condition of any Award of Restricted Stock, the Grantee may have delivered a stock power, endorsed in blank, relating to the stock covered by such Award. If and when such restrictions so lapse, the stock certificates shall be delivered by the Company to the Grantee or his or her designee as provided in Section 6.3.

6.3 Restrictions and Conditions.

Unless otherwise provided by the Committee, the Shares of Restricted Stock awarded pursuant to the Plan shall be subject to the following restrictions and conditions:

(i) Subject to the provisions of the Plan and the Award Agreements, during a period commencing with the date of such Award and ending on the date the period of forfeiture with respect to such Shares lapses, the Grantee shall not be permitted voluntarily or involuntarily to sell, transfer, pledge, anticipate, alienate, encumber or assign Shares of Restricted Stock awarded under the Plan

(or have such Shares attached or garnished). Subject to the provisions of the Award Agreements and clauses (iii) and (iv) below, the period of forfeiture with respect to Shares granted hereunder shall lapse as provided in the applicable Award Agreement. Notwithstanding the foregoing, unless otherwise expressly provided by the Committee, the period of forfeiture with respect to such Shares shall only lapse as to whole Shares.

(ii) Except as provided in the foregoing clause (i), below in this clause (ii) or in Section 14, or as otherwise provided in the applicable Award Agreement, the Grantee shall have, in respect of the Shares of Restricted Stock, all of the rights of a shareholder of the Company, including the right to vote the Shares and the right to receive any cash dividends; provided, however that cash dividends on such Shares shall, unless otherwise provided by the Committee, be held by the Company (unsegregated as a part of its general assets) until the period of forfeiture lapses (and forfeited if the underlying Shares are forfeited), and paid over to the Grantee (without interest) as soon as practicable after such period lapses (if not forfeited). Certificates for Shares (not subject to restrictions) shall be delivered to the Grantee or his or her designee promptly after, and only after, the period of forfeiture shall lapse without forfeiture in respect of such Shares of Restricted Stock.

(iii) Except as otherwise provided in the applicable Award Agreement, and subject to clause (iv) below, if the Grantee has a Termination of Service for any reason other than death or Disability during the applicable period of forfeiture, then (A) all Shares still subject to restriction shall thereupon, and with no further action, be forfeited by the Grantee, and (B) the Company shall pay to the Grantee as soon as practicable (and in no event more than 30 days) after such termination an amount equal to the lesser of (x) the amount paid by the Grantee for such forfeited Restricted Stock as contemplated by Section 6.1, and (y) the Fair Market Value on the date of termination of the forfeited Restricted Stock.

(iv) Subject to the provisions of the Award Agreement, in the event the Grantee has a Termination of Service on account of death or Disability, or in the event of a Change in Control (regardless of whether a termination follows thereafter), during the applicable period of forfeiture, then restrictions under the Plan will immediately lapse on all Restricted Stock granted to the applicable Grantee.

7. PROVISIONS APPLICABLE TO PHANTOM SHARES.

7.1 Grant of Phantom Shares.

Subject to the other terms of the Plan, the Committee shall, in its discretion as reflected by the terms of the applicable Award Agreement:

(i) authorize the granting of Phantom Shares to Eligible Persons and (ii) determine or impose other conditions to the grant of Phantom Shares under the Plan as it may deem appropriate.

7.2 Term.

The Committee may provide in an Award Agreement that any particular Phantom Share shall expire at the end of a specified term.

7.3 Vesting.

(a) Subject to the provisions of the Award Agreements and Section 7.3(b), Phantom Shares shall vest as provided in the applicable Award Agreement.

(b) Unless otherwise determined by the Committee at the time of grant, the Phantom Shares granted pursuant to the Plan shall be subject to the following vesting conditions:

(i) Subject to the provisions of the Award Agreement and clause (ii) below, if the Grantee has a Termination of Service by the Company and its Subsidiaries for Cause, all of the Grantee's Phantom Shares (whether or not such Phantom Shares are otherwise vested) shall thereupon, and with no further action, be forfeited and cease to be outstanding, and no payments shall be made with respect to such forfeited Phantom Shares.

(ii) Subject to the provisions of the Award Agreement, in the event the Grantee has a Termination of Service on account of death or Disability, or the Grantee has a Termination of Service by the Company and its Subsidiaries for any reason other than Cause, or in the event of a Change in Control (regardless of whether a termination follows thereafter), all outstanding Phantom Shares granted to such Grantee shall become immediately vested.

(iii) Other than as provided in this Section 7.3, in the event that a Grantee has a Termination of Service, any and all of the Grantee's Phantom Shares which have not vested prior to or as of such termination shall thereupon, and with no further action, be forfeited and cease to be outstanding and the Participant's vested Phantom Shares shall be settled as set forth in Section 7.4.

7.4 Settlement of Phantom Shares.

(a) Each vested and outstanding Phantom Share shall be settled by the transfer to the Grantee of one Share; provided that, the Committee at the time of grant (or, in the appropriate case, as determined by the Committee, thereafter) may provide that a Phantom Share may be settled (i) in cash at the applicable Phantom Share Value, (ii) in cash or by transfer of Shares as elected by the Grantee in accordance with procedures established by the Committee or (iii) in cash or by transfer of Shares as elected by the Company.

(b) Payment (whether of cash or Shares) in respect of Phantom Shares shall be made in a single sum; provided that, with respect to Phantom Shares of a Grantee which have a common Settlement Date, the Committee may permit the Grantee to elect in accordance with procedures established by the Committee (taking into account, without limitation, Section 409A of the Code, as the Committee may deem appropriate) to receive installment payments over a period not to exceed 10 years, rather than a single-sum payment.

(c) (i) Unless otherwise provided in the applicable Award Agreement, the Settlement Date with respect to a Phantom Share is the first day of the month to follow the date on which the Phantom Share vests; provided that a Grantee may elect, in accordance with procedures to be established by the Committee, that such Settlement Date will be deferred as elected by the Grantee to the first day of the month to follow the Grantee's Termination of Service, or such other time as may be permitted by the Committee. Unless otherwise determined by the Committee, elections under this Section 7.4(c)(i) must, except as may otherwise be permitted under the rules applicable under Section 409A of the Code, (A) be effective at least one year after they are made, or, in the case of payments to commence at a specific time, be made at least one year before the first scheduled payment and (B) defer the commencement of distributions (and each affected distribution) for at least five years.

(ii) Notwithstanding Section 7.4(c)(i), the Committee may provide that distributions of Phantom Shares can be elected at any time in those cases in which the Phantom Share Value is determined by reference to Fair Market Value to the extent in excess of a base value, rather than by reference to unreduced Fair Market Value.

(iii) Notwithstanding the foregoing, the Settlement Date, if not earlier pursuant to this Section 7.4(c), is the date of the Grantee's death.

(d) Notwithstanding the other provisions of this Section 7, in the event of a Change in Control, the Settlement Date shall be the date of such Change in Control and all amounts due with respect to Phantom

Shares to a Grantee hereunder shall be paid as soon as practicable (but in no event more than 30 days) after such Change in Control, unless such Grantee elects otherwise in accordance with procedures established by the Committee.

(e) Notwithstanding any other provision of the Plan, a Grantee may receive any amounts to be paid in installments as provided in Section 7.4(b) or deferred by the Grantee as provided in Section 7.4(c) in the event of an Unforeseeable Emergency. For these purposes, an Unforeseeable Emergency, as determined by the Committee in its sole discretion, is a severe financial hardship to the Grantee resulting from a sudden and unexpected illness or accident of the Grantee or dependent, as defined in Section 152(a) of the Code, of the Grantee, loss of the Grantee's property due to casualty, or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Grantee. The circumstances that will constitute an Unforeseeable Emergency will depend upon the facts of each case, but, in any case, payment may not be made to the extent that such hardship is or may be relieved:

- (i) through reimbursement or compensation by insurance or otherwise,
- (ii) by liquidation of the Grantee's assets, to the extent the liquidation of such assets would not itself cause severe financial hardship, or
- (iii) by future cessation of the making of additional deferrals under Section 7.4 (b) and (c).

Without limitation, the need to send a Grantee's child to college or the desire to purchase a home shall not constitute an Unforeseeable Emergency. Distributions of amounts because of an Unforeseeable Emergency shall be permitted to the extent reasonably needed to satisfy the emergency need.

7.5 Other Phantom Share Provisions.

- (a) Rights to payments with respect to Phantom Shares granted under the Plan shall not be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, attachment, garnishment, levy, execution, or other legal or equitable process, either voluntary or involuntary; and any attempt to anticipate, alienate, sell, transfer, assign, pledge, encumber, attach or garnish, or levy or execute on any right to payments or other benefits payable hereunder, shall be void.
- (b) A Grantee may designate in writing, on forms to be prescribed by the Committee, a beneficiary or beneficiaries to receive any payments payable after his or her death and may amend or revoke such designation at any time. If no beneficiary designation is in effect at the time of a Grantee's death, payments hereunder shall be made to the Grantee's estate. If a Grantee with a vested Phantom Share dies, such Phantom Share shall be settled and the Phantom Share Value in respect of such Phantom Shares paid, and any payments deferred pursuant to an election under Section 7.4(c) shall be accelerated and paid, as soon as practicable (but no later than 60 days) after the date of death to such Grantee's beneficiary or estate, as applicable.

(c) The Committee may establish a program under which distributions with respect to Phantom Shares may be deferred for periods in addition to those otherwise contemplated by foregoing provisions of this Section 7. Such program may include, without limitation, provisions for the crediting of earnings and losses on unpaid amounts, and, if permitted by the Committee, provisions under which Participants may select from among hypothetical investment alternatives for such deferred amounts in accordance with procedures established by the Committee.

(d) Notwithstanding any other provision of this Section 7, any fractional Phantom Share will be paid out in cash at the Phantom Share Value as of the Settlement Date.

(e) No Phantom Share shall be construed to give any Grantee any rights with respect to Shares or any ownership interest in the Company. Except as may be provided in accordance with Section 8, no provision of the Plan shall be interpreted to confer upon any Grantee any voting, dividend or derivative or other similar rights with respect to any Phantom Share.

7.6 *Claims Procedures.*

(a) To the extent that the Plan is determined by the Committee to be subject to the Employee Retirement Income Security Act of 1974, as amended, the Grantee, or his beneficiary hereunder or authorized representative, may file a claim for payments with respect to Phantom Shares under the Plan by written communication to the Committee or its designee. A claim is not considered filed until such communication is actually received. Within 90 days (or, if special circumstances require an extension of time for processing, 180 days, in which case notice of such special circumstances should be provided within the initial 90-day period) after the filing of the claim, the Committee will either:

(i) approve the claim and take appropriate steps for satisfaction of the claim; or

(ii) if the claim is wholly or partially denied, advise the claimant of such denial by furnishing to him a written notice of such denial setting forth (A) the specific reason or reasons for the denial; (B) specific reference to pertinent provisions of the Plan on which the denial is based and, if the denial is based in whole or in part on any rule of construction or interpretation adopted by the Committee, a reference to such rule, a copy of which shall be provided to the claimant; (C) a description of any additional material or information necessary for the claimant to perfect the claim and an explanation of the reasons why such material or information is necessary; and (D) a reference to this Section 7.6 as the provision setting forth the claims procedure under the Plan.

(b) The claimant may request a review of any denial of his claim by written application to the Committee within 60 days after receipt of the notice of denial of such claim. Within 60 days (or, if special circumstances require an extension of time for processing, 120 days, in which case notice of such special circumstances should be provided within the initial 60-day period) after receipt of written application for review, the Committee will provide the claimant with its decision in writing, including, if the claimant's claim is not approved, specific reasons for the decision and specific references to the Plan provisions on which the decision is based.

8. PROVISIONS APPLICABLE TO DIVIDEND EQUIVALENT RIGHTS.

8.1 *Grant of Dividend Equivalent Rights.*

Subject to the other terms of the Plan, the Committee shall, in its discretion as reflected by the terms of the Award Agreements, authorize the granting of Dividend Equivalent Rights to Eligible Persons based on the regular cash dividends declared on Common Stock, to be credited as of the dividend payment dates, during the period between the date an Award is granted, and the date such Award is exercised, vests or expires, as determined by the Committee. Such Dividend Equivalent Rights shall be converted to cash or additional Shares by such formula and at such time and subject to such limitation as may be determined by the Committee. With respect to Dividend Equivalent Rights granted with respect to Options intended to

be qualified performance-based compensation for purposes of Section 162(m) of the Code, such Dividend Equivalent Rights shall be payable regardless of whether such Option is exercised. If a Dividend Equivalent Right is granted in respect of another Award hereunder, then, unless otherwise stated in the Award Agreement, in no event shall the Dividend Equivalent Right be in effect for a period beyond the time during which the applicable portion of the underlying Award is in effect.

8.2 *Certain Terms.*

- (a) The term of a Dividend Equivalent Right shall be set by the Committee in its discretion.
- (b) Unless otherwise determined by the Committee, except as contemplated by Section 8.4, a Dividend Equivalent Right is exercisable or payable only while the Participant is an Eligible Person.
- (c) Payment of the amount determined in accordance with Section 8.1 shall be in cash, in Common Stock or a combination of the both, as determined by the Committee.
- (d) The Committee may impose such employment-related conditions on the grant of a Dividend Equivalent Right as it deems appropriate in its discretion.

8.3 *Other Types of Dividend Equivalent Rights.*

The Committee may establish a program under which Dividend Equivalent Rights of a type whether or not described in the foregoing provisions of this Section 8 may be granted to Participants. For example, and without limitation, the Committee may grant a Dividend Equivalent Right in respect of each Share subject to an Option or with respect to a Phantom Share, which right would consist of the right (subject to Section 8.4) to receive a cash payment in an amount equal to the dividend distributions paid on a Share from time to time.

8.4 *Deferral.*

The Committee may establish a program (taking into account, without limitation, the possible application of Section 409A of the Code, as the Committee may deem appropriate) under which Participants (i) will have Phantom Shares credited, subject to the terms of Sections 7.4 and 7.5 as though directly applicable with respect thereto, upon the granting of Dividend Equivalent Rights, or (ii) will have payments with respect to Dividend Equivalent Rights deferred. In the case of the foregoing clause (ii), such program may include, without limitation, provisions for the crediting of earnings and losses on unpaid amounts, and, if permitted by the Committee, provisions under which Participants may select from among hypothetical investment alternatives for such deferred amounts in accordance with procedures established by the Committee.

9. OTHER STOCK-BASED AWARDS.

The Committee shall have the right to grant other Awards based upon the Common Stock having such terms and conditions as the Committee may determine, including, without limitation, the grant of shares based upon certain conditions, the grant of securities convertible into Common Stock and the grant of stock appreciation rights.

10. PERFORMANCE GOALS.

The Committee, in its discretion, may, in the case of Awards (including, in particular, Awards other than Options) intended to qualify for an exception from the limitation imposed by Section 162(m) of the Code (*Performance-Based Awards*), (i) establish one or more performance goals (*Performance Goals*) as a precondition to the issuance or vesting of Awards, and (ii) provide, in connection with the establishment of the Performance Goals, for predetermined Awards to those Participants (who continue to meet all applicable eligibility requirements) with respect to whom the applicable Performance Goals are satisfied. The Performance Goals shall be based upon the criteria set forth in *Schedule 1* hereto which is

hereby incorporated herein by reference as though set forth in full. The Performance Goals shall be established in a timely fashion such that they are considered preestablished for purposes of the rules governing performance-based compensation under Section 162(m) of the Code. Prior to the award or vesting, as applicable, of affected Awards hereunder, the Committee shall have certified that any applicable Performance Goals, and other material terms of the Award, have been satisfied. Performance Goals which do not satisfy the foregoing provisions of this Section 10 may be established by the Committee with respect to Awards not intended to qualify for an exception from the limitations imposed by Section 162(m) of the Code.

11. TAX WITHHOLDING.

11.1 In General.

The Company shall be entitled to withhold from any payments or deemed payments any amount of tax withholding determined by the Committee to be required by law. Without limiting the generality of the foregoing, the Committee may, in its discretion, require the Participant to pay to the Company at such time as the Committee determines the amount that the Committee deems necessary to satisfy the Company's obligation to withhold federal, state or local income or other taxes incurred by reason of (i) the exercise of any Option, (ii) the lapsing of any restrictions applicable to any Restricted Stock, (iii) the receipt of a distribution in respect of Phantom Shares or Dividend Equivalent Rights or (iv) any other applicable income-recognition event (for example, an election under Section 83(b) of the Code).

11.2 Share Withholding.

(a) Upon exercise of an Option, the Optionee may, if approved by the Committee in its discretion, make a written election to have Shares then issued withheld by the Company from the Shares otherwise to be received, or to deliver previously owned whole Shares (which such holder has held for at least six months prior to the delivery of such Shares or which such holder purchased on the open market and for which such holder has good title, free and clear of all liens and encumbrances), in order to satisfy the liability for such withholding taxes. In the event that the Optionee makes, and the Committee permits, such an election, the number of Shares so withheld or delivered shall have an aggregate Fair Market Value on the date of exercise sufficient to satisfy the applicable withholding taxes. Where the exercise of an Option does not give rise to an obligation by the Company to withhold federal, state or local income or other taxes on the date of exercise, but may give rise to such an obligation in the future, the Committee may, in its discretion, make such arrangements and impose such requirements as it deems necessary or appropriate.

(b) Upon lapsing of restrictions on Restricted Stock (or other income-recognition event), the Grantee may, if approved by the Committee in its discretion, make a written election to have Shares withheld by the Company from the Shares otherwise to be released from restriction, or to deliver previously owned whole Shares (not subject to restrictions hereunder) (which such holder has held for at least six months prior to the delivery of such Shares or which such holder purchased on the open market and for which such holder has good title, free and clear of all liens and encumbrances), in order to satisfy the liability for such withholding taxes. In the event that the Grantee makes, and the Committee permits, such an election, the number of Shares so withheld or delivered shall have an aggregate Fair Market Value on the date of exercise sufficient to satisfy the applicable withholding taxes.

(c) Upon the making of a distribution in respect of Phantom Shares or Dividend Equivalent Rights, the Grantee may, if approved by the Committee in its discretion, make a written election to have amounts (which may include Shares) withheld by the Company from the distribution otherwise to be made, or to deliver previously owned whole Shares (not subject to restrictions hereunder) (which such holder has held for at least six months prior to the delivery of such Shares or which such holder purchased on the open market and for which such holder has good title, free and clear of all liens and encumbrances), in order to satisfy the liability for such withholding taxes. In the event that the Grantee makes, and the Committee

permits, such an election, any Shares so withheld or delivered shall have an aggregate Fair Market Value on the date of exercise sufficient to satisfy the applicable withholding taxes.

11.3 *Withholding Required.*

Notwithstanding anything contained in the Plan or the Award Agreement to the contrary, the Participant's satisfaction of any tax-withholding requirements imposed by the Committee shall be a condition precedent to the Company's obligation as may otherwise be provided hereunder to provide Shares to the Participant and to the release of any restrictions as may otherwise be provided hereunder, as applicable; and the applicable Option, Restricted Stock, Phantom Shares or Dividend Equivalent Rights shall be forfeited upon the failure of the Participant to satisfy such requirements with respect to, as applicable, (i) the exercise of the Option, (ii) the lapsing of restrictions on the Restricted Stock (or other income-recognition event) or (iii) distributions in respect of any Phantom Share or Dividend Equivalent Right.

An Award Agreement may provide that the Participant may satisfy any such obligation by any of the following means: (A) a cash payment to the Company, (B) delivery to the Company of previously owned whole Shares (which such Participant has held for at least six months prior to the delivery of such Shares or which such Participant purchased on the open market and for which such Participant has good title, free and clear of all liens and encumbrances) having an aggregate Fair Market Value, determined as of the date the obligation to withhold or pay taxes arises in connection with an Award (the Tax Date), equal to the amount necessary to satisfy any such obligation (C) in the case of the exercise of an Option, a cash payment by a broker-dealer acceptable to the Company to whom the Participant has submitted an irrevocable notice of exercise or (D) any combination of (A) and (B), in each case to the extent set forth in the Award Agreement; provided however, that the Committee shall have the sole discretion to disapprove of an election pursuant to any of the foregoing clauses (B) through (D). An Award Agreement may provide for Shares to be delivered having a Fair Market Value in excess of the minimum amount required to be withheld, but not in excess of the amount determined by applying the Participant's maximum marginal tax rate. Any fraction of a Share which would be required to satisfy such an obligation shall be disregarded and the remaining amount due shall be paid in cash by the Participant.

12. REGULATIONS AND APPROVALS.

(a) The obligation of the Company to sell Shares with respect to an Award granted under the Plan shall be subject to all applicable laws, rules and regulations, including all applicable federal and state securities laws, and the obtaining of all such approvals by governmental agencies as may be deemed necessary or appropriate by the Committee.

(b) The Committee may make such changes to the Plan as may be necessary or appropriate to comply with the rules and regulations of any government authority or to obtain tax benefits applicable to an Award.

(c) Each grant of Options, Restricted Stock, Phantom Shares (or issuance of Shares in respect thereof) or Dividend Equivalent Rights (or issuance of Shares in respect thereof), or other Award under Section 10 (or issuance of Shares in respect thereof), is subject to the requirement that, if at any time the Committee determines, in its discretion, that the listing, registration or qualification of Shares issuable pursuant to the Plan is required by any securities exchange or under any state or federal law, or the consent or approval of any governmental regulatory body is necessary or desirable as a condition of, or in connection with, the issuance of Options, Shares of Restricted Stock, Phantom Shares, Dividend Equivalent Rights, other Awards or other Shares, no payment shall be made, or Phantom Shares or Shares issued or grant of Restricted Stock or other Award made, in whole or in part, unless listing, registration, qualification, consent or approval has been effected or obtained free of any conditions in a manner acceptable to the Committee.

(d) In the event that the disposition of stock acquired pursuant to the Plan is not covered by a then current registration statement under the Securities Act, and is not otherwise exempt from such registration, such Shares shall be restricted against transfer to the extent required under the Securities Act, and the Committee may require any individual receiving Shares pursuant to the Plan, as a condition precedent to receipt of such Shares, to represent to the Company in writing that such Shares are acquired for investment only and not with a view to distribution and that such Shares will be disposed of only if registered for sale under the Securities Act or if there is an available exemption for such disposition.

(e) Notwithstanding any other provision of the Plan, the Company shall not be required to take or permit any action under the Plan or any Award Agreement which, in the good-faith determination of the Company, would result in a material risk of a violation by the Company of Section 13(k) of the Exchange Act.

13. INTERPRETATION AND AMENDMENTS; OTHER RULES.

The Committee may make such rules and regulations and establish such procedures for the administration of the Plan as it deems appropriate. Without limiting the generality of the foregoing, the Committee may (i) determine the extent, if any, to which Options, Phantom Shares or Shares (whether or not Shares of Restricted Stock) or Dividend Equivalent Rights shall be forfeited (whether or not such forfeiture is expressly contemplated hereunder); (ii) interpret the Plan and the Award Agreements hereunder, with such interpretations to be conclusive and binding on all persons and otherwise accorded the maximum deference permitted by law, provided that the Committee's interpretation shall not be entitled to deference on and after a Change in Control except to the extent that such interpretations are made exclusively by members of the Committee who are individuals who served as Committee members before the Change in Control; and (iii) take any other actions and make any other determinations or decisions that it deems necessary or appropriate in connection with the Plan or the administration or interpretation thereof. In the event of any dispute or disagreement as to the interpretation of the Plan or of any rule, regulation or procedure, or as to any question, right or obligation arising from or related to the Plan, the decision of the Committee, except as provided in clause (ii) of the foregoing sentence, shall be final and binding upon all persons. Unless otherwise expressly provided hereunder, the Committee, with respect to any grant, may exercise its discretion hereunder at the time of the Award or thereafter. Notwithstanding any provision in the Plan to the contrary, no Option or stock appreciation right (granted pursuant to Section 5.7) issued under the Plan may be amended to reduce the Option Price or the exercise price of such stock appreciation right below the Option Price or exercise price as of the date the Option or stock appreciation right was granted. In addition, no Option or stock appreciation right may be granted in exchange for, or in connection with, the cancellation or surrender of an Option, stock appreciation right or other award having a lower exercise price. The Board may amend the Plan as it shall deem advisable, except that no amendment may adversely affect a Participant with respect to an Award previously granted unless such amendments are required in order to comply with applicable laws; provided, however, that the Plan may not be amended without shareholder approval in any case in which amendment in the absence of shareholder approval would cause the Plan to fail to comply with any applicable legal requirement or applicable exchange or similar rule.

14. CHANGES IN CAPITAL STRUCTURE.

(a) If (i) the Company or its Subsidiaries shall at any time be involved in a merger, consolidation, dissolution, liquidation, reorganization, exchange of shares, sale of all or substantially all of the assets or stock of the Company or its Subsidiaries or a transaction similar thereto, (ii) any stock dividend, stock split, reverse stock split, stock combination, reclassification, recapitalization or other similar change in the capital structure of the Company or its Subsidiaries, or any distribution to holders of Common Stock other than cash dividends, shall occur or (iii) any other event shall occur which in the judgment of the Committee necessitates action by way of adjusting the terms of the outstanding Awards, then:

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(x) the maximum aggregate number of Shares which may be made subject to Options and Dividend Equivalent Rights under the Plan, the maximum aggregate number and kind of Shares of Restricted Stock that may be granted under the Plan, the maximum aggregate number of Phantom Shares and other Awards which may be granted under the Plan may be appropriately adjusted by the Committee in its discretion; and

(y) the Committee shall take any such action as in its discretion shall be necessary to maintain each Optionees' rights hereunder (including under their Award Agreements) so that they are substantially in their respective Options, Phantom Shares and Dividend Equivalent Rights substantially proportionate to the rights existing in such Options, Phantom Shares and Dividend Equivalent Rights prior to such event, including, without limitation, adjustments in (A) the number of Options, Phantom Shares and Dividend Equivalent Rights (and other Awards under Section 10) granted, (B) the number and kind of shares or other property to be distributed in respect of Options, Phantom Shares and Dividend Equivalent Rights (and other Awards under Section 10 as applicable), (C) the Option Price and Phantom Share Value, and (D) performance-based criteria established in connection with Awards (to the extent consistent with Section 162(m) of the Code, as applicable); provided that, in the discretion of the Committee, the foregoing clause (D) may also be applied in the case of any event relating to a Subsidiary if the event would have been covered under this Section 14(a) had the event related to the Company.

To the extent that such action shall include an increase or decrease in the number of Shares (or units of other property then available) subject to all outstanding Awards, the number of Shares (or units) available under Section 4 shall be increased or decreased, as the case may be, proportionately, as may be determined by the Committee in its discretion.

(b) Any Shares or other securities distributed to a Grantee with respect to Restricted Stock or otherwise issued in substitution of Restricted Stock shall be subject to the restrictions and requirements imposed by Section 6, including depositing the certificates therefor with the Company together with a stock power and bearing a legend as provided in Section 6.2(a).

(c) If the Company shall be consolidated or merged with another corporation or other entity, each Grantee who has received Restricted Stock that is then subject to restrictions imposed by Section 6.3(a) may be required to deposit with the successor corporation the certificates, if any, for the stock or securities or the other property that the Grantee is entitled to receive by reason of ownership of Restricted Stock in a manner consistent with Section 6.2(b), and such stock, securities or other property shall become subject to the restrictions and requirements imposed by Section 6.3(a), and the certificates therefor or other evidence thereof shall bear a legend similar in form and substance to the legend set forth in Section 6.2(a).

(d) If a Change in Control shall occur, then the Committee, as constituted immediately before the Change in Control, may make such adjustments as it, in its discretion, determines are necessary or appropriate in light of the Change in Control, provided that the Committee determines that such adjustments do not have an adverse economic impact on the Participant as determined at the time of the adjustments.

(e) The judgment of the Committee with respect to any matter referred to in this Section 14 shall be conclusive and binding upon each Participant without the need for any amendment to the Plan.

15. MISCELLANEOUS.

15.1 No Rights to Employment or Other Service.

Nothing in the Plan or in any grant made pursuant to the Plan shall confer on any individual any right to continue in the employ or other service of the Company or its Subsidiaries or interfere in any way with

the right of the Company or its Subsidiaries and its shareholders to terminate the individual's employment or other service at any time.

15.2 No Fiduciary Relationship.

Nothing contained in the Plan (including without limitation Sections 7.5(c) and 8.4), and no action taken pursuant to the provisions of the Plan, shall create or shall be construed to create a trust of any kind, or a fiduciary relationship between the Company or its Subsidiaries, or their officers or the Committee, on the one hand, and the Participant, the Company, its Subsidiaries or any other person or entity, on the other.

15.3 No Fund Created.

Any and all payments hereunder to any Grantee under the Plan shall be made from the general funds of the Company (or, if applicable, a Participating Company), no special or separate fund shall be established or other segregation of assets made to assure such payments, and the Phantom Shares (including for purposes of this Section 15.3 any accounts established to facilitate the implementation of Section 7.4(c)) and any other similar devices issued hereunder to account for Plan obligations do not constitute Common Stock and shall not be treated as (or as giving rise to) property or as a trust fund of any kind; provided, however, that the Company may establish a mere bookkeeping reserve to meet its obligations hereunder or a trust or other funding vehicle that would not cause the Plan to be deemed to be funded for tax purposes or for purposes of Title I of the Employee Retirement Income Security Act of 1974, as amended. The obligations of the Company under the Plan are unsecured and constitute a mere promise by the Company to make benefit payments in the future and, to the extent that any person acquires a right to receive payments under the Plan from the Company, such right shall be no greater than the right of a general unsecured creditor of the Company. (If any affiliate of the Company is or is made responsible with respect to any Awards, the foregoing sentence shall apply with respect to such affiliate.) Without limiting the foregoing, Phantom Shares and any other similar devices issued hereunder to account for Plan obligations are solely a device for the measurement and determination of the amounts to be paid to a Grantee under the Plan, and each Grantee's right in the Phantom Shares and any such other devices are limited to the right to receive payment, if any, as may herein be provided.

15.4 Notices.

All notices under the Plan shall be in writing, and if to the Company, shall be delivered to the Board or mailed to its principal office, addressed to the attention of the Board; and if to the Participant, shall be delivered personally, sent by facsimile transmission or mailed to the Participant at the address appearing in the records of the Company. Such addresses may be changed at any time by written notice to the other party given in accordance with this Section 16.5.

15.5 Exculpation and Indemnification.

The Company shall indemnify and hold harmless the members of the Board and the members of the Committee from and against any and all liabilities, costs and expenses incurred by such persons as a result of any act or omission to act in connection with the performance of such person's duties, responsibilities and obligations under the Plan, except in circumstances involving bad faith.

15.6 Captions.

The use of captions in this Plan is for convenience. The captions are not intended to provide substantive rights.

15.7 Governing Law.

THIS PLAN SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK WITHOUT REGARD TO ANY PRINCIPLES OF CONFLICTS OF LAW WHICH COULD CAUSE THE APPLICATION OF THE LAWS OF ANY JURISDICTION OTHER THAN THE STATE OF NEW YORK.

SCHEDULE 1

PERFORMANCE CRITERIA

Performance-Based Awards intended to qualify as performance-based compensation under Section 162(m) of the Code, may be payable upon the attainment of objective performance goals that are established by the Committee and relate to one or more Performance Criteria, in each case on specified date or over any period, up to 10 years, as determined by the Committee. Performance Criteria may (but need not) be based on the achievement of the specified levels of performance under one or more of the measures set out below relative to the performance of one or more other corporations or indices.

Performance Criteria means the following business criteria (or any combination thereof) with respect to one or more of the Company, any Participating Company or any division or operating unit thereof:

- (i) pre-tax income,
- (ii) after-tax income,
- (iii) net income (meaning net income as reflected in the Company's financial reports for the applicable period, on an aggregate, diluted and/or per share basis),
- (iv) operating income,
- (v) cash flow,
- (vi) earnings per share,
- (vii) return on equity,
- (viii) return on invested capital or assets,
- (ix) cash and/or funds available for distribution,
- (x) appreciation in the fair market value of the Common Stock,
- (xi) return on investment,
- (xii) shareholder return (meaning the per annum compounded rate of increase in the Fair Market Value of an investment in Shares on the first day of the Performance Period (assuming purchase of Shares at their Fair Market Value on such day) through the last day of the Performance Period, plus all dividends or distributions paid with respect to such Shares during the Performance Period, and assuming reinvestment in Shares of all such dividends and distributions, adjusted to give effect to Section 14 of the Plan).
- (xiii) net earnings growth,
- (xiv) stock appreciation (meaning an increase in the price or value of the Common Stock after the date of grant of an award and during the applicable period),
- (xv) related return ratios,
- (xvi) increase in revenues,
- (xvii) net earnings,
- (xviii) changes (or the absence of changes) in the per share or aggregate market price of the Company's Common Stock,

(xix) number of securities sold,

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- (xx) earnings before any one or more of the following items: interest, taxes, depreciation or amortization for the applicable period, as reflected in the Company's financial reports for the applicable period,
- (xxi) total revenue growth (meaning the increase in total revenues after the date of grant of an award and during the applicable period, as reflected in the Company's financial reports for the applicable period),
- (xxii) the Company's published ranking against its peer group of real estate investment trusts based on total shareholder return, and
- (xxiii) funds from operations.

Performance Goals may be absolute amounts or percentages of amounts, may be relative to the performance of other companies or of indexes or may be based upon absolute values or values determined on a per-share basis.

Except as otherwise expressly provided, all financial terms are used as defined under Generally Accepted Accounting Principles (GAAP) and all determinations shall be made in accordance with GAAP, as applied by the Company in the preparation of its periodic reports to shareholders.

To the extent permitted by Section 162(m) of the Code, unless the Committee provides otherwise at the time of establishing the Performance Goals, for each fiscal year of the Company, there shall be objectively determinable adjustments, as determined in accordance with GAAP, to any of the Performance Criteria described above for one or more of the items of gain, loss, profit or expense: (A) determined to be extraordinary or unusual in nature or infrequent in occurrence, (B) related to the disposal of a segment of a business, (C) related to a change in accounting principle under GAAP, (D) related to discontinued operations that do not qualify as a segment of a business under GAAP, and (E) attributable to the business operations of any entity acquired by the Company during the fiscal year.

EXHIBIT B

iSTAR FINANCIAL INC.

**AUDIT COMMITTEE
CHARTER**

I. PURPOSES:

The purposes of the Audit Committee (the **Committee**) of the Board of Directors (**Board**) of iStar Financial Inc. (the **Company**) are as follows:

- A. To assist Board oversight of (1) the integrity of the Company's financial statements, (2) the Company's compliance with legal and regulatory requirements, (3) the independent auditor's qualifications and independence, and (4) the performance of the independent auditors and the Company's internal audit function.
- B. To prepare the report of the Committee for inclusion in the Company's annual proxy statement, in accordance with applicable rules and regulations of the Securities and Exchange Commission (**SEC**).

II. MEMBERSHIP:

The Committee shall be comprised of three (3) or more members of the Board. The Committee shall be organized in compliance with standards established by the New York Stock Exchange, Inc. (**NYSE**) from time to time and applicable SEC rules. The Board shall appoint members of the Committee for one-year terms and members shall serve at the pleasure of the Board. The Board shall designate one of the Committee members to serve as chairman of the Committee. No member of the Committee may receive any compensation from the Company other than director's fees. Committee members shall have the following qualifications:

- A. Each member of the Committee shall be independent as determined by the Board in its business judgment in accordance with standards established by the NYSE from time to time.
- B. Each member of the Committee shall be financially literate (or become so within a reasonable time after his or her appointment to the Committee), as such qualification is interpreted by the Board in its business judgment in accordance with standards established by the NYSE from time to time.
- C. At least one member of the Committee shall have accounting or related financial management expertise, as such qualification is interpreted by the Board in its business judgment in accordance with standards established by the NYSE from time to time.
- D. At least one member of the Committee shall have such other attributes relating to financial expertise as the Board determines in its business judgment satisfy standards set forth in rules and regulations established by the SEC from time to time.

III. DUTIES AND RESPONSIBILITIES:

The Committee has the following duties and responsibilities:

- A. To retain and terminate the Company's independent auditors (subject, if applicable, to shareholder ratification).
- B. At least annually, to obtain and review a report by the independent auditors describing (1) the auditing firm's internal quality-control procedures, (2) any material issues raised by the most recent internal quality-control review, or peer review, of the auditing firm, or by any inquiry or

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investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the auditing firm, and any steps taken to deal with any such issues, and (3) all relationships between the independent auditor and the Company.

C. To review and evaluate the qualifications, performance and independence of the lead partner of the independent auditors and present the Committee's conclusions with respect to the independent auditors to the full Board

D. To ensure that the lead audit partner does not serve in that capacity for more than five years and consider whether the audit firm itself should be changed periodically.

E. To discuss the annual audited financial statements and quarterly financial statements with management and the independent auditor, including the Company's disclosures under Management's Discussion and Analysis of Financial Condition and Results of Operations.

F. To receive reports from the Company's Chief Executive Officer and Chief Financial Officer of (i) all significant deficiencies in the design or operation of internal controls which could adversely affect the Company's ability to record, process, summarize and report financial data and identify any material weakness in internal controls, and (ii) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal controls.

G. To review analyses prepared by management and/or the independent auditors setting forth significant financial reporting issues and judgments made in connection with the preparation of the Company's financial statements, including analyses of the effects of alternative GAAP methods on the Company's financial statements; the effect of regulatory and accounting initiatives, as well as off-balance sheet structures on the financial statements of the Company; and earnings press releases (paying particular attention to any use of pro forma, or adjusted non-GAAP, information), as well as financial information and earnings guidance provided to analysts and rating agencies.

H. To review any accounting adjustments that were noted or proposed by the auditor but were passed (including similar adjustments that were passed because individually they were not material); any communications between the audit team and the audit firm's national office respecting auditing or accounting issues presented by the engagement; and any management or internal control letter issued, or proposed to be issued, by the auditing firm to the Company

I. To review and approve the Company's hedging policy and execution of hedging transactions.

J. To review and approve the Company's credit loss reserve policy and establishment of reserves on a quarterly basis.

K. On behalf of the Board of Directors, to authorize transactions in which the Company or any subsidiary incurs indebtedness (for this purpose, a guarantee by the Company or any subsidiary of the financial obligations of another person shall be deemed to be an incurrence of indebtedness), or refinances any indebtedness, in an amount greater than \$30 million but less than \$50 million in any transaction or series of related transactions.

L. On behalf of the Board of Directors, to authorize such other capital markets transactions or other transactions, and such other matters, as the Board may request.

M. As appropriate, to obtain advice and assistance from outside legal, accounting or other advisors.

N. To discuss policies with respect to risk assessment and risk management.

O. To review the adequacy of management information systems, internal accounting and financial controls.

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- P. To meet separately, on a periodic basis, with Company personnel responsible for the internal audit function and with independent auditors.
- Q. To review with the independent auditor any audit problems or difficulties and management's response.
- R. To approve the performance of professional services provided by the independent auditors, including audit and non-audit services before such services are rendered, and consider the possible effect on the performance of such services on the independence of the auditors.
- S. To establish policies regarding hiring employees or former employees of the independent auditors.
- T. To review annually internal and external audits, if any, of employees benefit plans and pension plans of the Company (including subsidiaries).
- U. To review annually adequacy of the Company's insurance.
- V. To review annually adequacy of protection of technology, including physical security, patent and trademark program and proprietary information.
- W. To review annually the policies and procedures relating to compliance with legal and regulatory requirements and the Company's compliance therewith.
- X. To report regularly to the Board.
- Y. To establish procedures for the receipt, retention, and treatment of complaints by the Company regarding accounting, internal accounting controls or auditing matter and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.

IV. PERFORMANCE EVALUATION REPORT:

The Committee will provide to the Board an annual performance evaluation of the Committee, including an assessment of the performance of the Committee based on the duties and responsibilities set forth in this charter and such other matters as the Committee may determine. The evaluation to the Board may take the form of an oral report by the Committee chairman or any other member of the Committee designated by the Committee to make the report.

V. DELEGATION TO SUBCOMMITTEE:

The Committee may, in its discretion, delegate all or a portion of its duties and responsibilities to a subcommittee of the Committee.

VI. RESOURCES AND AUTHORITY OF THE COMMITTEE:

The Committee will be given the resources and authority appropriate to discharge its duties and responsibilities, including the authority to retain counsel and other experts or consultants. The Committee has the sole authority to approve all audit engagement fees and terms, as well as significant non-audit engagements with the independent auditors. The Company will provide appropriate funding, as determined by the Committee, in its capacity as a committee of the Board, for payment of compensation (a) to the public accounting firm employed to audit the Company's financial statements and (b) to any advisors employed by the Committee.

VII. MINUTES:

Minutes will be kept of each meeting of the Committee and will be available to each member of the Board. Any action of the Committee (other than actions for which the Committee has sole authority as set forth herein) shall be subject to revision, modification, rescission, or alteration by the Board, provided that no rights of third parties shall be affected by any such revision, modification, rescission, or alteration.

VIII. AMENDMENTS:

This Audit Committee Charter may be amended in whole or in part with the approval of a majority of the Board.

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DESIGNATION (IF ANY)		00000000.000 ext
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Mark this box with an X if you have made changes to your name or address details above.

Annual Meeting Proxy Card

Election of Directors

The Board of Directors recommends a vote FOR the listed nominees.
 1. The election of eight (8) members of the Board of Directors.

Nominees:	For	Withhold		For	Withhold
01 - Jay Sugarman	<input type="radio"/>	<input type="radio"/>	05 - Robin Josephs	<input type="radio"/>	<input type="radio"/>
02 - Willis Andersen, Jr.	<input type="radio"/>	<input type="radio"/>	06 - John G. McDonald	<input type="radio"/>	<input type="radio"/>
03 - Glenn R. August	<input type="radio"/>	<input type="radio"/>	07 - George R. Puskar	<input type="radio"/>	<input type="radio"/>
04 - Robert W. Holman, Jr.	<input type="radio"/>	<input type="radio"/>	08 - Jeffrey A. Weber	<input type="radio"/>	<input type="radio"/>

Issues

The Board of Directors recommends a vote FOR the following proposals.

	For	Against	Abstain
2. Approval of amendments to charter of iStar Financial Inc.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
3. Approval of adoption of iStar Financial Inc. 2006 Long-Term Incentive Plan.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

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4. Ratification of the appointment of PricewaterhouseCoopers LLP as the Company's independent accountants for the fiscal year ending December 31, 2006.

In their discretion, the proxies are authorized to vote and otherwise represent the undersigned on any other matter that may properly come before the annual meeting, or an adjournments or postponements thereof.

Authorized Signatures - Sign Here - This section must be completed for your instructions to be executed.

Please sign exactly as name appears hereon. Joint owners should each sign. When signing as attorney, executor, administrator, trustee or guardian, please give full title as such. If the signer is a corporation, please sign full corporate name by duly authorized officer, giving full title as such. If signer is a partnership, please sign in partnership name by authorized person.

Signature 1 - Please keep signature within the box

Signature 2 - Please keep signature within the box Date (mm/dd/yyyy)

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Proxy - iStar Financial Inc.

**THIS PROXY IS SOLICITED ON BEHALF OF
THE BOARD OF DIRECTORS OF
iSTAR FINANCIAL INC.
1114 AVENUE OF THE AMERICAS, 27TH FLOOR
NEW YORK, NEW YORK 10036**

PROXY FOR THE ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON MAY 31, 2006. TO VOTE AT THE ANNUAL MEETING IN ACCORDANCE WITH THE RECOMMENDATIONS OF THE BOARD OF DIRECTORS OF iSTAR FINANCIAL INC., SIGN AND DATE THE REVERSE SIDE OF THIS CARD WITHOUT CHECKING ANY BOX.

The undersigned holder of shares of common stock and/or 8.00% Series D cumulative redeemable preferred stock of iStar Financial Inc., a Maryland corporation (the Company), hereby appoints Jay Sugarman and Catherine D. Rice, or either of them, with full power of substitution in each, to attend and to cast all votes which the undersigned shareholder is entitled to cast at the annual meeting of shareholders to be held on May 31, 2006 at 9:00 a.m. local time, at The Harvard Club of New York City, 35 West 44th Street, New York, New York, 10036, and at any adjournments or postponements thereof, and otherwise to represent the undersigned at the meeting with all powers possessed by the undersigned if personally present at the meeting, upon the following matters. The undersigned shareholder hereby revokes any proxy or proxies heretofore given with respect to such meeting. Capitalized terms not otherwise defined have the meanings given in the proxy statement to which this proxy relates.

This proxy, when properly executed, will be voted in the manner as directed herein by the undersigned shareholder. IF THIS PROXY IS EXECUTED BUT NO INSTRUCTION IS GIVEN, THIS PROXY WILL BE VOTED FOR PROPOSALS 1, 2, 3 AND 4 AND IN THE DISCRETION OF THE PROXY HOLDER ON ANY OTHER MATTER THAT MAY PROPERLY COME BEFORE THE MEETING OR ANY ADJOURNMENT OR POSTPONEMENT THEREOF. The undersigned shareholder may revoke this proxy at any time before it is voted by delivering to the Secretary of the Company either a written revocation of the proxy or a duly executed proxy bearing a later date, or appearing at the annual meeting and voting in person. The undersigned shareholder hereby acknowledges receipt of the notice of annual meeting of shareholders and proxy statement.

PLEASE VOTE, DATE AND SIGN THIS PROXY ON THE OTHER SIDE AND RETURN PROMPTLY IN THE ENCLOSED ENVELOPE. If you receive more than one proxy card, please sign and return all cards in the enclosed envelope.

CONTINUED AND TO BE SIGNED ON THE REVERSE SIDE

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there is no adverse change in U.S. federal income tax law.

The opinions of each party's tax counsel will not be binding on the IRS or any court.

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In addition, in connection with the filing of the registration statement of which this Proxy Statement/Prospectus forms a part, Luse Gorman Pomerenk & Schick, P.C., counsel to BHLB, has delivered its opinion to BHLB, dated as of the date of this Proxy Statement/Prospectus, and Goodwin Procter LLP, counsel to Hampden Bancorp, has delivered its opinion to Hampden Bancorp, dated as of the date of this Proxy Statement/Prospectus, that the Merger will qualify as a "reorganization" within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended. Such opinions have been rendered on the basis of facts, representations and assumptions set forth or referred to in such opinion and factual representations contained in certificates of officers of BHLB and Hampden Bancorp, all of which must continue to be true and accurate in all material respects as of the effective time of the Merger (collectively, the "Representations and Assumptions").

If any of the representations delivered by BHLB or Hampden Bancorp to counsel or assumptions upon which the opinions are based are inconsistent with the actual facts, the tax consequences of the Merger could be adversely affected. The determination by tax counsel as to whether the proposed Merger will be treated as a "reorganization" within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended, will depend upon the facts and law existing at the effective time of the proposed Merger. Based on the Representations and Assumptions, in the opinion of Luse Gorman Pomerenk & Schick, P.C., the Merger will constitute a "reorganization" for U.S. federal income tax purposes within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended, with the tax consequences described below.

Exchange for BHLB Common Stock. No gain or loss will be recognized by a Hampden Bancorp stockholder who receives shares of BHLB common stock (except for cash received in lieu of fractional shares, as discussed below) in exchange for all of his or her shares of Hampden Bancorp common stock. The tax basis of the shares of BHLB common stock received by a Hampden Bancorp stockholder in such exchange will be equal (except for the basis attributable to any fractional shares of BHLB common stock, as discussed below) to the basis of the Hampden Bancorp common stock surrendered in exchange for the BHLB common stock. If a Hampden Bancorp stockholder purchased or acquired Hampden Bancorp common stock on different dates or at different prices, then solely for purposes of determining the basis of the BHLB common stock received in the Merger, such stockholder may designate which share of BHLB common stock is received in exchange for each particular share of Hampden Bancorp common stock. The designation must be made on or before the date on which the BHLB common stock is received. For shares held through a broker, the designation is made by giving written notice to the broker. For shares held in certificate form by the stockholder, the designation is made by a written designation in the stockholder's records. The holding period of the BHLB common stock received will include the holding period of shares of Hampden Bancorp common stock surrendered in exchange for the BHLB common stock, provided that such shares were held as capital assets of the Hampden Bancorp stockholder at the effective time of the Merger.

Cash in Lieu of Fractional Shares. A Hampden Bancorp stockholder who holds Hampden Bancorp common stock as a capital asset and who receives in the Merger, in exchange for such stock, BHLB common stock and cash in lieu of a fractional share interest in BHLB common stock will be treated as having received such cash in full payment for such fractional share of stock and such gain or loss generally will be treated as capital gain or loss.

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Backup Withholding. Unless an exemption applies under the backup withholding rules of Section 3406 of the Internal Revenue Code of 1986, as amended, the exchange agent shall be required to withhold, and will withhold, 28% of any cash payments to which a Hampden Bancorp stockholder is entitled pursuant to the Merger, unless the Hampden Bancorp stockholder signs the substitute Internal Revenue Service Form W-9 enclosed with the letter of transmittal sent by the exchange agent. Unless an applicable exemption exists and is proved in a manner satisfactory to the exchange agent, this completed form provides the information, including the Hampden Bancorp stockholder's taxpayer identification number, and certification necessary to avoid backup withholding.

Tax Treatment of the Entities. No gain or loss will be recognized by BHLB or Hampden Bancorp as a result of the Merger.

Regulatory Matters Relating to the Merger

Completion of the Merger, including the merger of Hampden Bank with and into Berkshire Bank, with Berkshire Bank as the surviving bank, is subject to the receipt of all required approvals and consents from regulatory authorities. The Merger is subject to the approval or non-objection of the Commissioner, the BBI, the FDIC, and the Federal Reserve. BHLB has filed the required applications and notifications.

Bank Merger. The bank merger is subject to the approval of the FDIC under the Bank Merger Act and the Commissioner and the BBI under applicable Massachusetts law. In granting its approval under the Bank Merger Act, the FDIC must consider the financial and managerial resources and future prospects of the existing and resulting institutions, the convenience and needs of the communities to be served, competitive factors, any risk to the stability of the United States banking or financial system and the effectiveness of the institutions involved in combating money laundering activities.

The bank merger is subject to approval by the Commissioner under the bank merger provisions of the Massachusetts General Laws.

The BBI will base its decision to approve the merger on whether or not competition among banking institutions will be unreasonably affected and whether or not public convenience and advantage will be promoted by the merger. The BBI is expected to hold a public hearing as part of its consideration of the Merger and must receive confirmation from the Massachusetts Housing Partnership Fund that BHLB has made satisfactory arrangements with the Massachusetts Housing Partnership Fund with respect to any assets to be acquired that are located in Massachusetts. All of Hampden Bancorp's assets are located in Massachusetts. BHLB has filed an application with the Massachusetts Housing Partnership Fund related to the Merger. Once BHLB enters into its required lending agreement with the Massachusetts Housing Partnership Fund, it is anticipated that the Massachusetts Housing Partnership Fund will send its confirming letter to the BBI.

Holding Company Merger. The merger of Hampden Bancorp with and into BHLB, with BHLB as the surviving bank holding company, requires the approval or non-objection of the Federal Reserve. The Federal Reserve will consider factors such as financial and managerial resources, future prospects, the convenience and needs of the community and competitive factors.

Anti-Competitive Matters. In addition, a period of 15 to 30 days must expire following approval by the FDIC before completion of the Merger is allowed, within which period the United States Department of Justice may file objections to the Merger under the federal antitrust laws. While BHLB and Hampden Bancorp believe that the likelihood of objection to the Merger by the Department of Justice is remote, there can be no assurance that the Department of Justice will not initiate proceedings to block the Merger, or that the Attorney General of the Commonwealth of Massachusetts will not challenge the Merger, or if any proceeding is instituted or challenge is made, what the result of such challenge or proceeding would be.

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The Merger cannot proceed in the absence of the requisite regulatory approvals. See "Approval of the Merger Agreement Conditions to Completing the Merger" and " Terminating the Merger Agreement." There can be no assurance that the requisite regulatory approvals will be obtained, and if obtained, there can be no assurance as to the date of any approval. There also can be no assurance that any regulatory approvals will not contain a condition or requirement that causes the approvals to fail to satisfy one or more conditions set forth in the Merger Agreement and described under "Approval of the Merger Agreement Conditions to Completing the Merger." In recent similar transactions, the Federal Reserve has taken a longer time to render a decision on applications than the typical time period for approval set forth in the Federal Reserve's regulations.

The approval of any application merely implies the satisfaction of regulatory criteria for approval, which does not include review of the Merger from the standpoint of the adequacy of the exchange ratio for converting Hampden Bancorp common stock to BHLB common stock. Furthermore, regulatory approvals do not constitute an endorsement or recommendation with respect to the Merger.

Interests of Certain Persons in the Merger that are Different from Yours

In considering the recommendation of the Hampden Bancorp Board that you vote to approve the Merger Agreement, you should be aware that some of Hampden Bancorp's officers and directors have employment and other compensation agreements or economic interests that are different from, or in addition to, those of Hampden Bancorp stockholders generally. The Hampden Bancorp Board was aware of and considered these interests, among other matters, in evaluating and negotiating the Merger Agreement, and in recommending to the stockholders that the Merger Agreement be approved.

Share Ownership. On the record date for the Hampden Bancorp special meeting, Hampden Bancorp's directors and officers beneficially owned, in the aggregate, 484,621 shares of Hampden Bancorp's common stock (not including shares that may be acquired upon the exercise of stock options), representing approximately 8.72% of the outstanding shares of Hampden Bancorp common stock.

BHLB Executive Compensation Proposals. On December 11, 2014, BHLB entered into an executive compensation proposal with each of Glenn S. Welch, President and Chief Executive Officer of Hampden Bancorp, Tara G. Corthell, Chief Financial Officer of Hampden Bancorp, and Luke D. Kettles, Chief Lending Officer of Hampden Bancorp. The executive compensation proposals with Messrs. Welch and Kettles amend, supersede and replace the executive compensation proposals entered into with BHLB on November 4, 2014. The executive compensation proposals will be effective as of the closing date of the Merger.

The executive compensation proposal for Mr. Welch provides that Mr. Welch will be employed by BHLB in an executive position as Regional President of the Springfield, Massachusetts and Connecticut Regions with an initial base salary of \$350,000. Mr. Welch will (i) receive a stay bonus of \$400,000 payable in cash, provided that he remains employed through the closing of the Merger, (ii) agree to terminate his employment agreement with Hampden Bank prior to the effective time of the Merger, and he will not receive any payments or benefits under the employment agreement, (iii) agree to enter into amendments to his salary continuation agreement to limit the amount payable under the agreement so as not to permit an excess parachute payment under Section 280G of the Internal Revenue Code of 1986, as amended, (iv) agree to the termination of his salary continuation agreement prior to the effective time of the Merger, and receive a lump sum payment equal to the present value of the benefits due under the agreement within forty-five days of the termination of the agreement, (v) receive a payment of \$400,000 if at any time during the first six months following the closing date of the Merger, Mr. Welch's employment is terminated for a reason other than cause or Mr. Welch resigns within five business days after completing six months of employment with BHLB, provided Mr. Welch will be subject to non-competition/non-solicitation restrictions for eighteen months, (vi) will

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receive a minimum annual performance bonus of \$133,333 for each of the first three years following the closing date of the Merger (for a total aggregate bonuses of \$400,000), assuming Mr. Welch is still employed by BHLB on each one-year anniversary from the closing date of the Merger, payable one half in cash and one half in time vesting restricted stock, provided that if Mr. Welch's employment is terminated during the first three years following the closing date of the Merger for a reason other than cause, Mr. Welch will receive the minimum annual performance bonus that would have been paid in such year and will forfeit any subsequent performance bonuses, and (vii) participate in BHLB's change in control severance plan on similar terms as other similarly situated officers.

The executive compensation proposal for Ms. Corthell provides that Ms. Corthell will be employed by BHLB in a Senior Finance Position with an initial base salary of \$150,000. Ms. Corthell will (i) receive a stay bonus of \$100,000 payable in cash, provided that she remains employed through the closing of the Merger, (ii) receive \$45,000 in the event Ms. Corthell's employment with Berkshire is terminated for a reason other than cause during the first six months following the closing date of the Merger or in the event Ms. Corthell resigns within five days after completing six months of employment with Berkshire, provided Ms. Corthell will be subject to non-solicitation restrictions for six months, (iii) agree to terminate her change in control agreement with Hampden Bancorp prior to the effective time of the Merger, and she will not receive any payments or benefits under the change in control agreement, (iv) receive a minimum annual performance bonus of \$50,000, payable one half in cash and one half in time vesting restricted stock, for each of the first two years following the closing date of the Merger (for total aggregate bonuses of \$100,000), assuming Ms. Corthell is still employed by BHLB on each one-year anniversary from the closing date of the Merger, provided that if Ms. Corthell's employment is terminated during the first two years following the closing date of the Merger for a reason other than cause, Ms. Corthell will receive the minimum annual performance bonus that would have been paid in such year and forfeit any subsequent performance bonuses, and (v) participate in BHLB's change in control severance plan on similar terms as other similarly situated officers.

The executive compensation proposal for Mr. Kettles provides that Mr. Kettles will be employed by BHLB as Commercial Regional Leader for the Pioneer Valley with an initial base salary of \$225,000. Mr. Kettles will (i) receive a stay bonus of \$205,000 payable in cash, provided that he remains employed through the closing of the Merger, (ii) receive \$205,000 in the event Mr. Kettles' employment with Berkshire is terminated for a reason other than cause during the first six months following the closing date of the Merger or in the event Mr. Kettles resigns within five days after completing six months of employment with Berkshire, provided Mr. Kettles will be subject to non-solicitation restrictions for one year, (iii) agree to terminate his change in control agreement with Hampden Bancorp prior to the effective time of the Merger, and he will not receive any payments or benefits under the change in control agreement, (iv) agree to amend his salary continuation agreement to limit the amount payable under the agreement so as not to permit an excess parachute payment under Section 280G of the Internal Revenue Code of 1986, as amended, (v) agree to the termination of his salary continuation agreement prior to the effective time of the Merger, and receive a lump sum payment within forty-five days of the termination of the agreement equal to the present value of the benefits due under the agreement, (v) receive a minimum annual performance bonus of \$125,000, payable one half in cash and one half in time vesting restricted stock, for each of the first two years following the closing date of the Merger (for total aggregate bonuses of \$250,000), assuming Mr. Kettles is still employed by BHLB on each one-year anniversary from the closing date of the Merger, provided that if Mr. Kettles employment is terminated during the first two years following the closing date of the Merger for a reason other than cause, Mr. Kettles will receive the minimum annual performance bonus that would have been paid in such year and forfeit any subsequent performance bonuses, and (vi) participate in BHLB's change in control severance plan on similar terms as other similarly situated officers.

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It is expected that the amendments and termination of certain agreements, as outlined in the above executive compensation proposals, will be entered into by BHLB, Hampden Bancorp and the covered executive as soon as practicable and before the date of the Merger.

Termination of Employment Agreement with Hampden Bancorp. The employment agreement previously entered into with Hampden Bancorp and Mr. Welch provides for a lump sum cash payment in the event of an involuntary termination without cause or a voluntary termination with good reason within two years following a change in control. The amount of the lump sum cash payment is equal to three times (i) the executive's average "annual compensation" over the prior five years, which includes all taxable and non-taxable compensation, (ii) the value of the benefits the executive would have received under any tax-qualified and non-qualified plan that the executive would have otherwise received, and (iii) continued participation in any benefit plans that provide life insurance for three years, plus (iii) up to 18 months of continued health and dental insurance at no cost to the executive. The employment agreement also provides for a lump-sum payment equal to three months' of the executive's base salary in the event that the executive is offered employment that is comparable in terms of compensation and responsibilities if the executive remains employed for six months following a change in control. Because Mr. Welch has agreed to terminate the employment agreement pursuant to the terms of the executive compensation proposal described above, no payments or benefits will be made under the agreement.

Change in Control Agreements with Hampden Bancorp. The change in control agreements previously entered into by Hampden Bancorp and Mr. Kettles, Ms. Corthell, Robert A. Massey, Chief Operating Officer of Hampden Bancorp, Robert J. Michel, Senior Vice President and Division Executive for Retail and Mortgage Lending of Hampden Bancorp, Sheryl Shinn, Senior Vice President and Division Executive for IT and Operations of Hampden Bancorp and two other officers of Hampden Bancorp provide that upon an involuntary termination of employment without cause or a voluntary termination of employment for good reason (each as defined in the agreements) within two years following a change in control, each of Messrs. Kettles and Michel will receive a severance payment under the agreements equal to two times his average annual compensation for the five most recent taxable years, while Ms. Corthell, Mr. Massey and Ms. Shinn will receive a severance payment equal to one times his or her average annual compensation for the five most recent taxable years. In addition, the officer would be entitled to continued health, dental and disability coverage for up to 18 months following termination of employment. If payable, the cash severance payable under all the change in control agreements is estimated to total approximately \$1,200,000, and this amount excludes amounts payable under Mr. Kettles' and Ms. Corthell's agreements because both individuals have agreed to terminate their change in control agreements pursuant to the terms of the executive compensation proposals described above and no payment will be made under these agreements. In addition, the change in control agreements also provides for a lump-sum payment equal to three months' of each executive's base salary in the event that the executive is offered employment that is comparable in terms of compensation and responsibilities if the executive remains employed for six months following a change in control.

Termination of Salary Continuation Agreements and Payment of Benefits. It is expected that the salary continuation agreements entered into by Hampden Bancorp and Messrs. Welch, Kettles, Massey, Michel and certain other former officers will be terminated prior to the effective time of the Merger in a manner intended to comply with Section 409A of the Internal Revenue Code of 1986, as amended, and within 45 days of the termination of the agreements, each individual will receive a lump sum payment equal to the present value of the benefits otherwise due under the agreements. Absent such termination, Messrs. Welch, Kettles, Michel and Massey, respectively, would be entitled to an annual benefit paid in monthly installments beginning at age 65 (62 for Mr. Michel) equal to \$60,000 for Mr. Welch, \$50,000 for Mr. Kettles, \$30,000 for Mr. Michel and \$30,000 for Mr. Massey payable for the life of the participant. Assuming the payments are made on December 31, 2014, Messrs. Welch, Kettles,

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Massey and Michel will receive approximately \$340,700, \$187,683, \$323,196 and \$355,208, respectively, upon the termination of the salary continuation agreements.

Joint Beneficiary Designation Agreements. BHLB will honor the terms of the joint beneficiary designation agreements that Hampden Bancorp entered into with its employees and directors. Hampden Bancorp has purchased insurance policies on the lives of Messrs. Welch, Massey, Kettles and Michel, Ms. Corthell and Ms. Shinn and certain other employees and directors, and Hampden Bancorp has entered into agreements with each of Messrs. Welch, Massey, Kettles and Michel and Ms. Shinn. The policies are owned by Hampden Bancorp, which paid the premiums due on the policies. Under the split dollar agreements, upon an executive's death while he is an executive of Hampden Bancorp, the executive's beneficiary will be paid a death benefit equal to the lesser of (i) a specified dollar amount (\$1.0 million in the case of Mr. Welch; \$350,000 in the cases of Messrs. Massey, Kettles, Michel, and Ms. Shinn; and one times annual salary for Ms. Corthell), or (ii) the net death benefit, which is the death benefit payable under the terms of the policy reduced by the aggregate premiums paid by Hampden Bancorp. Following the Merger, in the event Mr. Welch is employed by BHLB or retired from BHLB at the time of death, the executive's beneficiary shall receive the death benefit. Following the Merger, in the event Messrs. Michel or Massey's employment is subsequently terminated, except for cause, then the executive's beneficiary shall receive the death benefit provided under the agreement, and Mr. Kettles, Ms. Corthell and Ms. Shinn's beneficiary shall receive the death benefit upon the death of such individuals.

Director Supplemental Retirement Plans. BHLB will honor the terms of the director supplemental retirement plans that Hampden Bancorp entered into with certain directors. The director supplemental retirement plans provide for an annual benefit in an amount up to 50% of a director's annual fees payable for ten years following normal retirement age. Following the completion of the Merger, a director may be entitled to an enhanced change in control benefit, which is equal to 50% of his or her "projected fees" (current fees increased by 3% for each year until the director's normal retirement age), and the benefit will be paid at normal retirement age in monthly installments for ten years. Alternatively, the director supplemental retirement plans may be terminated in connection with the Merger with the present value of the benefits thereunder paid to the covered individuals, and a decision as to the treatment of the plans has not been made as of the date of this document.

Cash Payment for Outstanding Options. Under the terms of the Merger Agreement, outstanding Hampden Bancorp stock options will be terminated with a payment to the holder of the option, whether or not vested, of an amount of cash equal to (i) the excess, if any, of the value of a share of Hampden Bancorp common stock as reported on the Nasdaq for the five consecutive trading days immediately preceding the date of the Merger over the applicable per share exercise price of that option multiplied by the number of shares of Hampden Bancorp common stock that the holder could have purchased with the option if the holder had exercised the option immediately prior to the date of completion of the Merger. Outstanding Hampden Bancorp stock options may be exercised during the pendency of the Merger. Assuming the value of the Merger consideration is \$19.79 (which represents the average closing market price of Hampden Bancorp common stock over the first five business days following the first public announcement of the Merger) and that the executives do not exercise outstanding stock options before the date of completion of the Merger, Messrs. Welch, Massey and Kettles and Ms. Corthell, who hold 70,000, 28,000, 10,000 and 17,500 stock options, respectively as of December 22, 2014, will receive a cash payment of \$604,450, \$248,920, \$72,800 and \$139,475, respectively, upon the completion of the Merger and the termination of the stock options.

Vesting of Restricted Stock. Pursuant to the Merger Agreement, each restricted share of Hampden Bancorp that is issued and outstanding immediately before the completion of the Merger will be converted into a restricted share of BHLB common stock, on the same terms and conditions as were applicable under the Hampden Bancorp equity plan or underlying award agreement, unless the Hampden Bancorp equity incentive plan provides for acceleration of vesting or lapse of restrictions as a

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result of the Merger. The number of shares of restricted Berkshire common stock subject to each such converted restricted stock award will be equal to the product obtained by multiplying (i) the number of shares of restricted Hampden Bancorp common stock subject to the applicable Hampden Bancorp restricted stock award by (ii) the exchange ratio. The vesting of the 1,800 shares of restricted stock held by Mr. Kettles will accelerate as a result of the Merger, and assuming the value of the Merger consideration is \$19.79, such shares of restricted stock will have a value of \$35,622.

Regulatory Requirements. Notwithstanding the foregoing, all payments and benefits under the Hampden Bancorp plans and arrangements are subject to any required regulatory approval or satisfaction of a condition in any regulatory approval, as applicable.

The following table sets forth the estimated potential severance benefits to Hampden Bancorp's named executive officers on termination of employment in connection with a change in control. This table does not include the value of benefits that the named executive officers are vested in without regard to the occurrence of a change in control:

Executive	Cash\$(1)	Equity\$(2)	Pension/ NQDC\$(3)	Perquisites/ Benefits\$(4)	Tax Reimbursements\$(5)	Other \$(5)	Total (\$)
Glenn S. Welch	\$	\$ 28,875	\$ 340,700	\$	\$	\$ 400,000	\$ 769,575
Robert A. Massey	\$ 242,582	\$	\$ 323,196	\$ 27,000	\$	\$	\$ 592,778
Luke D. Kettles	\$	\$ 79,302	\$ 187,683	\$	\$	\$ 205,000	\$ 471,985
Robert J. Michel	\$ 590,073	\$	\$ 355,208	\$ 27,000	\$	\$	\$ 972,281
Sheryl Shinn	\$ 187,421	\$	\$	\$ 27,000	\$	\$	\$ 214,421

- (1) Represents the estimated severance payments under each executive's change in control agreement. Assumes date of change in control and qualifying termination of employment is January 1, 2015, and no further payments are made under the executive's change in control agreements. Further, the estimated cash severance payable to Messrs. Massey and Michel and Ms. Shinn is considered a "double trigger" benefit, since it is triggered by a change in control of Hampden Bancorp followed by the executive's termination of employment. Notwithstanding the foregoing, all payments and benefits are subject to any required regulatory approval or satisfaction of a condition in any regulatory approval, as applicable. No cash severance will be paid under Mr. Welch's employment agreement or Mr. Kettles' change in control agreement since the executives have agreed to terminate their agreements. After Messrs. Welch and Kettles complete six months of employment with Berkshire Bank each individual will have five business days during which he may resign for any reason and be entitled to receive \$400,000, and \$205,000, respectively, provided that Mr. Welch will be subject to non-competition and non-solicitation restrictions for 18 months and Mr. Kettles will be subject to non-solicitation restrictions for one year (the "Six Month Payment"). The above table excludes the Six Month Payment because it is not known whether the executive will be entitled to the payment.
- (2) Consists of unvested options to acquire 3,750 and 6,000 shares, respectively, of Hampden Bancorp common stock for Messrs. Welch and Kettles, for Mr. Kettles only, 1,800 restricted shares of Hampden Bancorp. Messrs. Massey and Michel and Ms. Shinn do not hold unvested options or restricted shares of Hampden Bancorp. For these purposes, we assumed the value of the Hampden Bancorp common stock is the average closing market price of Hampden Bancorp common stock over the first five business days following the first public announcement of the Merger, which is \$19.79. The amount shown represents the difference between \$19.79 and the exercise price of the stock options. In addition, we assumed that Messrs. Welch's and Kettles' stock option awards will be cashed out at closing; however, each executive may exercise their stock options before the date of the Merger.

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- (3) This amount represents the net present value of the salary continuation agreements as of December 31, 2014. For Mr. Michel, this amount excludes an additional \$210,000 that is payable under a salary continuation agreement dated August 18, 1999, provided that he terminates employment on the date of the Merger because this amount is fully vested prior to the occurrence of a change in control.
- (4) Consists of projected employer premium(s) of \$1,500 for 18 months for each of Messrs. Massey, Michel and Ms. Shinn of medical and dental insurance coverage continuation following a termination of employment without cause or with good reason. As employees of Berkshire Bank, Messrs. Welch and Kettles will be covered under Berkshire Bank's medical and dental plans.
- (5) Consists of a stay bonus of \$400,000 and \$205,000 payable in cash to Messrs. Welch and Kettles, respectively, on the date of the Merger provided that Messrs. Welch and Kettles remain employed through the date of the Merger. These stay bonuses are considered a "single trigger" benefit.

Two New Directors. In accordance with the Merger Agreement, two directors of Hampden Bancorp to be designated by BHLB and Berkshire Bank, in consultation with Hampden Bancorp, shall be appointed and elected to the BHLB and Berkshire Bank boards of directors effectively immediately after the Merger is consummated. The fees paid to this director will be the same as the fees paid to similarly situated board members of BHLB and Berkshire Bank.

Indemnification. Pursuant to the Merger Agreement, BHLB has agreed that it will, from and after the effective time of the Merger, to the fullest extent that would have been permitted for Hampden Bancorp under the DGCL and Hampden Bancorp's certificate of incorporation and bylaws, indemnify, defend and hold harmless each present and former officer or director of Hampden Bancorp or any subsidiary of Hampden Bancorp against all losses, claims, damages, costs, expenses (including attorney's fees), liabilities or judgments or amounts that are paid in settlement (with the approval of BHLB, which approval shall not be unreasonably withheld, conditioned or delayed) of or in connection with any claim, action, suit, proceeding or investigation, whether civil, criminal or administrative, in which such person is or is threatened to be made a party or witness in who or in part, or arising in whole or in part, out of the fact that such person is or was a director or officer of Hampden Bancorp or Hampden Bank. Any such claim must pertain to a matter of fact arising, existing or occurring before the effective time of the Merger (including, without limitation, the Merger and the other transactions contemplated in the Merger Agreement), regardless of whether such claim is asserted or claimed before or after the effective time of the Merger.

Directors' and Officers' Insurance. BHLB has further agreed to obtain and fully pay the premium for the extension of Hampden Bancorp's existing directors' and officers' insurance policies and fiduciary liability policies, in each case for a claims reporting or discovery period of at least six years after the effective time of the Merger. The policies must be obtained from an insurance carrier with the same or better credit rating than Hampden Bancorp's current carrier and the terms, conditions, retentions and limits of liability must be at least as favorable as Hampden Bancorp's existing policies with respect to any actual or alleged error, misstatement, misleading statement, act, omission, neglect, breach of duty or any other matter claimed that arose, existed or occurred at or prior to the effective time of the Merger (including in connection with the Merger Agreement and the transactions or actions contemplated thereby). BHLB is not required to spend more than 300% of the annual premiums currently paid by Hampden Bancorp.

Employee Matters

Each person who is an employee of Hampden Bank as of the closing of the Merger (whose employment is not specifically terminated upon the closing) will become an employee of Berkshire Bank and will be eligible to participate in group health, medical, dental, life, disability and other welfare plans available to similarly situated employees of Berkshire Bank on the same basis that it

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provides such coverage to BHLB employees. With respect to any welfare plan or program of Hampden Bancorp that in the determination of BHLB provides benefits of the same type as a plan maintained by BHLB, BHLB will continue the Hampden Bancorp plan until such employees become eligible for the BHLB plan so that there is no gap in coverage. Berkshire Hills will give credit to continuing Hampden Bancorp employees for purposes of Berkshire Hills's vacation and other paid leave programs for their accrued and unpaid vacation and/or leave balance with Hampden Bancorp.

Current employees of Hampden Bancorp who remain employed until the closing date will be eligible to participate in the Berkshire Bank 401(k) Plan following the date determined by BHLB on which the Hampden Bank SBERA 401(k) Plan will be terminated or replaced by such plan.

BHLB will pay each employee of Hampden Bancorp who is not otherwise covered by a specific employment agreement whose employment is terminated (other than for cause) or who resigns for good reason on or within 12 months following the closing date of the Merger severance benefits pursuant to BHLB's severance plan or Hampden Bancorp's severance plan, if such payments would be more favorable.

Hampden Bank ESOP

At least five business days prior to the effective time of the Merger, the Hampden Bank ESOP indebtedness will be repaid by the Hampden Bank ESOP by delivering a sufficient number of unallocated shares of Hampden Bancorp common stock to Hampden Bancorp. Not later than the effective time of the Merger, the Hampden Bank ESOP will be terminated and all shares of Hampden Bancorp common stock held by the ESOP will be converted into the right to receive the merger consideration, and the balance of any assets remaining in the ESOP but not allocated to the account of a participant will be allocated as provided in the ESOP governing documents. The ESOP assets will be distributed to the participants as soon as practicable following the receipt of a favorable determination letter from the IRS. Hampden Bank and, following the effective time, BHLB has agreed to adopt any amendments to the Hampden Bank ESOP necessary to effect the foregoing matters.

Operations of Berkshire Bank after the Merger

The Merger Agreement provides for the merger of Hampden Bancorp with and into BHLB, with BHLB as the surviving entity. Following the merger of Hampden Bancorp with and into BHLB, BHLB intends to merge Hampden Bank with and into Berkshire Bank, with Berkshire Bank as the surviving bank. The executive officers of Berkshire Bank will remain the same following the Merger, and two directors of Hampden Bank will be added to the Berkshire Bank board of directors.

Berkshire Bank Establishment of a Liquidation Account

Upon completion of the Merger, depositors of Hampden Bank will become depositors of Berkshire Bank. In 2007, Hampden Bank established a liquidation account to provide certain depositors of Hampden Bank a liquidation interest after the conversion of Hampden Bancorp, MHC, in the event of a liquidation of Hampden Bank. Specifically, in the unlikely event that Hampden Bank was to liquidate after the conversion, all claims of creditors, including those of depositors, would be paid first, followed by a distribution to depositors of Hampden Bank as of April 30, 2005 and June 30, 2006 of their interests in the liquidation account maintained by Hampden Bank.

Under the rules and regulations of the Massachusetts Division of Banks, a post-conversion merger, consolidation, or similar combination or transaction with another depository institution in which Hampden Bank is not the surviving institution would not be considered a liquidation. In such a transaction, the liquidation account would be assumed by the surviving institution. Accordingly, Berkshire Bank, as the surviving institution following the Merger, is required by Massachusetts banking law to establish a liquidation account for the benefit of certain former Hampden Bank depositors who will remain depositors of Berkshire Bank.

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Each Hampden Bank depositor with a deposit account of \$50 or more held in Hampden Bank as of April 30, 2005 or June 30, 2006, who has continued to maintain such deposit account with Hampden Bank and who continues to maintain such deposit account with Berkshire Bank following the completion of the Merger has an interest in the liquidation account. The liquidation account will never increase and may decrease if the balance in the deposit account as of December 31 is less than the deposit account balance on April 30, 2005 or June 30, 2006.

Approval of the Merger Agreement by Berkshire Bank's sole stockholder, BHLB, included the approval of the establishment of the liquidation account in Berkshire Bank for the benefit of the above-referenced Hampden Bank depositors, which will occur by operation of law upon completion of the Merger.

Resale of Shares of BHLB Common Stock

All shares of BHLB common stock issued to Hampden Bancorp's stockholders in connection with the Merger will be freely transferable. This Proxy Statement/Prospectus does not cover any resales of the shares of BHLB common stock to be received by Hampden Bancorp's stockholders upon completion of the Merger, and no person may use this Proxy Statement/Prospectus in connection with any resale.

Time of Completion

Unless the parties agree otherwise and unless the Merger Agreement has otherwise been terminated, the closing of the Merger will take place on a date designated by BHLB that is no later than five business days following the date on which all of the conditions to the Merger contained in the Merger Agreement are satisfied or (to the extent permitted by applicable law) waived. See " Conditions to Completing the Merger." On the closing date, BHLB will file a Certificate of Merger with the Delaware Secretary of State to merge Hampden Bancorp into BHLB. The Merger will become effective at the time stated in the Certificate of Merger.

It is currently expected that the Merger will be completed early in the second quarter of 2015. However, because completion of the Merger is subject to regulatory approvals and other conditions, the parties cannot be certain of the actual timing of the completion of the Merger.

Conditions to Completing the Merger

BHLB's and Hampden Bancorp's obligations to consummate the Merger are conditioned on the following:

approval of the Merger Agreement by Hampden Bancorp stockholders;

no party to the Merger Agreement shall be subject to any order, decree or injunction of a court or agency of competent jurisdiction, and no statute, rule or regulation shall have been enacted, entered, promulgated, interpreted, applied or enforced by any governmental entity or bank regulator, that enjoins or prohibits the consummation of the transactions contemplated by the Merger Agreement;

receipt of all required regulatory approvals and the expiration of all statutory waiting periods;

the registration statement, of which this document forms a part, being declared effective by the Securities and Exchange Commission, the absence of any pending or threatened proceeding by the Securities and Exchange Commission to suspend the effectiveness of the registration statement and the receipt of all required state securities laws approvals; and

the additional shares of BHLB common stock to be issued in the Merger are approved for listing on the New York Stock Exchange upon notice of issuance.

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In addition, BHLB's obligations to consummate the Merger are conditioned on the following:

the representations and warranties of Hampden Bancorp contained in the Merger Agreement shall be true and correct as of the closing date of the Merger (except to the extent such representations and warranties speak as of an earlier date, which only need to be true and correct as of such earlier date), and BHLB shall have received a written certificate from Hampden Bancorp's Chief Executive Officer and its Chief Financial Officer to that effect;

Hampden Bancorp shall have performed in all material respects all obligations and complied in all material respects with all agreements and covenants to be performed or complied with at or before the effective time of the Merger, and BHLB shall have received a written certificate from Hampden Bancorp's Chief Executive Officer and its Chief Financial Officer to that effect;

Hampden Bancorp and its subsidiaries shall have obtained any and all permits, authorizations, consents, waivers, clearances or approvals required for the lawful consummation of the Merger and the bank merger, the failure of which to obtain would have a Material Adverse Effect on either Hampden Bancorp or BHLB;

There shall have been no changes, other than changes contemplated by the Merger Agreement, in the business, operations, condition (financial or otherwise), assets or liabilities of Hampden Bancorp and its subsidiaries (regardless of whether or not such events or changes are inconsistent with the representations and warranties given in the Merger Agreement) that individually or in the aggregate has had or reasonably would be expected to have a Material Adverse Effect on Hampden Bancorp;

BHLB shall have received an opinion from its counsel, dated as of the closing date of the Merger, to the effect that the Merger constitutes a reorganization under Section 368(a) of the Internal Revenue Code of 1986, as amended; and

No regulatory approval required for consummation of the Merger and the bank merger shall include any condition or requirement that would result in a Material Adverse Effect on BHLB or Hampden Bancorp.

In addition, Hampden Bancorp's obligations to consummate the Merger are conditioned on the following:

the representations and warranties of BHLB contained in the Merger Agreement shall be true and correct as of the closing date of the Merger (except to the extent such representations and warranties speak as of an earlier date, which only need to be true and correct as of such earlier date), and Hampden Bancorp shall have received a written certificate from BHLB's Chief Executive Officer and its Chief Financial Officer to that effect;

BHLB shall have performed in all material respects all obligations and complied in all material respects with all agreements and covenants to be performed or complied with at or before the effective time of the Merger, and Hampden Bancorp shall have received a written certificate from BHLB's Chief Executive Officer and its Chief Financial Officer to that effect;

BHLB and Berkshire Bank shall have obtained any and all permits, authorizations, consents, waivers, clearances or approvals required for the lawful consummation of the Merger and the bank merger, the failure of which to obtain would have a Material Adverse Effect on BHLB and Berkshire Bank, taken as a whole;

There shall have been no changes, other than changes contemplated by the Merger Agreement, in the business, operations, condition (financial or otherwise), assets or liabilities of BHLB and its subsidiaries (regardless of whether or not such events or changes are inconsistent with the representations and warranties given in the Merger Agreement) that individually or in the

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aggregate has had or reasonably would be expected to have a Material Adverse Effect on BHLB; and

Hampden Bancorp shall have received an opinion from its counsel, dated as of the closing date of the Merger, to the effect that the Merger constitutes a reorganization under Section 368(a) of the Internal Revenue Code of 1986, as amended.

BHLB and Hampden Bancorp cannot guarantee that all of the conditions to the Merger will be satisfied or waived by the party permitted to do so.

Conduct of Business Before the Merger

Hampden Bancorp has agreed that, until completion of the Merger and unless permitted by BHLB, neither it nor its subsidiaries will:

General Business

conduct its business other than in the usual, regular and ordinary course of business;

fail to use commercially reasonable efforts to preserve intact its business organization and assets and maintain its rights and franchises;

adjust, split, combine or reclassify its capital stock;

pay any cash dividend, stock dividends or make any other distribution on its capital stock, except pursuant to regular quarterly cash dividends of no more than \$0.08 per share or dividends paid from its subsidiaries to Hampden Bancorp;

issue any additional shares of capital stock or any securities or obligations convertible or exercisable for any shares of its capital stock, except pursuant to the exercise of outstanding stock options;

make any grant or award under the Hampden Bancorp, Inc. 2008 Equity Incentive Plan;

Dispositions

sell or otherwise dispose of any of its assets, incur any indebtedness or waive, release, modify or change any existing indebtedness other than in the ordinary course of business consistent with past practice;

Contracts

enter into, amend in any material respect or terminate any material contract or agreement in excess of \$100,000 except those specifically permitted by the Merger Agreement;

enter into, renew, extend or modify any transaction with an affiliate (other than a deposit transaction);

enter into any hedging transaction;

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undertake or enter into any lease or other contract in excess of \$25,000 annually, or containing a financial commitment extending 12 months from the date of the Merger Agreement;

Loans

other than pursuant to commitments issued prior to the date of the Merger Agreement, which have not expired and which have been disclosed to BHLB and except for the renewal of existing lines of credit, make any loan or other credit facility (i) in a principal amount in excess of \$5.0 million for commercial loans, \$500,000 for residential loans and \$100,000 for home equity loans or lines of credit, (ii) that involves an exception to Hampden Bancorp's policy, or (iii) for

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a one- to four-family residential real estate loan that is not eligible for sale in the secondary market to Fannie Mae or Freddie Mac, without the prior written consent of BHLB, provided that BHLB's consent shall be deemed granted if BHLB does not object within three business days of receipt by BHLB of a request by Hampden Bancorp to make such loan;

except for existing commitments to sell any participation interest in any loan, sell any participation in a loan (other than sales of loans secured by one- to four-family real estate that are consistent with past practice) unless BHLB has been given the first opportunity and reasonable time to purchase any loan participation being sold;

make any change in policies in existence on the date of the Merger Agreement with regard to: the extension of credit, or the establishment of reserves with respect to the possible loss thereon or the charge off of losses incurred thereon; investments; asset/liability management; or other banking policies except as may be required by changes in applicable law or regulations, GAAP or regulatory accounting principles or by a bank regulator;

purchase or sell any mortgage loan servicing rights other than in the ordinary course of business consistent with past practice;

Employees

grant or agree to pay any bonus, severance or termination to, or enter into, renew or amend any employment agreement, severance agreement and/or supplemental executive agreement with, or increase in any manner the compensation or fringe benefits of, any of its directors, officers, employees or consultants, except (i) as required by applicable law, (ii) as may be required pursuant to existing commitments existing as of the date of the Merger Agreement, (iii) for salary adjustments in the ordinary course of business consistent with past practice provided that any increases to such amounts shall not exceed four percent in the aggregate, or (iv) as otherwise contemplated by the Merger Agreement. Neither Hampden Bancorp nor Hampden Bank shall hire or promote any employee to a rank having a title of vice president or other more senior rank or hire any new employee at an annual rate of compensation in excess of \$75,000; *provided, however*, that neither Hampden Bancorp or its subsidiaries may hire any new employee without first seeking to fill any position internally. Neither Hampden or its subsidiaries shall pay expenses of any employee or director for attending conventions held after the date of the Merger Agreement;

Enter into or, except as may be required by law or any such plan or agreement or by the terms of the Merger Agreement and the transactions contemplated therein, modify any pension, retirement, stock option, stock purchase, stock appreciation right, stock grant, savings, profit sharing, deferred compensation, supplemental retirement, consulting, bonus, group insurance or other employee benefit, incentive or welfare contract, plan or arrangement, or any trust agreement related thereto, in respect of any of its directors, officers or employees, or make any contributions to any defined contribution or defined benefit plan not in the ordinary course of business consistent with past practice;

except for the execution of the Merger Agreement, and actions taken or which will be taken in accordance with the Merger Agreement and performance thereunder, take any action that would give rise to a right of payment to any individual under any employment agreement; except for the execution of the Merger Agreement, and the transactions contemplated therein and any terminations of employment, take any action that would give rise to an acceleration of the right to payment to any individual under any Hampden Bancorp benefit plan;

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issue any broadly distributed communication of a general nature to employees (including general communications relating to benefits and compensation) without prior consultation with BHLB and, to the extent relating to post-Closing employment, benefit or compensation information without the prior consent of BHLB (which shall not be unreasonably withheld, conditioned or delayed) or issue any broadly distributed communication of a general nature to customers without the prior approval of BHLB (which shall not be unreasonably withheld, conditioned or delayed), except as required by law or for communications in the ordinary course of business consistent with past practice that do not relate to the Merger or other transactions contemplated hereby;

Settling Claims

pay, discharge, settle or compromise any claim, action, litigation, arbitration or proceeding, other than any such payment, discharge, settlement or compromise in the ordinary course of business consistent with past practice that involves solely money damages not in excess of \$25,000 individually or \$50,000 in the aggregate, and that does not create negative precedent for other pending or potential claims, actions, litigation, arbitration or proceedings;

Foreclosures

foreclose upon or take a deed or title to any commercial real estate without having a Phase I environmental assessment of the property conducted as of a reasonably current date and, in the event such Phase I environmental assessment of the property identifies any Recognized Environmental Conditions (as that term is used in Phase I environmental assessments), providing notice to BHLB thereof prior to final sale;

Governing Documents

change or waive any provision of its certificate of incorporation, articles of incorporation or articles of association in the case of Hampden Bank, or bylaws, except as required by law;

Investment in Securities

purchase any securities except securities (i) rated "A" or higher by either Standard & Poor's Ratings Services or Moody's Investors Services, (ii) having a face amount in aggregate of not more than \$500,000, (iii) with a duration of not more than five years and (iv) otherwise in the ordinary course of business consistent with past practice;

Capital Expenditures

other than pursuant to binding commitments existing as of the date of the Merger Agreement and disclosed to BHLB, make any capital expenditures in excess of \$25,000 individually, or \$50,000 in the aggregate;

Branches/Merger

open or close any branch or automated banking facility or file an application to do the same;

merge or consolidate Hampden Bancorp or its subsidiaries with any other entity; sell or lease all or any substantial portion of the assets or business of Hampden Bancorp or its subsidiaries; make any acquisition of all or any substantial portion of the business or assets of any other entity other than in connection with foreclosures, settlements in lieu of foreclosure, troubled loan or debt restructurings or the collection of loans or credit arrangements; enter into a purchase and assumption transaction with respect to deposits and liabilities; incur deposit

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liabilities other than in the ordinary course of business consistent with past practice and in keeping with prevailing competitive rates; permit the revocation or surrender of its certificate of authority to maintain, or file an application for the relocation of, an existing branch office, or file an application for certificate of authority to establish a new branch office;

Accounting

change its method of accounting, practice or principle of accounting, except as required by changes in generally accepted accounting principles or regulatory accounting principles or by any bank regulator responsible for regulating Hampden Bancorp or Hampden Bank;

Taxes

make, change or rescind any material election concerning Taxes or Tax Returns, file any amended Tax Return, enter into any closing agreement with respect to Taxes, settle or compromise any material Tax claim or assessment or surrender any right to claim a refund of Taxes or obtain any Tax ruling;

Merger Agreement

voluntarily take any action that would (i) result in any of its representations and warranties under the Merger Agreement not being true and correct or in the conditions to the Merger not being satisfied, (ii) materially adversely affect or delay the ability of the parties to obtain regulatory approvals contemplated by the Merger Agreement, or (iii) materially adversely affect its ability to perform its covenants and agreements under the Merger Agreement;

take any action that would, or is reasonably likely to, prevent or impede the Merger from qualifying as a reorganization under Section 368 of the Internal Revenue Code;

Other Agreements

take any other action restricted under the Merger Agreement; or

enter into any contract with respect to, or otherwise agree or commit to do any of the foregoing actions.

BHLB has agreed that, until the completion of the Merger and unless permitted by Hampden Bancorp, it will not:

conduct its business other than in the usual, regular and ordinary course of business;

fail to use reasonable best efforts to preserve intact its business organization and assets and maintain its rights and franchises;

voluntarily take action which would change or waive any provision of its certificate of incorporation (or articles or organization in the case of Berkshire Bank) or bylaws in any way adverse to the rights of the Hampden stockholders, except as required by law;

voluntarily take action which would (i) result in any of its representations and warranties under the Merger Agreement not being true and correct or in the conditions to the Merger not being satisfied, (ii) materially adversely affect or delay the ability of the parties to obtain regulatory approvals contemplated by the Merger Agreement, or (iii) materially adversely

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affect its ability to perform its covenants and agreements under the Merger Agreement; or

knowingly take any action that would prevent or impede the Merger from qualifying as a reorganization under Section 368 of the Internal Revenue Code.

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Additional Covenants of Hampden Bancorp and BHLB in the Merger Agreement

Agreement Not to Solicit Other Proposals. Hampden Bancorp and its subsidiaries, and any of their officers, directors, employees, representatives, agents and affiliates have agreed not to: (i) solicit, initiate, or knowingly encourage any acquisition proposal by a third party; (ii) enter into or maintain or continue discussions or negotiations regarding an acquisition proposal or agree to endorse any acquisition proposal; or (iii) or authorize or permit any of its officers, directors, or employees or any of its subsidiaries or any investment banker, financial advisor, attorney, accountant or other representative retained by any of its subsidiaries to take any of the foregoing actions. An acquisition proposal includes the following:

any merger, consolidation, share exchange, business combination, or other similar transaction involving Hampden Bancorp or its subsidiaries;

any sale, lease, exchange, mortgage, pledge, transfer or other disposition of 25% or more of the assets of Hampden Bancorp or its subsidiaries on a consolidated basis;

any tender offer or exchange for 25% or more of the outstanding shares of Hampden Bancorp capital stock or the filing of a registration statement under the Securities Act in connection therewith; and

any public announcement of a proposal, plan or intention to do any of the foregoing or any agreement to engage in any of the foregoing.

Despite the agreement of Hampden Bancorp not to solicit other acquisition proposals, Hampden Bancorp may generally negotiate or have discussions with, or provide information to, a third party who makes an unsolicited acquisition proposal, provided that the Hampden Bancorp board of directors:

determines in its good faith after consultation with its outside legal counsel and financial advisor that the acquisition proposal constitutes a superior proposal, meaning that it is reasonably likely to result in a transaction more favorable to the Hampden Bancorp stockholders from a financial point of view than the Merger.

If Hampden Bancorp receives an acquisition proposal or information request from a third party or enters into negotiations with a third party regarding a superior proposal, Hampden Bancorp must promptly notify BHLB no later than one calendar day after its receipt of such proposal or information request and provide BHLB with information about the third party and its proposal or information request.

Certain Other Covenants. The Merger Agreement also contains other agreements relating to the conduct of BHLB and Hampden Bancorp before consummation of the Merger, including the following:

each party will cause one or more of its representatives to confer with representatives of the other party to inform each other party regarding its operations at such times as each party may reasonably request;

each party will cooperate regarding a plan for the conversion of Hampden Bancorp's data processing and related electronic information systems;

Hampden Bancorp shall provide BHLB information regarding nonperforming assets, loan grading changes, loan approvals as well as minutes of Hampden Bancorp and Hampden Bank officer and director loan committee meetings;

each party will permit the other party reasonable access during normal business hours to its property, books, records and personnel and furnish all information the other party may reasonably request;

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each party will promptly provide the other party with a copy of all documents filed with its banking regulators, audit books made by their independent registered public accountants and internal control reports submitted by such accountants;

BHLB and Hampden Bancorp will use their commercially reasonable efforts to submit all necessary applications, notices, and other filings with any governmental entity, the approval of which is required to complete the Merger and related transactions;

BHLB and Hampden Bancorp will use their reasonable best efforts to obtain all third party consents necessary to consummate the Merger;

BHLB and Hampden Bancorp will use all reasonable efforts to take all actions necessary to consummate the Merger and the transactions contemplated by the Merger Agreement;

BHLB will file a registration statement, of which this Proxy Statement/Prospectus forms a part, with the Securities and Exchange Commission registering the shares of BHLB common stock to be issued in the Merger to Hampden Bancorp stockholders;

Hampden Bancorp will take all actions necessary to convene a special meeting of its stockholders to vote on the Merger Agreement. The board of directors of Hampden Bancorp will recommend at the Hampden Bancorp special meeting that the Hampden Bancorp stockholders vote to approve the Merger Agreement. However, the Hampden Bancorp board of directors may fail to make such recommendation or change or withdraw its recommendation if Hampden Bancorp's board of directors, after consultation with and consideration of the advice of its financial and legal advisors, determines, in good faith, that making such a recommendation would result in a violation of its fiduciary duties under applicable law;

before completion of the Merger, BHLB will notify the New York Stock Exchange of the additional shares of BHLB common stock that BHLB will issue in exchange for shares of Hampden Bancorp common stock;

Hampden Bancorp will terminate the 401(k) plan and ESOP immediately prior to the effective date; and

BHLB and Hampden Bancorp will notify each other of any material contract defaults and any events that would reasonably be likely to result in a material adverse effect on the other.

Representations and Warranties Made by BHLB and Hampden Bancorp in the Merger Agreement

BHLB and Hampden Bancorp have made certain customary representations and warranties to each other in the Merger Agreement relating to their businesses. For information on these representations and warranties, please refer to the Merger Agreement attached as Appendix A. The representations and warranties must be true in all material respects through the completion of the Merger unless the change does not have a material adverse effect on the parties' business, financial condition or results of operations. See " Conditions to Completing the Merger."

The representations and warranties contained in the Merger Agreement were made only for purposes of such agreement and are made as of specific dates, were solely for the benefit of the parties to such agreement, and may be subject to limitations agreed to by BHLB or Hampden Bancorp, including being qualified by disclosures between the parties. These representations and warranties may have been made for the purpose of allocating risk between the parties to the Merger Agreement instead of establishing these matters as facts, and may be subject to standards of materiality that differ from the standard of materiality that an investor may apply when reviewing statements of factual information.

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Each of BHLB and Hampden Bancorp has made representations and warranties to the other regarding, among other things:

corporate matters, including due organization and qualification;

capitalization;

authority relative to execution and delivery of the Merger Agreement and the absence of conflicts with, violations of, or a default under organizational documents or other obligations as a result of the Merger or the bank merger;

governmental filings and consents necessary to complete the Merger;

the timely filing of regulatory reports and internal controls;

the absence of any event or action that would, or reasonably would be expected to, constitute a material adverse effect since June 30, 2014;

financial statements and internal controls;

tax matters;

loan portfolio matters;

employee matters and benefit plans;

real and personal property;

insurance matters;

environmental liabilities;

related party transactions;

brokers, finders or financial advisor fees;

risk management instruments;

legal proceedings;

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compliance with applicable laws;

board of directors approval of the Merger Agreement;

duties as a fiduciary;

securities documents;

the receipt of a fairness opinion from its financial advisor; and

absence of agreements with regulatory agencies restricting the conduct of its business.

In addition, Hampden Bancorp has made other representations and warranties about itself to BHLB as to:

matters relating to certain contracts;

intellectual property;

deposits;

investment securities;

securities registration obligations;

bank owned life insurance; and

stock transfer records.

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The representations and warranties of each of BHLB and Hampden Bancorp will expire upon the effective time of the Merger.

Terminating the Merger Agreement

The Merger Agreement may be terminated at any time before the completion of the Merger, either before or after approval of the Merger Agreement by Hampden Bancorp stockholders, as follows:

by the mutual written consent of BHLB and Hampden Bancorp;

by either party, if there has been a material breach of any of the representations and warranties set forth in the Merger Agreement by the other party, which breach cannot be cured by the closing date or has not been cured upon 30 days written notice of such breach by the terminating party to the other party;

by either party, if there has been a material failure to perform or comply with any of the covenants or agreements set forth in the Merger Agreement by the other party, which failure cannot be cured prior to closing or has not been cured upon 30 days written notice of such failure by the terminating party to the other party;

by either party, if the Merger is not consummated by November 3, 2015, or such later date as shall have been agreed to in writing by BHLB and Hampden Bancorp, unless the failure to complete the Merger by that time was due to such party's material breach of any representation, warranty, covenant or other agreement contained in the Merger Agreement;

by either party, if, following the Hampden Bancorp stockholder meeting, the stockholders of Hampden Bancorp fail to approve the Merger Agreement;

by either party, if a required regulatory approval, consent or waiver is denied or any governmental entity prohibits the consummation of the Merger or the transactions contemplated by the Merger Agreement;

by BHLB if (i) Hampden Bancorp receives a superior proposal and has entered into an acquisition agreement with respect to the superior proposal in accordance with the provisions of the Merger Agreement, (ii) the board of directors of Hampden Bancorp submits the Merger Agreement to the Hampden Bancorp stockholders without a recommendation for approval, or (iii) the board of directors of Hampden Bancorp withdraws, modifies or changes its recommendation to the stockholders for approval of Merger Agreement, after having consulted with and considered the advice of its financial and legal advisors; or

by Hampden Bancorp if Hampden Bancorp has received a superior proposal and the board of directors of Hampden Bancorp has made a determination to accept such superior proposal and complied with the provisions of the Merger Agreement.

Additionally, Hampden Bancorp may terminate the Merger Agreement if, at any time during the five-day period commencing on the first date on which all bank regulatory approvals (and waivers, if applicable) necessary for consummation of the Merger have been received (disregarding any waiting period) (the "Determination Date"), both of the following conditions are satisfied:

the number obtained by dividing the average of the daily closing prices of BHLB common stock for the 10 consecutive trading days by \$25.78 (the "BHLB Ratio") is less than 0.80; and

the BHLB Ratio is less than the number obtained by dividing (i) the sum of the average of the daily closing prices for the 10 consecutive trading days immediately preceding the Determination Date of the Index Group (the "Final Index Price") by (ii) the closing value of the Index Group

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on the last trading date immediately preceding the public announcement of the entry into the Merger Agreement (the "Index Price"), minus 0.20 (the "Index Ratio").

If Hampden Bancorp elects to exercise its termination right as described above, it must give written notice thereof to BHLB. During the five business day period commencing with its receipt of such notice, BHLB shall have the option to increase the consideration to be received by the holders of Hampden Bancorp common stock by adjusting the exchange ratio (calculated to the nearest one one-thousandth) to equal the lesser of (x) a number (rounded to the nearest one one-thousandth) obtained by dividing (A) the product of \$25.78, 0.80 and 0.81 (as then in effect) by (B) the Average Closing Price (defined as the average daily closing price of BHLB common stock for the 10 consecutive trading days preceding the tenth day prior to the Determination Date) and (y) a number (rounded to the nearest one one-thousandth) obtained by dividing (A) the product of the Index Ratio and 0.81 (as then in effect) by (B) the BHLB Ratio. If within such five business day period, BHLB delivers prompt written notice to Hampden Bancorp that it intends to proceed with the Merger by paying such additional consideration as contemplated by the preceding sentence, then no termination shall have occurred and the Merger Agreement shall remain in effect in accordance with its terms (except that the exchange ratio shall have been so modified).

Termination Fee

The Merger Agreement requires Hampden Bancorp to pay BHLB a fee of \$3.6 million for the period ending 45 days from the date of the Merger Agreement or \$4.7 million thereafter if the Merger Agreement is terminated in certain circumstances that involve a competing offer. Specifically, Hampden Bancorp must pay the termination fee if BHLB terminates the Merger Agreement if (i) Hampden Bancorp receives a superior proposal and has entered into an acquisition agreement with respect to the superior proposal in accordance with the provisions of the Merger Agreement, (ii) the board of directors of Hampden Bancorp submits the Merger Agreement to the Hampden Bancorp stockholders without a recommendation for approval, or (iii) the board of directors of Hampden Bancorp withdraws, modifies or changes its recommendation to stockholders for approval of the Merger Agreement, after having consulted with and considered the advice of its financial and legal advisors.

Hampden Bancorp also must (i) pay the termination fee if Hampden Bancorp terminates the Merger Agreement because it has accepted a superior proposal or (ii) Hampden Bancorp enters into a definitive merger agreement within one year of BHLB terminating the Merger Agreement due to Hampden Bancorp's breach of a representation, warranty or covenant or failure of Hampden Bancorp's stockholders to approve the Merger Agreement after a competing acquisition proposal has been publicly announced or otherwise made known to Hampden Bancorp stockholders.

Expenses

Each of BHLB and Hampden Bancorp will pay its own costs and expenses incurred in connection with the Merger. In the event of a termination of the Merger Agreement because of a breach of any representation, warranty, covenant or agreement contained in the Merger Agreement, the breaching party shall remain liable for any and all damages, costs and expenses, including all reasonable attorneys' fees, sustained or incurred by the non-breaching party as a result thereof or in connection therewith or with respect to the enforcement of its rights under the Merger Agreement.

Changing the Terms of the Merger Agreement

Before the completion of the Merger, BHLB and Hampden Bancorp may agree to waive, amend or modify any provision of the Merger Agreement. However, after the vote by Hampden Bancorp stockholders, BHLB and Hampden Bancorp may not make any amendment or modification that would reduce the amount or alter the kind of consideration to be received by Hampden Bancorp's stockholders under the terms of the Merger Agreement.

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DESCRIPTION OF BERKSHIRE HILLS BANCORP, INC. CAPITAL STOCK

The following summary describes the material terms of BHLB's capital stock and is subject to, and qualified by, BHLB's certificate of incorporation and bylaws and the DGCL. See "*Where You Can Find More Information*" as to how to obtain a copy of BHLB's certificate of incorporation and bylaws.

General

BHLB is authorized to issue 50,000,000 shares of common stock having a par value of \$0.01 per share, and 1,000,000 shares of preferred stock having a par value of \$0.01 per share. At January 29, 2015, 25,182,566 shares of common stock were outstanding. At that date, no preferred shares were outstanding.

Common Stock

Voting Rights. The holders of common stock are entitled to one vote per share on all matters presented to stockholders. Holders of common stock are not entitled to cumulate their votes in the election of directors. However, BHLB's certificate of incorporation provides that a record owner of BHLB's common stock who beneficially owns, either directly or indirectly, in excess of 10% of BHLB's outstanding shares, is not entitled to any vote in respect of the shares held in excess of the 10% limit.

No Preemptive or Conversion Rights. The holders of common stock do not have preemptive rights to subscribe for a proportionate share of any additional securities issued by BHLB before such securities are offered to others. The absence of preemptive rights increases BHLB's flexibility to issue additional shares of common stock in connection with BHLB's acquisitions, employee benefit plans and for other purposes, without affording the holders of common stock a right to subscribe for their proportionate share of those additional securities. The holders of common stock are not entitled to any redemption privileges, sinking fund privileges or conversion rights.

Dividends. Holders of common stock are entitled to receive dividends ratably when, as and if declared by BHLB's board of directors from assets legally available therefor, after payment of all dividends on preferred stock, if any is outstanding. Under the DGCL, BHLB may pay dividends out of surplus or net profits for the fiscal year in which declared and/or for the preceding fiscal year, even if its surplus accounts are in a deficit position. Dividends paid by Berkshire Bank have historically been the primary operating source of funds available to BHLB, and historic financing sources have included senior debt and the issuance of trust preferred securities, preferred stock and common stock. BHLB expects to use these sources of funds in the future, as well as proceeds it may obtain from the offering of common stock, preferred stock and/or debt securities for payment of dividends to its stockholders, the repurchase of its common stock and for other needs. BHLB's board of directors intends to maintain its present policy of paying regular quarterly cash dividends. The declaration and amount of future dividends will depend on circumstances existing at the time, including BHLB's earnings, financial condition and capital requirements, as well as regulatory limitations and such other factors as BHLB's board of directors deems relevant.

BHLB's principal assets and sources of income consist of investments in its operating subsidiaries, which are separate and distinct legal entities.

Liquidation. Upon liquidation, dissolution or the winding up of the affairs of BHLB, holders of common stock are entitled to receive their pro rata portion of the remaining assets of BHLB after the holders of BHLB's preferred stock, if any, have been paid in full any sums to which they may be entitled.

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Preferred Stock

BHLB's certificate of incorporation authorizes its board of directors, without stockholder action, to issue preferred stock in one or more series and to establish the designations, dividend rates and rights, dissolution or liquidation rights, preferences, price and terms and conditions on which shares may be redeemed, terms and conditions for conversion or exchange into any other class or series of the stock, voting rights and other terms. The issuance of preferred stock, while providing flexibility in connection with possible acquisitions and other corporate purposes, could, among other things, adversely affect the voting power of the holders of common stock and could have the effect of delaying, deferring or preventing a change in BHLB's control.

Certain Certificate of Incorporation and Bylaw Provisions Affecting Stock

BHLB's certificate of incorporation and bylaws contain several provisions that may make BHLB a less attractive target for an acquisition of control by anyone who does not have the support of BHLB's board of directors. Such provisions include, among other things, the requirement of a supermajority vote of stockholders or directors to approve certain business combinations and other corporate actions, a minimum price provision, several special procedural rules, a staggered board of directors, a vote limitation provision and the limitation that stockholder actions may only be taken at a meeting and may not be taken by unanimous written stockholder consent. The foregoing is qualified in its entirety by reference to BHLB's certificate of incorporation and bylaws.

Restrictions on Ownership

Under the federal Change in Bank Control Act, a notice must be submitted to the Federal Reserve if any person (including a company), or group acting in concert, seeks to acquire "control" of a bank holding company or savings association. An acquisition of "control" can occur upon the acquisition of 10% or more of the voting stock of a bank holding company or depository institution or as otherwise defined by the Board of Governors of the Federal Reserve System. Under the Change in Bank Control Act, the Board of Governors of the Federal Reserve System has 60 days from the filing of a complete notice to act, taking into consideration certain factors, including the financial and managerial resources of the acquirer and the anti-trust effects of the acquisition. Any company that so acquires control would then be subject to regulation as a bank holding company.

Transfer Agent and Registrar

The Transfer Agent and Registrar for BHLB's common stock is Computershare Trust Company, N.A., Canton, Massachusetts.

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INFORMATION ABOUT BERKSHIRE HILLS BANCORP, INC.

BHLB, a Delaware corporation, is a bank holding company that was incorporated and commenced operations in 2000. BHLB conducts its operations primarily through Berkshire Bank, a Massachusetts trust company with 90 full service branch offices in Massachusetts, Connecticut, New York and Vermont. Berkshire Bank, America's Most Exciting Bank(SM), is one of Massachusetts' oldest and largest independent banks and is the largest banking institution based in Western Massachusetts. Berkshire Bank provides personal and business banking, insurance, and wealth management services. BHLB is also the holding company for Berkshire Insurance Group, an insurance agency in Western Massachusetts.

At September 30, 2014, BHLB had total assets of \$6.4 billion, total deposits of \$4.6 billion and total stockholders' equity of \$696.9 million.

BHLB is headquartered at 24 North Street Pittsfield, Massachusetts 01201. BHLB's website can be accessed at <https://www.berkshirebank.com>. Information contained in BHLB's website does not constitute part of, and is not incorporated into, this proxy statement/prospectus. BHLB's common stock is listed on the New York Stock Exchange under the symbol "BHLB."

Additional information about BHLB and its subsidiaries is included in documents incorporated by reference in this Proxy Statement/Prospectus. See "Where You Can Find More Information."

HAMPDEN BANCORP, INC.'S BUSINESS

In this section entitled "Hampden Bancorp's Business" and the section entitled "Hampden Bancorp's Management's Discussion and Analysis of Financial Condition and Results of Operations," and only in these two sections, the terms "we," "us," and "our" are used to refer to Hampden Bancorp and its subsidiaries.

General

Hampden Bancorp, Inc., a Delaware corporation that became the holding company of Hampden Bank in 2007, is registered with the Federal Reserve as a bank holding company under the Bank Holding Company Act of 1956, as amended (the "BHC Act"). Hampden Bank completed its conversion to the holding company structure on January 16, 2007. The information set forth in this Proxy Statement/Prospectus for Hampden Bancorp, Inc. and its subsidiaries, Hampden Bank and Hampden LS, Inc., including the consolidated financial statements and related financial data, relates primarily to Hampden Bank. Hampden Bank has three wholly-owned subsidiaries: Hampden Investment Corporation and Hampden Investment Corporation II, both of which engage in buying, selling, holding and otherwise dealing in securities, and Hampden Insurance Agency, which ceased selling insurance products in November of 2000 and remains inactive. All significant intercompany accounts and transactions have been eliminated in consolidation.

Established in 1852 and headquartered in Springfield, Massachusetts, Hampden Bank is a full service, community bank that offers a variety of loan and deposit products from its ten office locations in Springfield, Agawam, Longmeadow, West Springfield, Wilbraham and Indian Orchard, Massachusetts, as well as insurance and investment products through its Financial Services Division, Hampden Financial. Hampden Bank offers customers the latest in internet banking, including on-line banking and bill payment services.

Market Area

Hampden Bank offers financial products and services designed to meet the financial needs of our customers. Our primary deposit-gathering area is concentrated in the Massachusetts cities and towns of Springfield, West Springfield, Longmeadow, Agawam and Wilbraham. We offer Remote Deposit

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Capture to our customers, which allows us to expand our deposit gathering outside of our normal deposit area. Our lending area is broader than our deposit-gathering area and primarily includes Hampden, Hampshire, Franklin, and Berkshire Counties of Massachusetts as well as portions of northern Connecticut.

Hampden Bank is headquartered in Springfield, Massachusetts. All of Hampden Bank's offices are located in Hampden County. Springfield is the third largest city in Massachusetts, located in south western Massachusetts, 90 miles west of Boston and 30 miles north of Hartford, Connecticut, connected by major interstate highways. A diversified mix of industry groups operate within Hampden County, including manufacturing, health care, higher education, wholesale/retail trade and service. The major employers in the area include MassMutual Financial Group, Baystate Health System, several area universities and colleges, and Big Y supermarkets. The county in which Hampden Bank currently operates includes a mixture of suburban, rural, and urban markets. According to 2010 census data, Hampden Bank's market area is projected to remain substantially unchanged in population and household growth through 2015.

Competition

Hampden Bancorp faces intense competition in attracting deposits and loans from financial institutions and credit unions operating in its market area and, to a lesser extent, from other financial service companies, such as brokerage firms, insurance companies, mortgage companies and mortgage brokers. Hampden Bancorp also faces competition for depositors' funds from money market funds, mutual funds and other corporate and government securities. Large super-regional banks such as Bank of America, Santander, Citizens and TD Bank operate in Hampden Bancorp's market area. These institutions have significantly greater resources than Hampden Bancorp. We expect the competition in our market area to continue.

Hampden Bancorp's competition for loans comes primarily from financial institutions in our market areas, and from other financial service providers such as mortgage companies and mortgage brokers. Competition for loans also comes from a number of non-depository financial service companies entering the mortgage market. These include insurance companies, securities companies and specialty finance companies.

Hampden Bancorp expects competition to increase in the future as a result of legislative, regulatory and technological changes and the continuing trend of consolidation in the financial services industry. Technological advances, for example, have lowered the barriers to market entry, allowed banks and other lenders to expand their geographic reach by providing services over the Internet and made it possible for non-depository institutions to offer products and services that traditionally have been provided by banks. Changes in federal law permit affiliation among banks, securities firms and insurance companies, which promotes a competitive environment in the financial services industry. Competition for deposits and the origination of loans could limit Hampden Bancorp's future growth.

Lending Activities

General. Hampden Bancorp's gross loan portfolio amounted to \$509.3 million at September 30, 2014, representing 72.2% of total assets at that date. In its lending activities, Hampden Bancorp originates commercial real estate loans, residential real estate loans secured by one- to four-family residences, residential and commercial construction loans, commercial and industrial loans, home equity lines of credit, fixed rate home equity loans and other personal consumer loans. While Hampden Bancorp makes loans throughout Massachusetts, most of its lending activities are concentrated in Hampden and Hampshire Counties. Loans originated and purchased totaled \$29.1 million during the three months ended September 30, 2014, \$191.9 million in the fiscal year ended June 30, 2014 ("fiscal 2014") and \$161.1 million in the fiscal year ended June 30, 2013 ("fiscal 2013"). Residential mortgage

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loans sold into the secondary market, on a servicing-retained basis, totaled \$4.2 million during the three months ended September 30, 2014, \$10.1 million during fiscal 2014 and \$22.6 million in fiscal 2013, and residential mortgage loans sold into the secondary market, on a servicing-released basis, totaled \$2.8 million during the three months ended September 30, 2014, \$7.7 million during fiscal 2014 and \$9.1 million during fiscal 2013. At September 30, 2014, Hampden Bancorp's largest loan was \$8.8 million, and the average balance of Hampden Bancorp's ten largest loans was \$5.7 million.

The following table summarizes the composition of Hampden Bancorp's loan portfolio as of the dates indicated:

	September 30,		2014		2013		June 30,		2011		2010	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
(Dollars In Thousands)												
Mortgage loans on real estate:												
Commercial	\$ 202,178	39.70%	\$ 200,750	39.31%	\$ 167,381	36.95%	\$ 152,965	37.43%	\$ 151,395	37.79%	\$ 138,746	33.35%
Residential	107,497	21.11%	107,498	21.05%	107,617	23.75%	112,294	27.48%	121,462	30.32%	130,977	31.49%
Home Equity	77,264	15.17%	76,144	14.91%	78,421	17.31%	72,983	17.86%	62,975	15.72%	65,006	15.63%
Construction	38,195	7.50%	39,996	7.84%	24,973	5.51%	6,553	1.60%	5,265	1.31%	13,460	3.24%
Total mortgage loans on real estate	425,134	83.48%	424,388	83.11%	378,392	83.52%	344,795	84.37%	341,097	85.15%	348,189	83.70%
Other loans:												
Commercial	52,399	10.29%	54,756	10.72%	43,566	9.62%	35,567	8.70%	35,739	8.92%	42,539	10.23%
Consumer and other	31,747	6.23%	31,504	6.17%	31,077	6.86%	28,323	6.93%	23,742	5.93%	25,257	6.07%
Total other loans	84,146	16.52%	86,260	16.89%	74,643	16.48%	63,890	15.63%	59,481	14.85%	67,796	16.30%
Total loans	509,280	100.00%	510,648	100.00%	453,035	100.00%	408,685	100.00%	400,578	100.00%	415,985	100.00%
Other items:												
Net deferred loan costs	2,634		2,638		2,726		2,807		2,603		2,943	
Allowance for loan losses	(5,769)		(5,651)		(5,414)		(5,148)		(5,473)		(6,314)	
Total loans, net	\$ 506,145		\$ 507,635		\$ 450,347		\$ 406,344		\$ 397,708		\$ 412,614	

Commercial Real Estate Loans. Hampden Bancorp originated \$3.3 million, \$50.8 million and \$30.9 million of commercial real estate loans during the three months ended September 30, 2014, fiscal 2014 and fiscal 2013, respectively, and had \$202.2 million of commercial real estate loans with an average yield of 4.9% in its portfolio as of September 30, 2014, representing 39.7% of the total gross loan portfolio on such date. Hampden Bancorp intends to further grow this segment of its loan portfolio, both in absolute terms and as a percentage of its total loan portfolio.

Interest rates on commercial real estate loans adjust over periods of three, five, or ten years based primarily on Federal Home Loan Bank rates. In general, rates on commercial real estate loans are priced at a spread over Federal Home Loan Bank advance rates. Commercial real estate loans are generally secured by commercial properties such as industrial properties, hotels, small office buildings, retail facilities, warehouses, multi-family income properties and owner-occupied properties used for business. Generally, commercial real estate loans are approved with a maximum 80% loan to appraised value ratio.

In its evaluation of a commercial real estate loan application, Hampden Bancorp considers the net operating income of the property, the borrower's expertise, credit history, and the profitability and value of the underlying property. For loans secured by rental properties, Hampden Bancorp will also consider the terms of the leases and the quality of the tenant. Hampden Bancorp generally requires that the properties securing these loans have minimum debt service coverage sufficient to support the

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loan. Hampden Bancorp generally requires the borrowers seeking commercial real estate loans to personally guarantee those loans.

Commercial real estate loans generally have larger balances and involve a greater degree of risk than residential mortgage loans. Loan repayment is often dependent on the successful operation and management of the properties, as well as on the collateral value of the commercial real estate securing the loan. Economic events and changes in government regulations could have an adverse impact on the cash flows generated by properties securing Hampden Bancorp's commercial real estate loans and on the value of such properties.

Residential Real Estate Loans. Hampden Bancorp offers fixed-rate and adjustable-rate residential mortgage loans. These loans have original maturities of up to 30 years and generally have maximum loan amounts of up to \$1.0 million. In its residential mortgage loan originations, Hampden Bancorp lends up to a maximum loan-to-value ratio of 100% for first-time home buyers and immediately sells all of its 100% loan-to-value ratio loans. For the three months ended September 30, 2014, Hampden Bancorp originated 27 loans with a loan-to-value ratio of 95% or greater, of which 89% were sold. For fiscal year 2014, Hampden Bancorp originated 47 loans with a loan-to-value ratio of 95% or greater, of which 100% were sold. Hampden Bank has an Asset Liability Committee, which evaluates whether Hampden Bancorp should retain or sell any fixed rate loans that have maturities greater than 15 years. As of September 30, 2014, the residential real estate mortgage loan portfolio totaled \$107.5 million, or 21.1% of the total gross loan portfolio on that date, and had an average yield of 4.3%. Of the residential mortgage loans outstanding on that date, \$62.7 million were adjustable-rate loans with an average yield of 4.2% and \$44.8 million were fixed-rate mortgage loans with an average yield of 4.4%. Residential mortgage loan originations totaled \$12.5 million, \$29.8 million and \$48.5 million for the three months ended September 30, 2014, fiscal 2014 and fiscal 2013, respectively.

A licensed appraiser appraises all properties securing residential first mortgage purchase loans and all real estate transactions greater than \$250,000. If appropriate, flood insurance is required for all properties securing real estate loans made by Hampden Bancorp.

During the origination of fixed rate mortgages, each loan is analyzed to determine if the loan will be sold into the secondary market or held in portfolio. Hampden Bancorp retains servicing for loans sold to the Federal National Mortgage Association ("Fannie Mae") and earns a fee equal to 0.25% of the loan amount outstanding for providing these services. Loans which Hampden Bancorp originates that have a higher risk profile or are outside of our normal underwriting standards are sold to a third party along with the servicing rights. The total of loans serviced for third parties as of September 30, 2014 is \$75.0 million.

The adjustable-rate mortgage loans ("ARM loans") offered by Hampden Bancorp make up the largest portion of the residential mortgage loans held in portfolio. At September 30, 2014, ARM loans totaled \$62.7 million, or 58.3% of total residential loans outstanding at that date. Hampden Bancorp originates ARM loans with a maximum loan-to-value ratio of up to 95% with private mortgage insurance. Generally, any ARM Loan with a loan-to-value ratio greater than 85% requires private mortgage insurance. ARM loans are offered for terms of up to 30 years with initial interest rates that are fixed for 1, 3, 5, 7 or 10 years. After the initial fixed-rate period, the interest rates on the loans are reset based on the relevant U.S. Treasury Constant Maturity Treasury Index, or CMT Index, plus add-on margins of varying amounts, for periods of 1, 3, and 5 years. Maximum interest rate adjustments on such loans typically range from 2.0% to 3.0% during any adjustment period and 5.0% to 6.0% over the life of the loan. Periodic adjustments in the interest rate charged on ARM loans help to reduce Hampden Bancorp's exposure to changes in interest rates. However, ARM loans generally possess an element of credit risk not inherent in fixed-rate mortgage loans, because borrowers are potentially exposed to increases in debt service requirements over the life of the loan in the event

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market interest rates rise, resulting in higher payments. These higher payments may increase the risk of default or prepayments.

In light of the national housing crisis, rising unemployment, and a weakening economy, Hampden Bancorp offers a short term relief program, that provides our residential mortgage customers with the ability to overcome temporary financial pressures. The modification program is available to current customers that have a mortgage loan held in portfolio. The modification plan is designed to provide short term relief of generally three to six months due to job loss, reduced income, a need to restructure debt, or other events that have caused or will cause a borrower to be unable to keep current with mortgage payments. The plan is offered on a case-by-case basis and only after a review of the borrower's current financial condition and a determination that such a plan is likely to provide to the borrowers the ability to maintain current monthly payments going forward. Debt to income ratios demonstrating an ability to pay must be achieved for a modification plan to be in place. Under this modification program, the borrower's future principal payments are accelerated in order to return to the original rate and term of the original contract, and accordingly these loans are not classified as troubled debt restructurings.

Home Equity Loans. Hampden Bancorp offers home equity lines of credit and home equity term loans. Hampden Bancorp originated \$3.7 million, \$14.2 million and \$19.9 million of home equity lines of credit and loans during three months ended September 30, 2014, fiscal 2014 and fiscal 2013, respectively, and at September 30, 2014 had \$77.3 million of home equity lines of credit and loans outstanding, representing 15.2% of the loan portfolio, with an average yield of 3.6% at that date. Approximately 45.9% of Hampden Bancorp's home equity lines of credit and loans are classified as first in priority liens.

Home equity lines of credit and loans are secured by first or second mortgages on one- to four-family owner occupied properties, and are made in amounts such that the combined first and second mortgage balances generally do not exceed 85% of the value of the property serving as collateral at time of origination. The lines of credit are available to be drawn upon for 10 to 20 years, at the end of which time they become term loans amortized over 5 to 10 years. Interest rates on home equity lines normally adjust based on the month-end prime rate published in the Wall Street Journal. The undrawn portion of home equity lines of credit totaled \$35.5 million at September 30, 2014.

Commercial Loans. Hampden Bancorp originates secured and unsecured commercial loans to business customers in its market area for the purpose of financing equipment purchases, working capital, expansion and other general business purposes. Hampden Bancorp originated \$4.0 million, \$39.6 million and \$13.2 million in commercial loans during the three months ended September 30, 2014, fiscal 2014 and fiscal 2013, respectively, and as of September 30, 2014 had \$52.4 million in commercial loans in its portfolio, representing 10.3% of the loan portfolio, with an average yield of 4.2%.

Hampden Bancorp's commercial loans are generally collateralized by equipment, accounts receivable and inventory, and are usually supported by personal guarantees. Hampden Bancorp offers both term and revolving commercial loans. The former have either fixed or adjustable-rates of interest and generally fully amortize over a term of between three and seven years. Revolving loans are written on demand with annual reviews, with floating interest rates that are indexed to Hampden Bancorp's base rate of interest.

When making commercial loans, Hampden Bancorp considers the financial statements of the borrower, the borrower's payment history with respect to both corporate and personal debt, the debt service capabilities of the borrower, the projected cash flows of the business, the viability of the industry in which the borrower operates and the value of the collateral. Hampden Bancorp has established limits on the amount of commercial loans in any single industry.

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Because commercial loans often depend on the successful operation or management of the business, repayment of such loans may be affected by adverse changes in the economy. Further, collateral securing such loans may depreciate in value over time, may be difficult to appraise and to liquidate, and may fluctuate in value. Hampden Bancorp intends to further grow this segment of its loan portfolio, both in absolute terms and as a percentage of its total loan portfolio.

Construction Loans. Hampden Bancorp offers residential and commercial construction loans. The majority of commercial construction loans are written to become permanent financing. Hampden Bancorp originated \$1.7 million, \$43.6 million and \$40.1 million of construction loans during the three months ended September 30, 2014, fiscal 2014 and fiscal 2013, respectively, and at September 30, 2014 had \$38.2 million of construction loans outstanding, representing 7.5% of the loan portfolio.

We originate fixed-rate and adjustable-rate loans to individuals for their primary residence. We also make construction loans for commercial development projects, including office buildings, senior housing facilities, apartment buildings, industrial buildings, retail complexes and medical facilities. Our construction loans generally provide for the payment of interest only during the construction phase, which is usually a period of 6 - 24 months. At the end of the construction phase, the loan generally converts to a permanent mortgage loan. Before making a commitment to make a construction loan, we require an appraisal of the property on an "as-is" and "as-completed" basis by an independent appraiser. We also require an inspection of the ongoing project before disbursement of funds during the construction process.

At September 30, 2014, our largest outstanding residential construction loan was \$608,000, of which \$595,000 was outstanding. At September 30, 2014, our largest commercial construction loan was \$7.9 million, of which \$6.2 million was outstanding for the development of an senior housing facility. These loans were performing in accordance with their original terms at September 30, 2014.

Consumer and Other Loans. Hampden Bancorp originates a variety of consumer and other loans, auto loans and loans secured by passbook savings or certificate accounts. Hampden Bancorp also purchases manufactured home loans and automobile loans from third parties. Hampden Bancorp originated \$3.9 million, \$13.9 million and \$8.6 million of consumer and other loans, including purchases of manufactured home and automobile loans, during the three months ended September 30, 2014, fiscal 2014 and fiscal 2013, respectively, and at September 30, 2014 had \$31.7 million of consumer and other loans outstanding. Of the \$3.9 million of originations during the three months ended September 30, 2014, \$1.2 million consists of purchased manufactured housing loans. Of the \$13.9 million of originations in 2014, \$2.3 million consists of purchased automobile loans and \$3.0 million consists of purchased manufactured housing loans. Consumer and other loans outstanding represented 6.2% of the loan portfolio at September 30, 2014, with an average yield of 5.2%.

Loan Origination. Loan originations come from a variety of sources. The primary source of originations is our salaried and commissioned loan personnel, and to a lesser extent, local mortgage brokers, advertising and referrals from customers. Hampden Bancorp occasionally purchases participation interests in commercial real estate loans and commercial loans from banks located in Massachusetts and Connecticut. Hampden Bancorp underwrites these loans using its own underwriting criteria.

Hampden Bancorp makes commitments to loan applicants based on specific terms and conditions. As of September 30, 2014, Hampden Bancorp had commitments to grant loans of \$17.0 million, unadvanced funds on home equity lines of credit totaling \$35.5 million, unadvanced funds on overdraft lines of credit totaling \$1.8 million, unadvanced funds on commercial lines of credit totaling \$34.1 million, unadvanced funds due mortgagors and on construction loans totaling \$29.1 million and standby letters of credit totaling \$595,000.

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Generally, Hampden Bancorp charges origination fees, or points, and collects fees to cover the costs of appraisals and credit reports. For information regarding Hampden Bancorp's recognition of loan fees and costs, please refer to Note 1 to the Consolidated Financial Statements of Hampden Bancorp and its subsidiaries, beginning on page F-35.

The following table sets forth certain information concerning Hampden Bancorp's portfolio loan originations:

	For the Three Months Ended September 30,		For the Years Ended June 30,			
	2014	2014	2013	2012	2011	2010
(In Thousands)						
Loans at beginning of period	\$ 510,648	\$ 453,035	\$ 408,685	\$ 400,578	\$ 415,985	\$ 387,742
Originations:						
Mortgage loans on real estate:						
Residential	12,535	29,785	48,458	35,821	34,306	33,148
Commercial	3,250	50,757	30,884	15,832	18,781	13,973
Construction	1,718	43,594	40,090	9,524	8,779	20,444
Home equity	3,676	14,211	19,858	26,609	15,494	19,927
Total mortgage loans on real estate originations	21,179	138,347	139,290	87,786	77,360	87,492
Other loans:						
Commercial business	4,008	39,582	13,161	15,957	8,629	23,755
Consumer and other	2,779	8,602	2,037	1,725	1,448	1,858
Total other loan originations	6,787	48,184	15,198	17,682	10,077	25,613
Total loans originated	27,966	186,531	154,488	105,468	87,437	113,105
Purchase of manufactured home loans	1,169	3,017	2,854	3,300	1,151	5,769
Purchase of automobile loans		2,304	3,722	5,090		
Deduct:						
Principal loan repayments and prepayments	23,405	116,017	84,322	76,631	80,283	72,256
Loan sales	7,049	17,835	31,848	23,171	20,941	16,603
Charge-offs	49	387	544	859	2,771	1,772
Total deductions	30,503	134,239	116,714	100,661	103,995	90,631
Net increase (decrease) in loans	(1,368)	57,613	44,350	8,107	(15,407)	28,243
Loans at end of period	\$ 509,280	\$ 510,648	\$ 453,035	\$ 408,685	\$ 400,578	\$ 415,985

Loan Underwriting. Hampden Bancorp believes that credit risk is best approved in a bottom up manner. The officer most directly responsible for credit risk, the Account Manager, typically approves exposures within delegated authority or recommends approval to the next level of authority as necessary. All exposures require at least one signature by an officer with the appropriate authority. No exposure will be approved without the recommendation of the Account Manager. All new commercial loan approval actions must be documented in the individual credit file with a Credit Approval Memorandum, prior to Hampden Bank advancing any funds.

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Hampden Bancorp's loan policy has established specific loan approval limits. Loan officers may approve loans up to their individual lending limit, or two loan officers can originate loans up to their combined limit. The loan committee reviews all loan applications and approves relationships greater

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than the loan officer's limit. Certain loan relationships require loan committee and/or of the Board of Directors of Hampden Bank (the "Board of Investment") approval. The members of Hampden Bank's loan committee include Hampden Bank's President and Chief Executive Officer, Chief Lending Officer, Chief Financial Officer, Senior Vice President of Retail and Mortgage Lending, Vice President of Commercial Credit and two Vice Presidents of Commercial Lending.

Residential mortgage loans are underwritten by Hampden Bank. Residential mortgage loans for less than the corresponding Fannie Mae limit to be held in portfolio require the approval of a residential loan underwriter. Residential mortgage loans greater than the Fannie Mae limit require the approval of a Senior Retail Loan Officer and in some instances, depending on the amount of the loan, the approval of the Board of Investment.

Consumer loans are underwritten by consumer loan underwriters, including loan officers and branch managers who have approval authorities based on experience for these loans. Unsecured personal loans are generally not written for more than \$5,000.

Hampden Bancorp generally does not make loans aggregating more than \$10.0 million to one borrower (or related entity). Exceptions to this limit require the approval of the Board of Investment prior to loan origination. Hampden Bancorp's internal lending limit is lower than the Massachusetts legal lending limit, which is 20.0% of a bank's retained earnings and equity, or \$15.3 million for Hampden Bancorp as of September 30, 2014.

Hampden Bancorp has established a risk rating system for its commercial real estate, commercial construction and commercial loans. This system evaluates a number of factors useful in indicating the risk of default and risk of loss associated with a loan. These ratings are reviewed by commercial credit analysts who do not have responsibility for loan originations. Hampden Bancorp also uses a third party loan review firm to test and review these ratings, and then report their results to the Audit Committee of the Board of Directors of Hampden Bancorp, Inc. (the "Audit Committee").

Hampden Bancorp occasionally participates in loans originated by third parties to supplement our origination efforts. Hampden Bancorp underwrites these loans using its own underwriting criteria.

Loan Maturity. The following table summarizes the final maturities of Hampden Bancorp's loan portfolio at September 30, 2014. This table does not reflect scheduled principal payments, unscheduled prepayments, or the ability of certain loans to reprice prior to maturity dates. Demand loans, and loans having no stated repayment schedule, are reported as being due in one year or less:

	Residential Mortgage		Commercial Real Estate		Home Equity		Construction	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount*	Weighted Average Rate
(Dollars In Thousands)								
Due in less than one year	\$ 241	6.30%	\$ 8,695	5.81%	\$ 27	5.76%	\$ 229	4.00%
Due in one year to five years	1,234	4.87%	44,183	5.28%	3,289	4.32%	1,592	4.22%
Due after five years	106,022	4.25%	149,300	4.71%	73,948	3.64%	36,374	4.53%
Total	\$ 107,497	4.26%	\$ 202,178	4.88%	\$ 77,264	3.67%	\$ 38,195	4.51%

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	Commercial		Consumer and Other		Total	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
	(Dollars In Thousands)					
Due in less than one year	\$ 2,810	5.12%	\$ 63	8.06%	\$ 12,065	5.64%
Due in one year to five years	16,562	4.47%	6,934	4.20%	73,794	4.92%
Due after five years	33,027	3.94%	24,750	7.80%	423,421	4.51%
Total	\$ 52,399	4.17%	\$ 31,747	7.01%	\$ 509,280	4.59%

*

The amount of construction loans that are due after five years are written to be permanent loans after the construction period is over.

The following table sets forth, at September 30, 2014, the dollar amount of total loans, net of unadvanced funds on loans, contractually due after September 30, 2015 and whether such loans have fixed interest rates or adjustable interest rates.

	Due After September 30, 2015		
	Fixed	Adjustable	Total
	(In Thousands)		
Residential mortgage	\$ 45,222	\$ 62,034	\$ 107,256
Commercial real estate	96,954	96,529	193,483
Home equity	41,623	35,614	77,237
Construction	12,388	25,578	37,966
Commercial	18,193	31,396	49,589
Consumer and other	31,142	542	31,684
Total loans	\$ 245,522	\$ 251,693	\$ 497,215

Loan Quality

General. One of Hampden Bancorp's most important operating objectives is to maintain a high level of asset quality. Management uses a number of strategies in furtherance of this goal, including maintaining sound credit standards in loan originations, monitoring the loan portfolio through internal and third-party loan reviews, and employing active collection and workout processes for delinquent or problem loans.

Delinquent Loans. Management performs a monthly review of all delinquent loans. The actions taken with respect to delinquencies vary depending upon the nature of the delinquent loans and the period of delinquency. A late charge is normally assessed on loans where the scheduled payment remains unpaid after a 15-day grace period for residential mortgages and a 10-day grace period for commercial loans. After mailing delinquency notices, Hampden Bancorp's loan collection personnel call the borrower to ascertain the reasons for delinquency and the prospects for repayment. On loans secured by one- to four-family owner-occupied property, Hampden Bancorp initially attempts to work out a payment schedule with the borrower in order to avoid foreclosure. Any such loan restructurings must be approved by an officer with the level of authority required for a new loan of that amount. If these actions do not result in a satisfactory resolution, Hampden Bancorp refers the loan to legal counsel and counsel initiates foreclosure proceedings. For commercial real estate, commercial construction and commercial loans, collection procedures may vary depending on individual circumstances.

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Other Real Estate Owned. Hampden Bancorp classifies property acquired through foreclosure or acceptance of a deed in lieu of foreclosure as other real estate owned ("OREO") in its consolidated financial statements. When property is placed into OREO, it is recorded at the fair value less estimated costs to sell at the date of foreclosure or acceptance of deed in lieu of foreclosure. At the time of transfer to OREO, any excess of carrying value over fair value less estimated cost to sell is charged to the allowance for loan losses. Management, or its designee, inspects all OREO property periodically. Holding costs and declines in fair value result in charges to expense after the property is acquired. At September 30, 2014, Hampden Bancorp had \$159,000 of property classified as OREO. In July 2011, Hampden Bancorp began leasing out a \$270,000 OREO property and collected \$109,000 in rental income in fiscal 2014. This property was sold to the lessee on June 12, 2014.

Classification of Assets and Loan Review. Risk ratings of 1-9 are assigned to all credit relationships to differentiate and manage levels of risk in individual exposures and throughout the portfolio. Refer to Note 5 in the consolidated financial statements beginning on page F-50 for detailed discussion. Ratings are called Customer Risk Ratings ("CRRs"). CRRs are designed to reflect the risk to Hampden Bancorp in any Total Customer Relationship Exposure. Risk ratings are used to profile the risk inherent in portfolio outstandings and exposures to identify developing trends and relative levels of risk and to provide guidance for the promulgation of policies, which control the amount of risk in an individual credit and in the entire portfolio, identify deteriorating credits and predict the probability of default. Timeliness of this process allows early intervention in the recovery process so as to maximize the likelihood of full recovery, and establish a basis for maintaining prudent reserves against loan losses.

The Account Manager has the primary responsibility for the timely and accurate maintenance of CRRs. The risk rating responsibility for the aggregate portfolio rests with the Commercial and Residential Division Executives. If a disagreement surfaces regarding a risk rating, the loan review committee makes the final determination. The members of Hampden Bank's loan review committee include Bank's President and Chief Executive Officer, Chief Lending Officer, Chief Financial Officer, Senior Vice President of Retail and Mortgage Lending, Vice President of Commercial Credit and a Vice President of Commercial Lending. All others in a supervisory or review function regarding credit have a responsibility for reviewing the appropriateness of the rating and bringing to senior management's attention any dispute so it may be resolved. Generally, changes to risk ratings are made immediately upon receipt of material information, which suggests that the current rating is not appropriate.

Hampden Bancorp engages an independent third party to conduct a semi-annual review of a significant portion of its commercial real estate, commercial construction and commercial loan portfolios. These loan reviews provide a credit evaluation of individual loans to determine whether the risk ratings assigned are appropriate. Independent loan review findings are presented directly to the Audit Committee.

Watchlist loans, including non-accrual loans, are classified as either special mention, substandard, doubtful, or loss. At September 30, 2014, loans classified as special mention totaled \$14.2 million, consisting of \$12.9 million commercial real estate, \$430,000 commercial loans, \$543,000 residential mortgage loans, \$10,000 home equity loans, \$275,000 commercial construction loans and \$99,000 manufactured housing loans.

Substandard loans totaled \$10.1 million, consisting of \$3.0 million commercial real estate, \$4.1 million commercial, \$2.8 million residential mortgage, \$196,000 home equity, \$51,000 manufactured homes and \$5,000 consumer loans.

Loans classified as doubtful totaled \$237,000, consisting of \$146,000 residential mortgage and \$91,000 of manufactured home loans.

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Non-Performing Assets. The table below sets forth the amounts and categories of our non-performing assets at the dates indicated:

	At September 30,		At June 30,			
	2014	2014	2013	2012	2011	2010
(Dollars In Thousands)						
Non-accrual loans:						
Residential mortgage	\$ 2,977	\$ 2,755	\$ 1,405	\$ 1,266	\$ 2,635	\$ 2,763
Commercial mortgage	988	534	148	218	1,719	1,200
Commercial	2,318	1,500	1,988	597	1,366	936
Home equity, consumer and other	297	390	438	201	495	793
Total non-accrual loans	6,580	5,179	3,979	2,282	6,215	5,692
Other real estate owned	159	309	1,221	1,826	1,264	911
Total non-performing assets	\$ 6,739	\$ 5,488	\$ 5,200	\$ 4,108	\$ 7,479	\$ 6,603
Troubled debt restructurings, not reported above	\$ 3,724	\$ 4,601	\$ 7,258	\$ 9,648	\$ 10,926	\$ 4,836

Ratios:

Non-performing loans to total loans	1.29%	1.01%	0.88%	1.55%	1.37%	1.01%
Non-performing assets to total assets	0.95%	0.78%	0.80%	1.30%	1.13%	0.93%

Generally, loans are placed on non-accrual status either when reasonable doubt exists as to the full timely collection of interest and principal or when a loan becomes 90 days past due unless an evaluation clearly indicates that the loan is well-secured and in the process of collection. Past due status is based on the contractual terms of the loans. Non-accrual loans, including modified loans, return to accrual status once the borrower has shown the ability and an acceptable history of repayment. The borrower must be current with their payments in accordance with the loan terms for six months for commercial and residential loans. Hampden Bancorp may also return a loan to accrual status if the borrower evidences sufficient cash flow to service the debt and provides additional collateral to support the collectability of the loan. For non-accrual and impaired loans that make payments, Hampden Bancorp recognizes cash interest payments as interest income when Hampden Bancorp does not have a collateral shortfall for the loan and the loan has not been partially charged off. If there is a collateral shortfall for the loan or it has been partially charged off, then Hampden Bancorp typically applies the entire payment to the principal balance of the loan. There are no loans greater than 90 days delinquent and still accruing at the dates presented above.

As of September 30, 2014, non-accrual loans totaled \$6.6 million, of which \$5.7 million were 90 days or greater past due, \$404,000 that are 31-89 days past due and \$451,000 that are current or less than 30 days past due. It is Hampden Bancorp's policy to keep loans on non-accrual status until the borrower can demonstrate their ability to make payments according to their loan terms and an acceptable history of repayment of six months. One- to four-family residential non-accrual loans less than 90 days past due were \$279,000, manufactured homes non-accrual loans less than 90 days past due were \$34,000, and home equity second lien non-accrual loans less than 90 days past due were \$120,000. All non-accrual loans, troubled debt restructurings, and loans with risk ratings of six or higher are assessed by Hampden Bancorp for impairment.

All loans that are modified when Hampden Bank makes a concession in light of the borrower's financial difficulty are considered a troubled debt restructuring ("TDR") (loans for which a portion of interest or principal has been forgiven, or the loans have been modified to lower the interest rate or extend the original term due to a borrower's financial difficulty and are classified as impaired loans by Hampden Bancorp. Hampden Bank modifies loans in the normal course of business for credit worthy borrowers that are not TDRs. In these cases, the modified terms are consistent with loan terms

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available to credit worthy borrowers and within normal loan pricing. At such time they meet the criteria for impairment, these loans will be classified as such. Hampden Bancorp does not currently have any concession programs that it offers to its commercial or mortgage loan customers. Hampden Bancorp's policy for classifying the modified loans as accrual or non-accrual (at the time of modification) is as follows: (i) for loans that have been modified and remain on accrual, the modifications are completed pursuant to our existing underwriting standards, which include a review of historical financial statements, including current interim information if available, an analysis of the causes of the borrower's decline in performance and projections to assess repayment ability going forward, and (ii) for modified loans, return to accrual status once the borrower has shown the ability and an acceptable history of repayment of six months.

At September 30, 2014, Hampden Bank had twelve TDRs totaling approximately \$5.1 million, of which \$1.3 million were on non-accrual status. The interest income recorded from the restructured loans amounted to approximately \$73,000 for the three months ended September 30, 2014. At June 30, 2014, Hampden Bank had twelve TDRs totaling approximately \$5.1 million, of which \$534,000 were on non-accrual status. The interest income recorded from the restructured loans amounted to approximately \$276,000 for the year ended June 30, 2014. At June 30, 2013, Hampden Bank had sixteen TDRs totaling approximately \$7.8 million, of which \$580,000 were on non-accrual status. The interest income recorded from the restructured loans amounted to approximately \$239,000 for the year ended June 30, 2013. At June 30, 2012, Hampden Bank had fourteen TDRs totaling approximately \$10.3 million, of which \$698,000 were on non-accrual status. The interest income recorded from the restructured loans amounted to approximately \$689,000 for the year ended June 30, 2012.

At September 30, 2014, the interest income that would have been recorded had non-accruing loans been current according to their original terms, amounted to \$53,000.

Allowance for Loan Losses. In originating loans, Hampden Bancorp recognizes that losses will be experienced on loans and that the risk of loss will vary with many factors, including the type of loan being made, the creditworthiness of the borrower over the term of the loan, general economic conditions and, in the case of a secured loan, the quality of the security for the loan over the term of the loan. Hampden Bancorp maintains an allowance for loan losses that is intended to absorb losses inherent in the loan portfolio, and as such, this allowance represents management's best estimate of the probable known and inherent credit losses in the loan portfolio as of the date of the financial statements. The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a quarterly basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specifically allocated and general components. The specifically allocated component relates to loans that are classified as impaired. For such loans that are classified as impaired, an allowance is established when the discounted cash flows, or collateral value or observable market price of the impaired loan is lower than the carrying value of that loan. The general component covers non-impaired loans and is based on historical loss experience adjusted for qualitative factors. For additional information, see "Hampden Bancorp, Inc.'s Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies Allowance for Loan Losses."

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A loan is considered impaired when, based on current information and events, it is probable that Hampden Bancorp will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Impairment is measured on a loan-by-loan basis by the present value of expected future cash flows discounted at the loan's effective interest rate. Impaired loans increased to \$10.5 million at September 30, 2014 from \$9.8 million at June 30, 2014. Impaired loans decreased to \$9.8 million at June 30, 2014 from \$15.0 million at June 30, 2013. At September 30, 2014, Hampden Bancorp has established specific reserves aggregating \$10,000 for impaired loans. Such reserves relate to one impaired loan with a carrying value of \$534,000, and is based on management's analysis of the expected cash flows. If impairment is measured based on the present value of expected future cash flows, the change in present value is recorded within the provision for loan loss.

At September 30, 2014, Hampden Bancorp had one impaired loan that had \$129,000 committed to be advanced. The \$10.5 million of impaired loans as of September 30, 2014 includes \$6.6 million of non-accrual loans and \$3.7 million of accruing TDR loans. The remaining \$241,000 of impaired loans, all of which are current with payments, are loans that Hampden Bancorp believes, based on current information and events, it is probably that Hampden Bancorp will be unable to collect the scheduled payments of principal, or interest when due according to the contractual terms of the loan agreement. Of the \$10.5 million of impaired loans, \$4.0 million, or 38%, are current with all payment terms. The \$9.8 million of impaired loans includes \$5.2 million of non-accrual loans and \$4.6 million of accruing TDRs as of June 30, 2014. The \$4.6 million, or 47%, of total impaired loans, were current with all payment terms as of June 30, 2014. As of June 30, 2013, the \$15.0 million of impaired loans includes \$4.0 million of non-accrual loans and \$7.3 million of accruing TDRs as of June 30, 2013. The remaining \$3.7 million are loans that Hampden Bancorp believes, based on current information and events, it is probable that Hampden Bancorp will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Of the \$15.0 million of impaired loans, \$11.0 million, or 73%, were current with all payment terms as of June 30, 2013.

While Hampden Bancorp believes that it has established adequate specifically allocated and general allowances for losses on loans, adjustments to the allowance may be necessary if future conditions differ substantially from the information used in making the evaluations. In addition, as an integral part of their examination process, Hampden Bancorp's regulators periodically review the allowance for loan losses.

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The following table sets forth activity in Hampden Bancorp's allowance for loan losses for the periods indicated:

	At or For the Three Months Ended September 30,		At or For the Years Ended June 30,			
	2014	2014	2013	2012	2011	2010
	(Dollars In Thousands)					
Balance at beginning of period	\$ 5,651	\$ 5,414	\$ 5,148	\$ 5,473	\$ 6,314	\$ 3,742
Charge-offs:						
Residential mortgage loans	(26)	(147)	(185)	(391)	(147)	(39)
Commercial real estate		(22)	(207)	(166)	(2,000)	(184)
Commercial				(213)	(530)	(1,511)
Consumer and other	(23)	(218)	(152)	(89)	(94)	(38)
Total charge-offs	(49)	(387)	(544)	(859)	(2,771)	(1,772)
Recoveries:						
Residential mortgage loans			8	71	8	2
Commercial real estate				16		
Commercial	12	50	104	11	21	3
Consumer and other	5	24	23	11	1	2
Total recoveries	17	74	135	109	30	7
Net charge-offs	(32)	(313)	(409)	(750)	(2,741)	(1,765)
Provision for loan losses	150	550	675	425	1,900	4,337
Balance at end of period	\$ 5,769	\$ 5,651	\$ 5,414	\$ 5,148	\$ 5,473	\$ 6,314
Ratios:						
Net charge-offs to average loans outstanding	0.01%	0.06%	0.09%	0.19%	0.68%	0.43%
Allowance for loan losses to non-performing loans at end of year	87.67%	109.11%	136.06%	225.59%	88.06%	110.93%
Allowance for loan losses to total loans at end of year	1.13%	1.11%	1.20%	1.26%	1.37%	1.52%

Hampden Bancorp completes its allowance for loan loss review using a calculation that includes specific reserves on impaired credits and general reserves on all non-impaired credits. During this review process, Hampden Bancorp has implemented a qualitative review of the non-impaired loans, using historical charge-offs as the starting point, including charge-offs recognized in the current quarter or year, and then adding additional basis points for specific qualitative factors such as the levels and trends in delinquency and impairments, trends in volume and terms as risk rating migration, effects of changes in risk selection and underwriting standards, experience of lending management and staff, and national and local economic trends and conditions. Adjustments to the provision are made on a quarterly basis, as necessary.

When calculating the general allowance component of the allowance for loan losses, Hampden Bancorp analyzes the trend in delinquencies. If there is an increase in the amount of delinquent loans in a particular loan category, this may cause Hampden Bancorp to increase the general allowance requirement for that loan category. A partial charge-off on a non-performing loan will decrease the amount of non-performing and impaired loans, as well as any specific allowance allocated to that loan. This will also decrease our allowance for loan losses, as well as our allowance for loan losses to non-performing loans ratio and our allowance for loan losses to total loans ratio.

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It is Hampden Bancorp's policy to classify all non-accrual loans as impaired loans. All impaired loans are measured on a loan-by-loan basis to determine if any specific allowance is required for the allowance for loan loss. Impairment is measured on a loan-by-loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent. If an impaired loan has a shortfall in the expected future cash flows, then a specific allowance will be placed on the loan in that amount. Hampden Bancorp may consider collateral values where it feels there is greater risk and the expected future cash flow allowance is not sufficient. Residential, commercial real estate, construction and some consumer loans are secured by real estate. As of September 30, 2014, all impaired commercial loans except for one are secured by business assets and many also include primary or secondary mortgage positions on business and/or personal real estate. The other commercial loan is secured by shares of stock of a subsidiary of the borrower. In certain cases additional collateral may be obtained.

For the three months ended September 30, 2014, total charge-offs were \$49,000 compared to \$50,000 for the three months ended September 30, 2013. There was a decrease in specific reserves on impaired loans from \$28,000 at September 30, 2013 to \$10,000 at September 30, 2014 due to a decrease in impaired loans requiring specific reserve allocations. The general reserve allocations increased due to an increase in in loan balances. The ratio of allowance for loan losses to total loans remained flat at the end of the three months ended September 30, 2014 and 2013 at 1.13%. The allowance for loan losses to non-performing loans has decreased from 151.34% at September 30, 2013 to 87.67% at September 30, 2014. Our allowance for loan losses increased between September 30, 2013 and September 30, 2014 due primarily to increase in loan volume.

For the year ended June 30, 2014, total charge-offs were \$387,000 compared to \$544,000 for the year ended June 30, 2013. There was a decrease in specific reserves on impaired loans from \$32,000 at June 30, 2013 to \$11,000 at June 30, 2014 due to a decrease in impaired loans requiring specific reserve allocations in fiscal 2014. In addition, the general reserve allocations decreased due to improving economic factors and decreases in historical losses. These factors contributed to the decrease in the ratio of allowance for loan losses to total loans at the end of the year from 1.20% at June 30, 2013 to 1.11% at June 30, 2014. The allowance for loan losses to non-performing loans has decreased from 136.06% at June 30, 2013 to 109.11% at June 30, 2014. Our allowance for loan losses increased between June 30, 2013 and June 30, 2014 due to increase in loan volume.

The following table sets forth Hampden Bancorp's allowance by loan category and the percent of the loans to total loans in each of the categories listed at the dates indicated. The allowance for loan

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losses allocated to each category is not necessarily indicative of future losses in any particular category and does not restrict the use of the allowance to absorb losses in other categories

	At September 30,					
	2014			2013		
	Allowance for Loan Losses	Loan Balance by Category	Percent of Loans in Each Category to Total Loans	Allowance for Loan Losses	Loan Balance by Category	Percent of Loans in Each Category to Total Loans
(Dollars In Thousands)						
Mortgage loans on real estate:						
Residential	\$ 831	\$ 107,497	21.11%	\$ 762	\$ 108,913	22.51%
Commercial real estate	2,416	202,178	39.70%	2,301	186,969	38.64%
Home equity	569	77,264	15.17%	536	77,351	15.98%
Construction	504	38,195	7.50%	348	31,372	6.48%
Total mortgage loans on real estate	4,320	425,134	83.48%	3,947	404,605	83.61%
Commercial	868	52,399	10.29%	1,066	45,885	9.48%
Consumer and other	581	31,747	6.23%	464	33,420	6.91%
Total loans	\$ 5,769	\$ 509,280	100.00%	\$ 5,477	\$ 483,910	100.00%

	At June 30,								
	2014			2013			2012		
	Allowance for Loan Losses	Loan Balance by Category	Percent of Loans in Each Category to Total Loans	Allowance for Loan Losses	Loan Balance by Category	Percent of Loans in Each Category to Total Loans	Allowance for Loan Losses	Loan Balance by Category	Percent of Loans in Each Category to Total Loans
(Dollars In Thousands)									
Mortgage loans on real estate:									
Residential	\$ 697	\$ 107,498	21.05%	\$ 762	\$ 107,617	23.75%	\$ 865	\$ 112,294	27.48%
Commercial real estate	2,288	200,750	39.31%	2,215	167,381	36.95%	2,360	152,965	37.43%
Home equity	472	76,144	14.91%	535	78,421	17.31%	486	72,983	17.86%
Construction	502	39,996	7.83%	348	24,973	5.51%	58	6,553	1.60%
Total mortgage loans on real estate	3,959	424,388	83.11%	3,860	378,392	83.52%	3,769	344,795	84.37%
Commercial	1,216	54,756	10.72%	1,065	43,566	9.62%	969	35,567	8.70%
Consumer and other	476	31,504	6.17%	489	31,077	6.86%	410	28,323	6.93%
Total loans	\$ 5,651	\$ 510,648	100.00%	\$ 5,414	\$ 453,035	100.00%	\$ 5,148	\$ 408,685	100.00%

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	At June 30,					
	2011		Percent of Loans in Each Category to Total Loans	2010		Percent of Loans in Each Category to Total Loans
	Allowance for Loan Losses	Loan Balance by Category		Allowance for Loan Losses	Loan Balance by Category	
(Dollars In Thousands)						
Mortgage loans on real estate:						
Residential	\$ 893	\$ 121,462	30.32%	\$ 1,175	\$ 130,977	31.76%
Commercial real estate	2,922	151,395	37.79%	2,267	138,746	32.91%
Home equity	517	62,975	15.72%	496	65,006	15.15%
Construction	65	5,265	1.31%	60	13,460	4.45%
Total mortgage loans on real estate	4,397	341,097	85.15%	3,998	348,189	84.27%
Commercial	1,020	35,739	8.92%	2,264	42,539	10.04%
Consumer and other	56	23,742	5.93%	52	25,257	5.69%
Total loans	\$ 5,473	\$ 400,578	100.00%	\$ 6,314	\$ 415,985	100.00%

Investment Activities

General. Hampden Bancorp's investment policy is approved and adopted by the Board of Directors. The President and Chief Executive Officer and the Chief Financial Officer, as authorized by the Board of Directors, implement this policy based on the established guidelines within the written policy.

The basic objectives of the investment function are (1) to enhance the profitability of Hampden Bancorp by keeping its investable funds fully employed at the maximum after-tax return, (2) to provide adequate regulatory and operational liquidity, (3) to minimize and/or adjust the interest rate risk position of Hampden Bancorp, (4) to assist in reducing Hampden Bancorp's corporate tax liability, (5) to minimize Hampden Bancorp's exposure to credit risk, (6) to provide collateral for pledging requirements, (7) to serve as a countercyclical balance to earnings by absorbing funds when Hampden Bancorp's loan demand is low and infusing funds when loan demand is high and (8) to provide a diversity of earning assets to mortgage/loan investments.

Debt securities that management has the positive intent and ability to hold to maturity are classified as "held to maturity" and recorded at amortized cost. Securities purchased and held principally for the purpose of trading in the near term are classified as "trading securities". Securities not classified as held to maturity or trading, including equity securities with readily determinable fair values, are classified as "available for sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income/loss. Gains and losses on disposition of securities are recorded on the trade date and determined using the specific identification method. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities.

Declines in fair value of securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In determining other-than-temporary impairment losses, impairment is required to be recognized (1) if we intend to sell the security, (2) if it is "more likely than not" that we will be required to sell the security before recovery of its amortized cost basis, or (3) for debt securities, the present value of expected cash flows is not sufficient to recover the entire amortized cost basis. For all impaired available-for-sale debt securities that we intend to sell, or likely will be required to sell, the full amount of the other-than-temporary impairment is recognized through earnings. For all other impaired available-for-sale debt securities, credit-related impairment is

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recognized through earnings, while non-credit related impairment is recognized in other comprehensive income/loss, net of applicable taxes. Marketable equity securities are evaluated for OTTI based on the severity and duration of the impairment and, if deemed to be other than temporary, the declines in fair value are reflected in earnings as realized losses. Hampden Bancorp did not incur a write-down for OTTI of investment securities during the three months ended September 30, 2014 or in fiscal 2014, 2013 and 2012.

Corporate Obligations. At September 30, 2014, Hampden Bancorp's portfolio of corporate obligations totaled \$3.1 million, or 2.2% of the portfolio at that date. Hampden Bancorp's policy requires that investments in corporate obligations be restricted only to those obligations that are readily marketable and rated 'A' or better by a nationally recognized rating agency at the time of purchase. At September 30, 2014, all investments in corporate obligations were rated 'A' or better.

Municipal Bonds. At September 30, 2014, Hampden Bancorp's portfolio of municipal bonds totaled \$10.6 million, or 7.5% of the portfolio at that date. Hampden Bancorp's policy requires that investments in municipal bonds be restricted only to those obligations that are readily marketable and rated 'A' or better by a nationally recognized rating agency at the time of purchase. At September 30, 2014, all investments in municipal bonds were rated 'A' or better.

Residential Mortgage-Backed Securities. At September 30, 2014, Hampden Bancorp's portfolio of residential mortgage-backed securities totaled \$128.1 million, or 90.2% of the portfolio on that date, and included pass-through securities totaling \$64.8 million and collateralized mortgage obligations totaling \$61.7 million directly insured or guaranteed by Freddie Mac, Fannie Mae or the Government National Mortgage Association ("Ginnie Mae"). Hampden Bancorp also invests in securities issued by non-agency or private mortgage originators, provided those securities are rated AAA by nationally recognized rating agencies at the time of purchase. At September 30, 2014, we held 17 securities issued by private mortgage originators that had an amortized cost of \$1.6 million and a fair value of \$1.6 million. All of these investments are "Senior" Class tranches and have underlying credit enhancement. These securities were originated in the period 2002-2005 and are performing in accordance with contractual terms. The majority of the decrease in the fair value of these securities is attributed to changes in market interest rates. Management estimates the loss projections for each security by evaluating the industry rating, amount of delinquencies, amount of foreclosure, amount of other real estate owned, average credit scores, average amortized loan to value and credit enhancement. Based on this review, management determines whether other-than-temporary impairment existed. Management has determined that no other-than-temporary impairment existed as of September 30, 2014. We will continue to evaluate these securities for other-than-temporary impairment, which could result in a future non-cash charge to earnings.

Marketable Equity Securities. At September 30, 2014, Hampden Bancorp's portfolio of marketable equity securities totaled \$78,000, or 0.05% of the portfolio at that date, and consisted of common stock of two corporations. Hampden Bancorp's investment policy requires investments of no more than 5% of Tier I capital in any one issuer and no more than 20% of Tier I capital in any one industry. The total of all investments in common and preferred stocks may not exceed 100% of Tier I capital. Issues must be listed on the NYSE or NASDAQ.

Restricted Equity Securities. At September 30, 2014, Hampden Bancorp held \$6.8 million of FHLB stock. This stock is restricted and must be held as a condition of membership in the FHLB and as a condition for Hampden Bank to borrow from the FHLB.

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The following table sets forth certain information regarding the amortized cost and fair value of Hampden Bancorp's securities at the dates indicated:

	At September 30,				At June 30,			
	2014		2014		2013		2012	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
(In Thousands)								
<i>Securities available for sale</i>								
<i>Debt securities:</i>								
Municipal bonds	\$	\$	\$	\$	\$ 395	\$ 395	\$	\$
Corporate bonds	3,023	3,075	3,026	3,086	3,036	3,076	6,134	6,136
<i>Residential mortgage-backed securities:</i>								
Agency	126,711	126,463	128,938	129,073	132,498	132,988	130,157	133,543
Non-agency	1,607	1,619	1,688	1,698	2,209	2,203	4,196	4,118
Total debt securities	131,341	131,157	133,652	133,857	138,138	138,662	140,487	143,797
<i>Marketable equity securities:</i>								
Common stock	51	78	51	79	51	68	51	54
Total marketable equity securities	51	78	51	79	51	68	51	54
Total securities available for sale	\$ 131,392	\$ 131,235	\$ 133,703	\$ 133,936	\$ 138,189	\$ 138,730	\$ 140,538	\$ 143,851
<i>Securities held to maturity</i>								
Municipal bonds	\$ 10,615	\$ 10,615	\$ 9,302	\$ 9,302	\$	\$	\$	\$
Total securities held to maturity	\$ 10,615	\$ 10,615	\$ 9,302	\$ 9,302	\$	\$	\$	\$
<i>Restricted equity securities:</i>								
Federal Home Loan Bank of Boston stock	\$ 6,810	\$ 6,810	\$ 6,648	\$ 6,648	\$ 5,092	\$ 5,092	\$ 4,959	\$ 4,959
Total restricted equity securities	\$ 6,810	\$ 6,810	\$ 6,648	\$ 6,648	\$ 5,092	\$ 5,092	\$ 4,959	\$ 4,959
Total securities	\$ 148,817	\$ 148,660	\$ 149,653	\$ 149,886	\$ 143,281	\$ 143,822	\$ 145,497	\$ 148,810

The table below sets forth certain information regarding the amortized cost, and weighted average yields by contractual maturity of Hampden Bancorp's debt securities portfolio at September 30, 2014. In the case of mortgage-backed securities, this table does not reflect scheduled principal payments, unscheduled prepayments, or the ability of certain of these securities to reprice prior to their contractual maturity:

One Year or Less	More Than One Year Through Five	More Than Five Years Through Ten	More Than Ten Years	Total Securities
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	Weighted		Years		Years		Weighted		Weighted			
	Amortized	Average	Amortized	Average	Amortized	Average	Amortized	Average	Amortized	Average		
	Cost	Yield	Cost	Yield	Cost	Yield	Cost	Yield	Cost	Yield		
(Dollars In Thousands)												
<i>Securities available for sale</i>												
Corporate bonds	\$	999	1.11%	\$	2,024	2.05%	\$		\$	3,023	1.74%	
<i>Mortgage-backed securities:</i>												
Agency			%	9,978	2.03%	6,523	2.43%	110,210	2.00%	126,711	2.02%	
Non-agency			%	54	4.40%		%	1,553	2.55%	1,607	2.61%	
Total	\$	999	1.11%	\$	12,056	1.18%	\$	6,523	2.43%	\$	131,341	1.95%
<i>Securities held to maturity</i>												
Municipal bonds	\$	8,027	0.63%	\$	2,247	1.96%	\$	341	2.52%	\$	10,615	0.97%
Total	\$	8,027	0.63%	\$	2,247	1.96%	\$	341	2.52%	\$	10,615	0.97%
Total debt securities	\$	9,026	0.68%	\$	14,303	2.03%	\$	6,864	2.43%	\$	141,956	1.85%

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Sources of Funds

General. Deposits are the primary source of Hampden Bancorp's funds for lending and other investment purposes. In addition to deposits, Hampden Bancorp obtains funds from the amortization and prepayment of loans and mortgage-backed securities, the sale or maturity of investment securities, advances from the FHLB, and cash flows generated by operations.

Deposits. Consumer and commercial deposits are gathered primarily from Hampden Bancorp's primary market area through the offering of a broad selection of deposit products including checking, regular savings, money market deposits and time deposits, including certificate of deposit accounts and individual retirement accounts. The FDIC insures deposits up to certain limits and the Massachusetts Deposit Insurance Fund fully insures amounts in excess of such limits.

Competition and general market conditions affect Hampden Bancorp's ability to attract and retain deposits. We offer Remote Deposit Capture to our business customers which allows us to expand our deposit gathering outside of our normal deposit area. Hampden Bancorp offers rates on various deposit products based on local competitive pricing and Hampden Bancorp's need for new funds. Occasionally, Hampden Bancorp does offer "special" rate pricing in an effort to attract new customers. Hampden Bancorp does not have any brokered deposits.

The following table sets forth certain information relative to the composition of Hampden Bancorp's average deposit accounts and the weighted average interest rate on each category of deposits:

	Three Months Ended September 30,			Years Ended June 30,								
	2014		Weighted Average Rate	2014		2013			2012			Weighted Average Rate
Average Balance	Percent	Average Balance		Percent	Average Balance	Percent	Weighted Average Rate	Average Balance	Percent	Weighted Average Rate	Average Balance	
(Dollars In Thousands)												
Deposit type:												
Demand	\$ 80,193	16.38%	% 78,220	16.08%	% 66,855	14.74%	% 57,055	13.49%	%			
Savings	101,468	20.72%	0.15%	107,503	22.11%	0.13%	100,372	22.13%	0.20%	91,828	21.70%	0.28%
Money market	100,304	20.49%	0.44%	89,084	18.32%	0.36%	73,767	16.26%	0.39%	54,462	12.87%	0.40%
NOW accounts	49,581	10.13%	0.27%	46,436	9.55%	0.27%	40,589	8.95%	0.32%	37,799	8.93%	0.36%
Total transaction accounts	331,546	67.72%	0.22%	321,243	66.06%	0.18%	281,583	62.08%	0.22%	241,144	57.00%	0.25%
Certificates of deposit	158,072	32.28%	1.39%	165,077	33.94%	1.47%	171,994	37.92%	1.77%	181,941	43.00%	1.97%
Total deposits	\$ 489,618	100.00%	0.71%	\$ 486,320	100.00%	0.62%	\$ 453,577	100.00%	0.81%	\$ 423,085	100.00%	0.99%

The following table sets forth time deposits of Hampden Bancorp classified by interest rate as of the dates indicated:

Interest Rate	At September 30,		At June 30,	
	2014	2014	2013	2012
(In Thousands)				
Less than 2%	\$ 125,048	\$ 130,068	\$ 113,112	\$ 108,574
2.00% - 2.99%	23,511	19,951	25,460	36,687
3.00% - 3.99%	9,513	12,699	21,976	24,813
4.00% - 4.99%			4,779	6,954
5% or Greater				828
Total	\$ 158,072	\$ 162,718	\$ 165,327	\$ 177,856

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The following table sets forth time deposits of Hampden Bancorp at September 30, 2014 by maturity:

Interest Rate	For the Year Ending September 30,					Total
	2015	2016	2017	2018	2019 and after	
	(In Thousands)					
Less than 2%	\$ 35,926	\$ 26,485	\$ 30,687	\$ 14,375	\$ 17,575	\$ 125,048
2.00% - 2.99%	2,971	11,524	4,333	573	4,110	23,511
3.00% - 3.99%	7,613	1,900				9,513
Total	\$ 46,510	\$ 39,909	\$ 35,020	\$ 14,948	\$ 21,685	\$ 158,072

As of September 30, 2014, the aggregate amount of outstanding certificates of deposit in amounts greater than or equal to \$100,000 was approximately \$99.2 million. The following table sets forth the maturity of those certificates as of September 30, 2014:

At September 30, 2014	
(In Thousands)	
Three months or less	\$ 11,022
Over three months through six months	6,908
Over six months through one year	20,804
Over one year through three years	39,267
Over three years	21,211
Total	\$ 99,212

Borrowings. Hampden Bancorp utilizes advances from the FHLB primarily in connection with funding growth in the balance sheet and to assist in the management of its interest rate risk by match funding longer term fixed rate loans. FHLB advances are secured primarily by certain of Hampden Bancorp's mortgage loans, investment securities and by its holding of FHLB stock. As of September 30, 2014, Hampden Bancorp had outstanding \$123.8 million in FHLB advances, and had the ability to borrow an additional \$56.1 million based on available collateral.

The following table sets forth certain information concerning balances and interest rates on Hampden Bancorp's short-term and long-term FHLB advances at the dates and for the years indicated:

	At or For the Three Months Ended September 30,		At or For the Years Ended June 30,		
	2014	2014	2013	2012	
	(Dollars In Thousands)				
Balance at end of the period	\$ 123,778	\$ 116,446	\$ 86,992	\$ 79,661	
Average balance during period	126,333	117,841	89,235	55,250	
Maximum outstanding at any month end	128,122	127,968	94,746	79,938	
Weighted average interest rate at end of period	1.52%	1.61%	1.64%	1.95%	
Weighted average interest rate during period	1.78%	1.83%	2.04%	2.39%	

Of the \$123.8 million in advances outstanding at September 30, 2014, \$6.0 million bearing a weighted-average interest rate of 3.52% are callable by the FHLB at its option and in its sole discretion only if the level of a specific index were to exceed a pre-determined maximum rate. In the event the FHLB calls these advances, Hampden Bancorp will evaluate its liquidity and interest rate sensitivity position at that time and determine whether to replace the called advances with new borrowings.

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In an effort to decrease Hampden Bank's interest rate risk from rising interest rates, Hampden Bank took advantage of the Federal Home Loan Bank of Boston's program to further restructure outstanding borrowings. In September 2012, Hampden Bancorp restructured \$8.6 million of FHLB borrowings. After the restructuring, the weighted average cost of these borrowings was reduced by 1.00% to 2.74%. There were no advances restructured during the three months ended September 30, 2014 or fiscal 2014.

Hampden Bancorp recognizes the need to assist the communities it serves with economic development initiatives. These initiatives focus on creating or retaining jobs for lower income workers, benefits for lower income families, supporting small business and funding affordable housing programs. To assist in funding these initiatives, Hampden Bancorp has participated in FHLB's Community Development Advance program. Hampden Bancorp continues to originate loans that qualify under this program.

Hampden Bancorp had no overnight repurchase agreements as of September 30, 2014, June 30, 2014 and 2013. As of June 30, 2012, Hampden Bancorp had \$7.3 million of overnight repurchase agreements with business customers with a weighted average rate of 0.10%. These repurchase agreements were collateralized by residential mortgage-backed securities.

The following table sets forth certain information concerning balances and interest rates on Hampden Bancorp's repurchase agreements at the dates and for the years indicated

	At or For the Three Months Ended September 30,	At or For the Years Ended June 30,		
	2014	2014	2013	2012
	(Dollars In Thousands)			
Balance at end of the period	\$	\$	\$	\$ 7,315
Average balance during period			5,017	7,228
Maximum outstanding at any month end			6,026	9,088
Weighted average interest rate at end of period		%	%	0.10%
Weighted average interest rate during period		%	0.07%	0.12%

Personnel

As of September 30, 2014, Hampden Bancorp had 108 full-time and 8 part-time employees, none of whom is represented by a collective bargaining unit. We believe we have a good relationship with our employees.

Subsidiary Activities and Portfolio Management Services

Hampden Bancorp, Inc. conducts its principal business activities through its wholly-owned subsidiary, Hampden Bank. Hampden Bank has three operating subsidiaries, Hampden Investment Corporation ("HIC"), Hampden Investment Corporation II ("HIC II") and Hampden Insurance Agency ("HIA").

Hampden Investment Corporation. HIC is a Massachusetts securities corporation and a wholly owned subsidiary of Hampden Bank. HIC is an investment company that engages in buying, selling and holding securities on its own behalf. At September 30, 2014, June 30, 2014 and June 30, 2013, HIC had total assets of \$108.9 million, \$108.7 million and \$107.4 million, respectively, consisting primarily of mortgage backed securities, respectively. HIC's net income for the three months ended September 30, 2014 was \$314,000 while HIC's net income for each of the years ended June 30, 2014 and June 30, 2013 was \$1.3 million. As a Massachusetts securities corporation, HIC has a lower state income tax rate compared to other corporations.

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Hampden Investment Corporation II. HIC II is a Massachusetts securities corporation and a wholly owned subsidiary of Hampden Bank. HIC II is an investment company that engages in buying, selling and holding securities on its own behalf. At September 30, 2014, HIC II had total assets of \$6.1 million consisting primarily of mortgage backed securities. HIC II's net income for the three months ended September 30, 2014 was \$10,000. At June 30, 2014, HIC II had total assets of \$2.0 million consisting primarily of municipal bonds and mortgage backed securities. HIC II's net income for the year ended June 30, 2014 was \$45,000. At June 30, 2013, HIC II had total assets of \$2.0 million consisting primarily of municipal bonds and mortgage backed securities. HIC II's net income for the year ended June 30, 2013 was \$16,000. As a Massachusetts securities corporation, HIC II has a lower state income tax rate compared to other corporations.

Hampden Insurance Agency. HIA is an inactive insurance agency. As of September 30, 2014, June 30, 2014 and 2013, HIA had no assets.

Hampden Bancorp's subsidiary, in addition to Hampden Bank, is described below.

Hampden LS, Inc. Hampden Bancorp contributed funds to a subsidiary, Hampden LS, Inc. to enable it to make a 15-year loan to the Employee Stock Ownership Plan to allow it to purchase shares of Hampden Bancorp common stock as part of the completion of the initial public offering. On January 16, 2007, at the completion of the conversion and initial public offering, the Employee Stock Ownership Plan purchased 635,990 shares, or 8% of the 7,949,879 shares outstanding from the initial public offering.

Supervision and Regulation

The following discussion addresses elements of the regulatory framework applicable to bank holding companies and their subsidiaries, in particular subsidiary banks. This regulatory framework is intended primarily to protect the safety and soundness of depository institutions, the federal deposit insurance system, and depositors, rather than the protection of stockholders of a bank holding company such as Hampden Bancorp.

As a bank holding company, Hampden Bancorp is subject to regulation, supervision and examination by the Federal Reserve under the BHC Act. Hampden Bank is subject to extensive regulation, supervision and examination by the Massachusetts Commissioner of Banks (the "Commissioner") and the FDIC.

The following is a summary of certain aspects of various statutes and regulations applicable to Hampden Bancorp and Hampden Bank. This summary is not a comprehensive analysis of all applicable law, and is qualified by reference to the applicable statutes and regulations.

Regulation of Hampden Bancorp. Hampden Bancorp is subject to regulation, supervision and examination by the Federal Reserve, which has the authority, among other things, to order bank holding companies to cease and desist from unsafe or unsound banking practices; to assess civil money penalties; and to order termination of non-banking activities or termination of ownership and control of a non-banking subsidiary by a bank holding company.

Source of Strength. Under the BHC Act, as amended by the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), Hampden Bancorp is required to serve as a source of financial strength for Hampden Bank. This support may be required at times when Hampden Bancorp may not have the resources to provide support to Hampden Bank. In the event of a bank holding company's bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a bank subsidiary will be assumed by the bankruptcy trustee and entitled to a priority of payment.

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Acquisitions and Activities. The BHC Act prohibits a bank holding company, without prior approval of the Federal Reserve, from acquiring all or substantially all the assets of a bank, acquiring control of a bank, merging or consolidating with another bank holding company, or acquiring direct or indirect ownership or control of any voting shares of another bank or bank holding company if, after such acquisition, the acquiring bank holding company would control more than 5% of the voting shares of such other bank or bank holding company.

The BHC Act prohibits a bank holding company from engaging directly or indirectly in activities other than those of banking, managing or controlling banks or furnishing services to its subsidiary banks. However, a bank holding company may engage in and may own shares of companies engaged in certain activities that the Federal Reserve determines to be closely related to banking or managing and controlling banks.

Limitations on Acquisitions of Company Common Stock. The Change in Bank Control Act prohibits a person or group of persons from acquiring "control" of a bank holding company unless the Federal Reserve has been notified and has not objected to the transaction. Under a rebuttable presumption established by the Federal Reserve, the acquisition of 10% or more of a class of voting securities of a bank holding company with a class of securities registered under Section 12 of the Exchange Act, would constitute the acquisition of control of a bank holding company.

In addition, the BHC Act prohibits any company from acquiring control of a bank or bank holding company without first having obtained the approval of the Federal Reserve. Among other circumstances, under the BHC Act, a company has control of a bank or bank holding company if the company owns, controls or holds with power to vote 25% or more of a class of voting securities of the bank or bank holding company, controls in any manner the election of a majority of directors or trustees of the bank or bank holding company, or the Federal Reserve has determined, after notice and opportunity for hearing, that the company has the power to exercise a controlling influence over the management or policies of the bank or bank holding company.

Limitations on Redemption of Common Stock. A bank holding company is generally required to give the Federal Reserve prior written notice of any purchase or redemption of then outstanding equity securities if the gross consideration for the purchase or redemption, when combined with the net consideration paid for all such purchases or redemptions during the preceding 12 months, is equal to 10% or more of the company's consolidated net worth. The Federal Reserve may disapprove such a purchase or redemption if it determines that the proposal would constitute an unsafe and unsound practice, or would violate any law, regulation, Federal Reserve order or directive, or any condition imposed by, or written agreement with, the Federal Reserve. The Federal Reserve has adopted an exception to this approval requirement for well-capitalized bank holding companies that meet certain other conditions.

Regulation of Hampden Bank. Hampden Bank is subject to the supervision and regulation of the Commissioner and the FDIC. The Federal Reserve may also directly examine the subsidiaries of Hampden Bancorp, including Hampden Bank. The enforcement powers available to federal and state banking regulators include, among other things, the ability to issue cease and desist or removal orders to terminate insurance of deposits; to assess civil money penalties; to issue directives to increase capital; to place the bank into receivership; and to initiate injunctive actions against banking organizations and institution-affiliated parties.

Deposit Insurance. Substantially all of the deposits of Hampden Bank are insured up to applicable limits by the FDIC's Deposit Insurance Fund and are subject to deposit insurance assessments to maintain the Deposit Insurance Fund. The Dodd-Frank Act permanently increased the FDIC deposit insurance limit to \$250,000 per depositor for deposits maintained in the same right and capacity at a particular insured depository institution. The Federal Deposit Insurance Act (the "FDIA"), as amended

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by the Federal Deposit Insurance Reform Act and the Dodd-Frank Act, requires the FDIC to take steps as may be necessary to cause the ratio of deposit insurance reserves to estimated insured deposits the designated reserve ratio to reach 1.35% by September 30, 2020, and it mandates that the reserve ratio designated by the FDIC for any year may not be less than 1.35%. The FDIC utilizes a risk-based assessment system that imposes insurance premiums based upon a risk matrix that takes into account a bank's capital level and supervisory rating. Assessment rates may also vary for certain institutions based on long-term debt issuer ratings, secured or brokered deposits. Deposit premiums are based on assets. To determine its deposit insurance premium, Hampden Bank computes the base amount of its average consolidated assets less its average tangible equity (defined as the amount of Tier I capital) and the applicable assessment rate. The FDIC has the power to adjust deposit insurance assessment rates at any time.

Under the FDIA, the FDIC may terminate deposit insurance upon a finding that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC. For the three months ended September 30, 2014, the aggregate FDIC insurance expense for Hampden Bank was \$90,000.

In addition to the FDIC assessments, the Financing Corporation ("FICO") is authorized to impose and collect, with the approval of the FDIC, assessments for anticipated payments, issuance costs and custodial fees on bonds issued by the FICO in the 1980s to recapitalize the former Federal Savings and Loan Insurance Corporation. The bonds issued by the FICO are due to mature in 2017 through 2019. For the quarter ended September 30, 2014, the annualized FICO assessment was equal to 0.64 basis points for each \$100 in domestic deposits maintained at an institution.

All Massachusetts-chartered savings banks, such as Hampden Bank, are required to be members of the Massachusetts Depositors Insurance Fund, a corporation that insures savings bank deposits in excess of federal deposit insurance coverage. The Massachusetts Depositors Insurance Fund is authorized to charge Massachusetts savings banks an annual assessment of up to 1/50th of 1.0% of a savings bank's deposit balances in excess of amounts insured by the FDIC.

Acquisitions and Branching. Prior approval from the Commissioner and the FDIC is required in order for Hampden Bank to acquire another bank or establish a new branch office. Well capitalized and well managed banks may acquire other banks in any state, subject to certain deposit concentration limits and other conditions, pursuant to the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994, as amended by the Dodd-Frank Act. In addition, the Dodd-Frank Act authorizes a state-chartered bank, such as Hampden Bank, to establish new branches on an interstate basis to the same extent a bank chartered by the host state may establish branches.

Activities and Investments of Insured State-Chartered Banks. Section 24 of the FDIA generally limits the types of equity investments an FDIC-insured, state-chartered bank, such as Hampden Bank, may make and the kinds of activities in which such a bank may engage, as a principal, to those that are permissible for national banks. Further, the Gramm-Leach-Bliley Act of 1999 (the "GLBA") permits national banks and state banks, to the extent permitted under state law, to engage via "financial subsidiaries" in certain activities that are permissible for subsidiaries of a financial holding company. In order to form a financial subsidiary, a state-chartered bank must be well capitalized, and such banks would be subject to certain capital deduction, risk management and affiliate transaction rules, among other things.

Massachusetts-chartered savings banks may broadly invest in equity securities subject to certain limitations, including on the aggregate amount of such investment as a percentage of the bank's deposits. Although such equity investments are generally not permitted under federal law, under the FDIA, state-chartered banks may, with FDIC approval, continue to exercise state authority to invest in common or preferred stocks. Hampden Bank received approval from the FDIC to retain and acquire

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such equity instruments equal to the lesser of 100% of Hampden Banks' Tier 1 capital or the maximum permissible amount specified by Massachusetts law. This authority may be terminated upon the FDIC's determination that such investments pose a safety and soundness risk or upon the occurrence of certain events such as a change in Hampden Bank's charter.

Lending Restrictions. Federal and state law limits a bank's authority to extend credit to its directors, executive officers and 10% stockholders, as well as to entities controlled by such persons. Among other things, extensions of credit to insiders are required to 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. The terms of such extensions of credit may not involve more than the normal risk of repayment or present other unfavorable features and may 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. The Dodd-Frank Act explicitly provides that an extension of credit to an insider includes credit exposure arising from a derivatives transaction, repurchase agreement, reverse repurchase agreement, securities lending transaction or securities borrowing transaction. Additionally, the Dodd-Frank Act requires that asset sale transactions with insiders must be on market terms, and if the transaction represents more than 10% of the capital and surplus of Hampden Bank, approved by a majority of the disinterested directors of Hampden Bank. Under Massachusetts law, Hampden Bank is also subject to restrictions on the amount it may lend to one borrower, which subject to certain limited exceptions, total obligations of one borrower may not exceed 20.0% of the total of Hampden Bank's capital.

Community Reinvestment Act. The Community Reinvestment Act ("CRA") requires the FDIC to evaluate Hampden Bank's performance in helping to meet the credit needs of the entire communities it serves, including low and moderate-income neighborhoods, consistent with its safe and sound banking operations, and to take this record into consideration when evaluating certain applications. The FDIC's CRA regulations are generally based upon objective criteria of the performance of institutions under three key assessment tests: (i) a lending test, to evaluate the institution's record of making loans in its service areas; (ii) an investment test, to evaluate the institution's record of investing in community development projects, affordable housing, and programs benefiting low or moderate income individuals and businesses; and (iii) a service test, to evaluate the institution's delivery of services through its branches, ATMs, and other offices. Hampden Bank currently has an "outstanding" CRA rating. Massachusetts has also enacted a similar statute that requires the Commissioner to evaluate the performance of Hampden Bank in helping to meet the credit needs of its entire community and to take that record into account in considering certain applications.

Capital Adequacy and Safety and Soundness

Regulatory Capital Requirements. The Federal Reserve and the FDIC have issued substantially similar risk-based and leverage capital rules applicable to U.S. banking organizations such as Hampden Bancorp and Hampden Bank. These guidelines are intended to reflect the relationship between the banking organization's capital and the degree of risk associated with its operations based on transactions recorded on-balance sheet as well as off-balance sheet items. The Federal Reserve and the FDIC may from time to time require that a banking organization maintain capital above the minimum levels discussed below due to the banking organization's financial condition or actual or anticipated growth.

The capital adequacy rules define qualifying capital instruments and specify minimum amounts of capital as a percentage of assets that banking organizations are required to maintain. Tier 1 capital for banks and bank holding companies generally consists of the sum of common shareholders' equity non-cumulative perpetual preferred stock, and related surplus and, in certain cases and subject to limitations, minority interest in consolidated subsidiaries, less goodwill, other non-qualifying intangible assets and certain other deductions. Tier 2 capital generally consists of hybrid capital instruments,

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perpetual debt and mandatory convertible debt securities, cumulative perpetual preferred stock, term subordinated debt and intermediate-term preferred stock, and, subject to limitations, allowances for loan losses. The sum of Tier 1 and Tier 2 capital less certain required deductions represents qualifying total risk-based capital. Prior to the effectiveness of certain provisions of the Dodd-Frank Act, bank holding companies were permitted to include trust preferred securities and cumulative perpetual preferred stock in Tier 1 capital, subject to limitations. However, the Federal Reserve's capital rule applicable to bank holding companies permanently grandfathers nonqualifying capital instruments, including trust preferred securities, issued before May 19, 2010 by depository institution holding companies with less than \$15 billion in total assets as of December 31, 2009, subject to a limit of 25% of Tier 1 capital. In addition, under rules that became effective January 1, 2015, accumulated other comprehensive income (positive or negative) must be reflected in Tier 1 capital; however, Hampden Bancorp may make a one-time, permanent election to continue to exclude accumulated other comprehensive income from capital. If Hampden Bancorp does not make this election, unrealized gains and losses, net of taxes, will be included in the calculation of Hampden Bancorp's regulatory capital. Hampden Bancorp intends to make this election.

Under the capital rules, risk-based capital ratios are calculated by dividing Tier 1 and total risk-based capital, respectively, by risk-weighted assets. Assets and off-balance sheet credit equivalents are assigned to one of four categories of risk-weights, based primarily on relative risk. Under rules in effect through December 31, 2014, the minimum required Tier 1 risk-based capital ratio was 4% and the minimum total risk-based capital ratio was 8%. As of September 30, 2014, Hampden Bancorp's Tier 1 risk-based capital ratio was 16.5% and its total risk-based capital ratio was 17.6%.

In addition to the risk-based capital requirements, under rules in effect through December 31, 2014, the Federal Reserve required top-rated bank holding companies to maintain a minimum leverage capital ratio of Tier 1 capital (defined by reference to the risk-based capital guidelines) to its average total consolidated assets of at least 3.0%. For most other bank holding companies (including Hampden Bancorp), the minimum leverage capital ratio was 4.0%. Bank holding companies with supervisory, financial, operational or managerial weaknesses, as well as bank holding companies that are anticipating or experiencing significant growth, were expected to maintain capital ratios well above the minimum levels. Hampden Bancorp's Tier 1 leverage ratio as of September 30, 2014 was 12.1%.

Prior to the effectiveness of the Dodd-Frank Act, the FDIC had adopted a statement of policy regarding the capital adequacy of state-chartered banks and promulgated regulations to implement the system of prompt corrective action established by Section 38 of the FDIA. Under the FDIC regulations, which were in effect through December 31, 2014, a bank was considered "well capitalized" if it had: (i) a total risk-based capital ratio of 10.0% or greater; (ii) a Tier 1 risk-based capital ratio of 6.0% or greater; (iii) a leverage capital ratio of 5.0% or greater; and (iv) was not subject to any written agreement, order, capital directive, or prompt corrective action directive to meet and maintain a specific capital level for any capital measure.

In 2010, the Basel Committee on Banking Supervision released new capital requirements, known as Basel III, setting forth higher capital requirements, enhanced risk coverage, a global leverage ratio, provisions for counter-cyclical capital, and liquidity standards. In 2013, the Federal Reserve, along with the other federal banking agencies, issued final rules implementing the Basel III capital standards and establishing the minimum capital requirements for banks and bank holding companies required under the Dodd-Frank Act. These rules, which became effective January 1, 2015, establish a minimum common equity Tier 1 capital ratio requirement of 4.5%, a minimum Tier 1 capital ratio requirement of 6%, a minimum total capital requirement of 8% and a minimum leverage ratio requirement of 4%. Additionally, subject to a transition schedule, these rules require an institution to establish a capital conservation buffer of common equity Tier 1 capital in an amount above the minimum risk-based capital requirements for "adequately capitalized" institutions equal to 2.5% of total risk weighted

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assets, or face restrictions on the ability to pay dividends, pay discretionary bonuses, and to engage in share repurchases.

Under rules effective January 1, 2015, a bank holding company, such as Hampden Bancorp, is considered "well capitalized" if the bank holding company (i) has a total risk based capital ratio of at least 10%, (ii) has a Tier 1 risk-based capital ratio of at least 6%, and (iii) is not subject to any written agreement order, capital directive or prompt corrective action directive to meet and maintain a specific capital level for any capital measure. In addition, the FDIC has amended its prompt corrective action rules to reflect the revisions made by the Final Capital Rule. Under the FDIC's revised rules, which became effective January 1, 2015, an FDIC supervised institution is considered "well capitalized" if it (i) has a total risk-based capital ratio of 10.0% or greater; (ii) a Tier 1 risk-based capital ratio of 8.0% or greater; (iii) a common Tier 1 equity ratio of at least 6.5% or greater, (iv) a leverage capital ratio of 5.0% or greater; and (iv) is not subject to any written agreement, order, capital directive, or prompt corrective action directive to meet and maintain a specific capital level for any capital measure.

Hampden Bancorp and Hampden Bank are considered "well capitalized" under all regulatory definitions.

Safety and Soundness Standards. The FDIA requires the federal bank regulatory agencies to prescribe standards, by regulations or guidelines, relating to internal controls, information systems and internal audit systems, risk management, loan documentation, credit underwriting, interest rate risk exposure, asset growth, asset quality, earnings, stock valuation and compensation, fees and benefits, and such other operational and managerial standards as the agencies deem appropriate. Guidelines adopted by the federal bank regulatory agencies establish general standards relating to internal controls and information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth and compensation, fees and benefits. In general, these guidelines require, among other things, appropriate systems and practices to identify and manage the risk and exposures specified in the guidelines. The guidelines prohibit excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director or principal stockholder. In addition, the federal banking agencies adopted regulations that authorize, but do not require, an agency to order an institution that has been given notice by an agency that it is not satisfying any of such safety and soundness standards to submit a compliance plan. If, after being so notified, an institution fails to submit an acceptable compliance plan or fails in any material respect to implement an acceptable compliance plan, the agency must issue an order directing action to correct the deficiency and may issue an order directing other actions of the types to which an undercapitalized institution is subject under the "prompt corrective action" provisions of the FDIA. See "Regulatory Capital Requirements" above. If an institution fails to comply with such an order, the agency may seek to enforce such order in judicial proceedings and to impose civil money penalties.

Dividend Restrictions. Hampden Bancorp is a legal entity separate and distinct from Hampden Bank. The revenue of Hampden Bancorp (on a parent-only basis) is derived primarily from interest and dividends paid to it by Hampden Bank. The right of Hampden Bancorp, and consequently the right of stockholders of Hampden Bancorp, to participate in any distribution of the assets or earnings of Hampden Bank through the payment of such dividends or otherwise is necessarily subject to the prior claims of creditors of Hampden Bank (including depositors), except to the extent that certain claims of Hampden Bancorp in a creditor capacity may be recognized.

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Restrictions on Bank Holding Company Dividends. The Federal Reserve has the authority to prohibit bank holding companies from paying dividends if such payment is deemed to be an unsafe or unsound practice. The Federal Reserve has indicated generally that it may be an unsafe or unsound practice for bank holding companies to pay dividends unless the bank holding company's net income over the preceding year is sufficient to fund the dividends and the expected rate of earnings retention is consistent with the organization's capital needs, asset quality and overall financial condition. Further, when the Final Capital Rule comes into effect, Hampden Bancorp's ability to pay dividends would be restricted if it does not maintain a capital conservation buffer. See " Capital Adequacy and Safety and Soundness Regulatory Capital Requirements" above.

Restrictions on Bank Dividends. The FDIC has the authority to use its enforcement powers to prohibit a bank from paying dividends if, in its opinion, the payment of dividends would constitute an unsafe or unsound practice. Federal law also prohibits the payment of dividends by a bank that will result in the bank failing to meet its applicable capital requirements on a pro forma basis. Under Massachusetts law, the board of directors of Hampden Bank may declare from "net profits" cash dividends no more often than quarterly, provided that there is no impairment to the trust company's capital stock. Moreover, prior approval by the Commissioner is required if the total of all dividends declared by Hampden Bank in any calendar year would exceed the total of its net profits for that year combined with its retained net profits for the previous two years, less any required transfer to surplus or a fund for the retirement of any preferred stock.

Certain Transactions by Bank Holding Companies with their Affiliates. There are various statutory restrictions on the extent to which bank holding companies and their non-bank subsidiaries may borrow, obtain credit from or otherwise engage in "covered transactions" with their insured depository institution subsidiaries. The Dodd-Frank Act amended the definition of affiliate to include an investment fund for which the depository institution or one of its affiliates is an investment adviser. An insured depository institution (and its subsidiaries) may not lend money to, or engage in covered transactions with, its non-depository institution affiliates if the aggregate amount of covered transactions outstanding involving the bank, plus the proposed transaction exceeds the following limits: (i) in the case of any one such affiliate, the aggregate amount of covered transactions of the insured depository institution and its subsidiaries cannot exceed 10% of the capital stock and surplus of the insured depository institution; and (ii) in the case of all affiliates, the aggregate amount of covered transactions of the insured depository institution and its subsidiaries cannot exceed 20% of the capital stock and surplus of the insured depository institution. For this purpose, "covered transactions" are defined by statute to include a loan or extension of credit to an affiliate, a purchase of or investment in securities issued by an affiliate, a purchase of assets from an affiliate unless exempted by the Federal Reserve, the acceptance of securities issued by an affiliate as collateral for a loan or extension of credit to any person or company, the issuance of a guarantee, acceptance or letter of credit on behalf of an affiliate, securities borrowing or lending transactions with an affiliate that creates a credit exposure to such affiliate, or a derivatives transaction with an affiliate that creates a credit exposure to such affiliate. Covered transactions are also subject to certain collateral security requirements. Covered transactions as well as other types of transactions between a bank and a bank holding company must be on market terms and not otherwise unduly favorable to the holding company or an affiliate of the holding company. Moreover, Section 106 of the BHC Act provides that, to further competition, a bank holding company and its subsidiaries are prohibited from engaging in certain tying arrangements in connection with any extension of credit, lease or sale of property of any kind, or furnishing of any service.

Consumer Protection Regulation. Hampden Bancorp and Hampden Bank are subject to federal and state laws designed to protect consumers and prohibit unfair or deceptive business practices, including the Equal Credit Opportunity Act, Fair Housing Act, Home Ownership Protection Act, Fair Credit Reporting Act, as amended by the Fair and Accurate Credit Transactions Act of 2003 (the "FACT

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Act"), the GLBA, the Truth in Lending Act, the CRA, the Home Mortgage Disclosure Act, Real Estate Settlement Procedures Act, National Flood Insurance Act and various state law counterparts. These laws and regulations mandate certain disclosure requirements and regulate the manner in which financial institutions must interact with clients when taking deposits, making loans, collecting loans and providing other services. Further, the Dodd-Frank Act established the CFPB, which has the responsibility for making rules and regulations under the federal consumer protection laws relating to financial products and services. The CFPB also has a broad mandate to prohibit unfair or deceptive acts and practices and is specifically empowered to require certain disclosures to consumers and draft model disclosure forms. Failure to comply with consumer protection laws and regulations can subject financial institutions to enforcement actions, fines and other penalties. The FDIC will examine Hampden Bank for compliance with CFPB rules and will enforce CFPB rules with respect to Hampden Bank.

Mortgage Reform. The Dodd-Frank Act prescribes certain standards that mortgage lenders must consider before making a residential mortgage loan, including verifying a borrower's ability to repay such mortgage loan, and allows borrowers to assert violations of certain provisions of the Truth in Lending Act as a defense to foreclosure proceedings. Under the Dodd-Frank Act, prepayment penalties are prohibited for certain mortgage transactions and creditors are prohibited from financing insurance policies in connection with a residential mortgage loan or home equity line of credit. In addition, the Dodd-Frank Act prohibits mortgage originators from receiving compensation based on the terms of residential mortgage loans and generally limits the ability of a mortgage originator to be compensated by others if compensation is received from a consumer. The Dodd-Frank Act requires mortgage lenders to make additional disclosures prior to the extension of credit, in each billing statement and for negative amortization loans and hybrid adjustable rate mortgages.

Privacy and Customer Information Security. The GLBA requires financial institutions to implement policies and procedures regarding the disclosure of nonpublic personal information about consumers to nonaffiliated third parties. In general, Hampden Bank must provide its clients with an annual disclosure that explains its policies and procedures regarding the disclosure of such nonpublic personal information, and, except as otherwise required or permitted by law, Hampden Bank is prohibited from disclosing such information except as provided in such policies and procedures. The GLBA also requires that Hampden Bank develop, implement and maintain a comprehensive written information security program designed to ensure the security and confidentiality of client information (as defined under GLBA), to protect against anticipated threats or hazards to the security or integrity of such information; and to protect against unauthorized access to or use of such information that could result in substantial harm or inconvenience to any client. Hampden Bank is also required to send a notice to clients whose "sensitive information" has been compromised if unauthorized use of the information is "reasonably possible." Most states, including the states where Hampden Bank operates, have enacted legislation concerning breaches of data security and the duties of Hampden Bank in response to a data breach. Congress continues to consider federal legislation that would require consumer notice of data security breaches. In addition, Massachusetts has promulgated data security regulations with respect to personal information of Massachusetts residents. Pursuant to the FACT Act, Hampden Bank must develop and implement a written identity theft prevention program to detect, prevent, and mitigate identity theft in connection with the opening of certain accounts or certain existing accounts. Additionally, the FACT Act amends the Fair Credit Reporting Act to generally prohibit a person from using information received from an affiliate to make a solicitation for marketing purposes to a consumer, unless the consumer is given notice and a reasonable opportunity and a reasonable and simple method to opt out of the making of such solicitations.

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The Bank Secrecy Act. Under the Bank Secrecy Act (the "BSA"), a financial institution, is required to have systems in place to detect certain transactions, based on the size and nature of the transaction. Financial institutions are generally required to report to the U.S. Treasury any cash transactions involving more than \$10,000. In addition, financial institutions are required to file suspicious activity reports for transactions that involve more than \$5,000 and which the financial institution knows, suspects or has reason to suspect involves illegal funds, is designed to evade the requirements of the BSA or has no lawful purpose. The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "USA PATRIOT Act"), which amended the BSA, together with the implementing regulations of various federal regulatory agencies, has caused financial institutions, such as Hampden Bank, to adopt and implement additional policies or amend existing policies and procedures with respect to, among other things, anti-money laundering compliance, suspicious activity, currency transaction reporting, customer identity verification and customer risk analysis. In evaluating an application under Section 3 of the BHC Act to acquire a bank or an application under the Bank Merger Act to merge banks or effect a purchase of assets and assumption of deposits and other liabilities, the applicable federal banking regulator must consider the anti-money laundering compliance record of both the applicant and the target. In addition, under the USA PATRIOT Act financial institutions are required to take steps to monitor their correspondent banking and private banking relationships as well as, if applicable, their relationships with "shell banks."

OFAC. The U.S. has imposed economic sanctions that affect transactions with designated foreign countries, nationals and others. These sanctions, which are administered by the U.S. Treasury's Office of Foreign Assets Control ("OFAC"), take many different forms. Generally, however, they contain one or more of the following elements: (i) restrictions on trade with or investment in a sanctioned country, including prohibitions against direct or indirect imports from and exports to a sanctioned country and prohibitions on "U.S. persons" engaging in financial or other transactions relating to a sanctioned country or with certain designated persons and entities; (ii) a blocking of assets in which the government or specially designated nationals of the sanctioned country have an interest, by prohibiting transfers of property subject to U.S. jurisdiction (including property in the possession or control of U.S. persons; and (iii) restrictions on transactions with or involving certain persons or entities. Blocked assets (for example, property and bank deposits) cannot be paid out, withdrawn, set off or transferred in any manner without a license from OFAC. Failure to comply with these sanctions could have serious legal and reputational consequences for Hampden Bancorp.

Federal Home Loan Bank System. Hampden Bank is a member of the Federal Home Loan Bank of Boston (the "FHLB"), which is one of the regional Federal Home Loan Banks comprising the Federal Home Loan Bank System. Each Federal Home Loan Bank provides a central credit facility primarily for member institutions. A member institution is required to acquire and hold shares of capital stock in the FHLB in an amount at least equal to the sum of 0.35% of the aggregate principal amount of its unpaid residential mortgage loans and similar obligations at the beginning of each year and 4.5% of its advances (borrowings) from the FHLB. Hampden Bank was in compliance with this requirement as of June 30, 2014, with an investment in FHLB stock as of June 30, 2014 of \$6.6 million. We receive dividends on our FHLB stock. The FHLB has recently declared dividends equal to an annual yield of approximately the daily average three-month LIBOR yield for the quarter for which the dividend has been declared. Dividend income on FHLB stock of \$61,000 was recorded during the last fiscal year.

Any advances from the FHLB must be secured by specified types of collateral, and long-term advances may be used for the purpose of providing funds for residential housing finance, commercial lending and to purchase investments. Long term advances may also be used to help alleviate interest

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rate risk for asset and liability management purposes. As of September 30, 2014, Hampden Bank had a total of \$123.8 million of FHLB advances.

Federal and State Taxation

Federal Income Taxation

General. Hampden Bancorp reports its income using the accrual method of accounting. The federal income tax laws apply to Hampden Bancorp in the same manner as to other corporations with some exceptions, including the reserve for bad debts discussed below. The following discussion of tax matters is intended only as a summary and does not purport to be a comprehensive description of the tax rules applicable to Hampden Bancorp. Hampden Bank currently files a consolidated federal income tax return with Hampden Bancorp, Inc. Hampden Bank's federal income tax returns have been either audited or closed under the statute of limitations through October 31, 2010. Tax years ending October 31, 2011 and 2012, and June 30, 2013 and 2014 are still open for examination. For its 2013 and 2014 tax year, Hampden Bank's maximum federal income tax rate was 34%.

Bad Debt Reserves. For taxable years beginning before January 1, 1996, thrift institutions that qualified under certain definitional tests and other conditions of the Internal Revenue Code were permitted to use certain favorable provisions to calculate their deductions from taxable income for annual additions to their bad debt reserve. A reserve could be established for bad debts on qualifying real property loans, generally secured by interests in real property improved or to be improved, under the percentage of taxable income method or the experience method. The reserve for nonqualifying loans was computed using the experience method. Federal legislation enacted in 1996 repealed the reserve method of accounting for bad debts and the percentage of taxable income method for tax years beginning after 1995 and required savings institutions to recapture or take into income certain portions of their accumulated bad debt reserves. However, those bad debt reserves accumulated prior to 1988 ("Base Year Reserves") were not required to be recaptured unless the savings institution failed certain tests. Approximately \$2.3 million of Hampden Bank's accumulated bad debt reserves would not be recaptured into taxable income unless Hampden Bank makes a "non-dividend distribution" to Hampden Bancorp, Inc. as described below.

Distributions. If Hampden Bank makes "non-dividend distributions" to Hampden Bancorp, Inc., the distributions will be considered to have been made from Hampden Bank's unrecaptured tax bad debt reserves, including the balance of its Base Year Reserves as of October 31, 1987, to the extent of the "non-dividend distributions," and then from Hampden Bank's supplemental reserve for losses on loans, to the extent of those reserves, and an amount based on the amount distributed, but not more than the amount of those reserves, will be included in Hampden Bank's taxable income. Non-dividend distributions include distributions in excess of Hampden Bank's current and accumulated earnings and profits, as calculated for federal income tax purposes, distributions in redemption of stock and distributions in partial or complete liquidation. Dividends paid out of Hampden Bank's current or accumulated earnings and profits will not be so included in Hampden Bancorp, Inc.'s taxable income.

The amount of additional taxable income triggered by a non-dividend is an amount that, when reduced by the tax attributable to the income, is equal to the amount of the distribution. Therefore, if Hampden Bank makes a non-dividend distribution to Hampden Bancorp, Inc. approximately one and one-half times the amount of the distribution not in excess of the amount of the reserves would be includable in income for federal income tax purposes, assuming a 34% federal corporate income tax rate. Hampden Bank does not intend to pay dividends that would result in a recapture of any portion of its bad debt reserves.

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State Taxation

Prior to tax years beginning on or after January 1, 2009, financial institutions in Massachusetts were not allowed to file consolidated income tax returns. Instead, each entity in the consolidated group files a separate annual income tax return. The Massachusetts excise tax rate for savings banks is currently 9.0% of federal taxable income, adjusted for certain items. Taxable income includes gross income as defined under the Internal Revenue Code, plus interest from bonds, notes and evidences of indebtedness of any state, including Massachusetts, less deductions, but not the credits, allowable under the provisions of the Internal Revenue Code, except for those deductions relating to dividends received and income or franchise taxes imposed by a state or political subdivision. Carryforwards and carrybacks of net operating losses and capital losses are not allowed.

On July 3, 2008, the Commonwealth of Massachusetts enacted a law that included reducing the tax rate on net income applicable to financial institutions. As a result, the rate has dropped to 10.0% for tax years beginning on or after January 1, 2010, 9.5% for tax years beginning on or after January 1, 2011, and to 9.0% for tax years beginning on or after January 1, 2012 and thereafter. Also, for the years beginning on or after January 1, 2009, the new law requires all unitary members of a consolidated group, except those with Massachusetts Security Corporation status, to file a combined corporation excise tax return. Hampden Bancorp continues to analyze the impact of this law change, however, it is not expected to have a material effect on the financial statements.

Hampden Bancorp's state tax returns, as well as those of its subsidiaries, are not currently under audit for income tax purposes.

A financial institution or business corporation is generally entitled to special tax treatment as a "security corporation" under Massachusetts law provided that: (a) its activities are limited to buying, selling, dealing in or holding securities on its own behalf and not as a broker; and (b) it has applied for, and received, classification as a "security corporation" by the Commissioner of the Massachusetts Department of Revenue. A security corporation that is also a bank holding company under the Internal Revenue Code must pay a tax equal to 0.33% of its gross income. A security corporation that is not a bank holding company under the Internal Revenue Code must pay a tax equal to 1.32% of its gross income. Hampden Investment Corporation and Hampden Investment Corporation II requested and were approved to be classified as security corporations. The classification is in effect until revoked by the Commissioner of the Massachusetts Department of Revenue in writing or revoked by conducting any activities deemed impermissible under the governing statutes and the various regulations, directives, letter rulings and administrative pronouncements issued by the Massachusetts Department of Revenue. In order to qualify as a security corporation, Hampden Bancorp established a subsidiary for the purpose of making the loan to the employee stock ownership plan, because making such a loan directly would disqualify it from classification as a security corporation.

Delaware Taxation. As a Delaware holding company not earning income in Delaware, Hampden Bancorp is exempt from Delaware corporate income tax but is required to file an annual report with and pay an annual franchise tax to the State of Delaware.

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Properties

Hampden Bancorp conducts its business through its main office located in Springfield, Massachusetts, and nine other offices located in Hampden County, Massachusetts. The following table sets forth ownership and lease information for Hampden Bancorp's offices as of September 30, 2014:

	Location	Year Opened	Lease Expires
Owned			
Main Office:	19 Harrison Avenue Springfield, MA 01103	1852	
Branch Offices:	220 Westfield Street West Springfield, MA 01089	1975	
	475 Longmeadow Street Longmeadow, MA 01106	1976	
	1363 Allen Street Springfield, MA 01118	1979	
Leased	820 Suffield Street Agawam, MA 01001	2001	2025
	2005 Boston Road Wilbraham, MA 01095	2003	2022(1)
	1500 Main Street Tower Square Springfield, MA 01115	2005	2015(2)
	187 Main Street Indian Orchard Springfield, MA 01151	2007	2017(2)
	916 Shaker Road Longmeadow, MA 01106	2009	2018(3)
	977 Boston Road Springfield, MA 01119	2011	2030(2)

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- (1) Hampden Bank has an option to renew for two additional ten year terms.
 - (2) Hampden Bank has an option to renew for an additional five year term.
 - (3) Hampden Bank has an option to renew for three additional five year terms.

Legal Proceedings

Hampden Bancorp is not involved in any legal proceedings other than routine legal proceedings occurring in the ordinary course of business. Hampden Bancorp's management believes that those routine legal proceedings involve, in the aggregate, amounts that are immaterial to our financial condition and results of operations.

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**HAMPDEN BANCORP INC.'S MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS**

This section is intended to help investors understand the financial performance of Hampden Bancorp and its subsidiaries through a discussion of the factors affecting Hampden Bancorp's financial condition at September 30, 2014, June 30, 2014 and 2013, and Hampden Bancorp's consolidated results of operations for the three months ended September 30, 2014 and 2013 and the years ended June 30, 2014, 2013 and 2012. This section should be read in conjunction with the consolidated financial statements and related notes to the consolidated financial statements included elsewhere in this Proxy Statement/Prospectus.

In this section and the section entitled "Hampden Bancorp, Inc.'s Business," and only in these two sections, the terms "we," "us," and "our" are used to refer to Hampden Bancorp and its subsidiaries.

Overview

Income. Hampden Bancorp's results of operations are primarily dependent on net interest income, which is the difference between the income earned on its loan and investment portfolios and interest expense incurred on its deposits and borrowed funds. Results of operations are also affected by fee income from banking and non-banking operations, provisions for loan losses, gains (losses) on sales of loans and securities available for sale, loan servicing income and other miscellaneous income.

Expenses. Hampden Bancorp's expenses consist primarily of compensation and employee benefits, office occupancy, technology, marketing, general administrative expenses and income tax expense.

Results of operations are also significantly affected by general economic and competitive conditions, particularly with respect to changes in interest rates, government policies and actions of regulatory authorities. Future changes in applicable law, regulations or government policies may materially impact Hampden Bancorp's financial condition and results of operations. See "Risk Factors."

Critical Accounting Policies

We consider accounting policies that require management to exercise significant judgment or discretion, or make significant assumptions that have or could have a material impact on the carrying value of certain assets, liabilities, revenue, expenses, or related disclosures, to be critical accounting policies.

Management believes that the following accounting estimates are the most critical to aid in fully understanding and evaluating our reported financial results, and they require management's most difficult, subjective or complex judgments, resulting from the need to make estimates about the effect of matters that are inherently uncertain. Management has reviewed these critical accounting estimates and related disclosures with the Audit Committee of our Board.

Allowance for Loan Losses

Critical Estimates. The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a quarterly basis by management. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The analysis of the allowance for loan losses has two components: specific and general allocations, which are further described below.

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Specific allocation

Specific allocations are made for loans determined to be impaired. Impairment is measured by determining the present value of expected future cash flows or, for collateral-dependent loans, the fair value of the collateral adjusted for market conditions and selling expenses. Hampden Bancorp charges off any collateral shortfall on collaterally dependent impaired loans.

General allocation

The general allocation is determined by segregating the remaining loans, by type of loan and payment history. We analyze historical loss experience, and qualitative factors such as delinquency trends, changes in our underwriting standards as well as in lending policies, procedures and practices, experience and depth of management and lending staff, and general economic conditions. This analysis establishes loss factors that are applied to the loan groups to determine the amount of the general allocations. 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 we have established which could have a material negative effect on our financial results. There were no changes in Hampden Bancorp's policies or methodology pertaining to the general component of the allowance for loan losses during the three months ended September 30, 2014.

On a quarterly basis, management's Loan Review 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 concentrates on non-accrual and classified loans with risk ratings of six or higher. Any loan determined to be impaired is evaluated for potential loss exposure. Any shortfall results in a charge-off if the likelihood of loss is evaluated as probable. Hampden Bancorp's policy for charging off uncollectible loans is based on an analysis of the financial condition of the borrower or the collateral value. 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, discounted cash flow valuation or other available information.

When one- to four-family residential mortgage loans become impaired, the collateral value is generally determined by obtaining the current tax assessed value, discounted by 20%. Hampden Bancorp believes this is a reliable source of valuation as assessments are periodically updated by the cities and towns. If the impaired loan is being actively marketed, Hampden Bancorp uses the realtor's market analysis or listing price discounted by 10% and less 5% for realtor commission, instead of the tax assessment. We apply a discount based on management's historical knowledge, expertise and/or to account for changes in market conditions from the time of valuation. In the event Hampden Bancorp has an appraisal on hand that is less than twelve months old, then Hampden Bancorp will use that appraisal to determine the collateral value.

For commercial real estate loans, Hampden Bancorp obtains an appraisal when the loan is originated. An updated appraisal is obtained by Hampden Bancorp if the loan becomes impaired and if Hampden Bancorp will use the collateral dependency method to measure the impairment. An updated appraisal is also obtained as well if the loan goes into foreclosure. On a quarterly basis, management's Loan Review Committee reviews non-accrual and classified loans and ensures that all collateral dependent impaired loans have current appraisals within the preceding eighteen months. Because the appraisals are current, adjustments are limited in nature. There are situations where Hampden Bancorp may make adjustments to the appraisal in which Hampden Bancorp may decrease the appraised value if facts and circumstances warrant. Hampden Bancorp does not make any adjustments that would increase the appraised value.

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Judgment and Uncertainties. The qualitative factors are assessed based on the various risk characteristics of each loan segment. Risk characteristics relevant to each portfolio segment are as follows:

Residential real estate Hampden Bancorp generally does not originate loans with a loan-to-value ratio greater than 80 percent unless there is private mortgage insurance. All loans in this segment are collateralized by one- to four-family 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 segment.

Commercial real estate Loans in this segment are primarily income-producing properties throughout Massachusetts and Connecticut. The underlying cash flows generated by the properties can be adversely impacted by a downturn in the economy as evidenced by increased vacancy rates, which in turn, will have an effect on the credit quality in this segment. Management requires annual borrower financial statements, obtains rent rolls annually and continually monitors the cash flows of these loans.

Home equity loans Home equity loans are broken out into two segments, secured by first or second mortgages on one- to four-family owner occupied properties, and are generally underwritten in amounts such that the combined first and second mortgage balances generally do not exceed 85% of the value of the property serving as collateral at time of origination. The lines of credit are available to be drawn upon for 10 to 20 years, at the end of which time they become term loans amortized over 5 to 10 years. Interest rates on home equity lines normally adjust based on the month-end prime rate published in the Wall Street Journal.

Residential construction loans Loans in this segment primarily include non-speculative real estate loans. All loans in this segment are collateralized by one- to four-family 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 segment.

Commercial construction loans Loans in this segment primarily include construction to permanent non-speculative real estate loans. The underlying cash flows generated by the properties are adversely impacted by a downturn in the economy, which in turn, will have an effect on the credit quality in this segment. Additionally, risk of loss is impacted by the accuracy of the initial estimate of the property's rate of absorption, value and the estimated cost of construction.

Commercial loans Loans in this segment are made to businesses and are generally secured by assets of the business. Repayment is expected from the cash flows of the business. A weakened economy, and resultant decreased consumer spending, will have an effect on the credit quality in this segment.

Automobile and other secured loans Loans in this segment include consumer non-real estate secured loans that Hampden Bancorp originates as well as automobile loans that Hampden Bancorp purchases from third parties. Hampden Bancorp has the ability to select the automobile loans it purchases based on its own underwriting standards.

Manufactured home loans Loans in this segment are secured by first liens on properties located primarily in the Northeast. Repayment is dependent on the credit quality of the individual borrower. The overall health of the economy, including unemployment rates, will have an effect on the credit quality in this segment.

Other consumer loans Loans in this segment are generally unsecured and repayment is dependent on the credit quality of the individual borrower.

Effect if Actual Results Differ from Assumptions. Although we believe we have established and maintained the allowance for loan losses at adequate levels, additions may be necessary if the current

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operating environment continues or deteriorates. Management uses the best information available; however, the level of the allowance for loan losses remains an estimate that is subject to significant judgment and short-term change. In addition, the FDIC and the Massachusetts Division of Banks, 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 their judgments about information available to them at the time of their examination.

Income Taxes

Critical Estimates. Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. Quarterly, management reviews the deferred tax asset to identify any uncertainties to the collectability of the components of the deferred tax asset.

Judgment and Uncertainties. In determining the deferred tax asset valuation allowance, we use historical and forecasted operating results, based upon approved business plans, including a review of the eligible carryforward periods, tax planning opportunities and other relevant considerations. Management believes that the accounting estimate related to the valuation allowance is a critical accounting estimate because the underlying assumptions can change from period to period. For example, tax law changes or variances in future projected operating performance could result in a change in the valuation allowance.

Effect if Actual Results Differ from Assumptions. Should actual factors and conditions differ materially from those used by management, the actual realization of net deferred tax assets or deferred tax liabilities could differ materially from the amounts recorded in the financial statements. If we were not able to realize all or part of our net deferred tax assets in the future, and adjustment to our deferred tax assets valuation allowance would be charged to income tax expense in the period such determination was made and could have a negative impact on Hampden Bancorp's earnings. In addition, if actual factors and conditions differ materially from those used by management, Hampden Bancorp could incur penalties and interest imposed by the Internal Revenue Service.

Average Balance Sheet and Analysis of Net Interest and Dividend Income

Net interest income represents the difference between income on interest-earning assets and expense on interest-bearing liabilities. Net interest income depends upon the relative amounts of interest-earning assets and interest-bearing liabilities, and the interest rates earned or paid on them.

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The following tables set forth average balance sheets, average yields and costs, and certain other information for the periods indicated. All average balances are daily average balances. The yields set forth below include the effect of deferred fees, and discounts and premiums that are amortized or accreted to interest income or expense. Hampden Bancorp does not accrue interest on loans on non-accrual status; however, the balance of these loans is included in the total average balance, which has the effect of lowering average loan yields.

	Three Months Ended September 30,					
	2014			2013		
	Average Outstanding Balance	Interest	Yield/ Rate(5)	Average Outstanding Balance	Interest	Yield/ Rate(5)
(Dollars in Thousands)						
Interest-earning assets:						
Loans(1)	\$ 516,671	\$ 5,924	4.59%	\$ 469,548	\$ 5,509	4.69%
Investment securities	149,464	687	1.84%	148,339	628	1.69%
Federal funds sold and other short-term investments	6,676	4	0.24%	18,045	12	0.27%
Total interest-earning assets	672,811	6,615	3.93%	635,932	6,149	3.87%
Allowance for loan losses	(5,708)			(5,392)		
Total interest-earning assets net of allowance for loan losses	667,103			630,540		
Non-interest earning-assets	41,588			41,711		
Total assets	\$ 708,691			\$ 672,251		
Interest-bearing liabilities:						
Savings deposits	\$ 103,114	39	0.15%	\$ 109,658	42	0.15%
Money market	100,036	110	0.44%	82,186	70	0.34%
NOW accounts	47,862	32	0.27%	44,817	27	0.24%
Certificates of deposit	158,461	550	1.39%	164,628	662	1.61%
Total deposits	409,473	731	0.71%	401,289	801	0.80%
Borrowed funds	123,997	552	1.78%	107,607	460	1.71%
Total interest-bearing liabilities	533,470	1,283	0.96%	508,896	1,261	0.99%
Demand deposits	82,242			73,569		
Other non-interest-bearing liabilities	5,659			6,120		
Total liabilities	621,371			588,585		
Equity	87,320			83,666		
Total liabilities and equity	\$ 708,691			\$ 672,251		
Net interest income		\$ 5,332			\$ 4,888	

Net interest rate spread(2)

2.97%

2.88%

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Net interest-earning assets(3)	\$ 139,341	\$ 127,036
Net interest margin(4)	3.17%	3.08%
Average interest-earning assets to interest-bearing liabilities	126.12%	124.96%

(1) Includes loans held for sale.

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- (2) Net interest rate spread represents the difference between the yield on interest-earning assets and the cost of interest-bearing liabilities for the period indicated.
- (3) Net interest-earning assets represents total interest-earning assets less total interest-earning liabilities.
- (4) Net interest margin represents net interest income divided by average total interest-earning assets.
- (5) Yields and rates for the three months ended September 30, 2014 and 2013 are annualized.

	Years Ended June 30,								
	2014			2013			2012		
	Average Outstanding Balance	Interest	Yield/ Rate	Average Outstanding Balance	Interest	Yield/ Rate	Average Outstanding Balance	Interest	Yield/ Rate
(Dollars in Thousands)									
Interest-earning assets:									
Loans(1)	\$ 493,358	\$ 22,729	4.61%	\$ 434,275	\$ 21,570	4.97%	\$ 404,976	\$ 21,805	5.38%
Investment securities	148,675	2,745	1.85%	148,609	2,739	1.84%	123,442	3,003	2.43%
Federal funds sold and other short-term investments	14,417	38	0.26%	18,248	39	0.21%	16,455	25	0.15%
Total interest-earning assets	656,450	25,512	3.89%	601,132	24,348	4.05%	544,873	24,833	4.56%
Allowance for loan losses	(5,543)			(5,175)			(5,516)		
Total interest-earning assets net of allowance for loan losses	650,907			595,957			539,357		
Non-interest earning-assets	43,981			44,991			41,614		
Total assets	\$ 694,888			\$ 640,948			\$ 580,971		
Interest-bearing liabilities:									
Savings deposits	\$ 107,503	140	0.13%	\$ 100,372	202	0.20%	\$ 91,828	254	0.28%
Money market	89,084	317	0.36%	73,767	291	0.39%	54,462	217	0.40%
NOW accounts	46,436	126	0.27%	40,589	130	0.32%	37,799	137	0.36%
Certificates of deposit	165,077	2,426	1.47%	171,994	3,041	1.77%	181,941	3,589	1.97%
Total deposits	408,100	3,009	0.74%	386,722	3,664	0.95%	366,030	4,197	1.15%
Borrowed funds	117,841	2,161	1.83%	94,252	1,821	1.93%	62,478	1,567	2.51%
Total interest-bearing liabilities	525,941	5,170	0.98%	480,974	5,485	1.14%	428,508	5,764	1.35%
Demand deposits	78,220			66,855			57,055		
Other non-interest-bearing liabilities	5,520			5,818			5,816		
Total liabilities	609,681			553,647			491,379		
Equity	85,207			87,301			89,592		
Total liabilities and equity	\$ 694,888			\$ 640,948			\$ 580,971		

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Net interest income	\$ 20,342	\$ 18,863	\$ 19,069
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Net interest rate spread(2)		2.91%	2.91%	3.21%
Net interest-earning assets(3)	\$ 130,509	\$ 120,158	\$ 116,365	

Net interest margin(4)		3.10%	3.14%	3.50%
Average interest-earning assets to interest-bearing liabilities		124.81%	124.98%	127.16%

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- (1) Includes loans held for sale.
- (2) Net interest rate spread represents the difference between the yield on interest-earning assets and the cost of interest-bearing liabilities for the period indicated.
- (3) Net interest-earning assets represents total interest-earning assets less total interest-earning liabilities.
- (4) Net interest margin represents net interest income divided by average total interest-earning assets.

The following table presents the dollar amount of changes in interest income and interest expense for the major categories of Hampden Bancorp's interest-earning assets and interest-bearing liabilities. Information is provided for each category of interest-earning assets and interest-bearing liabilities with

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respect to (i) changes attributable to changes in volume (i.e., changes in average balances multiplied by the prior-period average rate) and (ii) changes attributable to rate (i.e., changes in average rate multiplied by prior-period average balances). Changes attributable to changes in both rate and volume have been allocated proportionally based on the absolute value of the change due to rate and the change due to volume.

	Three Months Ended September 30, 2014 vs. 2013			Years Ended June 30 2014 vs. 2013			Years Ended June 30 2013 vs. 2012		
	Increase (Decrease) Due to		Total Increase (Decrease)	Increase (Decrease) Due to		Total Increase (Decrease)	Increase (Decrease) Due to		Total Increase (Decrease)
	Volume	Rate		Volume	Rate		Volume	Rate	
(Dollars in Thousands)									
Interest income:									
Loans(1)	\$ 580	\$ (165)	\$ 415	\$ 2,796	\$ (1,637)	\$ 1,159	\$ 1,519	\$ (1,754)	\$ (235)
Investment securities	5	54	59	1	5	6	544	(808)	(264)
Federal funds sold and other short-term investments	(7)	(1)	(8)	(9)	8	(1)	3	11	14
Total interest income	578	(112)	466	2,788	(1,624)	1,164	2,066	(2,551)	(485)
Interest expense:									
Savings deposits	(3)		(3)	14	(76)	(62)	22	(74)	(52)
Money market	17	23	40	56	(30)	26	76	(2)	74
NOW accounts	2	3	5	17	(21)	(4)	10	(17)	(7)
Certificates of deposits	(24)	(88)	(112)	(118)	(497)	(615)	(189)	(359)	(548)
Total deposits	(8)	(62)	(70)	(31)	(624)	(655)	(81)	(452)	(533)
Borrowed funds	73	19	92	436	(96)	340	671	(417)	254
Total interest expense	65	(43)	22	405	(720)	(315)	590	(869)	(279)
Change in net interest income	\$ 513	\$ (69)	\$ 444	\$ 2,383	\$ (904)	\$ 1,479	\$ 1,476	\$ (1,682)	\$ (206)

(1)

Includes loans held for sale.

Comparison of Financial Condition at September 30, 2014 and June 30, 2014

Total Assets. Hampden Bancorp's total assets increased \$4.2 million, or 0.6%, from \$701.5 million at June 30, 2014 to \$705.7 million at September 30, 2014. Net loans, including loans held for sale, decreased \$436,000, or 0.1%, from \$508.0 million at June 30, 2014 to \$507.5 million at September 30, 2014. Investment securities decreased \$1.4 million, or 1.0%, to \$141.9 million and cash and cash equivalents increased \$5.7 million, or 44.9%, to \$18.4 million at September 30, 2014.

Investment Activities. The composition and fair value of Hampden Bancorp's investment portfolio is included in Note 7 to Hampden Bancorp's accompanying unaudited consolidated financial statements. Current period purchases of municipal bonds were partially offset by the principal payments and unrealized losses on residential mortgage-backed securities during the three months ended September 30, 2014.

Net Loans. The composition of Hampden Bancorp's loan portfolio is included in Note 8 to Hampden Bancorp's accompanying unaudited consolidated financial statements. Net loans, including loans held for sale, remained relatively flat with a small decrease of \$436,000, or 0.1%, to \$507.5 million at September 30, 2014. The decrease in net loans was due to two large loan payoffs in the commercial loan portfolio of \$6.4 million and \$4.1 million. Hampden Bancorp's strategy continues to be focused on obtaining commercial loans.

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During the origination of fixed rate mortgages, each loan is analyzed to determine if the loan will be sold into the secondary market or held in portfolio. Hampden Bancorp retains servicing for loans sold to Fannie Mae and earns a fee equal to 0.25% of the loan amount outstanding for providing these services. Loans which Hampden Bancorp originates to the standards of the buyer, which may differ from Hampden Bancorp's underwriting standards, are generally sold to a third party along with the servicing rights without recourse. For the three months ended September 30, 2014, loans sold totaled \$7.0 million. Of the \$7.0 million of loans sold, \$2.8 million were sold on a servicing-released basis and \$4.2 million were sold on a servicing-retained basis.

Non-Performing Assets. The following table sets forth the amounts of our non-performing assets at the dates indicated. The categories of our non-performing loans are included in Note 8 to Hampden Bancorp's accompanying unaudited consolidated financial statements.

	At September 30, 2014	At June 30, 2014
	(Dollars in Thousands)	
Mortgage loans on real estate:		
One- to four-family	\$ 2,977	\$ 2,755
Commercial	988	534
Home equity:		
First lien		
Second lien	143	150
Commercial	2,318	1,500
Consumer:		
Manufactured homes	149	240
Automobile and other secured loans		
Other	5	
Total non-performing loans	6,580	5,179
Other real estate owned	159	309
Total non-performing assets	\$ 6,739	\$ 5,488
Performing troubled debt restructurings, not reported above	\$ 3,724	\$ 4,601

Ratios:

Non-performing loans to total loans	1.29%	1.01%
Non-performing assets to total assets	0.95%	0.78%

Generally, loans are placed on non-accrual status either when reasonable doubt exists as to the full collection of interest and principal or when a loan becomes 90 days past due, unless an evaluation clearly indicates that the loan is well-secured and in the process of collection. Past due status is based on the contractual terms of the loans. From June 30, 2014 to September 30, 2014, commercial non-performing loans have increased \$818,000; residential mortgage non-performing loans have increased \$222,000; consumer, including home equity and manufactured homes, non-performing loans have decreased \$93,000. In addition, commercial real estate non-performing loans have increased \$454,000. At September 30, 2014, Hampden Bancorp had twelve TDRs totaling approximately \$5.1 million, of which \$1.3 million is on non-accrual status. All loans that are modified and a concession granted by Hampden Bancorp in light of the borrower's financial difficulty are considered a TDR and are classified as impaired loans by Hampden Bancorp. The interest income recorded from these loans amounted to \$73,000 for the three month period ended September 30, 2014. At June 30, 2014, Hampden Bancorp had twelve TDRs consisting of commercial and mortgage loans totaling approximately \$5.1 million, of which \$534,000 was on non-accrual status. The interest income recorded from the restructured loans amounted to \$276,000 for the year ended June 30, 2014.

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As of September 30, 2014, loans on non-accrual status totaled \$6.6 million, which consisted of \$5.7 million in loans that were 90 days or greater past due, \$404,000 in loans that are 31-89 days past due and \$451,000 in loans that are current or less than 30 days past due. It is Hampden Bancorp's policy to keep loans on non-accrual status subsequent to becoming current until the borrower can demonstrate their ability to make payments according to their loan terms for six months. As of September 30, 2014, there were no commercial real estate and commercial non-accrual loans less than 90 days past due. One- to four-family residential non-accrual loans less than 90 days past due were \$279,000, manufactured homes non-accrual less than 90 days past due were \$34,000 and home equity second lien non-accrual loans less than 90 days past due were \$120,000. All non-accrual loans, TDRs, and loans with risk ratings of six or higher are assessed by Hampden Bancorp for impairment. On November 10, 2014, Hampden Bancorp received a \$601,000 recovery on a commercial loan previously charged off.

In the normal course of business, Hampden Bancorp may modify a loan for a creditworthy borrower where the modified loan is not considered a TDR. In these cases, the modified terms are consistent with loan terms available to creditworthy borrowers and within normal loan pricing. The modifications to such loans are done according to our existing underwriting standards. These modified loans are not considered impaired loans by Hampden Bancorp.

Non-accrual loans, including TDRs, return to accrual status once the borrower has shown the ability and an acceptable history of repayment. The borrower must be current with their payments in accordance with the loan terms for six months. Hampden Bancorp may also return a loan to accrual status if the borrower evidences sufficient cash flow to service the debt and provides additional collateral to support the collectability of the loan. For non-accrual loans that make payments, Hampden Bancorp recognizes cash interest payments as interest income when Hampden Bancorp does not have a collateral shortfall for the loan and the loan has not been charged off. If there is a collateral shortfall for the loan or it has been charged off, then Hampden Bancorp applies the entire payment to the principal balance on the loan.

A loan is considered impaired when, based on current information and events, it is probable that Hampden Bancorp will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, the collateral, and the probability of collecting scheduled principal and interest payments when due. Impairment is measured on a loan-by-loan basis by the present value of expected future cash flows discounted at the loan's effective interest rate or fair value of collateral if the loan is collateral dependent and any change in present value is recorded within the provision for loan loss. Impaired loans increased to \$10.5 million at September 30, 2014 from \$9.8 million at June 30, 2014. Hampden Bancorp established specific reserves aggregating \$10,000 and \$11,000 for impaired loans at September 30, 2014 and June 30, 2014, respectively. Such reserves relate to one impaired loan relationships with a carrying value of \$534,000, and are based on management's analysis of the expected cash flows for troubled debt restructurings as of September 30, 2014.

We believe that the determination of our allowance for loan losses, including amounts required for impaired loans, is consistent with GAAP and current regulatory guidance. While Hampden Bancorp believes that it has established adequate specifically allocated and general allowances for losses on loans, adjustments to the allowance may be necessary if future conditions differ substantially from the information used in making the evaluations. In addition, as an integral part of their examination process, Hampden Bancorp's regulators periodically review the allowance for loan losses. These regulatory agencies may require Hampden Bancorp to recognize additions to the allowance based on their judgments of information available to them at the time of their examination, thereby negatively affecting Hampden Bancorp's financial condition and earnings. It is also possible that, in this current economic environment, additional loans will become impaired in future periods.

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Hampden Bancorp classifies property acquired through foreclosure or acceptance of a deed in lieu of foreclosure as OREO in its consolidated financial statements. When property is placed into OREO, it is recorded at the fair value less estimated costs to sell at the date of foreclosure or acceptance of deed in lieu of foreclosure. At the time of transfer to OREO, any excess of carrying value over fair value is charged to the allowance for loan losses. Management, or its designee, inspects all OREO property periodically. Holding costs and declines in fair value result in charges to expense after the property is acquired. At September 30, 2014, Hampden Bancorp had four properties with a carrying value of \$159,000 classified as OREO. All four properties were manufactured homes.

Allowance for Loan Losses. The following table sets forth ratios relating to Hampden Bancorp's allowance for loan losses for the periods indicated. The activity in Hampden Bancorp's allowance for loan losses is included in Note 8 to Hampden Bancorp's accompanying unaudited consolidated financial statements.

	Three Months Ended September 30,	
	2014	2013
Ratios:		
Net charge-offs to average loans outstanding	0.01%	0.01%
Allowance for loan losses to non-performing loans at end of period	87.67%	151.34%
Allowance for loan losses to total loans at end of period	1.13%	1.13%

It is Hampden Bancorp's policy to classify all non-accrual loans as impaired loans. All impaired loans are measured on a loan-by-loan basis to determine if any specific allowance is required for the allowance for loan loss by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent. If the impaired loan has a shortfall in the expected future cash flows then a specific allowance will be placed on the loan in that amount. However, Hampden Bancorp may consider collateral values where it feels there is greater risk and the expected future cash flow allowance is not sufficient. Residential, commercial real estate and construction loans are secured by real estate. Except for one, all commercial loans are secured by all business assets and many also include primary or secondary mortgage positions on business and/or personal real estate. The other commercial loan is secured by shares of stock of a subsidiary of a borrower.

When calculating the general allowance component of the allowance for loan losses, Hampden Bancorp analyzes the trend in delinquencies, among other things as further described in Note 8 to the accompanying unaudited consolidated financial statements. If there is an increase in the amount of delinquent loans in a particular loan category this may cause Hampden Bancorp to increase the general allowance requirement for that loan category. A partial charge-off on a non-performing loan will decrease the amount of non-performing and impaired loans, as well as any specific allowance requirement that loan may have had. This will also decrease our allowance for loan losses, as well as our allowance for loan losses to non-performing loans ratio and our allowance for loan losses to total loans ratio. Hampden Bancorp incorporates historical charge-offs, including the greater of charge-offs recognized in the current quarter, which are annualized, or projected annual charge-offs when calculating the general allowance component of the allowance for loan losses.

Loan Servicing. In the ordinary course of business, Hampden Bancorp sells residential real estate loans to the secondary market. Hampden Bancorp retains servicing on certain loans sold and earns servicing fees of 0.25% per annum based on the monthly outstanding balance of the loans serviced. Hampden Bancorp recognizes servicing assets each time it undertakes an obligation to service loans sold. Hampden Bancorp's mortgage servicing asset valuation is performed on a quarterly basis by an independent third party, using a statistical valuation model representing the projection into the future

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of a single interest rate/market environment. The projected cash flows are then discounted back to present value. Discount rates, estimate of servicing costs and ancillary income, estimates of float earnings rates and delinquency information as well as an estimate of prepayments are used to calculate the value of the mortgage servicing asset. For the three months ended September 30, 2014, the increase in the fair market value of mortgage servicing assets was \$41,000.

The changes in servicing assets measured using fair value are on included in detail in Note 6 to the accompanying unaudited consolidated financial statements. There are no recourse provisions for the loans that are serviced for others. The risks inherent in mortgage servicing assets relate primarily to changes in prepayments that result from shifts in mortgage interest rates. For the three months ended September 30, 2014 and 2013, amounts recognized for loan servicing fees amounted to \$94,000 and \$107,000, respectively, which are included in other non-interest income in the consolidated statements of net income. The unpaid principal balance of mortgages serviced for others was \$75.0 million and \$71.8 million at September 30, 2014 and June 30, 2014, respectively.

Deposits and Borrowed Funds. The following table sets forth Hampden Bancorp's deposit accounts (excluding escrow deposits) for the periods indicated.

	At September 30, 2014		At June 30, 2014		Change	% Change
	Balance	Percent	Balance	Percent		
(Dollars in Thousands)						
<i>Deposit type:</i>						
Demand deposits	\$ 80,193	16.38%	\$ 84,224	17.13%	\$ (4,031)	(4.79)%
Savings deposits	101,468	20.72%	102,909	20.93%	(1,441)	(1.40)%
Money market	100,304	20.49%	99,505	20.24%	799	0.80%
NOW accounts	49,581	10.13%	42,376	8.62%	7,205	17.00%
Total transaction accounts	331,546	67.72%	329,014	66.91%	2,532	0.77%
Certificates of deposit	158,072	32.28%	162,718	33.09%	(4,646)	(2.86)%
Total deposits	\$ 489,618	100.00%	\$ 491,732	100.00%	\$ (2,114)	(0.43)%

Deposits decreased \$2.1 million, or 0.43%, to \$489.6 million at September 30, 2014 from \$491.7 million at June 30, 2014. Deposits decreased due a \$4.0 million, or 4.79%, decrease in demand deposits, a \$1.4 million, or 1.40%, decrease in savings deposits and a \$4.6 million, or 2.86%, decrease in time deposits. These decreases were offset by an increase of \$7.2 million, or 17.00% in NOW accounts and a \$799,000, or 0.80%, increase in money market accounts. Hampden Bancorp's focus remains to increase core deposits and reduce its time deposits.

Total borrowings (including both short term and long term advances) from the FHLB and have increased \$7.3 million, or 6.3%, to \$123.8 million at September 30, 2014 from \$116.4 million at June 30, 2014. Hampden Bancorp primarily used these FHLB borrowings to fund its loan demand.

Stockholders' Equity. Stockholders' equity increased \$4.2 million, or 0.6%, to \$85.7 million at September 30, 2014 from \$87.2 million at June 30, 2014. During the three months ended September 30, 2014, Hampden Bancorp purchased 127,700 shares of Hampden Bancorp stock for \$2.2 million at an average price of \$17.05 per share pursuant to Hampden Bancorp's previously announced stock repurchase programs. In addition, Hampden Bancorp repurchased 253 shares of Hampden Bancorp stock, at an average price of \$17.00 per share, in the three months ended September 30, 2014 in connection with the vesting of certain restricted stock grants issued pursuant to our 2008 Equity Incentive Plan. Hampden Bancorp repurchased these shares from an employee plan participant for settlement of tax withholding obligations. In addition, there was a \$259,000 decrease in accumulated other comprehensive income from June 30, 2014 to September 30, 2014 due to the continued impact of

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the rising interest rate environment on the fair value of securities available for sale, a \$106,000 decrease in ESOP unearned compensation and a \$1,000 decrease in equity incentive plan unearned compensation. Offsets to the increase in treasury stock and decrease in accumulated other comprehensive income were a \$746,000 increase in retained earnings, and a \$85,000 increase in additional paid-in capital. Our ratio of capital to total assets decreased to 12.1% at September 30, 2014 compared to 12.4% at June 30, 2014. Hampden Bancorp's book value per share as of September 30, 2014 was \$15.49 compared to \$14.43 at June 30, 2014.

Comparison of Financial Condition at June 30, 2014 and June 30, 2013

Total Assets. Total assets increased by \$48.5 million, or 7.4%, from \$653.0 million at June 30, 2013 to \$701.5 million at June 30, 2014. This increase was primarily attributable to an increase in net loans of \$57.3 million, or 12.7%, to \$507.6 million at June 30, 2014 as discussed below.

Cash and Short-term Investments. Cash and correspondent bank balances, and short-term investments primarily consisting of money market mutual funds decreased by \$13.0 million, or 50.6%, from \$25.6 million at June 30, 2013 to \$12.7 million at June 30, 2014.

Investment Securities. The investment portfolio was \$143.2 million at June 30, 2014, an increase of \$4.5 million, or 3.2%, from \$138.7 million at June 30, 2013. Within the securities portfolio, municipal bonds increased \$8.9 million at June 30, 2014 to \$9.3 million compared to \$395,000 at June 30, 2013. Residential mortgage-backed securities decreased \$4.4 million, or 3.3%, to \$130.8 million at June 30, 2014.

Net Loans. Net loans increased \$57.3 million, or 12.7%, from \$450.3 million at June 30, 2013 to \$507.6 million at June 30, 2014. Consumer loans increased \$427,000, or 1.4%, Commercial real estate loans increased \$33.4 million, or 19.9%, Construction loans increased \$15.0 million, or 60.2%, and commercial loans increased \$11.2 million, or 25.7%. The majority of the commercial construction loans are written to become permanent financing. A partial offset to these increases was a decrease in home equity loans of \$2.3 million, or 2.9%, and one- to four-family residential loans of \$119,000, or 0.1%. Due to interest rate risk management, Hampden Bancorp has decided to sell the majority of its current originations of long-term fixed rate residential mortgages and, during the year ended June 30, 2014, sold \$10.1 million of its fixed rate residential mortgages.

Deposits and Borrowed Funds. Deposits increased to \$491.7 million at June 30, 2014 from \$474.8 million at June 30, 2013. Demand deposits increased \$10.1 million, or 13.7%, and money market accounts increased \$15.2 million, or 18.1%. A partial offset to these increases was a decrease in certificates of deposits \$2.6 million, or 1.6%, a decrease in savings accounts of \$2.0 million, or 1.9%, and NOW accounts decreased \$3.8 million, or 8.3%. Hampden Bancorp has focused its efforts on obtaining more core deposits than time deposits.

Total FHLB borrowings increased \$29.5 million, or 33.9%, to \$116.4 million as of June 30, 2014. The increase in borrowings was used to fund new loan growth. Based on comments by the Federal Reserve, Hampden Bancorp does not currently believe that interest rates will increase in the next couple of years. However, in an effort to decrease Hampden Bank's interest rate risk from rising interest rates, Hampden Bank took advantage of the FHLB's program to further restructure outstanding borrowings. In September 2012, Hampden Bancorp restructured \$8.6 million of FHLB borrowings. After the restructuring, the weighted average cost of these borrowings was reduced by 1.00% to 2.74%.

Total Stockholders' Equity. Stockholders' equity increased \$3.5 million, or 4.2%, to \$87.2 million at June 30, 2014 from \$83.7 million at June 30, 2013, primarily as a result of current year earnings offset by dividends and share repurchases. Hampden Bancorp repurchased 28,760 shares of Hampden Bancorp stock for \$450,000, at an average price of \$15.64 per share, during the year ended June 30,

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2014 pursuant to Hampden Bancorp's previously announced stock repurchase programs. In addition Hampden Bancorp repurchased 260 shares of Hampden Bancorp stock, at an average price of \$15.52 per share, in the year ended June 30, 2014 in connection with the vesting of the restricted stock grants as part of our 2008 Plan. Hampden Bancorp purchased these shares from the employee plan participant for settlement of tax withholding obligations. Our ratio of capital to total assets decreased to 12.4% at June 30, 2014 compared to 12.8% at June 30, 2013.

Comparison of Operating Results for the Three Months Ended September 30, 2014 and September 30, 2013

Net Income. Hampden Bancorp had net income of \$1.2 million, or \$0.22 per fully diluted share, for the three months ended September 30, 2014 compared to \$1.2 million, or \$0.22 per fully diluted share, for the same period in 2013. Hampden Bancorp had an increase in net interest income of \$444,000, or 9.1%, for the three months ended September 30, 2014 compared to the three months ended September 30, 2013. Interest and dividend income increased \$465,000, or 7.6%, for the three months ended September 30, 2014 compared to the same period last year mainly due to a \$415,000 increase in loan interest income. For the three months ended September 30, 2014, interest expense increased by \$21,000, or 1.7%, compared to the three months ended September 30, 2013. This included a decrease in deposit interest expense of \$70,000 due to a decrease in rates offset by an increase in the average balance of deposits. There was an increase in borrowing interest expense of \$91,000 for the three months ended September 30, 2014 compared to the same period last year due to an increase in average balances partially offset by a decrease in rates. The net interest margin increased to 3.17% for the three months ended September 30, 2014 compared to 3.08% for the three months ended September 30, 2013.

Interest Income. Interest income increased to \$6.6 million for the three months ended September 30, 2014 from \$6.1 million for the three months ended September 30, 2013. This increase of \$466,000, or 7.6%, was primarily the result of an increase in loan interest income of \$415,000, or 7.5%, due to an increase in average balances, offset by a decrease in rates.

Interest Expense. Interest expense for the three months ended September 30, 2014 was \$1.3 million, which represented an increase of \$22,000, or 1.7%, from the three months ended September 30, 2013. This included a decrease in deposit interest expense of \$70,000, or 8.7%, due to a decrease in rates, offset by an increase in the average balance of deposits. The decrease in deposit interest expense was partially offset by an increase in borrowing interest expense of \$92,000 due to an increase in average balances.

Provision for Loan Losses. The provision for loan losses was \$150,000 for the three months ended September 30, 2014 compared to \$100,000 for the same period in 2013, primarily due to the increase in loan balances. The allowance for loan losses of \$5.8 million at September 30, 2014 represented 1.13% of total loans, as compared to an allowance of \$5.7 million, representing 1.11% of total loans at June 30, 2014.

Non-interest Income. For the three months ended September 30, 2014, there was a decrease in total non-interest income of \$135,000, or 12.2%, compared to the three months ended September 30, 2013. For the three months ended September 30, 2014 compared to the same period in 2013, there was a \$137,000, or 43.5%, decrease in other non-interest income which was mainly due to a \$99,000 decrease in the fair value adjustment of mortgage servicing rights and a \$25,000 decrease in OREO rental income due to the sale of an OREO property. During the three months ended September 30, 2014, Hampden Bancorp had an \$115,000 gain on the sale of loans compared to \$86,000 for the same period in 2013.

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Non-interest Expense. Non-interest expense increased \$315,000 or 7.9%, for the three months ended September 30, 2013 compared to the three months ended September 30, 2014. There was a \$262,000, or 11.8%, increase in salaries and employee benefits due to an increase in the number of employees; a \$121,000, or 13.8%, increase in other general and administrative expenses; and a \$73,000, or 35.9%, increase in data processing expenses for the three months ended September 30, 2014 compared to the same period in 2013.

Income Taxes. Income tax expense decreased \$20,000, or 2.9%, from \$679,000 for the three months ended September 30, 2013 to \$659,000 for the three months ended September 30, 2014. Hampden Bancorp's combined federal and state effective tax rate remained flat at 36.0% for the three months ended September 30, 2014 compared to the same period in 2013.

Minimum Regulatory Capital Requirements. As of September 30, 2014, the most recent notification from the FDIC categorized Hampden Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the following table. There are no conditions or events since that notification that management believes has changed Hampden Bank's category. Hampden Bancorp's and Hampden Bank's capital amounts and ratios as of September 30, 2014 and June 30, 2014 are presented in the following table.

	Actual		Minimum For Capital Adequacy Purposes		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in Thousands)						
As of September 30, 2014						
Total capital (to risk weighted assets):						
Consolidated	\$ 91,452	17.6%	\$ 41,500	8.0%	N/A	N/A
Bank	82,233	16.3%	40,415	8.0%	\$ 50,519	10.0%
Tier 1 capital (to risk weighted assets):						
Consolidated	85,671	16.5%	20,750	4.0%	N/A	N/A
Bank	76,437	15.1%	20,207	4.0%	30,311	6.0%
Tier 1 capital (to average assets):						
Consolidated	85,671	12.1%	28,231	4.0%	N/A	N/A
Bank	76,437	10.8%	28,191	4.0%	35,239	5.0%
As of June 30, 2014						
Total capital (to risk weighted assets):						
Consolidated	\$ 92,586	18.3%	\$ 40,547	8.0%	N/A	N/A
Bank	80,715	15.9%	40,570	8.0%	\$ 50,712	10.0%
Tier 1 capital (to risk weighted assets):						
Consolidated	86,922	17.2%	18,538	4.0%	N/A	N/A
Bank	75,051	14.8%	18,394	4.0%	30,427	6.0%
Tier 1 capital (to average assets):						
Consolidated	86,922	12.2%	26,240	4.0%	N/A	N/A
Bank	75,051	10.6%	25,827	4.0%	35,372	5.0%

In July 2013, the FDIC and the other federal bank regulatory agencies issued a final rule that will revise their leverage and risk-based capital requirements and the method for calculating risk-weighted assets to make them consistent with agreements that were reached by the Basel Committee on Banking Supervision and certain provisions of the Dodd-Frank Act. Among other things, the rule establishes a new common equity Tier 1 minimum capital requirement (4.5% of risk-weighted assets), increases the minimum Tier 1 capital to risk-based assets requirement (from 4% to 6% of risk-weighted assets) and

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assigns a higher risk weight (150%) to exposures that are more than 90 days past due or are on nonaccrual status and to certain commercial real estate facilities that finance the acquisition, development or construction of real property. The final rule also requires unrealized gains and losses on certain "available-for-sale" securities holdings to be included for purposes of calculating regulatory capital unless a one-time opt-out is exercised. The rule limits a banking organization's capital distributions and certain discretionary bonus payments if the banking organization does not hold a "capital conservation buffer" consisting of 2.5% of common equity Tier 1 capital to risk-weighted assets in addition to the amount necessary to meet its minimum risk-based capital requirements. The final rule becomes effective for Hampden Bancorp and Hampden Bank on January 1, 2015. The capital conservation buffer requirement will be phased in beginning January 1, 2016 and ending January 1, 2019, when the full capital conservation buffer requirement will be effective. Management believes that Hampden Bancorp and Hampden Bank will continue to exceed all minimum capital ratio requirements.

Comparison of Operating Results For the Years Ended June 30, 2014 and June 30, 2013

Net Income. Hampden Bancorp had net income of \$4.5 million, or \$0.83 per fully diluted share, for the year ended June 30, 2014 as compared to net income of \$3.0 million, or \$0.54 per fully diluted share, for the year ended June 30, 2013. The primary reason for the increase in net income of \$1.5 million, or 51.8%, included an increase in net interest income of \$1.5 million, or 7.8% and decrease in non-interest expense of \$1.3 million, or 7.2%, offset by decrease in non-interest income of \$564,000, or 13.4%, and an increase in income tax expense of \$767,000, or 43.2%.

Net Interest Income. Net interest income increased by \$1.5 million, or 7.8%, for the year ended June 30, 2014 compared to the twelve months ended June 30, 2013. Interest and dividend income increased \$1.2 million, or 4.8%, for the twelve months ended June 30, 2014 compared to the same period last year. For the twelve months ended June 30, 2014, interest expense decreased by \$315,000, or 5.7%, compared to the twelve months ended June 30, 2013. The net interest margin for the twelve months ended June 30, 2014 was 3.10% compared to 3.14% for the twelve months ended June 30, 2013.

Interest Income. Interest income increased from \$24.3 million for the year ended June 30, 2013 to \$25.5 million for the year ended June 30, 2014. This increase of \$1.2 million, or 4.8%, was the result of an increase in loan interest income of \$1.1 million due to an increase in average balances, offset by a decrease in rates.

Interest Expense. Interest expense for the year ended June 30, 2014 was \$5.2 million, which represented a decrease of \$315,000, or 5.7%, from the year ended June 30, 2013. This included a decrease in deposit interest expense of \$655,000 due to a decrease in rates, offset by an increase in the average balance of deposits. The decrease in deposit interest expense was partially offset by an increase in borrowing interest expense of \$340,000 due to an increase in average balances, offset by a decrease in rates.

Provision for Loan Losses. The provision for loan losses was \$550,000 for the year ended June 30, 2014 compared to \$675,000 for the same period in 2013, primarily due to continued improvement in general economic conditions and a decrease in historical losses. The allowance for loan losses of \$5.7 million at June 30, 2014 represented 1.11% of total loans, as compared to an allowance of \$5.4 million, representing 1.20% of total loans at June 30, 2013.

Non-interest Income. Total non-interest income for the twelve months ended June 30, 2014 decreased by \$564,000, or 13.4%, compared to year ended June 30, 2013. There was a \$634,000, or 70.0%, decrease in the gain on sale of loans during the twelve months ended June 30, 2014 compared to the same period in 2013 due to a decrease in the volume of residential loan refinances. There was also a \$114,000 decrease in the gain on sale of securities during the twelve months ended June 30, 2014

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compared to the same period in 2013. Partially offsetting these decreases was a \$179,000, or 9.0%, increase in customer service fees due to a change in fee structure and a \$30,000, or 4.5%, increase in other non-interest income which was mainly due to an increase in the fair value of mortgage servicing rights for the twelve months ended June 30, 2014 compared to the same period in 2013.

Non-interest Expense. Total non-interest expense decreased \$1.3 million, or 7.2%, for the year ended June 30, 2014 compared to the same period in 2013. Results for fiscal 2014 included \$410,000 of charges due to a proxy contest as previously described. Offsetting the costs incurred in the proxy contest, was an \$827,000, or 8.3%, decrease in salaries and employee benefits due to Hampden Bancorp's restructuring of its senior management team and staff positions, as well as a significant reduction in expenses related to grants under the 2008 Equity Incentive Plan. Decreases in data processing services of \$91,000, or 8.9%, and other general and administrative expenses of \$374,000, or 9.8%, are reflective of Hampden Bancorp's cost reduction strategy.

Income Taxes. Income tax expense increased \$767,000, or 43.2%, from \$1.8 million for the year ended June 30, 2013 to \$2.5 million for the year ended June 30, 2014. Hampden Bancorp's effective tax rate decreased from 37.4% for the year ended June 30, 2013 to 36.0% for the year ended June 30, 2014.

Comparison of Operating Results For the Years Ended June 30, 2013 and June 30, 2012

Net Income. Hampden Bancorp had net income of \$3.0 million, or \$0.54 per fully diluted share, for the year ended June 30, 2013 as compared to net income of \$3.0 million, or \$0.51 per fully diluted share, for the year ended June 30, 2012. The primary reasons for the decrease in net income of \$42,000 included an increase in non-interest income of \$962,000, an increase in non-interest expense of \$554,000, and a decrease in net interest income of \$206,000. Hampden Bancorp restructured its senior management team in June 2013 eliminating two senior vice president positions. The severance costs associated with this restructure totaled \$310,000, or \$0.03 per fully diluted share, and contributed to the increase in non-interest expense.

Net Interest Income. There was a decrease in net interest income for the year ended June 30, 2013 of \$206,000, or 1.1%, to \$18.9 million from \$19.1 million for the same period in 2012. The increase in the volume of interest-earning assets increased interest income by \$2.1 million. The increase in the volume of interest-bearing liabilities increased interest expense by \$589,000. The changes in volume had the effect of increasing net interest income by \$1.5 million. The changes in the rates of interest-earning assets and interest-bearing liabilities had the effect of decreasing net interest income by \$1.7 million. The decrease in net interest income attributable to lower yields on interest-earning assets totaled \$2.6 million offset by a \$868,000 increase in net interest income attributable to lower rates on interest-bearing liabilities. Net interest margin decreased to 3.14% for the year ended June 30, 2013 compared to 3.50% for the year ended June 30, 2012.

Interest Income. Interest income decreased from \$24.8 million for the year ended June 30, 2012 to \$24.3 million for the year ended June 30, 2013. This decrease of \$485,000, or 2.0%, was mainly due to a decrease in loan rates which decreased interest income received on loans by \$1.8 million, and a decrease in investment rates which decreased interest received on debt securities by \$865,000. These decreases were partially offset by an increase in volume of interest-earning assets, which increased interest income by \$2.1 million.

Interest Expense. Interest expense for the year ended June 30, 2013 was \$5.5 million, which represented a decrease of \$279,000, or 4.8%, from the year ended June 30, 2012 to the year ended June 30, 2013. Decreased interest costs on deposits and borrowings were the reason for this decrease offset by an increase in borrowed funds. Average interest-bearing deposit balances increased by \$20.7 million, or 5.4%, while average rates decreased from 1.15% to 0.95%. Average borrowings

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balances increased from \$62.5 million to \$94.2 million and the average rate on borrowings decreased from 2.51% to 1.93%.

Provision for Loan Losses. For the year ended June 30, 2013, the provision for loan losses was \$675,000, which represented an increase of \$250,000 compared to the year ending June 30, 2012 due to increases in loan balances. Net loan charge-offs for fiscal 2013 and fiscal 2012 were \$409,000 and \$750,000, respectively. The allowance for loan losses of \$5.4 million at June 30, 2013 represented 1.20% of total loans, as compared to an allowance of \$5.1 million, representing 1.26% of total loans at June 30, 2012.

Non-interest Income. Total non-interest income was \$4.2 million, which represented an increase of \$962,000, or 29.7%, for the year ended 2013 compared to the year ended June 30, 2012. The primary reasons for this increase was an increase in the gain on the sales of loans of \$285,000, an increase in customer service fees of \$277,000, and an increase in the gain on sales of securities, net, of \$95,000 for the year ended June 30, 2013 compared to the year ended June 30, 2012.

Non-interest Expense. For the year ended June 30, 2013, non-interest expense was \$17.6 million, which represented an increase of \$554,000 compared to the year ended June 30, 2012. Hampden Bancorp restructured its senior management team in June 2013, eliminating two senior vice president positions. The costs associated with this restructure totaled \$310,000, or \$0.03 per fully diluted share, and were the reason for the increase in salary and benefits. Data processing increased \$429,000, salaries and employee benefits increased \$89,000, occupancy increased \$84,000, other general and administrative expenses increased \$64,000 and FDIC insurance increased \$60,000 for the year ended June 30, 2013 compared to the year ended June 30, 2012. The 72% increase in data processing was due to increased contractual fees, increased transaction volume, and inclusion of additional electronic processing costs. Partial offsets to these increases were a decrease of \$79,000 in net loss on other real estate owned and a decrease of \$93,000 in advertising expenses for the year ended June 30, 2013 compared to the year ended June 30, 2012.

Income Taxes. Income tax expense remained relatively unchanged at \$1.8 million for the year ended June 30, 2012 and for the year ended June 30, 2013. Hampden Bancorp's effective tax rate increased slightly from 37.2% for the year ended June 30, 2012 to 37.4% for the year ended June 30, 2013.

Risk Management

Management recognizes that taking and managing risk is fundamental to the business of banking. Through the development, implementation and monitoring of its policies with respect to risk management, Hampden Bancorp strives to measure, evaluate and mitigate the risks it faces. Management understands that an effective risk management system is critical to the safety and soundness of Hampden Bancorp. Chief among the risks faced by Hampden Bancorp are credit risk, market risk including interest rate risk, liquidity risk, operational (transaction) risk and compliance risk.

Within management, the responsibility for risk management rests with the General Counsel and the senior officers responsible for finance, lending, retail banking, marketing and human resources. The General Counsel and senior officers continually review the status of our risk management efforts, including reviews of internal and external audit findings, loan review findings, and the activities of the Asset/Liability Committee with respect to monitoring interest rate and liquidity risk. The General Counsel tracks any open items requiring corrective action with the goal of ensuring that each is addressed on a timely basis. The General Counsel reports all findings directly to the Audit Committee.

Management of Credit Risk. Hampden Bancorp considers credit risk to be the most significant risk it faces, in that it has the greatest potential to affect the financial condition and operating results of Hampden Bancorp. Credit risk is managed through a combination of policies established by the Board

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of Directors of Hampden Bancorp, the monitoring of compliance with these policies, and the periodic evaluation of loans in the portfolio, including those with problem characteristics. In general, Hampden Bancorp's policies establish maximums on the amount of credit that may be granted to a single borrower (including affiliates), the aggregate amount of loans outstanding by type in relation to total assets and capital, and loan concentrations. Collateral and debt service coverage ratios, approval limits and other underwriting criteria are also specified. Policies also exist with respect to performing periodic credit reviews, the rating of loans, when loans should be placed on non-performing status and factors that should be considered in establishing Hampden Bancorp's allowance for loan losses. For additional information, see "Hampden Bancorp, Inc.'s Business Lending Activities."

Management of Market Risk. Market risk is the risk of loss due to adverse changes in market prices and rates, and typically encompasses exposures such as sensitivity to changes in market interest rates, foreign currency exchange rates, and commodity prices. Hampden Bancorp has no exposure to foreign currency exchange or commodity price movements. Because net interest income is Hampden Bancorp's primary source of revenue, Hampden Bancorp's exposure to interest rate risk is significant.

Interest rate risk is the exposure of Hampden Bancorp's net interest income to adverse movements in interest rates. Net interest income is affected by changes in interest rates as well as by fluctuations in the level and duration of Hampden Bancorp's assets and liabilities. Over and above the influence that interest rates have on net interest income, changes in rates may also affect the volume of lending activity, the ability of borrowers to repay variable rate loans, the volume of loan prepayments and refinancing, the flow and mix of deposits, and the market value of Hampden Bancorp's assets and liabilities.

Exposure to interest rate risk is managed by Hampden Bancorp through periodic evaluations of the current interest rate risk inherent in its rate-sensitive assets and liabilities, coupled with determinations of the level of risk considered appropriate given Hampden Bancorp's capital and liquidity requirements, business strategy and performance objectives. Through such management, Hampden Bancorp seeks to manage the vulnerability of its net interest income to changes in interest rates.

Strategies used by Hampden Bancorp to manage the potential volatility of its earnings may include:

Emphasizing the origination and retention of adjustable-rate mortgage loans, variable rate commercial loans and variable rate home equity lines of credit;

Investing in securities with relatively short maturities and/or expected average lives;

Classifying the majority of the investment portfolio as "available for sale" in order to provide for flexibility in liquidity management; and

Lengthening or shortening liabilities such as certificates of deposits and FHLB borrowings when appropriate.

Hampden Bancorp's Asset/Liability Committee is responsible for managing interest rate risk. On a quarterly basis, the Committee reviews with the Board of Directors its analysis of Hampden Bancorp's exposure to interest rate risk, the effect that subsequent changes in interest rates could have on Hampden Bancorp's future net interest income, its strategies and other activities, and the effect of those strategies on Hampden Bancorp's operating results.

The Committee's primary method for measuring and evaluating interest rate risk is income simulation analysis. This analysis considers the maturity and repricing characteristics of assets and liabilities, as well as the relative sensitivities of these balance sheet components over a range of interest rate scenarios. Interest rate scenarios tested generally include instantaneous and sustained parallel and flattening/steepening rate ramps over a one year period, and static (or flat) rates. The simulation

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analysis is used to measure the exposure of net interest income to changes in interest rates over a specified time horizon, usually a two-year period.

The following table sets forth, as of June 30, 2014, the estimated changes in Hampden Bancorp's net interest income that would result from the designated instantaneous and sustained changes in the U.S. Treasury yield curve. Computations of prospective effects of hypothetical interest rate changes are based on numerous assumptions including relative levels of market interest rates, loan prepayments and deposit decay, and should not be relied upon as indicative of actual results.

	% Change in Estimated Net Interest Income over 12 months
400 basis point increase in rates	(12.19)%
300 basis point increase in rates	(8.49)%
200 basis point increase in rates	(4.93)%
100 basis point increase in rates	(1.67)%
100 basis point decrease in rates	(5.53)%

As indicated in the table above, a 200 basis point increase in interest rates is estimated to decrease net interest income by 4.93% and 8.49% for a 300 basis point increase over a 12-month horizon, when compared to the flat rate scenario. The estimated change in net interest income from the flat rate scenario for a 100 basis point decline in the level of interest rates is a decrease of 5.53%. Inherent in these estimates is the assumption that interest rates on interest bearing liabilities would change in direct proportion to changes in the U.S. Treasury yield curve. In all simulations, the lowest possible interest rate would be zero.

There are inherent shortcomings in income simulation, given the number and variety of assumptions that must be made in performing the analysis. The assumptions relied upon in making these calculations of interest rate sensitivity include the level of market interest rates, the shape of the yield curve, the degree to which certain assets and liabilities with similar maturities or periods to repricing react to changes in market interest rates, the degree to which non-maturity deposits react to changes in market rates, the expected prepayment rates on loans and mortgage-backed securities, and the degree to which early withdrawals occur on certificates of deposit and the volume of other deposit flows. As such, although the analysis shown above provides an indication of Hampden Bancorp's sensitivity to interest rate changes at a point in time, these estimates are not intended to and do not provide a precise forecast of the effect of changes in market interest rates on Hampden Bancorp's net interest income and will differ from actual results.

In its management of interest rate risk, Hampden Bancorp also relies on the analysis of its interest rate "gap," which is the measure of the mismatch between the amount of Hampden Bancorp's interest-earning assets and interest-bearing liabilities that mature or reprice within specified timeframes. An asset-sensitive position (positive gap) exists when there are more rate-sensitive assets than rate-sensitive liabilities maturing or repricing within a particular time horizon, and generally signifies a favorable effect on net interest income during periods of rising interest rates and a negative effect during periods of falling interest rates. Conversely, a liability-sensitive position (negative gap) would generally indicate a negative effect on net interest income during periods of rising rates and a positive effect during periods of falling rates. Certain factors may serve to limit the usefulness of the measurement of the interest rate gap. For example, interest rates on certain assets and liabilities are discretionary and may change in advance of, or may lag behind, changes in market rates. The gap analysis does not give effect to changes Hampden Bancorp may undertake to mitigate interest rate risk. Certain assets, such as adjustable-rate loans, have features that may restrict the magnitude of changes in interest rates both on a short-term basis and over the life of the assets. Further, in the event of changes in interest rates, prepayment and early withdrawal levels would likely deviate significantly from those assumed in the gap

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analysis. Lastly, should interest rates increase, the ability of borrowers to service their debt may decrease.

Liquidity Risk Management. Liquidity risk, or the risk to earnings and capital arising from an organization's inability to meet its obligations without incurring unacceptable losses, is managed by Hampden Bancorp's Chief Financial Officer, who monitors on a daily basis the adequacy of Hampden Bancorp's liquidity position. Oversight is provided by the Asset/Liability Committee, which reviews Hampden Bancorp's liquidity on a monthly basis, and by the Board of Directors of Hampden Bancorp, which reviews the adequacy of our liquidity resources on a quarterly basis.

Hampden Bancorp's primary sources of funds are from deposits, amortization of loans, loan prepayments and the maturity of loans, mortgage-backed securities and other investments, and other funds provided by operations. While scheduled payments from the amortization of loans and mortgage-backed securities and maturing loans and investment securities are relatively predictable sources of funds, deposit flows and loan prepayments can be greatly influenced by general interest rates, economic conditions and competition. We maintain excess funds in cash and short-term interest-bearing assets that provide additional liquidity. At September 30, 2014, cash and due from banks, federal funds sold and short-term investments totaled \$18.4 million, or 2.6%, of total assets, which is an increase of \$5.7 million, or 44.9%, from June 30, 2014.

Hampden Bancorp also relies on outside borrowings from the FHLB as an additional funding source. Since June 30, 2014, Hampden Bancorp has increased FHLB borrowings by \$7.3 million to a total of \$123.8 million outstanding as of September 30, 2014. On that date, Hampden Bancorp had the ability to borrow an additional \$56.1 million from the FHLB. At September 30, 2014 and June 30, 2014, Hampden Bancorp had an Ideal Way Line of Credit available with the FHLB of \$2.0 million, of which there were no amounts outstanding. In addition, Hampden Bancorp had lines of credit with the Federal Reserve Bank of Boston and Bankers Bank Northeast totaling \$7.4 million at September 30, 2014 and June 30, 2014, of which there were no amounts outstanding. As of September 30, 2014, the investments pledged for collateral with the Federal Reserve Bank of Boston has a market value of \$10.8 million.

Hampden Bancorp uses its liquidity to fund existing and future loan commitments, to fund maturing certificates of deposit and borrowings, to fund other deposit withdrawals, to invest in other interest-earning assets and to meet operating expenses. Hampden Bancorp anticipates that it will continue to have sufficient funds and alternative funding sources to meet its commitments.

Contractual Obligations. The following table presents information indicating various contractual obligations and commitments of Hampden Bancorp as of June 30, 2014 and the respective maturity dates:

	Total	One Year or Less	June 30, 2014 More Than One Year Through Three Years (In Thousands)	More Than Three Years Through Five Years	Over Five Years
Federal Home Loan Bank of Boston advances	\$ 116,446	\$ 17,427	\$ 61,800	\$ 27,877	\$ 9,342
Lease commitments	3,145	349	661	568	1,567
Total contractual obligations	\$ 119,591	\$ 17,776	\$ 62,461	\$ 28,445	\$ 10,909

Off-Balance Sheet Arrangements.

Loan commitments. In the normal course of business, there are outstanding commitments which are not reflected in the accompanying consolidated balance sheets. Commitments to extend credit are

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agreements to lend to a customer as long as there is no violation of any condition established in the contract and generally have fixed expiration dates or other termination clauses. The following table presents certain information about Hampden Bancorp's loan commitments and other contingencies outstanding as of September 30, 2014 and June 30, 2014.

	September 30, 2014	June 30, 2014
(In Thousands)		
Commitments to grant loans(1)	\$ 17,011	\$ 15,930
Commercial loan lines-of-credit(2)	34,130	37,789
Unused portions of home equity lines-of-credit(3)	35,544	35,718
Unused portion of construction loans(4)	29,092	37,889
Unused portion of personal lines-of-credit(5)	1,790	1,828
Standby letters of credit(6)	595	500
Total loan commitments	\$ 118,162	\$ 129,654

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- (1) Commitments for loans are generally extended to customers for up to 60 days after which they expire.
 - (2) The majority of commercial lines-of-credit are written on a demand basis.
 - (3) Unused portions of home equity lines-of-credit are available to the borrower for up to 20 years.
 - (4) Unused portions of construction loans are generally available to the borrower for up to eighteen months for development loans and up to one year for other construction loans.
 - (5) Unused portions of personal lines-of-credit are available to customers in "good standing" indefinitely.
 - (6) Standby letters of credit are generally available for one year or less.

Management of Other Risks. Two additional risk areas that receive significant attention by management and the Board are operational risk and compliance risk. Operational risk is the risk to earnings and capital arising from control deficiencies, problems with information systems, fraud, error or unforeseen catastrophes. Compliance risk is the risk arising from violations of, or nonconformance with laws, rules, regulations, prescribed practices, internal policies and procedures or ethical standards. Compliance risk can expose us to fines, civil money penalties, payment of damages and the voiding of contracts. Both operational and compliance risks also can have serious reputation risk issues for Hampden Bancorp as well.

Hampden Bancorp addresses such risks through the establishment of comprehensive policies and procedures with respect to internal control, the management and operation of its information and communication systems, disaster recovery, and compliance with laws, regulations and banking "best practice." Monitoring of the efficacy of such policies and procedures is performed through a combination of Hampden Bancorp's internal audit program, through periodic internal and third-party compliance reviews, and through the ongoing attention of its managers charged with supervising compliance and operational control. Oversight of these activities is provided by Hampden Bancorp's General Counsel and the Board of Directors.

Impact of Inflation and Changing Prices

The financial statements, accompanying notes, and related financial data presented herein have been prepared in accordance with generally accepted accounting principles, which require the

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measurement of financial position and operating results in terms of historical dollar amounts without considering the changes in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased cost of our operations. Most of our assets and liabilities are monetary in nature, and, therefore, the impact of interest rates has a greater impact on our performance than do the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services.

Impact of Recent Accounting Pronouncements

Please refer to the note on Recent Accounting Pronouncements in Note 1 to the consolidated financial statements included in this Proxy Statement/Prospectus beginning on page F-35 for a detailed discussion of new accounting pronouncements.

HAMPDEN BANCORP, INC. EXECUTIVE OFFICER AND DIRECTOR COMPENSATION

Executive Officers of Hampden Bancorp

The following table sets forth certain information regarding the executive officers of Hampden Bancorp as of June 30, 2014.

Name	Position
Glenn S. Welch	Chief Executive Officer, President and Director
Robert A. Massey	Chief Financial Officer, Senior Vice President and Treasurer
Luke D. Kettles	Senior Vice President and Chief Lending Officer
Robert J. Michel	Senior Vice President and Division Executive for Retail and Mortgage Lending
Sheryl Shinn	Senior Vice President and Division Executive for IT and Operations

On July 1, 2014, the Board appointed Tara G. Corthell as Chief Financial Officer and Treasurer of Hampden Bancorp, effective July 1, 2014. Ms. Corthell, 34, joined Hampden Bank in 2006 as the Vice President, Finance Manager. In 2013, she was promoted to Senior Vice President and Director of Finance of Hampden Bancorp and the Bank. Also on July 1, 2014, the Board appointed Mr. Massey as Chief Operating Officer of Hampden Bancorp and the Bank, effective July 1, 2014.

Compensation Discussion and Analysis

Hampden Bancorp's compensation philosophy is designed to align each executive's compensation with Hampden Bancorp's short-term and long-term performance and to provide the compensation and incentives needed to attract, motivate and retain key executives who are crucial to Hampden Bancorp's long-term success. Consistent with this philosophy, up to 20% of the total cash compensation for each of Hampden Bancorp's executives is directly related to performance factors that measure Hampden Bancorp's progress against the goals of its strategic and operating plans, as well as Hampden Bancorp's performance against that of its peer companies. Similarly, named executive officer base salaries are benchmarked to the 25th percentile of the peer group of banks and financial institutions.

The Compensation Committee and the Board of Directors believe that the policies and procedures articulated in the "Compensation Discussion and Analysis" are effective in achieving Hampden Bancorp's goals and that the compensation of its named executive officers reported in this Proxy Statement/Prospectus has contributed to Hampden Bancorp's recent and long-term success.

Hampden Bancorp achieved key corporate growth objectives in fiscal 2014, highlighted by:

25.6%, or \$59.5 million, increase in commercial loan portfolio

12.5%, or \$56.3 million, increase in total loan portfolio, including loans held for sale; and

51.8%, or \$1.5 million, increase in net income

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Hampden Bancorp believes that these accomplishments are reflected in the 13.1% increase in the market price of its common stock from June 30, 2013 to June 30, 2014.

Overview. The Hampden Bancorp Board of Directors, through the Compensation Committee, is responsible for establishing and administering the Hampden Bancorp executive compensation program. The Compensation Committee, which in fiscal 2014 consisted of Mary Ellen Scott (Chair), Stanley Kowalski, Jr., Richard J. Kos, and Arlene Putnam, who were all independent directors, annually reviews the executive compensation program and recommends to the Board of Directors for its approval appropriate modifications to the compensation program and the compensation packages for each of the executive officers, including specific amounts and types of compensation used. The Compensation Committee reviews recommendations from the CEO regarding compensation of the other named executive officers and recommends final compensation packages to the full Board for final approval. The Compensation Committee reviews the charter at least annually to ensure that the scope of the charter is consistent with the Compensation Committee's expected role. Under the charter, the Compensation Committee is charged with general responsibility for the oversight and administration of the compensation program.

For fiscal 2014, Hampden Bancorp's named executive officers were Glenn S. Welch, Robert A. Massey, Luke D. Kettles, Robert J. Michel, and Sheryl Shinn.

Overall Compensation Philosophy and Guiding Principles. The Compensation Committee believes that Hampden Bancorp's success depends on the ability to attract and retain talented executives motivated to drive the Hampden Bancorp's goals and provide long-term value to its stockholders.

The Hampden Bancorp compensation program is designed to link compensation with performance, taking into account competitive compensation levels at similar banks and in the markets where Hampden Bank competes for talent. Principles guiding the compensation philosophy include the following:

Employer of Choice: Hampden Bancorp views compensation as one key to being an employer of choice in its markets, as well as being able to attract and retain key employees critical to its long-term success.

Pay Aligned with Performance: Hampden Bancorp provides a competitive base salary combined with incentive opportunities that provide additional compensation for outstanding bank and individual performance.

Flexibility: Hampden Bancorp recognizes that the market for talent requires flexibility in compensation in order to attract qualified individuals. Salary ranges and individual compensation decisions take into account local competitive pressures and changing conditions. Furthermore, the targeted competitive position may vary depending on the type and level of position, recognizing the different recruiting conditions and relative importance of various qualifications.

The Compensation Committee sets and administers the policies that govern the executive compensation programs, including various incentive stock and stock option plans; reviews compensation levels of the named executive officers; evaluates the performance of the named executive officers; and considers management succession and related matters. All decisions relating to the compensation of the named executive officers are recommended by the Compensation Committee for approval of the full Board.

The policies and underlying philosophy governing the executive compensation program, as endorsed by the Compensation Committee (and the Board of Directors), are designed to accomplish the following:

Maintain a compensation program that is equitable in a competitive marketplace.

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Provide opportunities that integrate pay with Hampden Bancorp's performance goals.

Encourage achievement of strategic objectives and creation of shareholder value.

Recognize and reward individual initiative and achievements.

Maintain an appropriate balance in the total compensation mix.

Allow Hampden Bancorp to compete for, retain, and motivate talented executives critical to its success.

The Compensation Committee seeks to target executive compensation at levels that the Compensation Committee believes to be consistent with others in the banking industry. The Compensation Committee believes that a portion of each executive's total compensation should be at risk based on Hampden Bancorp's performance in order to motivate and reward executives to achieve Hampden Bancorp's strategic goals. The named executive officers' compensation is weighted toward programs contingent upon Hampden Bancorp's level of annual and long-term performance. In general, for named executive officers, Hampden Bancorp targets base salaries that, on average, are at the 50th percentile of other banks and financial service companies of Hampden Bancorp's asset size, complexity and with similar products and markets (the "peer group" listed below). Additionally, the annual incentive bonus plan is intended to provide additional compensation if and to the extent that annual goals are met or exceeded. Hampden Bancorp targets incentive bonus compensation that, on average, is at the 50th percentile of other companies in Hampden Bancorp's peer group. See " Compensation Program Design" below.

Compensation Consultant/Role of Management. The Compensation Committee has authority under its charter to engage the services of independent third party experts to assist it in reviewing and determining executive officer compensation. Pursuant to this authority, the Compensation Committee engaged McLagan, Inc. for fiscal 2014 to conduct comparative studies of compensation for Hampden Bancorp executive officers and members of the Board of Directors, and related to benchmarking chief executive officer compensation in connection with the Nominating and Governance Committee process.

The CEO annually presents to the Compensation Committee, for their review and approval, his self-evaluation and an assessment of other executive officers, including each individual's accomplishments, and individual and corporate performance relative to the approved incentive plan. The Committee has discretion to adjust the CEO's recommendations, but generally has approved his recommendations for executive officers. McLagan, Inc. has no conflicts of interest with Hampden Bank.

Compensation Committee Activities in Fiscal 2014. The Compensation Committee met two times during fiscal 2014. Hampden Bancorp took several actions during fiscal 2014 to further adjust its executive officer compensation program and create alignment with the interests of stockholders, which are described in detail under " Elements of Compensation," including engaging McLagan as compensation consultant to assess the competitiveness of the total compensation under the executive compensation program and to provide competitive guidelines for programs going forward. The compensation consultant also provided services related to chief executive officer salary benchmarking.

Objectives of Compensation Programs. Hampden Bancorp's executive officer compensation program is designed to:

Attract, retain, motivate and reward highly qualified and productive executives by providing overall compensation that is competitive with other institutions with which Hampden Bancorp competes for executive talent;

Motivate each individual to perform, to the best of his or her ability, in order to achieve targeted goals for the individual and Hampden Bancorp;

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Improve Hampden Bancorp performance, balancing risk-taking with fundamental concepts of safety and soundness;

Establish compensation levels that provide the greatest potential rewards for positions of greatest responsibility within a framework that is internally equitable;

Promote the long-term increase in the value of Hampden Bancorp by providing a portion of compensation in the form of Hampden Bancorp common stock that vests over a period of years; and

Provide the appropriate mix of compensation that will drive superior performance and create alignment with the interests of stockholders.

Compensation Program Design

Cash Compensation. Current cash compensation consists of base salary and incentive cash bonuses, which covers executive officers and other Hampden Bancorp employees. Base salary levels for executive officers are intended to be competitive with the peer group to motivate individuals to discharge the responsibilities of their position and to reflect the officer's role, responsibilities, experience, performance and contribution to Hampden Bancorp's success. The Compensation Committee adjusts base salaries of named executive officers annually with input from Mr. Welch. In making these adjustments, the Compensation Committee takes into account individual and Hampden Bancorp performance; the total current and potential compensation of a given officer based on a review; the levels of compensation paid by institutions that compete with Hampden Bancorp for executive talent; and the relative level of compensation in comparison to other executive officers and employees. One of the executive officers, Mr. Welch, has an employment agreement with Hampden Bancorp and receives a base salary under that agreement, subject to annual review and adjustments.

Use of Compensation Survey. The Compensation Committee also relies on peer group surveys prepared by its consultant, McLagan, to assess the competitiveness of Hampden Bancorp's pay practices in the marketplace. The peer group data is used in combination with other supplemental published survey sources reflecting industry data for banks of similar size (national financial institutions with assets between \$450 million and \$1.3 billion) and for banks in Hampden Bancorp's region, as well as with information relating to individual and Hampden Bancorp performance, to help the Compensation Committee make compensation decisions. McLagan selected a peer group and benchmarked Hampden Bancorp's cash compensation (base salary plus annual cash incentive compensation) against this group. The peer group consisted of 16 publicly traded financial institutions of similar asset size and regional location. The peer group consisted of:

Patriot National Bancorp Inc.	Westfield Financial, Inc.
Hingham Institution for Savings	Pathfinder Bancorp Inc.
SI Financial Group, Inc.	Chemung Financial Corp.
Evans Bancorp, Inc.	Peoples Federal Bancshares Inc.
Oneida Financial Corp.	Elmira Savings Bank
BSB Bancorp Inc.	Salisbury Bancorp, Inc.
Chicopee Bancorp, Inc.	Greene County Bancorp Inc. (MHC)
PSB Holdings, Inc. (MHC)	Lake Shore Bancorp Inc.

Impact of Performance on Cash Compensation Incentive Bonus Plan. Hampden Bancorp implements the objective of relating pay to individual and Hampden Bancorp performance by paying variable performance bonuses. Bonuses are based on the level of individual and Hampden Bancorp performance measured against strategic criteria in the following categories: (1) financial performance (net income, net interest income); and (2) business and process improvement (core deposit growth, and

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loan growth). Results of this program during 2014 are discussed below under "Elements of Compensation Incentive Bonus Plan."

Equity Compensation Plan. During fiscal 2008, the Board of Directors and stockholders approved the 2008 Equity Incentive Plan and the Compensation Committee made grants under the 2008 Equity Incentive Plan to executive officers. In designing the program, the Compensation Committee considered the fundamental change that occurred to Hampden Bank in its mutual to stock conversion and that, prior to the conversion, Hampden Bank was not able to offer any forms of equity compensation. The Compensation Committee also considered the significant change in duties and responsibilities of executive officers resulting from the change in corporate form and the significant increase in capital from the conversion and officers' ability to deploy such capital in a safe and sound manner. Hampden Bancorp designed the equity incentive program to reward the long-term efforts of executive officers to increase returns to stockholders and to be competitive with similar programs at other institutions. In structuring the program, Hampden Bancorp considered the prevalence among recently converted peer companies of making a large initial post-conversion equity grant with a long vesting period and the applicability of this practice to Hampden Bancorp, taking into account all elements of compensation paid to executive officers. The 2008 Equity Incentive Plan is intended to promote the continuity of the executive leadership team by imposing lengthy vesting requirements and to enable them to focus on improving the long-term performance of Hampden Bancorp. The Compensation Committee has not made and does not expect to make grants on an annual basis to executive officers under the 2008 Equity Incentive Plan. The Compensation Committee did not make any grants under the 2008 Equity Incentive Plan to executive officers in fiscal 2014.

Tax and Accounting Considerations. In consultation with advisors, the Compensation Committee evaluates the tax and accounting treatment of each of Hampden Bancorp's compensation programs at the time of adoption and on an annual basis to ensure that Hampden Bancorp understands the financial impact of the program. The analysis includes a detailed review of recently adopted and pending changes in tax and accounting requirements. As part of its review, Hampden Bancorp considered modifications and/or alternatives to existing programs to take advantage of favorable changes in the tax or accounting environment or to avoid adverse consequences.

Hampden Bancorp attempts to maximize the tax benefits related to compensation expense; however, tax considerations are not a compelling factor in determining compensation. While the Compensation Committee is mindful of the benefit of full tax deductibility of compensation, the Compensation Committee believes that it should not be constrained by the requirements of Section 162(m) of the Internal Revenue Code where those requirements would impair flexibility in implementing compensation programs in a manner the Compensation Committee believes promotes its objectives.

Elements of Compensation. The compensation package for executive officers is comprised of four main components: base salary, incentive bonus plan, retirement benefits, and equity incentive awards.

Base Salary. Base salaries are intended to be competitive relative to similar positions at companies of comparable size in business so that Hampden Bancorp may attract and retain high quality employees. The Compensation Committee has the discretion to adjust salaries based on skill level of the executive, and generally attempt to benchmark's named executive officer salaries around the 50th percentile of other companies in the peer group. In July 2013, the Compensation Committee reviewed executive salaries, performance and competitive market pay practices (see "Compensation Program Design Use of Compensation Survey"), and based on such assessment, recommended an increase to Mr. Kettles' base salary of 4%, and increases to Massey, Michel and Shinn base salaries of 3%. The Compensation Committee also increased Mr. Welch's base salary under his existing employment agreement from \$215,250 to \$260,250, effective as of January 1, 2014 in order to align Mr. Welch's salary more closely to CEOs of the other companies in the peer group.

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Incentive Bonus Plan. Hampden Bancorp has adopted an annual incentive plan that provides for a variable cash payment opportunity based on individual and Hampden Bancorp performance. The bonus plan compensates the CEO up to 20% of his base salary and all other executive officers up to 15% of their base salary for obtaining short-term Hampden Bancorp goals established by the Board of Directors through the profit plan with respect to the relevant year. The CEO also takes into account the personal goals for the year of each of the other named executive officers and may increase or decrease an executive's bonus in his discretion based on Hampden Bancorp performance and subjective factors relevant to a particular executive. For fiscal 2014, executives were eligible to receive a bonus under the annual incentive plan if Hampden Bancorp achieved net income for fiscal 2014 of at least \$3.8 million. Each executive was eligible to receive a bonus equal to an increasing percentage of base salary (up to 20% for Mr. Welch and 15% for each other executive) if and to the extent that this net income target was achieved. For fiscal 2014, Hampden Bancorp exceeded the net income target specified above by 20%, resulting in a payout of 20% of base salary to Mr. Welch and 15% of base salary for each other executive. The CEO also determined that the other named executive officers' individual performance for the 2014 fiscal year met the executives' individual performance goals for the year (which included a bonus of 5% of base salary each for Messrs. Massey, Kettles, Michel and Ms. Shinn), and considered Hampden Bancorp's performance for fiscal 2014 in metrics that the CEO considers important, including earnings per share, deposit growth, loan quality and loan production, in determining the final amount of each executive's bonus. As a result of the foregoing, Messrs. Welch, Massey, Kettles and Michel and Ms. Shinn were awarded bonus payments of \$43,050, \$27,559, \$36,751, \$28,717 and \$25,496 (in each case, an amount equal to 20% of the executive's base salary), respectively, for fiscal 2014.

Equity Incentive Awards. None of the named executive officers received stock or option awards during fiscal 2014. For future grants, the Compensation Committee will determine the schedule upon which awards vest, which may consist of time-based or performance-based vesting.

Retirement Benefits. Retirement benefits have become an important element of a competitive compensation program for attracting senior executives, especially in the financial services industry. The executive compensation program currently includes (i) a 401(k) plan which enables employees to supplement their retirement savings with elective deferral contributions with matching contributions by Hampden Bancorp at specific levels, and (ii) an employee stock ownership plan that allows participants to accumulate retirement benefits in employer stock at no cost to the participant.

Benefit Plans

401(k) Plan. Hampden Bancorp sponsors the Hampden Bank SBERA 401(k) Plan, a tax-qualified defined contribution plan, for all employees who have satisfied the plan eligibility requirements. Employees who have attained age 21 may begin deferring compensation as of the first day of the month following the completion of twelve months of employment with Hampden Bank. The 401(k) Plan permits each participant to make pre-tax salary deferrals in an amount up to 75% of compensation. Participants in the 401(k) Plan may modify the amount contributed to the 401(k) Plan, effective on the first day of the month, by filing a new deferral agreement with the plan administrator at least 15 days prior to the effective date of the modification. Hampden Bancorp has discretion under the 401(k) Plan to make matching contributions. Hampden Bancorp contributes an amount equal to 3% of each employee's compensation for the plan year to their participation account and will make matching contributions equal to 50% of the first 2% of each participant's deferred compensation for the plan year.

Employee Stock Ownership Plan. In connection with the mutual to stock conversion, Hampden Bancorp and Hampden Bank authorized the adoption of an ESOP for eligible employees of Hampden Bank. Eligible employees who had attained age 21 and had been employed by Hampden Bancorp for

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three months at the closing date of the conversion are eligible to participate in the ESOP. Thereafter, new employees of Hampden Bank who have attained age 21 and completed 1,000 hours of service during a continuous 12-month period are eligible to participate in the ESOP as of the first entry date following completion of the ESOP's eligibility requirements.

Participants vest in the benefits allocated under the ESOP at a rate of 20% per year for each year of continuous service with Hampden Bank over a five-year period. A participant will become fully vested at retirement, upon death or disability or upon termination of the ESOP. Benefits can be distributable over a period of time upon a participant's separation from service. Any unvested shares that are forfeited upon a participant's termination of employment will be reallocated among the remaining ESOP participants.

Plan participants are entitled to direct the plan trustee on how to vote common stock credited to their accounts. The trustee will vote allocated shares held in the employee stock ownership plan as instructed by the plan participants and unallocated shares and allocated shares for which no instructions are received will be voted in the same ratio on any matter as those shares for which instructions are given, subject to the fiduciary responsibilities of the trustee.

The ESOP must meet certain requirements of the Internal Revenue Code and the Employment Retirement Income Security Act of 1974, as amended. Hampden Bancorp has filed a request for a favorable determination letter from the Internal Revenue Service regarding the tax-qualified status of the ESOP.

Employment Agreement. On October 5, 2012, Hampden Bancorp entered into an employment agreement with Mr. Welch (the "Executive"), referred to as the "employment agreement." Hampden Bancorp's continued success depends to a significant degree on the skills and competence of the Executive, and the employment agreement is intended to ensure that Hampden Bancorp maintains a stable and competent management base. Under the agreement, Hampden Bancorp will make any payments not made by Hampden Bank under its agreement with the executive, but the executive will not have duplicative payments.

The initial term of the agreement with the Executive is three years. The term automatically extends at the conclusion of the initial term for a successive term of twelve months, unless notice not to renew is given by either party, or unless the agreement is earlier terminated by the parties. Following termination of the Executive's employment, the Executive must adhere to non-competition and non-solicitation restrictions for one year. The employment agreement provides that the Executive's base salary will be reviewed annually. The base salary that is currently effective for such employment agreement for Mr. Welch is \$260,250. In addition to the base salary, the employment agreement provides for, among other things, participation in stock benefits plans and other fringe benefits applicable to Executive personnel. The employment agreement provides for termination by Hampden Bank or Hampden Bancorp for "cause," as defined in the employment agreement, at any time. If Hampden Bank or Hampden Bancorp chooses to terminate the Executive's employment without "cause," or if the Executive resigns from Hampden Bank or Hampden Bancorp with "good reason" as defined in the employment agreement, the Executive will receive an amount equal to the remaining base salary payments due to the Executive for the remaining term of the employment agreement, the benefits that he would have received under any retirement programs in which he participated for the remaining term of the employment agreement, and the right to continue to participate in any benefit plans of Hampden Bank that provide life insurance for the remaining term of the employment agreement. In addition, Hampden Bank and/or Hampden Bancorp would also continue and/or pay for the executive's health and dental coverage for 18 months or at such earlier date as the Executive becomes eligible for coverage under another employer's group coverage.

The employment agreement with the Executive also provides certain termination and change in control benefits and payments identified below in " Potential Payments On Termination or Change In

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Control." Under these agreements, in the event of a change in ownership or control within the meaning of section 409A of the Internal Revenue Code, if the Executive is offered employment with Hampden Bank or its successor that is comparable in terms of compensation and responsibilities, and the Executive stays for six months after the change in ownership or control is completed, the Executive shall receive a lump sum payment in the amount of three months base salary. In addition, under the agreement, if within the period ending two years after a change in control as defined in the agreements, Hampden Bank or Hampden Bancorp terminates the Executive without "cause" or the Executive resigns with "good reason", as defined in the agreement, the Executive would be entitled to a severance payment equal to three times the average of his annual compensation for the five preceding taxable years. Hampden Bancorp would also continue and/or pay for the Executive's health and dental coverage for 18 months or at such earlier date as the Executive becomes eligible for coverage under another employer's group coverage. Additionally, the Executive would continue to participate in any benefit plans that provided life insurance and would receive the benefits he would have received under any retirement programs in which he participated for 36 months following his termination of employment (other than where prohibited by express plan terms, or by applicable law). Under the terms of the employment agreement, if the severance and other benefits provided for in the agreements or otherwise payable to the executive (i) constitute "parachute payments" within the meaning of Section 280G of the Internal Revenue Code and (ii) would be subject to the excise tax imposed by Section 4999 of the Code, then the Executive's severance benefits will be either: (a) delivered in full, or (b) delivered as to such lesser extent which would result in no portion of such severance benefits being subject to excise tax under Section 4999 of the Code, whichever of the foregoing amounts, taking into account the applicable federal, state and local income taxes and the excise tax imposed by Section 4999, results in the receipt by the executive on an after-tax basis, of the greatest amount of severance benefits, notwithstanding that all or some portion of such severance benefits may be taxable under Section 4999 of the Code.

Change in Control Agreements. Hampden Bancorp has entered into change in control agreements with Messrs. Massey, Kettles, and Michel and Ms. Shinn. The change in control agreements have a one-year term. In November 2013, the Board of Directors of Hampden Bank extended the agreement for an additional year because Hampden Bancorp believed that it was in the best interest of Hampden Bancorp and its stockholders to provide executive officers with an incentive to continue their employment and to motivate the executive officers to maximize the value of Hampden Bancorp upon a change in control for the benefit of stockholders. Under the agreement, in the event of a change in ownership or control within the meaning of section 409A(a)(2)(A)(v) of the Internal Revenue Code, if Messrs. Massey, Kettles, and Michel or Ms. Shinn are offered employment with Hampden Bank or its successor that is comparable in terms of compensation and responsibilities, and he or she stays for six months after the change in ownership or control is completed, he or she shall receive a lump sum payment in the amount of three months base salary. If, within a period ending two years after a change in control (as defined in the agreement), Hampden Bank or Hampden Bancorp or their successors terminates his or her employment without "cause" (as defined in the agreement), or if he or she voluntarily resigns with "good reason" (as defined in the agreement), Messrs. Kettles and Michel will receive a severance payment under the agreements equal to two times his or her average annual compensation for the five most recent taxable years, while Mr. Massey and Ms. Shinn will receive a severance payment under the agreement equal to one times his average annual compensation for the five most recent taxable years. Hampden Bank will also continue health, dental and disability benefit coverage for 18 months following termination of employment.

Split Dollar/Salary Continuation Agreements. Hampden Bancorp has entered into a split-dollar life insurance agreement with Mr. Michel under which Hampden Bancorp advances premiums to fund life insurance policies that are owned by the executive. The policy is collaterally assigned to Hampden Bank to secure the repayment of premiums upon termination of employment. At the time that Hampden Bank entered into the split dollar agreement, it also entered into a salary continuation agreement

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("SCA") with Mr. Michel. Mr. Michel will be provided a lump sum payment under the SCA. The lump sum benefit under the SCA for Mr. Michel is \$409,000.

Split Dollar Life Insurance Agreements. Hampden Bank has entered into substantially similar split dollar life insurance agreements ("SDLI Agreements") with certain officers of the Bank, including Messrs. Welch, Massey, Kettles, and Michel and Ms. Shinn.

The SDLI Agreements are intended to be non-equity, endorsement split dollar agreements, with respect to certain life insurance policies issued by a duly licensed life insurance company identified in the SDLI Agreements. The insurance policies are to be treated as "bank owned life insurance." Pursuant to the SDLI Agreements, Hampden Bank shall pay an amount equal to the planned premiums and any other premium payments that might become necessary to keep the insurance policies in force. Upon the death of an executive officer (in the case of Mr. Kettles and Ms. Shinn, while employed by Hampden Bank, unless such executive's death occurs after reaching retirement age or after a change in control), the division of the death proceeds of his insurance policy shall be as follows: the executive officer's designated beneficiary(ies) will be entitled to payment from the policy proceeds directly from the insurer of an amount equal to the lesser of:

- (i) a specified dollar amount (\$1.0 million in the case of Mr. Welch; and \$350,000 in the cases of Messrs. Massey, Kettles, and Michel and Ms. Shinn); or
- (ii) the Net Death Benefit. The "Net Death Benefit" shall be the death benefit payable under the terms of the policy reduced by the aggregate premiums paid by the Bank.

Hampden Bank shall at all times be entitled to one hundred percent (100%) of the insurance policies' cash values, less any policy loans and unpaid interest or cash withdrawals previously incurred by Hampden Bank.

Executive Salary Continuation Agreements. Hampden Bancorp has entered into non-qualified deferred compensation agreements which are referred to as executive salary continuation agreements ("ESCs") with Messrs. Welch, Massey, Kettles, and Michel for the purpose of supplementing retirement benefits provided under Hampden Bank's Pension Plan. Benefits are expressed as a life annuity with annual payments of \$60,000 for Mr. Welch, \$50,000 for Mr. Kettles and \$30,000 for Messrs. Massey and Michel. Benefits under these ESCs may be funded under a "rabbi" trust. The agreements provide that the executives will receive a monthly supplemental retirement income benefit until the death of the executive following retirement at or after age 65 for Messrs. Welch, Massey and Kettles, and age 62 for Mr. Michel. In the event an executive dies prior to retirement, a pre-retirement death benefit is paid to his beneficiary. The ESCs also provide for a benefit in the event an executive terminates service with Hampden Bank, voluntarily or involuntarily, prior to attaining retirement age for reasons other than cause, as defined in the ESCs, including a change in control. Under these circumstances, the executive shall receive the benefits promised in his ESCA upon attaining normal retirement age, as if the executive had been continuously employed by Hampden Bank until said normal retirement age. If an executive's service is terminated due to a disability before he attains age 65, the executive will immediately receive the retirement benefit as if he had reached retirement age.

Hampden Bank entered into a grantor or "rabbi" trust agreement with an independent trustee. The grantor trust has been established to hold assets that Hampden Bank may contribute for the purpose of making benefits payments under the ESCs. Funds held in the trust remain at all times subject to the claims of Hampden Banks' creditors in the event of Hampden Bank's insolvency.

Table of Contents**Summary Compensation Table**

The following table sets forth certain summary information regarding the compensation paid or accrued by Hampden Bancorp to or for the account of its named executive officers during the fiscal year ended June 30, 2014 and were serving as executive officers as of such date.

Name	Year(1)	Salary	Bonus	Stock Awards(2)	Option Awards(3)	Change in Pension Value and Nonqualified Deferred Compensation Earnings(4)	All Other Compensation(5)	Total
Glenn S. Welch President and Chief Executive Officer	2014	\$ 231,375	\$ 43,050	\$	\$	\$ 26,515	\$ 26,535	\$ 327,475
	2013	\$ 205,000	\$	\$	\$	\$ 25,099	\$ 25,256	\$ 255,355
	2012	\$ 193,670	\$ 20,580	\$	\$ 51,675	\$ 23,748	\$ 21,554	\$ 311,227
Robert A. Massey Chief Financial Officer and Treasurer	2014	\$ 137,330	\$ 27,559	\$	\$	\$ 41,812	\$ 19,664	\$ 226,365
	2013	\$ 133,780	\$ 13,378	\$	\$	\$ 39,579	\$ 16,523	\$ 203,260
	2012	\$ 129,883	\$ 17,663	\$	\$	\$ 38,493	\$ 15,538	\$ 201,577
Luke D. Kettles(6) Chief Lending Officer	2014	\$ 182,740	\$ 36,751	\$	\$	\$ 10,222	\$ 21,776	\$ 251,489
	2013	\$ 175,000	\$ 33,250	\$ 37,530	\$ 33,440	\$ 8,044	\$	\$ 287,264
	2012	\$	\$	\$	\$	\$	\$	\$
Robert J. Michel Senior Vice President	2014	\$ 143,102	\$ 28,717	\$	\$	\$ 33,715	\$ 33,908	\$ 239,442
	2013	\$ 139,403	\$ 13,940	\$	\$	\$ 55,599	\$ 31,526	\$ 240,468
	2012	\$ 135,342	\$ 18,405	\$	\$	\$ 52,060	\$ 30,610	\$ 236,417
Sheryl Shinn Senior Vice President	2014	\$ 127,054	\$ 25,496	\$	\$	\$	\$ 16,626	\$ 169,176
	2013	\$ 123,768	\$ 6,188	\$	\$	\$	\$ 15,617	\$ 145,573
	2012	\$ 120,163	\$ 16,341	\$	\$	\$	\$ 14,900	\$ 151,404

(1) Fiscal year-end is June 30.

(2) Reflects the grant date fair value of restricted stock awards granted to executive officers under the 2008 Equity Incentive Plan. The grant date fair value of the stock awards has been computed in accordance with the stock compensation accounting rules under Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 718. A discussion of the assumptions used in calculating the award values may be found at Note 14 to the consolidated financial statements beginning on page F-68.

(3) Reflects the grant date fair value of stock option awards granted to the executive officers under the 2008 Equity Incentive Plan. The grant date fair value of the stock options has been computed in accordance with the stock based accounting rules under FASB ASC Topic 718. A discussion of the assumptions used in calculating the award values may be found at Note 14 to the consolidated financial statements beginning on page F-68.

(4) This column reflects the aggregate increase in the actuarial present value of the executive officers accumulated benefit under the Executive Salary Continuation Arrangements.

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(5) Details of the amounts reported in the "All Other Compensation" column for fiscal 2014 are provided in the following table.

		Mr. Welch	Mr. Massey	Mr. Kettles	Mr. Michel	Ms.Shinn
Employer contributions to 401(k) Plan	2014	\$ 8,860	\$ 7,070	\$ 5,644	\$ 6,784	\$ 5,345
	2013	\$ 8,708	\$ 5,556	\$	\$ 6,098	\$ 5,604
	2012	\$ 7,118	\$ 4,844	\$	\$ 5,536	\$ 5,029
Imputed income under split dollar agreements	2014	\$	\$	\$	\$ 14,000	\$
	2013	\$	\$	\$	\$ 14,000	\$
	2012	\$	\$	\$	\$ 14,000	\$
Employer contributions to ESOP Plan	2014	\$ 17,675	\$ 12,594	\$ 16,132	\$ 13,124	\$ 11,281
	2013	\$ 16,548	\$ 10,967	\$	\$ 11,428	\$ 10,013
	2012	\$ 14,436	\$ 10,694	\$	\$ 11,144	\$ 9,871

(6) Mr. Kettles commenced employment on July 1, 2012.

Outstanding Equity Awards at Fiscal Year-End

The following table sets forth information regarding stock option and restricted stock awards granted to named executive officers that were outstanding as of June 30, 2014.

Name	Option Awards				Stock Awards	
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable(1)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)(2)	Market Value of Shares or Units of Stock That Have Not Vested (\$)(3)
Glenn S. Welch	55,000		10.90	April 29, 2018 November 29, 2021		
Glenn S. Welch	7,500	7,500	12.09			
Robert A. Massey	28,000		10.90	April 29, 2018		
Luke D. Kettles	2,000	8,000	12.51	August 7, 2022	2,400	40,464
Robert J. Michel	24,900		10.90	April 29, 2018		
Sheryl Shinn	30,000		10.90	April 29, 2018		

(1) Options for Mr. Welch vest as to 25% of the shares subject to the grant on November 29, 2011 and an additional 25% of the shares subject to the grant vest November 29 of each year thereafter, subject to the executive's continued service on the relevant vesting dates. Options for Mr. Kettles vest as to 20% of the shares subject to the grant on August 7, 2012 and an additional 20% of the shares subject to the grant vest August 7 of each year thereafter, subject to the executive's continued service on the relevant vesting dates.

(2) Shares of restricted stock vest as to 20% of the shares subject to the grant on August 7, 2012 and an additional 20% of the shares subject to the grant vest August 7 of each year thereafter, subject to the executive's continued service on the relevant vesting dates.

(3) The market value of unvested restricted stock is based upon the closing price of Hampden Bancorp common stock on June 30, 2014, of \$16.86 per share.

Table of Contents**Option Exercises and Stock Vested**

The following table provides information concerning the value realized on option award exercise and vesting of stock awards for each named executive officer, on an aggregate basis, during the fiscal year ended June 30, 2014.

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)(1)
Robert A. Massey	2,000	21,800		
Luke D. Kettles			600	9,312
Robert J. Michel	4,500	49,050		

(1) The value realized on vesting is based upon the closing price of Hampden Bancorp common stock on the vesting date.

Pension Benefits

The following table sets forth information regarding pension benefits earned by named executive officers during the fiscal year ended June 30, 2014.

Name	Executive Contributions in Last Fiscal Year (\$)	Company Contributions in Last Fiscal Year (\$)(1)	Aggregate Earnings in Last Fiscal Year (\$)	Aggregate Withdrawals/Distributions (\$)	Accumulated Benefit at June 30, 2014 (\$)
Glenn S. Welch	\$	\$ 26,515	\$	\$	\$ 174,131
Robert A. Massey	\$	\$ 41,812	\$	\$	\$ 295,740
Luke D. Kettles	\$	\$ 10,222	\$	\$	\$ 23,054
Robert J. Michel	\$	\$ 47,715	\$	\$	\$ 365,141

(1) Represents amounts contributed by Hampden Bancorp for the ESCAs and the Split Dollar/Salary Continuation Agreements. All amounts representing contributions by Hampden Bancorp are included in the Summary Compensation Table.

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Potential Payments On Termination Or Change In Control

The following tables show the potential payments and benefits under the compensation and benefit plans and arrangements to which named executive officers would be entitled upon termination of employment, a change in control of Hampden Bancorp, or a change in the executive's responsibilities. For each executive, it is assumed that the triggering event or events occurred on June 30, 2014 (which was the last business day of Hampden Bancorp's most recently completed fiscal year). For information relating to employment and change of control agreements with named executive officers, see "Compensation Discussion and Analysis Employment Agreement," " Change In Control Agreements," " Split Dollar/Salary Continuation Plans," and " Executive Salary Continuation Arrangements."

Disability	Glenn S. Welch	Robert A. Massey	Luke D. Kettles	Robert J. Michel	Sheryl Shinn
Nonqualified Deferred Compensation(1)	\$ 883,066	\$ 354,364	\$ 779,049	\$ 364,078	\$
Split Dollar/Salary Continuation(2)	\$	\$	\$	\$ 210,000	\$
Acceleration of unvested equity awards(3)	\$ 35,775	\$	\$ 75,264	\$	\$
Disability Assistance Benefit(4)	\$ 88,456	\$ 52,502	\$ 69,863	\$ 54,709	\$ 48,574
Health Insurance	\$ 17,727	\$ 2,250	\$ 5,909	\$ 5,909	\$ 5,909

- (1) Represents the present value of payments of \$60,000 a year for Mr. Welch, \$50,000 a year for Mr. Kettles, and \$30,000 a year for Messrs. Massey and Michel beginning on June 30, 2014 until estimated death of 82 years old.
- (2) Represents the disability benefit Mr. Michel would receive under the salary continuation plan.
- (3) Value upon termination is calculated using a fair market value for Hampden Bancorp common stock of \$16.86 per share, the closing price of Hampden Bancorp common stock on The NASDAQ Global Market on June 30, 2014.
- (4) Represents the amount that each executive would receive under the Hampden Bank short-term disability assistance benefit.

Death	Glenn S. Welch	Robert A. Massey	Luke D. Kettles	Robert J. Michel	Sheryl Shinn
Nonqualified Deferred Compensation(1)	\$ 160,497	\$ 274,241	\$ 27,831	\$ 364,988	\$
Lump Sum Life Insurance(2)	\$ 1,050,000	\$ 400,000	\$ 400,000	\$ 400,000	\$ 400,000
Split Dollar/Salary Continuation(3)	\$	\$	\$	\$ 248,211	\$
Acceleration of unvested equity awards(4)	\$ 35,775	\$	\$ 75,264	\$	\$

- (1) Represents the accrued liability as of June 30, 2014.
- (2) Represents the Hampden Bank employee life insurance benefit and the payout from Bank Owned Life Insurance Agreements.
- (3) Represents the death benefit Mr. Michel would receive under their split dollar plan.

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- (4) Value upon termination is calculated using a fair market value for Hampden Bancorp common stock of \$16.86 per share, the closing price of Hampden Bancorp common stock on The NASDAQ Global Market on June 30, 2014.

Retirement or Resignation	Glenn S. Welch	Robert A. Massey	Luke D. Kettles	Robert J. Michel
Nonqualified Deferred Compensation(1)	\$ 160,497	\$ 274,241	\$ 27,831	\$ 364,988

- (1) Represents the accrued liability as of June 30, 2014.

Discharge Without Cause or Resignation With Good Reason No Change In Control	Glenn S. Welch	Robert A. Massey	Luke D. Kettles	Robert J. Michel
Nonqualified Deferred Compensation(1)	\$ 331,479	\$ 314,449	\$ 182,604	\$ 345,595
Lump Sum Cash Payment(2)	\$ 325,313	\$	\$	\$
Split Dollar/Salary Continuation(3)	\$	\$	\$	\$ 210,000

- (1) Represents the present value of payments of \$60,000 a year for Mr. Welch beginning on the month after he turns 65 years old, \$50,000 a year for Mr. Kettles beginning on the month after he turns 65 years old, \$30,000 a year for Mr. Massey beginning on the month after he turns 65 years old, and \$30,000 a year for Mr. Michel beginning on the month after he turns 62 years old and retires, until estimated death of 82 years old.

- (2) Represents the cash payment Mr. Welch would receive under his employment agreement.

- (3) Represents the benefit Mr. Michel would receive under the salary continuation plan.

Discharge Without Cause or Resignation With Good Reason Change In Control Related	Glenn S. Welch	Robert A. Massey	Luke D. Kettles	Robert J. Michel	Sheryl Shinn
Nonqualified Deferred Compensation(1)	\$ 331,479	\$ 314,449	\$ 182,604	\$ 345,595	\$
Lump Sum Cash Payment(2)	\$ 935,758	\$ 211,267	\$ 344,143	\$ 509,970	\$ 172,450
Health Insurance	\$ 17,727	\$ 2,250	\$ 5,909	\$ 5,909	\$ 5,909
Split Dollar/Salary Continuation(3)	\$	\$	\$	\$ 210,000	\$
Acceleration of unvested equity awards(4)	\$ 35,775	\$	\$ 75,264	\$	\$

- (1) Represents the present value of payments of \$60,000 a year for Mr. Welch beginning on the month after he turns 65 years old, \$50,000 a year for Mr. Kettles beginning on the month after he turns 65 years old, \$30,000 a year for Mr. Massey beginning on the month after he turns 65 years old, and \$30,000 a year for Mr. Michel beginning on the month after he turns 62 years old and retires, until estimated death of 82 years old.

- (2) Represents the lump sum cash payment Mr. Welch would receive under his employment agreement or the lump sum cash payments Messrs. Massey, Kettles, and Michel and Ms. Shinn would receive under their change in control agreements.

- (3) Represents the benefit Mr. Michel would receive under the salary continuation plan.

- (4) Value upon termination is calculated using a fair market value for Hampden Bancorp common stock of \$16.86 per share, the closing price of Hampden Bancorp common stock on The NASDAQ Global Market on June 30, 2014.

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The following table presents director compensation for the fiscal year ended June 30, 2014.

Name	Fees	Change in Pension Value and Nonqualified Deferred Compensation Earnings(1)	Total
Thomas R. Burton	\$ 24,650	\$	\$ 24,650
Judith E. Kennedy(2)	\$ 22,600	\$ 3,173	\$ 25,773
Richard J. Kos(2)	\$ 28,300	\$ 9,618	\$ 37,918
Stanley Kowalski, Jr.(2)	\$ 26,850	\$ 3,097	\$ 29,947
Kathleen O'Brien Moore(2)	\$ 19,850	\$ 6,314	\$ 26,164
Arlene Putnam(2)	\$ 25,200	\$ 17,026	\$ 42,226
Mary Ellen Scott(2)	\$ 25,200	\$ 6,216	\$ 31,416
Linda M. Silva Thompson(2)	\$ 22,600	\$ 4,793	\$ 27,393
Richard D. Suski(2)	\$ 23,850	\$ 4,384	\$ 28,234

(1) Represents contributions by Hampden Bancorp. Hampden Bank has entered into non-qualified supplemental retirement plans with certain of its non-employee directors that pay benefits in the form of a 10-year, term certain annuity in an annual amount of up to 50% of their annual director's fees. Benefits are also paid in the case of death and disability and there is a reduced benefit that is paid in case of certain termination of service prior to retirement.

(2) Each director, except Mr. Burton, has an aggregate of 15,000 shares of stock option awards outstanding at June 30, 2014. The grant date fair value of each director's stock option award was \$42,853. The grant date fair value of stock option awards have been computed in accordance with the stock based accounting rules under FASB ASC Topic 718. A discussion of the assumptions used in calculating the award values may be found at Note 14 to the consolidated financial statements beginning on page F-68.

Each non-employee director receives \$950 per meeting of the Board of Directors he or she attends. In addition, each member of a committee of either Hampden Bancorp or Hampden Bank receives \$550 per meeting attended, except that Audit Committee members will receive \$650 per meeting attended and the chair will receive \$750 per meeting attended. In addition, each non-employee director receives a stipend of \$550 per meeting attended for training.

Non-employee directors receive a \$9,500 annual retainer and the chairman receives a \$11,500 annual retainer. It is anticipated that the Board of Directors of Hampden Bank and Hampden Bancorp will each meet six times a year. In the event that the Hampden Bancorp board meets immediately before or after a Hampden Bank board meeting the directors will not receive compensation with respect to the Hampden Bank meeting.

Compensation Committee Interlocks and Insider Participation

The members of the Compensation Committee in fiscal 2014 were Mary Ellen Scott (Chair), Stanley Kowalski, Jr., Richard J. Kos, and Arlene Putnam. No person now serving as a member of the Compensation Committee is a current or former officer or employee of Hampden Bancorp or Hampden Bank or engaged in certain transactions with Hampden Bancorp or Hampden Bank that are required to be disclosed pursuant to any rules promulgated by the SEC. Additionally, there are no compensation committee "interlocks," which generally means that no executive officer of Hampden Bancorp or Hampden Bank served as a director or member of the compensation committee of another entity, one of whose executive officers serves as a director or member of the Compensation Committee.

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Certain Relationships and Related Transactions

From time to time, Hampden Bank makes loans to directors and executive officers and related persons and entities for the financing of homes, as well as home improvement, consumer and commercial loans. These loans are made in the ordinary course of business, are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons, and neither involve more than normal risk of collectability nor present other unfavorable features.

The Sarbanes-Oxley Act generally prohibits loans by Hampden Bancorp to its executive officers and directors. However, the Sarbanes-Oxley Act contains a specific exemption from such prohibition for loans by Hampden Bank to its executive officers and directors in compliance with federal banking regulations. Federal regulations require that all loans or extensions of credit to executive officers and directors of insured institutions must be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons and must not involve more than the normal risk of repayment or present other unfavorable features. Hampden Bank is, therefore, prohibited from making any new loans or extensions of credit to executive officers and directors at different rates or terms than those offered to the general public, except for loans made pursuant to programs generally available to all employees. Notwithstanding this rule, federal regulations permit Hampden Bank to make loans to executive officers and directors at reduced interest rates if the loan is made under a benefit program generally available to all other employees and does not give preference to any executive officer or director over any other employee.

Policies and Procedures Regarding Transactions with Related Persons

Hampden Bancorp's Audit Committee has adopted a written policy which provides procedures for the review, approval or ratification of certain transactions required to be reported under applicable rules of the SEC. Pursuant to the Audit Committee Charter, unless otherwise reviewed by a committee of independent directors, the Audit Committee shall approve all related party transactions.

COMPARISON OF RIGHTS OF STOCKHOLDERS

The rights of stockholders of BHLB are currently governed by BHLB's certificate of incorporation, bylaws and applicable provisions of the DGCL. The rights of stockholders of Hampden Bancorp are currently governed by Hampden Bancorp's certificate of incorporation, bylaws and applicable provisions of the DGCL. If the merger is completed, Hampden Bancorp stockholders who receive BHLB common stock will become BHLB stockholders and their rights will likewise be governed by BHLB's certificate of incorporation and bylaws and the DGCL.

Because the rights of stockholders of both BHLB and Hampden Bancorp are governed by the DGCL, any differences between the rights of a Hampden Bancorp stockholder and the rights of a BHLB stockholder arise principally from differences between BHLB's certificate of incorporation and bylaws and Hampden Bancorp's certificate of incorporation and bylaws. There are no material differences between the rights of a Hampden Bancorp stockholder and the rights of a BHLB stockholder in the following areas: classification of the board of directors; the ability to remove a director; the right to call a special meeting of stockholders; how to provide notice of stockholder meetings; stockholder nominations and proposals; the ability of each corporation to declare and pay dividends; the ability to amend the certificate of incorporation and bylaws; the ability to fill vacancies on the board of directors and add additional directors; rights of dissenting stockholders; preemptive rights; business combinations; and anti-takeover provisions. This summary is not a complete statement of the comparison of the rights of Hampden Bancorp stockholders and the rights of BHLB stockholders and is qualified in its entirety by reference to the governing law of each corporation and to the certificate of incorporation and bylaws of each corporation. Copies of BHLB's and Hampden

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Bancorp's certificate of incorporation and bylaws are on file with the SEC. Please see "Where You Can Find More Information."

The following sections review material merger-related provisions of the DGCL, as each is modified by the certificate of incorporation and bylaws of BHLB and Hampden Bancorp, respectively:

Rights of Dissenting Stockholders. Under the DGCL, stockholders may, in the case of a merger or consolidation, obtain a judicial appraisal of the fair value of their shares if they have neither voted in favor of nor consented in writing to the merger or consolidation. Stockholders do not have appraisal rights with respect to shares of any class or series of stock if such shares of stock, at the record date fixed to determine the stockholders entitled to receive notice of the meeting of stockholders, are either (i) listed on a national securities exchange or (ii) held of record by more than 2,000 holders, unless the stockholders receive in exchange for their shares anything other than:

- a. shares of stock of the surviving corporation (or depositary receipts in respect thereof), or of any other corporation that is publicly listed on a national securities exchange or held by more than 2,000 holders of record;
- b. cash in lieu of fractional shares or fractional depositary receipts described above; or
- c. any combination of the foregoing.

The DGCL permits a corporation to provide appraisal rights in its certificate of incorporation in the case of a charter amendment, any merger or consolidation in which the corporation is a constituent corporation or a sale of all or substantially all of the assets of the corporation.

The organizational documents of BHLB and Hampden Bancorp do not grant appraisal rights in addition to those provided by the DGCL.

Preemptive Rights. Under the DGCL, unless the certificate of incorporation provides otherwise, stockholders have no preemptive rights. Neither BHLB's nor Hampden Bancorp's certificate of incorporation provides for preemptive rights. Accordingly, neither BHLB stockholders nor Hampden Bancorp stockholders have preemptive rights.

Business Combinations. Both Hampden Bancorp's and the BHLB's respective certificates of incorporation provide that a "business combination" (as defined therein) must be approved by the affirmative vote of at least 80% of the voting power of the outstanding shares of stock of the company entitled to vote in the election of directors. However, such affirmative vote shall not be required if (i) the business combination has been approved by a majority of the "disinterested directors" (as defined in the certificate of incorporation) and (ii) the aggregate amount of cash, and the "fair market value" (as defined in the certificate of incorporation) of consideration other than cash, as of the date the business combination is consummated shall be at least equal to the higher of (a) the highest per share price paid by or on behalf of an "interested stockholder" (as defined in the certificate of incorporation) for any share of company common stock within the two-year period immediately prior to the first public announcement of the business combination or (b) the fair market value per share of Hampden Bancorp common stock on the announcement date or on the date the interested stockholder became an interested stockholder.

Anti-Takeover Provisions. Under the DGCL, a Delaware corporation is prohibited from engaging in any business combination with an "interested stockholder" for a period of three years from the date on which the stockholder first becomes an interested stockholder. There is an exception to the three-year waiting period requirement if:

- i. prior to the stockholder becoming an interested stockholder, the board of directors approves the business combination or the transaction in which the stockholder became an interested stockholder;

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- ii. upon the completion of the transaction in which the stockholder became an interested stockholder, the interested stockholder owns at least 85% of the voting stock of the corporation other than shares held by directors who are also officers and certain employee stock plans; or
- iii. the business combination is approved by the board of directors and by the affirmative vote of 66²/₃% of the outstanding voting stock not owned by the interested stockholder at a meeting.

The DGCL defines the term "business combination" to include transactions such as mergers, consolidations or transfers of 10% or more of the assets of the corporation. The DGCL defines the term "interested stockholder" generally as any person who (together with affiliates and associates) owns (or in certain cases, within the past three years did own) 15% or more of the outstanding voting stock of the corporation.

MANAGEMENT AFTER THE MERGER

Board of Directors

After completion of the Merger, the board of directors of BHLB will consist of the current directors of BHLB and BHLB's bylaws will be amended, to the extent required, to add two directors from the board of directors of Hampden Bancorp. William J. Ryan will continue to be Non-Executive Chairman of the Board.

Information regarding the current directors and executive officers of BHLB, executive compensation and relationships and related transactions is included in BHLB's proxy statement for its 2014 annual meeting of stockholders, which is incorporated by reference in this Proxy Statement/Prospectus.

Management

Glenn S. Welch will be joining BHLB's management as Regional President of the Springfield, Massachusetts and Connecticut Regions.

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HAMPDEN BANCORP, INC. STOCK OWNERSHIP

The table below provides certain information about beneficial ownership of Hampden Bancorp common stock as of January 29, 2015. The table shows information for:

- (1) Each person, or group of affiliated person, who is known to Hampden Bancorp to beneficially own more than 5% of Hampden Bancorp's common stock;
- (2) Each of Hampden Bancorp's directors;
- (3) Each of Hampden Bancorp's executive officers; and
- (4) All of Hampden Bancorp's directors and executive officers as a group.

Except as otherwise noted, the persons or entities in this table have sole voting and investing power with respect to all shares of common stock beneficially owned by them. The address of all directors and executive officers of Hampden Bancorp is c/o Hampden Bancorp, Inc., 19 Harrison Ave., Springfield, MA 01102.

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Name	Number of Shares Owned (Excluding Options)	Number of Shares That May Be Acquired Within 60 Days by Exercising Options	Percent of Total Common Stock Outstanding(1)
<i>Beneficial Owners of More than 5% of Outstanding Common Stock</i>			
Hampden Bank Employee Stock Ownership Plan(2) 19 Harrison Ave. Springfield, MA 01102 (First Bankers Trust Services, Trustee)	571,321		10.3%
Investors of America, Limited Partnership(3) 135 North Meramec Avenue Clayton, MO 6310	552,000		9.9%
MHC Mutual Conversion Fund, L.P.(4) 100 Crescent Court, Suite 575 Dallas, TX 75201	513,183		9.2%
Hampden Bank Charitable Foundation 19 Harrison Ave. Springfield, MA 01102	327,170		5.9%
<i>Directors</i>			
Thomas R. Burton(5)	83,291	53,700	2.44%
Judith E. Kennedy	9,388	15,000	0.44%
Richard J. Kos(6)	12,509	15,000	0.49%
Stanley Kowalski, Jr.	29,163	0	0.53%
Kathleen O'Brien Moore	8,755	14,083	0.41%
Arlene Putnam	10,080	15,000	0.45%
Mary Ellen Scott	23,949	0	0.43%
Linda M. Silva Thompson	11,064	15,000	0.47%
Richard D. Suski(7)	18,338	15,000	0.60%
Glenn S. Welch(8)	48,730	62,500	1.98%
<i>Executive Officers who are Not Directors</i>			
Tara G. Corthell(9)	6,383	9,500	0.29%
Luke D. Kettles(10)	6,238	2,000	0.15%
Robert A. Massey(11)	23,286	28,000	0.92%
Robert J. Michel(12)	56,978	0	1.03%
Sheryl Shinn(13)	35,556	0	0.64%
All directors and executive officers as a group (15 persons)	383,658	244,783	10.84%

(1) Based on 5,554,440 shares of Hampden Bancorp common stock outstanding on January 29, 2015 plus, for each person, the number of shares that such person may acquire within 60 days of such date by exercising stock options.

(2) Reflects shares held in the ESOP for the benefit of employees of Hampden Bancorp as of January 29, 2015. Includes 296,797 shares that have not been allocated to participants' accounts. Under the terms of the ESOP, the ESOP trustee will vote shares allocated to participants' accounts in the manner directed by the participants. The ESOP trustee, subject to its fiduciary responsibilities, will vote unallocated shares and allocated shares for which no timely voting

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instructions are received in the same proportion as shares for which the trustee has received proper voting instructions from participants. Under the terms of the ESOP, the Trustee has sole investment authority and shares voting authority over the shares in the ESOP. The Trustee, however, is subject to fiduciary duties under ERISA. The Trustee disclaims beneficial ownership of the shares of common stock held in the ESOP.

- (3) Based solely on a Schedule 13-G/A filed by Investors of America, Limited Partnership, on February 6, 2014. The filer claimed sole voting and dispositive power over all of the shares.
- (4) Based solely on a Schedule 13D/A filed by Clover Partners, L.P. on November 17, 2014 on behalf of MHC Mutual Conversion Fund, L.P., a Texas limited partnership (the "Fund"), Clover Partners, L.P., a Texas limited partnership and the general partner of the Fund (the "GP"), Clover Investments, L.L.C., a Texas limited liability company and the general partner of the GP ("Clover"), and Michael C. Mewhinney, the principal of Clover (collectively, the "MHC Mutual Conversion Fund Group"). The Fund may direct the vote and disposition of 513,183 shares of Common Stock it holds directly. The GP serves as the investment adviser and general partner to the Fund and may direct the vote and disposition of the 513,183 shares of Common Stock held by the Fund. Clover serves as the general partner of the GP and may direct the GP to direct the vote and disposition of the 513,183 shares of Common Stock held by the Fund. As the manager of Clover, Mewhinney may direct the vote and disposition of the 513,183 shares of Common Stock held by the Fund.
- (5) Shares reported as beneficially owned by Mr. Burton include 5,000 shares owned by Mr. Burton's wife; 8,848 shares held in Mr. Burton's IRA; 1,844 shares held by ESOP; and 13,000 shares held in Mr. Burton's 401(k).
- (6) Shares reported as beneficially owned by Mr. Kos include 7,373 shares held in Mr. Kos' IRA.
- (7) Shares reported as beneficially owned by Mr. Suski include 2,000 shares owned by Mr. Suski's wife.
- (8) Shares reported as beneficially owned by Mr. Welch include 100 shares held by Mr. Welch's minor children; 12,725 shares held by ESOP; and 12,000 held by Mr. Welch's 401(k).
- (9) Shares reported as beneficially owned by Ms. Corthell include 6,201 shares held by ESOP.
- (10) Shares reported as beneficially owned by Mr. Kettles include 2,740 shares of restricted stock; and 2,338 shares held by ESOP.
- (11) Shares reported as beneficially owned by Mr. Massey include 8,994 shares held by ESOP; 500 shares held by Mr. Massey's IRA; and 9,000 shares held in Mr. Massey's 401(k).
- (12) Shares reported as beneficially owned by Mr. Michel include 10,555 shares held by ESOP; 2,500 shares held by Mr. Michel's IRA; 500 shares held by Mr. Michel's wife; and 15,000 shares held in Mr. Michel's 401(k).
- (13) Shares reported as beneficially owned by Ms. Shinn include 8,386 shares held by ESOP.

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PROPOSAL 2 MERGER-RELATED EXECUTIVE COMPENSATION

As required by Item 402(t) of Regulation S-K and Regulation 14A of the Securities Exchange Act of 1934, as amended, Hampden Bancorp is providing its stockholders with the opportunity to cast an advisory, non-binding vote on the compensation that may become payable to its named executive officers in connection with the completion of the Merger, as disclosed in the section of this Proxy Statement/Prospectus captioned "The Merger Interests of Certain Persons in the Merger that are Different from Yours," beginning on page 54 of this Proxy Statement/Prospectus, and the related table and narratives.

Your vote is requested. Hampden Bancorp believes that the information regarding compensation that may become payable to its named executive officers in connection with the completion of the Merger, as disclosed in the section of this Proxy Statement/Prospectus captioned "The Merger Interests of Certain Persons in the Merger that are Different from Yours" is reasonable and demonstrates that Hampden Bancorp's executive compensation program was designed appropriately and structured to ensure the retention of talented executives and a strong alignment with the long-term interests of Hampden Bancorp's stockholders. This vote is not intended to address any specific item of compensation, but rather the overall compensation that may become payable to Hampden Bancorp's named executive officers in connection with the completion of the Merger. In addition, this vote is separate and independent from the vote of stockholders to approve the completion of the Merger. Hampden Bancorp asks that its stockholders vote "**FOR**" the following resolution:

RESOLVED, that the compensation that may become payable to Hampden Bancorp's named executive officers in connection with the completion of the Merger, as disclosed in the section captioned "The Merger Interests of Certain Persons in the Merger that are Different from Yours" (beginning on page 54 of the proxy statement/prospectus dated January 29, 2015 and the related table and narratives, is hereby APPROVED.

Approval of this proposal is not a condition to the completion of the Merger. Additionally, this vote is advisory and, therefore, it will not be binding on Hampden Bancorp, nor will it overrule any prior decision or require Hampden Bancorp's board of directors (or any committee thereof) to take any action. However, Hampden Bancorp's board of directors values the opinions of Hampden Bancorp's stockholders, and to the extent that there is any significant vote against the named executive officer compensation as disclosed in this Proxy Statement/Prospectus, Hampden Bancorp's board of directors will consider stockholders' concerns and will evaluate whether any actions are necessary to address those concerns. Hampden Bancorp's board of directors will consider the affirmative vote of a majority of the votes cast on the matter "**FOR**" the foregoing resolution as advisory approval of the compensation that may become payable to Hampden Bancorp's named executive officers in connection with the completion of the Merger.

HAMPDEN BANCORP'S BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE "FOR" THE APPROVAL OF THE ADVISORY, NON-BINDING PROPOSAL TO APPROVE THE MERGER-RELATED EXECUTIVE COMPENSATION.

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PROPOSAL 3 ADJOURNMENT OF THE SPECIAL MEETING

If there are not sufficient votes to approve the Merger Agreement at the time the Hampden Bancorp special meeting is held, the Merger Agreement will not be approved and the Merger will not be consummated. If at the time the special meeting is held there are not sufficient votes to approve the Merger Agreement, this proposal will permit Hampden Bancorp's board of directors to adjourn the special meeting until a later date and continue to solicit proxies in favor of the Hampden Bancorp Merger Agreement proposal. Hampden Bancorp's board of directors unanimously recommends that stockholders vote **"FOR"** the adjournment proposal. If it is deemed necessary to adjourn the special meeting and this proposal is approved by stockholders, a press release will be issued disclosing the place, date and time at which the meeting as adjourned will be held, but no other additional announcement will be made and no additional materials will be sent to stockholders.

LEGAL MATTERS

The validity of the BHLB common stock to be issued in the proposed Merger has been passed upon for BHLB by Luse Gorman Pomerenk & Schick, P.C., Washington, D.C. Luse Gorman Pomerenk & Schick, P.C. and Goodwin Procter LLP will deliver opinions to BHLB and Hampden Bancorp, respectively, as to certain federal income tax consequences of the Merger. See "The Merger Material Tax Consequences of the Merger."

EXPERTS

The financial statements of BHLB and management's assessment of the effectiveness of internal control over financial reporting (which is included in Management's Report on Internal Control over Financial Reporting) incorporated in this Prospectus by reference to the Annual Report on Form 10-K for the year ended December 31, 2013 have been so incorporated in reliance on the report(s) of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting. To the extent that any information herein is considered prospective financial information, PricewaterhouseCoopers LLP has neither examined, compiled nor performed any procedures with respect to the referenced prospective financial information and, accordingly, PricewaterhouseCoopers LLP does not express an opinion or any other form of assurance with respect thereto. The PricewaterhouseCoopers LLP report incorporated by reference herein relates to BHLB's historical financial information. It does not extend to any prospective financial information and should not be read to do so.

The consolidated financial statements of Hampden Bancorp as of June 30, 2014 and 2013, and for each of the years in the three-year period ended June 30, 2014 and management's assessment of the effectiveness of internal control over financial reporting (which is included in Report of Management on Internal Control over Financial Reporting) as of June 30, 2014 are included in this Proxy Statement/Prospectus beginning on page F-27 in reliance on the reports by Wolf & Company, P.C., independent registered public accounting firm, as stated in their reports appearing herein and upon the authority of said firm as experts in accounting and auditing. To the extent that any information herein is considered prospective financial information, Wolf & Company, P.C. has neither examined, compiled nor performed any procedures with respect to the referenced prospective financial information and, accordingly, Wolf & Company, P.C. does not express an opinion or any other form of assurance with respect thereto. The Wolf & Company, P.C. reports relate to Hampden Bancorp's historical financial information. It does not extend to any prospective financial information and should not be read to do so.

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STOCKHOLDER PROPOSALS

Hampden Bancorp will hold its 2015 annual meeting of stockholders only if the Merger is not completed. Any proposal that a Hampden Bancorp stockholder wishes to have included in the proxy statement and form of proxy relating to the 2015 annual meeting of stockholders under Rule 14a-8 of the SEC must be received by the Hampden Bancorp Secretary at Hampden Bancorp, Inc., 19 Harrison Avenue, Springfield, Massachusetts 01102 by May 29, 2015. The bylaws of Hampden Bancorp provide that in order for a stockholder to make nominations for the election of directors or proposals for business to be brought before the 2015 annual meeting of stockholders, although not included in the proxy statement, a stockholder must deliver notice of such nomination and/or proposals to the Secretary not less than 90 days before the date of the annual meeting. However, if less than 100 days' notice or prior public disclosure of the date of the annual meeting is given to stockholders, such notice must be received not later than the close of business of the tenth day following the day on which notice of the date of the annual meeting was mailed to stockholders or prior public disclosure of the meeting date was made. A copy of the Hampden Bancorp bylaws may be obtained from Hampden Bancorp and can be found on the SEC's website at www.sec.gov.

WHERE YOU CAN FIND MORE INFORMATION

BHLB filed with the Securities and Exchange Commission a registration statement on Form S-4 under the Securities Act to register the shares of BHLB common stock to be issued to Hampden Bancorp stockholders in the Merger. This Proxy Statement/Prospectus is a part of that registration statement and constitutes a prospectus of BHLB and a proxy statement of Hampden Bancorp for its special meeting. As permitted by the Securities and Exchange Commission rules, this Proxy Statement/Prospectus does not contain all of the information that you can find in the registration statement or in the exhibits to the registration statement. The additional information may be inspected and copied as set forth above.

BHLB and Hampden Bancorp each files annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission. These filings are available to the public over the Internet at the Securities and Exchange Commission's website at www.sec.gov. You may also read and copy any document BHLB files with the Securities and Exchange Commission at its public reference room located at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Copies of these documents also can be obtained at prescribed rates by writing to the Public Reference Section of the Securities and Exchange Commission, at 100 F Street, N.E., Room 1580, Washington D.C. 20549 or by calling 1-800-SEC-0330 for additional information on the operation of the public reference facilities.

The Securities and Exchange Commission allows BHLB to "incorporate by reference" information into this proxy statement/prospectus. This means that BHLB can disclose important information to you by referring you to another document filed separately with the Securities and Exchange Commission. The information incorporated by reference is deemed to be part of this document, except for any information superseded by information contained directly in this document. This document incorporates by reference the other documents that are listed below that BHLB has previously filed with the Securities and Exchange Commission and additional documents that BHLB files with the Securities and Exchange Commission between the date of this Proxy Statement/Prospectus and the date of the Hampden Bancorp special meeting. These documents contain important information about BHLB's financial condition.

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BHLB FILINGS

Filings	Period of Report or Date Filed
	Year ended December 31, 2013
Annual Report on Form 10-K	Quarters ended March 31, 2014; June 30, 2014; and September 30, 2014
Quarterly Report Form 10-Q	January 21, 2014; January 28, 2014; February 13, 2014; March 10, 2014; April 2, 2014; April 29, 2014; May 8, 2014; May 9, 2014; May 21, 2014; June 30, 2014; July 14, 2014; July 24, 2014; July 29, 2014; September, 11, 2014; October 28, 2014; November 4, 2014 (2); and November 18, 2014.
Current Reports on Form 8-K	

The description of BHLB common stock set forth in the Registration Statement on Form 8-A filed October 25, 2005, which incorporates by reference the portion of the "Description of BHLB Stock" contained in BHLB's prospectus filed pursuant to Rule 424(b)(3) on May 26, 2000.

Documents incorporated by reference are available from BHLB without charge (except for exhibits to the documents unless the exhibits are specifically incorporated in this document by reference). You may obtain documents incorporated by reference in this document by requesting them in writing or by telephone from BHLB at the following address:

Berkshire Hills Bancorp, Inc.
 24 North Street
 Pittsfield, Massachusetts 01201
 Attention: Investor Relations Department
 Telephone: (413) 236-3239

If you would like to request documents from BHLB, please do so by March 5, 2015, to receive them before Hampden Bancorp's special meeting of stockholders. If you request any incorporated documents, BHLB will mail them to you by first-class mail, or other equally prompt means, within one business day of its receipt of your request.

BHLB incorporates by reference additional documents that it may file with the Securities and Exchange Commission under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act between the date of this document and the date of the special meetings. These documents include periodic reports, such as annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K (other than information furnished under Items 2.02 or 7.01 of Form 8-K), as well as proxy statements.

BHLB has supplied all information contained in this Proxy Statement/Prospectus relating to BHLB, and Hampden Bancorp has supplied all information relating to Hampden Bancorp.

You should rely only on the information contained in this Proxy Statement/Prospectus when evaluating the Merger Agreement and the proposed Merger. We have not authorized anyone to provide you with information that is different from what is contained in this Proxy Statement/Prospectus. This Proxy Statement/Prospectus is dated January 29, 2015. You should not assume that the information contained in this Proxy Statement/Prospectus is accurate as of any date other than such date, and neither the mailing of this Proxy Statement/Prospectus to stockholders of Hampden Bancorp nor the issuance of shares of BHLB common stock as contemplated by the Merger Agreement shall create any implication to the contrary.

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Table of Contents**HAMPDEN BANCORP, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****(Dollars in thousands, except per share data)****(Unaudited)**

	September 30, 2014	June 30, 2014
ASSETS		
Cash and due from banks	\$ 11,621	\$ 9,437
Federal funds sold and other short-term investments	6,735	3,230
Cash and cash equivalents	18,356	12,667
Securities available for sale, at fair value	131,235	133,936
Securities held to maturity, at cost	10,615	9,302
Federal Home Loan Bank of Boston stock, at cost	6,810	6,648
Loans held for sale	1,384	330
Loans, net of allowance for loan losses of \$5,769 at September 30, 2014 and \$5,651 at June 30, 2014	506,145	507,635
Other real estate owned	159	309
Premises and equipment, net	4,653	4,668
Accrued interest receivable	1,646	1,688
Deferred tax asset, net	4,315	4,182
Bank-owned life insurance	17,584	17,459
Other assets	2,779	2,673
Total assets	\$ 705,681	\$ 701,497
LIABILITIES AND STOCKHOLDERS' EQUITY		
Interest-bearing deposits	\$ 409,425	\$ 407,508
Non-interest bearing deposits	80,193	84,224
Total deposits	489,618	491,732
Short-term borrowings	12,000	4,000
Long-term debt	111,778	112,446
Mortgagors' escrow accounts	1,201	1,184
Accrued expenses and other liabilities	5,427	4,976
Total liabilities	620,024	614,338
Commitments and contingencies (Note 4)		
Preferred stock (\$.01 par value, 5,000,000 shares authorized, none issued or outstanding)		
Common stock (\$.01 par value, 25,000,000 shares authorized; 8,039,361 issued at September 30, 2014 and 8,034,027 issued at June 30, 2014; 5,528,511 outstanding at September 30, 2014 and 5,651,130 outstanding at June 30, 2014)	80	80
Additional paid-in capital	80,474	80,389
Unearned compensation ESOP (307,398 shares unallocated at September 30, 2014 and 317,998 shares unallocated at June 30, 2014)	(3,074)	(3,180)
Unearned compensation equity incentive plan	(7)	(8)
Retained earnings	38,443	37,697

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Accumulated other comprehensive income (loss)	(101)	158
Treasury stock, at cost (2,510,850 shares at September 30, 2014 and 2,382,897 shares at June 30, 2014)	(30,158)	(27,977)
Total stockholders' equity	85,657	87,159
Total liabilities and stockholders' equity	\$ 705,681	\$ 701,497

See accompanying notes to unaudited consolidated financial statements.

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HAMPDEN BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF NET INCOME
(Dollars in thousands, except per share data)
(Unaudited)

	Three Months Ended September 30,	
	2014	2013
Interest and dividend income:		
Loans, including fees	\$ 5,924	\$ 5,509
Debt securities:		
Taxable	635	617
Tax-exempt	26	6
Dividends	26	5
Federal funds sold and other short-term investments	4	12
 Total interest and dividend income	 6,615	 6,149
Interest expense:		
Deposits	731	801
Borrowings:		
Short-term	12	9
Long-term	540	451
 Total interest expense	 1,283	 1,261
 Net interest income	 5,332	 4,888
Provision for loan losses	150	100
 Net interest income, after provision for loan losses	 5,182	 4,788
Non-interest income:		
Customer service fees	550	570
Gain on sales of loans, net	115	86
Increase in cash surrender value of bank-owned life insurance	125	130
Other	179	317
 Total non-interest income	 969	 1,103
Non-interest expense:		
Salaries and employee benefits	2,483	2,221
Occupancy and equipment	440	463
Data processing services	275	202
Advertising	82	144
Net (gain) loss on other real estate owned	(44)	4
FDIC insurance and assessment	90	97
Other general and administrative	995	874
 Total non-interest expense	 4,321	 4,005
 Income before income taxes	 1,830	 1,886
Income tax provision	659	679

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Net income	\$	1,171	\$	1,207
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Earnings per share:

Basic	\$	0.22	\$	0.23
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Diluted	\$	0.22	\$	0.22
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Weighted average shares outstanding:

Basic	5,314,595	5,274,900
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Diluted	5,442,331	5,401,982
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See accompanying notes to unaudited consolidated financial statements.

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HAMPDEN BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

	Three Months Ended September 30,	
	2014	2013
Net income	\$ 1,171	\$ 1,207
Other comprehensive income (loss):		
Unrealized holding losses on available-for-sale securities	(390)	(992)
Tax effect	131	357
Other comprehensive loss, net-of-tax	(259)	(635)
Comprehensive income	\$ 912	\$ 572

See accompanying notes to unaudited consolidated financial statements.

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Table of Contents**HAMPDEN BANCORP, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY****(Dollars in thousands, except per share data)****(Unaudited)**

	Common Stock		Additional Paid-in Capital	Unearned Compensation- ESOP	Unearned Compensation- Equity Incentive Plan	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
	Shares	Amount							
Balance at June 30, 2013	5,629,099	\$ 80	\$ 79,926	\$ (3,604)	\$ (16)	\$ 34,450	\$ 346	\$ (27,523)	\$ 83,659
Comprehensive income						1,207	(635)		572
Issuance of common stock for exercise of stock options	37,631		163						163
Cash dividends paid (\$0.06 per share)						(317)			(317)
Common stock repurchased	(17,882)							(274)	(274)
Stock-based compensation			9		2				11
Tax benefit from Equity Incentive Plan vesting			1						1
ESOP shares allocated or committed to be allocated (10,600 shares)			62	106					168
Balance at September 30, 2013	5,648,848	\$ 80	\$ 80,161	\$ (3,498)	\$ (14)	\$ 35,340	\$ (289)	\$ (27,797)	\$ 83,983
Balance at June 30, 2014	5,651,130	\$ 80	\$ 80,389	\$ (3,180)	\$ (8)	\$ 37,697	\$ 158	\$ (27,977)	\$ 87,159
Comprehensive income						1,171	(259)		912
Issuance of common stock for exercise of stock options	5,334		1						1
Cash dividends paid (\$0.08 per share)						(425)			(425)
Common stock repurchased	(127,953)							(2,181)	(2,181)
Stock-based compensation			11		1				12
Tax benefit from Equity Incentive Plan vesting			1						1
ESOP shares allocated or committed to be allocated (10,600 shares)			72	106					178
Balance at September 30, 2014	5,528,511	\$ 80	\$ 80,474	\$ (3,074)	\$ (7)	\$ 38,443	\$ (101)	\$ (30,158)	\$ 85,657

See accompanying notes to unaudited consolidated financial statements.

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HAMPDEN BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)

(Unaudited)

	Three Months Ended September 30,	
	2014	2013
Cash flows from operating activities:		
Net income	\$ 1,171	\$ 1,207
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	150	100
Changes in fair value of mortgage servicing rights	41	137
Net amortization of securities premiums	80	143
Depreciation and amortization	151	186
Loans originated for sale	(7,988)	(6,581)
Proceeds from loan sales	7,049	7,088
Gain on sales of loans, net	(115)	(86)
Net (gain) loss on other real estate owned	(44)	4
Increase in cash surrender value of bank-owned life insurance	(125)	(130)
Deferred tax benefit	(2)	
Employee Stock Ownership Plan expense	178	168
Stock-based compensation	12	11
Tax benefit from Equity Incentive Plan vesting	1	1
Net change in:		
Accrued interest receivable	42	(9)
Other assets	(147)	(261)
Accrued expenses and other liabilities	450	(1,524)
Net cash provided by operating activities	904	454
Cash flows from investing activities:		
Activity in available-for-sale securities:		
Maturities and calls	2,263	
Principal payments	6,670	9,587
Purchases	(8,015)	(11,104)
Purchase of loans	(1,169)	(3,464)
Net loan (originations) principal payments	2,367	(27,540)
Proceeds from sales of other real estate owned	336	27
Purchase of Federal Home Loan Bank stock	(162)	(1,669)
Purchase of premises and equipment	(136)	(58)
Net cash provided (used) by investing activities	2,154	(34,221)
Cash flows from financing activities:		
Net change in deposits	(2,114)	10,871
Net change in short-term borrowings	8,000	10,500
Proceeds from issuance of long-term debt	12,000	28,554
Repayment of long-term debt	(12,668)	(5,714)
Net change in mortgagors' escrow accounts	17	39
Tax benefit from Equity Incentive Plan vesting	1	1
Issuance of common stock for exercise of stock options	1	163
Repurchase of common stock	(2,181)	(274)
Payment of dividends on common stock	(425)	(317)
Net cash provided by financing activities	2,631	43,823

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Net change in cash and cash equivalents	5,689	10,056
Cash and cash equivalents at beginning of period	12,667	25,618
Cash and cash equivalents at end of period	\$ 18,356	\$ 35,674

Supplemental cash flow information:		
Interest paid on deposits	\$ 731	\$ 801
Interest paid on borrowings	550	456
Income taxes paid	590	1,210
Transfers from loans to other real estate owned	142	15

See accompanying notes to unaudited consolidated financial statements.

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HAMPDEN BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation and Consolidation

The consolidated financial statements include the accounts of Hampden Bancorp, Inc. (the "Company") and its wholly-owned subsidiaries, Hampden Bank (the "Bank") and Hampden LS, Inc. Hampden Bank is a Massachusetts chartered stock savings bank. The Company contributed funds to Hampden LS, Inc. to enable it to make a 15-year loan to the employee stock ownership plan (the "ESOP") to allow it to purchase shares of the Company's common stock as part of the completion of the Company's initial public offering. Hampden Bank has three wholly-owned subsidiaries, Hampden Investment Corporation and Hampden Investment Corporation II, which engage in buying, selling, holding and otherwise dealing in securities, and Hampden Insurance Agency, which ceased selling insurance products in November of 2000 and remains inactive. All significant intercompany accounts and transactions have been eliminated in consolidation.

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial statements and the instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management the information reflects all adjustments (consisting solely of normal recurring adjustments) that are necessary for a fair presentation. The results shown for the interim periods ended September 30, 2014 are not necessarily indicative of the results to be obtained for a full year. These consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended June 30, 2014 included in the Company's most recent Annual Report on Form 10-K filed by the Company with the Securities and Exchange Commission ("SEC") on September 12, 2014.

In preparing the consolidated interim financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities, as of the date of the statement of financial condition and reported amounts of revenues and expenses for the periods presented. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and deferred income taxes.

2. Recent Accounting Pronouncements

In January 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-04, *Receivables - Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure*. The ASU was issued to clarify that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the ASU amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The ASU is effective for annual periods, and interim periods within those annual periods,

Table of Contents**HAMPDEN BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****2. Recent Accounting Pronouncements (Continued)**

beginning after December 15, 2014, and the ASU is to be adopted using either a modified retrospective transition method or a prospective transition method. The Company does not believe this ASU will have a material effect on the Company's consolidated financial statements for the interim and annual periods other than the additional disclosures required.

3. Earnings Per Share

Basic earnings per share ("EPS") excludes dilution and is calculated by dividing net income available to common stockholders by the weighted-average number of shares of common stock outstanding during the period. Diluted EPS is computed in a manner similar to that of basic EPS except that the weighted-average number of common shares outstanding is increased to include the number of incremental common shares (computed using the treasury stock method) that would have been outstanding if all potentially dilutive common stock equivalents (such as stock options and unvested restricted stock) were issued during the period. Unallocated common shares held by the ESOP are shown as a reduction in stockholders' equity and are included in the weighted-average number of common shares outstanding for both basic and diluted EPS calculations as they are committed to be released.

Earnings per common share have been computed based upon the following:

	Three Months Ended September 30,	
	2014	2013
Net income available to common stock (in thousands)	\$ 1,171	\$ 1,207
Average number of shares issued	8,035,478	8,004,098
Less: average unallocated ESOP shares	(314,400)	(356,796)
Less: average treasury stock	(2,404,442)	(2,369,761)
Less: average unvested restricted stock awards	(2,041)	(2,641)
Average number of basic shares outstanding	5,314,595	5,274,900
Plus: dilutive unvested restricted stock awards	1,388	1,474
Plus: dilutive stock option shares	126,348	125,608
Average number of diluted shares outstanding	5,442,331	5,401,982
Basic earnings per share	\$ 0.22	\$ 0.23
Diluted earnings per share	\$ 0.22	\$ 0.22

4. Dividends

On August 5, 2014, the Company declared a cash dividend of \$0.08 per common share which was paid on August 29, 2014 to stockholders of record as of the close of business on August 15, 2014.

5. Loan Commitments

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Outstanding loan commitments totaled \$118.2 million at September 30, 2014 and \$129.7 million at June 30, 2014. Loan commitments primarily consist of commitments to originate new loans as well as

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HAMPDEN BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

5. Loan Commitments (Continued)

the outstanding unused portions of home equity, business and other lines of credit, and unused portions of construction loans.

6. Fair Value of Assets and Liabilities

GAAP 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. GAAP establishes a fair value hierarchy that prioritizes the use of inputs used in valuation methodologies into the following three levels:

Level 1: Inputs to the valuation methodology are quoted prices, unadjusted, for identical assets or liabilities in active markets. A quoted price in an active market provides the most reliable evidence of fair value and shall be used to measure fair value whenever available.

Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; and quoted prices for identical or similar assets or liabilities in markets that are not active; or inputs to the valuation methodology are derived principally from or can be corroborated by observable market data by correlation or other means.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Level 3 assets and liabilities include financial instruments whose value is determined using discounted cash flow methodologies, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Where assets or liabilities are measured at fair value, transfers between levels are recognized at the end of the reporting period, if applicable.

Methods and assumptions for valuing the Company's financial instruments are set forth below. Estimated fair values are calculated based on the value without regard to any premium or discount that may result from concentrations of ownership of a financial instrument, possible tax ramifications or estimated transaction costs.

Cash and cash equivalents: The carrying amounts of cash and short-term investments approximate fair values.

Securities: The securities measured at fair value utilizing Level 1 and Level 2 inputs are government-sponsored enterprises, corporate bonds and other obligations, mortgage-backed securities and common stocks. The fair values used by the Company are obtained from an independent pricing service which are not adjusted by management and, represents either quoted market prices for identical securities, quoted market prices for comparable securities or fair values determined by pricing models that consider observable market data, such as interest rate volatilities, credit spreads and prices from market makers and live trading systems and other market indicators, industry and economic events. Municipal securities are valued utilizing Level 3 inputs. Since there is no readily available market

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HAMPDEN BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

6. Fair Value of Assets and Liabilities (Continued)

pricing and no active market to sell these securities, management believes that the amortized cost of these securities approximates fair value based on their relatively short terms to maturity.

Federal Home Loan Bank of Boston ("FHLB") stock: The carrying amount of FHLB stock approximates fair value based upon the redemption provisions of the FHLB.

Loans held for sale: Fair value of loans held for sale are estimated based on commitments on hand from investors or prevailing market prices.

Loans: Fair values for loans are estimated using discounted cash flow analysis, using market interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. This analysis assumes no prepayment. Fair values for non-performing loans are estimated using discounted cash flow analysis or underlying collateral values, where applicable.

Mortgage servicing rights: Mortgage servicing rights ("MSR") are the rights of a mortgage servicer to collect mortgage payments and forward them, after deducting a fee, to the mortgage lender. The fair value of servicing rights is estimated using a present value cash flow model. The fair value of MSR is highly sensitive to changes in assumptions. Changes in prepayment speed assumptions generally have the most significant impact on the fair value of our MSR. Generally, as interest rates decline, mortgage loan prepayments accelerate due to increased refinance activity, which results in a decrease in the fair value of MSR. As interest rates rise, mortgage loan prepayments slow down, which results in an increase in the fair value of MSR. Thus, any measurement of the fair value of our MSR is limited by the conditions existing and the assumptions utilized as of a particular point in time, and those assumptions may not be appropriate if they are applied at a different point in time.

Deposits and mortgage escrow accounts: The fair values for non-certificate accounts and mortgage escrow accounts are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). Fair values for certificate accounts are estimated using a discounted cash flow calculation that applies market interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Short-term borrowings: The carrying amount of short-term borrowings approximates fair value.

Long-term debt: The fair values of the Company's advances are estimated using discounted cash flow analysis based on current market borrowing rates for similar types of borrowing arrangements.

Accrued interest: The carrying amounts of accrued interest approximate fair value.

Off-balance-sheet instruments: Fair values for off-balance-sheet lending commitments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. The estimated fair value of off-balance sheet financial instruments at September 30, 2014 and June 30, 2014 were not material.

The Company does not measure any liabilities at fair value on either a recurring or non-recurring basis.

Table of Contents**HAMPDEN BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****6. Fair Value of Assets and Liabilities (Continued)**

The following table presents the balances of assets measured at fair value on a recurring basis as of September 30, 2014 and June 30, 2014:

	Level 1	Level 2	Level 3	Total
	(In Thousands)			
September 30, 2014				
Securities available for sale:				
Debt securities	\$	\$ 131,157	\$	\$ 131,157
Marketable equity securities	78			78
Mortgage servicing rights			870	870
Total	\$ 78	\$ 131,157	\$ 870	\$ 132,105

June 30, 2014				
Securities available for sale:				
Debt securities	\$	\$ 133,857	\$	\$ 133,857
Marketable equity securities	79			79
Mortgage servicing rights			792	792
Total	\$ 79	\$ 133,857	\$ 792	\$ 134,728

The table below presents, for the three months ended September 30, 2014 and 2013, the changes in Level 3 assets that are measured at fair value on a recurring basis:

	Mortgage Servicing Rights Three Months Ended September 30,	
	2014	2013
	(In Thousands)	
Beginning balance	792	\$ 654
Changes in fair value	41	137
Capitalized servicing assets	37	39
Transfers in and/or out of Level 3		
Ending balance	\$ 870	\$ 830

Table of Contents**HAMPDEN BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****6. Fair Value of Assets and Liabilities (Continued)**

Also, the Company may be required, from time to time, to measure certain other financial assets at fair value on a non-recurring basis in accordance with GAAP. These adjustments to fair value usually result from the application of lower-of-cost-or-market accounting or write-downs of individual assets. The following table summarizes the carrying value of the related individual assets as of September 30, 2014 and June 30, 2014 all classified in Level 3 fair value hierarchy:

	September 30, 2014	June 30, 2014
	(In Thousands)	
Impaired loans	\$ 142	\$ 461
Other real estate owned	159	309
Total	\$ 301	\$ 770

During the three months ended September 30, 2014 and 2013 there were no transfers between Levels 1, 2, or 3.

The amount of impaired loans represents the carrying value of loans that include adjustments which are based on the estimated fair value of the underlying collateral. The fair value of collateral used by the Company represents the current tax assessed value, discounted by 20%. This data includes information such as selling price of similar properties, expected future cash flows or earnings of the subject property based on current market expectations, as well as relevant legal, physical and economic factors. If the impaired loan is being actively marketed, the Company uses the realtor's market analysis or listing price discounted by 10% and less 5% for realtor commission, instead of the tax assessment. The Company had a \$49,000 loss on impaired loans for the three months ended September 30, 2014. There was no gain or loss for the three months ended September 30, 2013. Any resulting losses are recognized in earnings through the provision for loan losses. The Company charges off any collateral shortfall on collateral dependent impaired loans.

The Company classifies property acquired through foreclosure or acceptance of a deed in lieu of foreclosure as OREO in its consolidated financial statements. When property is placed into OREO, it is recorded at the fair value less estimated costs to sell at the date of foreclosure or acceptance of deed in lieu of foreclosure. At the time of transfer to OREO, any excess of carrying value over fair value is charged to the allowance for loan losses. Management, or its designee, inspects all OREO property periodically. Holding costs and declines in fair value result in charges to expense after the property is acquired. The Company had \$44,000 gain on OREO for the three months ended September 30, 2014. The Company had a \$4,000 loss on OREO for the three months ended September 30, 2013.

The fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a forced liquidation. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. Certain financial instruments and all non-financial instruments are exempt from disclosure

Table of Contents**HAMPDEN BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****6. Fair Value of Assets and Liabilities (Continued)**

requirements. Accordingly, the aggregate fair value amounts presented herein may not necessarily represent the underlying fair value of the Company.

The carrying amounts and related estimated fair values of the Company's financial instruments are as follows. Certain financial instruments and all non-financial instruments are exempt from disclosure requirements. Accordingly, the aggregate fair value amounts presented herein may not necessarily represent the underlying fair value of the Company.

	Carrying Amount	Fair Value			Total
		Level 1	Level 2	Level 3	
(In Thousands)					
September 30, 2014					
Financial assets:					
Cash and cash equivalents	\$ 18,356	\$ 18,356	\$	\$	\$ 18,356
Securities available for sale	131,235	78	131,157		131,235
Securities held to maturity	10,615			10,615	10,615
Federal Home Loan Bank stock	6,810			6,810	6,810
Loans held for sale	1,384		1,384		1,384
Loans, net	506,145			510,652	510,652
Accrued interest receivable	1,646			1,646	1,646
Mortgage servicing rights(1)	870			870	870
Financial liabilities:					
Deposits	489,618			490,966	490,966
Short-term borrowings	12,000		12,000		12,000
Long-term debt	111,778		114,612		114,612
Mortgagors' escrow accounts	1,201			1,201	1,201
June 30, 2014					
Financial assets:					
Cash and cash equivalents	\$ 12,667	\$ 12,667	\$	\$	\$ 12,667
Securities available for sale	133,936	79	133,857		133,936
Securities held to maturity	9,302			9,302	9,302
Federal Home Loan Bank stock	6,648			6,648	6,648
Loans held for sale	330		330		330
Loans, net	507,635			513,765	513,765
Accrued interest receivable	1,688			1,688	1,688
Mortgage servicing rights(1)	792			792	792
Financial liabilities:					
Deposits	491,732			493,500	493,500
Short-term borrowings	4,000		4,000		4,000
Long-term debt	112,446		113,823		113,823
Mortgagors' escrow accounts	1,184			1,184	1,184

(1) Included in other assets

Table of Contents**HAMPDEN BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****7. Investment Securities**

The amortized cost and estimated fair value of the Company's investment securities, with gross unrealized gains and losses, follows:

	September 30, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
<i>Available for Sale</i>				
Debt securities:				
Corporate bonds	\$ 3,023	\$ 52	\$	\$ 3,075
Residential mortgage-backed securities:				
Agency	126,711	1,495	(1,743)	126,463
Non-agency	1,607	17	(5)	1,619
Total debt securities	131,341	1,564	(1,748)	131,157
Marketable equity securities	51	27		78
Total securities available for sale	\$ 131,392	\$ 1,591	\$ (1,748)	\$ 131,235

Held to Maturity

Municipal bonds	\$ 10,615	\$	\$	\$ 10,615
Total securities held to maturity	\$ 10,615	\$	\$	\$ 10,615

	June 30, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
<i>Available for Sale</i>				
Debt securities:				
Corporate bonds	\$ 3,026	\$ 60	\$	\$ 3,086
Residential mortgage-backed securities:				
Agency	128,938	1,629	(1,494)	129,073
Non-agency	1,688	15	(5)	1,698
Total debt securities	133,652	1,704	(1,499)	133,857
Marketable equity securities	51	28		79
Total securities available for sale	\$ 133,703	\$ 1,732	\$ (1,499)	\$ 133,936

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Held to Maturity

Municipal bonds	\$	9,302	\$	\$	\$	9,302
Total securities held to maturity	\$	9,302	\$	\$	\$	9,302

Residential mortgage-backed agency securities are mortgage-backed securities that have been issued by the federal government or its agencies or government-sponsored enterprises. Residential

Table of Contents**HAMPDEN BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****7. Investment Securities (Continued)**

mortgage-backed non-agency securities are mortgage-backed securities that have been issued by private mortgage originators.

The amortized cost and estimated fair value of debt securities by contractual maturity at September 30, 2014 are set forth below. Expected maturities will differ from contractual maturities because the issuer may have the right to call or prepay obligations with or without call or prepayment penalties.

	Securities Available for Sale		Securities Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In Thousands)			
Within 1 year	\$ 999	\$ 1,006	\$ 8,027	\$ 8,027
After 1 year but within 5 years	2,024	2,069	2,588	2,588
Total bonds, obligations, and municipals	3,023	3,075	10,615	10,615
Residential mortgage-backed securities:				
Agency	126,711	126,463		
Non-agency	1,607	1,619		
Total debt securities	\$ 131,341	\$ 131,157	\$ 10,615	\$ 10,615

Information pertaining to securities with gross unrealized losses at September 30, 2014 and June 30, 2014, aggregated by investment category and length of time that individual securities have been in a continuous loss position, are as follows:

	Less Than Twelve Months		Over Twelve Months		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
	(In Thousands)					
September 30, 2014:						
Residential mortgage-backed securities:						
Agency	\$ 115	\$ 32,523	\$ 1,628	\$ 50,022	\$ 1,743	\$ 82,545
Non-agency	1	135	4	218	5	353
	\$ 116	\$ 32,658	\$ 1,632	\$ 50,240	\$ 1,748	\$ 82,898
June 30, 2014:						
Corporate bonds	\$		\$		\$	
Residential mortgage-backed securities:						
Agency	\$ 38	\$ 7,357	\$ 1,456	\$ 51,094	\$ 1,494	\$ 58,451
Non-agency	1	143	4	234	5	377

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\$ 39 \$ 7,500 \$ 1,460 \$ 51,328 \$ 1,499 \$ 58,828

Management conducts, at least on a quarterly basis, a review of our investment securities to determine if the value of any security has declined below its cost or amortized cost and whether such decline represents other-than-temporary impairment ("OTTI"). There was no impairment charge recognized for the three months ended September 30, 2014 and 2013.

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HAMPDEN BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

7. Investment Securities (Continued)

At September 30, 2014, 59 debt securities had unrealized losses with aggregate depreciation of 2.1% from the Company's amortized cost basis. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government, its agencies or government-sponsored enterprises, whether downgrades by bond rating agencies have occurred, and industry analyst's reports. The unrealized losses in residential mortgage-backed securities were primarily caused by interest rate changes. As management has not decided to sell these securities, nor is it likely that the Company will be required to sell these securities, no declines are deemed to be other than temporary. At September 30, 2014, eight securities issued by private mortgage originators had unrealized losses. Such securities had an amortized cost of \$358,000 and a fair value of \$353,000. All of these investments are "Senior" Class tranches and have underlying credit enhancement. These securities were originated in the period 2002-2005 and are performing in accordance with contractual terms. Management estimates the loss projections for each security by evaluating the industry rating, amount of delinquencies, amount of foreclosure, amount of other real estate owned, average credit scores, average amortized loan to value and credit enhancement. Based on this review, management determined that no OTTI existed as of September 30, 2014.

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Table of Contents**HAMPDEN BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****8. Loans**

The following table sets forth the composition of the Company's loan portfolio in dollar amounts and as a percentage of the total loan portfolio at the dates indicated.

	September 30, 2014		June 30, 2014		Change	% Change
	Amount	Percent	Amount	Percent		
(Dollars In Thousands)						
Mortgage loans on real estate:						
One- to four-family(1)	\$ 107,497	21.11%	\$ 107,498	21.05%	\$ (1)	%
Commercial	202,178	39.70%	200,750	39.31%	1,428	0.7%
Home equity:						
First lien	35,451	6.96%	36,299	7.11%	(848)	(2.3)%
Second lien	41,813	8.21%	39,845	7.80%	1,968	4.9%
Construction:						
Residential	3,790	0.74%	3,807	0.75%	(17)	(0.4)%
Commercial	34,405	6.76%	36,189	7.09%	(1,784)	(4.9)%
Total mortgage loans on real estate	425,134	83.48%	424,388	83.11%	746	0.2%
Other loans:						
Commercial	52,399	10.29%	54,756	10.72%	(2,357)	(4.3)%
Consumer:						
Manufactured homes	22,157	4.35%	21,766	4.26%	391	1.8%
Automobile and other secured loans	6,680	1.31%	7,172	1.40%	(492)	(6.9)%
Other	2,910	0.57%	2,566	0.50%	344	13.4%
Total other loans	84,146	16.52%	86,260	16.89%	(2,114)	(2.5)%
Total loans	509,280	100.00%	510,648	100.00%		
Net deferred loan costs	2,634		2,638			
Allowance for loan losses	(5,769)		(5,651)			
Total loans, net	\$ 506,145		\$ 507,635			

(1) Excludes loans held for sale of \$1.4 million and \$330,000 at September 30, 2014 and June 30, 2014, respectively.

Management performs a quarterly evaluation of the adequacy of the allowance for loan losses. The analysis of the allowance for loan losses has two components: specific and general allocations, which are further described below.

Specific Allocation

Specific allocations are made for loans determined to be impaired. Impairment is measured by determining the present value of expected future cash flows or fair value of collateral for collateral dependent loans. The Company charges off any collateral shortfall on collaterally dependent impaired loans.

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HAMPDEN BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

8. Loans (Continued)

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal and interest when due according to the contractual terms of the loan agreement. Impaired loans are generally placed on non-accrual status either when there is reasonable doubt as to the full collection of payments or when the loans become 90 days past due unless an evaluation clearly indicates that the loan is well secured and in the process of collection. Impairment is measured on a loan by loan basis for commercial loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, or the fair value of the collateral, adjusted for market conditions and selling expenses, if the loan is collateral dependent.

The Company may periodically agree to modify the contractual terms of loans. When a loan is modified and a concession is made to a borrower experiencing financial difficulty, the modification is considered a troubled debt restructure ("TDR"). All TDRs are initially classified as impaired and may be evaluated for removal from impaired status after one year of current payments for a modified loan with a market rate for that borrower at the time of restructuring.

General Allocation

The general allocation is determined by segregating the remaining loans by type of loan and payment history. Consideration is given to historical loss experience and qualitative factors such as delinquency trends, changes in underwriting standards or lending policies, procedures and practices, experience and depth of management and lending staff, and general economic conditions. This analysis establishes loss factors that are applied to the loan groups to determine the amount of the general allocations. 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 that have been established which could have a material negative effect on financial results. There were no changes in the Company's policies or methodology pertaining to the general component of the allowance for loan losses during the three months ended September 30, 2014.

On a quarterly basis, management's Loan Review 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 with risk ratings of six (special mention) or higher are analyzed to determine their potential risk of loss. This process concentrates on watch list, non-accrual and classified loans. Any loan determined to be impaired is evaluated for potential loss exposure. Any shortfall results in a charge-off if the likelihood of loss is evaluated as probable. The Company's policy for charging off uncollectible loans is based on an analysis of the financial condition of the borrower and/or the collateral value. 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, discounted cash flow valuation or other available information.

The qualitative factors are assessed based on the various risk characteristics of each loan segment. Risk characteristics relevant to each portfolio segment are as follows:

Residential real estate The Company generally does not originate loans with a loan-to-value ratio greater than 80% unless there is private mortgage insurance. All loans in this segment are

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HAMPDEN BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

8. Loans (Continued)

collateralized by one- to four-family 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 segment.

Commercial real estate Loans in these segments are primarily income-producing properties throughout Massachusetts and Connecticut. The underlying cash flows generated by the properties can be adversely impacted by a downturn in the economy as evidenced by increased vacancy rates, which in turn, will have an effect on the credit quality in this segment. Management requires annual borrower financial statements, obtains rent rolls annually and continually monitors the cash flows of these loans.

Home equity loans Loans in this segment are secured by first or second mortgages on one- to four-family owner occupied properties, and are generally underwritten in amounts such that the combined first and second mortgage balances generally do not exceed 85% of the value of the property serving as collateral at time of origination. The lines-of-credit are available to be drawn upon for 10 to 20 years, at the end of which time they become term loans amortized over 5 to 10 years. Interest rates on home equity lines normally adjust based on the month-end prime rate published in the Wall Street Journal.

Residential construction loans Loans in this segment primarily include construction to permanent non-speculative real estate loans. All loans in this segment are collateralized by one- to four-family 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 segment.

Commercial construction loans Loans in this segment primarily include construction to permanent non-speculative real estate loans. The underlying cash flows generated by the properties may be adversely impacted by a downturn in the economy, which in turn, will have an effect on the credit quality in this segment.

Commercial loans Loans in this segment are made to businesses and are generally secured by assets of the business. Repayment is expected from the cash flows of the business. A weakened economy may have an effect on the credit quality in this segment.

Automobile and other secured loans Loans in this segment include consumer non-real estate secured loans that the Company originates as well as automobile loans that the Company purchases from a third party. The Company has the ability to select the automobile loans it purchases based on its own underwriting standards.

Manufactured home loans Loans in this segment are secured by first liens on properties located primarily in the Northeast. Repayment is dependent on the credit quality of the individual borrower. The overall health of the economy, including unemployment rates, will have an effect on the credit quality in this segment. The Company has the ability to select the manufactured home loans it purchases based on its own underwriting standards.

Other consumer loans Loans in this segment are generally unsecured and repayment is dependent on the credit quality of the individual borrower.

Table of Contents**HAMPDEN BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****8. Loans (Continued)**Credit Quality Information

The Company utilizes a nine grade internal loan rating system for all loans as follows:

Loans rated 1 - 5: Loans in these categories are considered "pass" rated loans with low to average risk.

Loans rated 6: Loans in this category are considered "special mention." These loans are starting to show signs of potential weakness and are being closely monitored by management.

Loans rated 7: Loans in this category are considered "substandard." Generally, a loan is considered substandard if it is inadequately protected by the current net worth and paying capacity of the obligors and/or the collateral pledged. There is a distinct possibility that the Company will sustain some loss if the weakness is not corrected.

Loans rated 8: Loans in this category are considered "doubtful." Loans classified as doubtful have all the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, highly questionable and improbable.

Loans rated 9: Loans in this category are considered uncollectible ("loss") and of such little value that their continuance as loans is not warranted. These loans are generally charged off at each quarter end.

On an annual basis, or more often if needed, the Company formally reviews the ratings on all commercial real estate, commercial construction and commercial loans. 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 annual review process. All credits rated 6 or worse are reviewed on a quarterly basis by management. At origination, management assigns risk ratings to one-to four-family residential loans, home equity loans, residential construction loans, manufactured home loans, and other consumer loans. The Company updates these risk ratings as needed based primarily on delinquency, bankruptcy, or tax delinquency.

The following tables present the Company's loans by risk rating at September 30, 2014 and June 30, 2014:

September 30, 2014

	One- to Four- Family	Commercial Real Estate	Home Equity First Lien	Home Equity Second Lien	Residential Construction	Commercial Construction
(In Thousands)						
Loans rated						
1-5	\$ 104,020	\$ 186,333	\$ 35,425	\$ 41,633	\$ 3,790	\$ 34,130
Loans rated 6	543	12,892		10		275
Loans rated 7	2,788	2,953	26	170		
Loans rated 8	146					
Loans rated 9						
	\$ 107,497	\$ 202,178	\$ 35,451	\$ 41,813	\$ 3,790	\$ 34,405

Table of Contents**HAMPDEN BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****8. Loans (Continued)**

	Commercial	Manufactured Homes	Automobile and Other Secured Loans	Other Consumer	Total
(In Thousands)					
Loans rated 1-5	\$ 47,899	\$ 21,916	\$ 6,680	\$ 2,905	\$ 484,731
Loans rated 6	430	99			14,249
Loans rated 7	4,070	51		5	10,063
Loans rated 8		91			237
Loans rated 9					
	\$ 52,399	\$ 22,157	\$ 6,680	\$ 2,910	\$ 509,280

June 30, 2014

	One- to Four- Family	Commercial Real Estate	Home Equity First Lien	Home Equity Second Lien	Residential Construction	Commercial Construction
(In Thousands)						
Loans rated 1-5	\$ 104,221	\$ 184,317	\$ 36,299	\$ 39,688	\$ 3,807	\$ 36,189
Loans rated 6	523	12,447		7		
Loans rated 7	2,608	3,986		150		
Loans rated 8	146					
Loans rated 9						
	\$ 107,498	\$ 200,750	\$ 36,299	\$ 39,845	\$ 3,807	\$ 36,189

	Commercial	Manufactured Homes	Automobile and Other Secured Loans	Other Consumer	Total
(In Thousands)					
Loans rated 1-5	\$ 49,874	\$ 21,342	\$ 7,172	\$ 2,564	\$ 485,473
Loans rated 6	533	160		1	13,671
Loans rated 7	4,349	59		1	11,153
Loans rated 8		205			351
Loans rated 9					
	\$ 54,756	\$ 21,766	\$ 7,172	\$ 2,566	\$ 510,648

The results of the Company's quarterly loan review process are summarized by, and appropriate recommendations and loan loss allowances are approved by, the Loan Review Committee (the "Committee"). All supporting documentation with regard to the evaluation process, loan loss experience, allowance levels and the schedules of classified loans is maintained by the Company. The Committee is chaired by the Company's Chief Financial Officer. The allowance for loan losses calculation is presented to the Board of Directors on a quarterly basis with recommendations on its adequacy.

Table of Contents**HAMPDEN BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****8. Loans (Continued)**

The following are summaries of past due and non-accrual loans as of September 30, 2014 and June 30, 2014:

	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Loans on Non-accrual
(In Thousands)					
September 30, 2014					
Mortgage loans on real estate:					
One- to four-family	\$ 946	\$ 82	\$ 2,681	\$ 3,709	\$ 2,977
Commercial	43	404	583	1,030	988
Home equity:					
First lien		27		27	
Second lien	144	27	24	195	143
Commercial		35	2,318	2,353	2,318
Consumer:					
Manufactured homes	401	27	116	544	149
Automobile and other secured loans					
Other	105		5	110	5
Total	\$ 1,639	\$ 602	\$ 5,727	\$ 7,968	\$ 6,580
June 30, 2014					
Mortgage loans on real estate:					
One- to four-family	\$ 607	\$ 236	\$ 2,437	\$ 3,280	\$ 2,755
Commercial	583			583	534
Home equity:					
First lien					
Second lien	159		111	270	150
Commercial			1,500	1,500	1,500
Consumer:					
Manufactured homes	304	27	240	571	240
Automobile and other secured loans					
Other	12	1		13	
Total	\$ 1,665	\$ 264	\$ 4,288	\$ 6,217	\$ 5,179

At September 30, 2014 and June 30, 2014, there were no loans past due 90 days or more and still accruing.

Table of Contents**HAMPDEN BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****8. Loans (Continued)**

The following are summaries of impaired loans:

	September 30, 2014			June 30, 2014		
	Recorded	Unpaid	Related	Recorded	Unpaid	Related
	Investment	Principal	Allowance	Investment	Principal	Allowance
	(In Thousands)					
Impaired loans without a valuation allowance:						
Mortgage loans on real estate:						
One- to four-family	\$ 2,977	\$ 3,196	\$	\$ 2,755	\$ 2,814	\$
Commercial	3,429	3,429		3,147	3,147	
Commercial construction	275	275				
Home equity:						
Second lien	144	163		150	170	
Other loans:						
Commercial	3,031	3,031		2,952	2,952	
Manufactured homes	149	159		239	275	
Consumer other	5	5				
Total	10,010	10,258		9,243	9,358	
Impaired loans with a valuation allowance:						
Mortgage loans on real estate:						
Commercial	534	534	10	537	537	11
Total	534	534	10	537	537	11
Total impaired loans	\$ 10,544	\$ 10,792	\$ 10	\$ 9,780	\$ 9,895	\$ 11

Table of Contents**HAMPDEN BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****8. Loans (Continued)**

Information pertaining to impaired loans for the three months ended September 30, 2014 and 2013 are as follows:

	Three Months Ended September 30, 2014			Three Months Ended September 30, 2013		
	Average Recorded Investment on Impaired Loans	Interest Income Recognized	Recognized on a Cash Basis	Average Recorded Investment on Impaired Loans	Interest Income Recognized	Recognized on a Cash Basis
(In Thousands)						
Mortgage loans on real estate:						
One- to four-family	\$ 2,986	\$ 14	\$ 14	\$ 1,239	\$ 21	\$ 15
Commercial	3,971	31	2	7,818	106	106
Home equity:						
Second lien	147	4	4	350	5	1
Construction:						
Commercial	278	5				
Commercial	3,052	28	16	4,799	68	36
Consumer:						
Manufactured homes	150	4	4	79	1	
Other	5					
Total loans	\$ 10,589	\$ 86	\$ 40	\$ 14,285	\$ 201	\$ 158

At September 30, 2014, the Company had one impaired loan that had \$129,000 committed to be advanced. The \$10.5 million of impaired loans as of September 30, 2014 includes \$6.6 million of non-accrual loans and \$3.7 million of accruing TDR loans. The remaining \$241,000 of impaired loans, all of which are current with payments, are loans that the Company believes, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal, or interest when due according to the contractual terms of the loan agreement. Of the \$10.5 million of impaired loans, \$4.0 million, or 38%, are current with all payment terms. As of June 30, 2014, the \$9.8 million of impaired loans included \$5.2 million of non-accrual loans and \$4.6 million of accruing TDRs. Of the \$9.8 million of impaired loans, \$4.6 million, or 47%, were current with all payment terms as of June 30, 2014.

The Company had no new TDRs during the three months ended September 30, 2014 and 2013. As of September 30, 2014 and 2013, there were no TDRs that were restructured within the previous twelve months that had any payment defaults.

Table of Contents**HAMPDEN BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****8. Loans (Continued)**

Information pertaining to activity in the allowance for loan losses for the three months ended September 30, 2014 and 2013, is as follows:

	One- to Four- Family	Commercial Real Estate	Home Equity First Lien	Home Equity Second Lien	Residential Construction	Commercial Construction	Commercial	Manufactured Homes	Automobile and Other Secured Loans	Other Consumer	Total
(In Thousands)											
Balance at June 30, 2014	\$ 697	\$ 2,288	\$ 204	\$ 268	\$ 30	\$ 472	\$ 1,216	\$ 417	\$ 30	\$ 29	\$ 5,651
Charge-offs	(26)			(7)				(14)		(2)	(49)
Recoveries				1			12		4		17
Provision (credit)	160	128	34	69	2		(360)	115	(4)	6	150
Balance at September 30, 2014	\$ 831	\$ 2,416	\$ 238	\$ 331	\$ 32	\$ 472	\$ 868	\$ 518	\$ 30	\$ 33	\$ 5,769
Balance at June 30, 2013	\$ 762	\$ 2,215	\$ 233	\$ 302	\$ 33	\$ 315	\$ 1,065	\$ 432	\$ 34	\$ 23	\$ 5,414
Charge-offs		(4)						(46)			(50)
Recoveries			1				1			11	13
Provision (credit)		90						10			100
Balance at September 30, 2013	\$ 762	\$ 2,301	\$ 234	\$ 302	\$ 33	\$ 315	\$ 1,066	\$ 396	\$ 34	\$ 34	\$ 5,477

Information pertaining to the allowance for loan losses and recorded investment in loans at September 30, 2014, and June 30, 2014 are as follows:

	One- to Four- Family	Commercial Real Estate	Home Equity First Lien	Home Equity Second Lien	Residential Construction	Commercial Construction	Commercial	Manufactured Homes	Automobile and Other Secured Loans	Other Consumer	Total
At September 30, 2014											
(In Thousands)											
Allowance:											
Impaired loans	\$	\$ 10	\$	\$	\$	\$	\$	\$	\$	\$	\$ 10
Non-impaired loans	831	2,406	238	331	32	472	868	518	30	33	5,759
Total allowance for loan losses	\$ 831	\$ 2,416	\$ 238	\$ 331	\$ 32	\$ 472	\$ 868	\$ 518	\$ 30	\$ 33	\$ 5,769

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Loans:											
Impaired loans	\$ 2,977	\$ 3,963	\$ 35,451	\$ 41,813	\$ 3,790	\$ 34,130	\$ 49,368	\$ 22,008	\$ 6,680	\$ 2,905	\$ 10,544
Non-impaired loans	104,520	198,215	35,451	41,669	3,790	34,130	49,368	22,008	6,680	2,905	498,736
Total loans	\$ 107,497	\$ 202,178	\$ 35,451	\$ 41,813	\$ 3,790	\$ 34,405	\$ 52,399	\$ 22,157	\$ 6,680	\$ 2,910	\$ 509,280

At June 30, 2014

	One- to Four- Family	Commercial Real Estate	Home Equity First Lien	Home Equity Second Lien	Residential Construction	Commercial Construction	Commercial	Manufactured Homes	Automobile and Other Secured Loans	Other Consumer	Total
(In Thousands)											
Allowance:											
Impaired loans	\$	\$ 11	\$	\$	\$	\$	\$	\$	\$	\$	\$ 11
Non-impaired loans	697	2,277	204	268	30	472	1,216	417	30	29	5,640
Total allowance for loan losses	\$ 697	\$ 2,288	\$ 204	\$ 268	\$ 30	\$ 472	\$ 1,216	\$ 417	\$ 30	\$ 29	\$ 5,651

Loans:											
Impaired loans	\$ 2,755	\$ 3,684	\$ 36,299	\$ 39,845	\$ 3,807	\$ 36,189	\$ 51,804	\$ 21,527	\$ 7,172	\$ 2,566	\$ 9,780
Non-impaired loans	104,743	197,066	36,299	39,695	3,807	36,189	51,804	21,527	7,172	2,566	500,868
Total loans	\$ 107,498	\$ 200,750	\$ 36,299	\$ 39,845	\$ 3,807	\$ 36,189	\$ 54,756	\$ 21,766	\$ 7,172	\$ 2,566	\$ 510,648

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HAMPDEN BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

8. Loans (Continued)

The Company has transferred a portion of its originated commercial real estate and commercial loans to participating lenders. The amounts transferred have been accounted for as sales and are therefore not included in the Company's accompanying consolidated balance sheets. The Company and participating lenders share in any gains or losses that may result from a borrower's lack of compliance with contractual terms of the loan. The Company continues to service the loans on behalf of the participating lenders and, as such, collects cash payments from the borrowers, remits payments (net of servicing fees) to participating lenders and disburses required escrow funds to relevant parties. At September 30, 2014 and June 30, 2014, the Company was servicing loans for participants aggregating \$36.6 million and \$34.4 million, respectively.

9. Subsequent Events

Subsequent events represent events or transactions occurring after the balance sheet date but before the financial statements are issued or are available to be issued. Financial statements are considered "issued" when they are widely distributed to shareholders and others for general use and reliance in a form and format that complies with GAAP. Financial statements are considered "available to be issued" when they are complete in form and format that complies with GAAP and all approvals necessary for their issuance have been obtained.

The Company is an SEC filer and management has evaluated subsequent events through the date that the financial statements were issued.

On November 3, 2014, the Company, and Berkshire Hills Bancorp, Inc. ("Berkshire Hills"), the holding company for Berkshire Bank ("Berkshire Bank"), entered into an Agreement and Plan of Merger pursuant to which (i) the Company will merge with and into Berkshire Hills, the separate corporate existence of the Company will thereupon cease and Berkshire Hills will continue as the surviving corporation (the "Merger"), and (ii) it is anticipated that the Bank will merge with and into Berkshire Bank, the separate corporate existence of the Bank will thereupon cease and Berkshire Bank will continue as the surviving corporation. The consummation of the Merger is subject to customary closing conditions, including the receipt of regulatory approvals and approval of the Merger by the stockholders of the Company. The Merger is currently expected to be completed early in the second quarter of 2015.

Pursuant to the terms of the Merger Agreement, at the effective time of the Merger, each outstanding share of common stock, par value \$0.01 per share, of the Company will be exchanged for 0.81 shares of common stock, par value \$0.01 per share, of Berkshire Hills. The Merger Agreement provides each of the Company and Berkshire Hills with specified termination rights. If the Merger is not consummated under specified circumstances, including if Hampden terminates the Merger Agreement for a Superior Proposal (as defined in the Merger Agreement), Hampden has agreed to pay Berkshire Hills a termination fee equal to (i) \$3.6 million, if such fee shall become payable within 45 days from the date of the Merger Agreement, or (ii) \$4.7 million, if such fee shall become payable thereafter.

On November 4, 2014, the Company announced that its Board of Directors had declared a cash dividend of \$0.08 per common share. The dividend will be paid on November 28, 2014 to shareholders of record as of November 14, 2014.

On November 10, 2014, the Company received a \$601,000 recovery on a commercial loan previously charged off.

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REPORT OF MANGEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Hampden Bancorp, Inc. ("the Company") is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. The internal control process has been designed under management's supervision to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States of America.

The Company's internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that accurately and fairly reflect, in reasonable detail, transactions and dispositions of assets; and provide reasonable assurances that: (1) transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America; (2) receipts and expenditures are being made only in accordance with authorizations of management and the directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the Company's financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management conducted an assessment of the effectiveness of the Company's internal control over financial reporting as of June 30, 2014, utilizing the framework established in *Internal Control Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has determined that the Company's internal control over financial reporting as of June 30, 2014 is effective based on those criteria.

The effectiveness of the Company's internal control over financial reporting as of June 30, 2014 has been audited by Wolf & Company, P.C., an independent registered public accounting firm, as stated in their report, which follows. The report expresses an unqualified opinion on the effectiveness of the Company's internal control over financial reporting as of June 30, 2014.

Date: September 12, 2014

/s/ GLENN S. WELCH

Glenn S. Welch
Chief Executive Officer and President

Date: September 12, 2014

/s/ TARA G. CORTHELL

Tara G. Corthell
Chief Financial Officer and Treasurer

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Hampden Bancorp, Inc.

We have audited the consolidated balance sheets of Hampden Bancorp, Inc. and subsidiaries (the "Company") as of June 30, 2014 and 2013, and the related consolidated statements of net income, comprehensive income, changes in stockholders' equity and cash flows for each of the years in the three-year period ended June 30, 2014. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 Hampden Bancorp, Inc. and subsidiaries as of June 30, 2014 and 2013, and the results of their operations and their cash flows for each of the years in the three-year period ended June 30, 2014 in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Hampden Bancorp, Inc. and subsidiaries' internal control over financial reporting as of June 30, 2014, based on criteria established in *Internal Control Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated September 12, 2014 expressed an unqualified opinion on the effectiveness of Hampden Bancorp, Inc.'s internal control over financial reporting.

/s/ Wolf & Company, P.C.

Boston, Massachusetts
September 12, 2014

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON
INTERNAL CONTROL OVER FINANCIAL REPORTING**

The Board of Directors and Shareholders of
Hampden Bancorp, Inc.

We have audited Hampden Bancorp, Inc. and subsidiaries' (the "Company") internal control over financial reporting as of June 30, 2014, based on criteria established in *Internal Control Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Hampden Bancorp, Inc. and subsidiaries' management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit 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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the accounting principles generally accepted in the United States of America. A company's internal control over financial reporting includes those policies and procedures that (a) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (b) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (c) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the company's financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Hampden Bancorp, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of June 30, 2014, based on criteria established in *Internal Control Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the June 30, 2014 consolidated financial statements of Hampden Bancorp, Inc. and our report dated September 12, 2014 expressed an unqualified opinion.

/s/ Wolf & Company, P.C.

Boston, Massachusetts
September 12, 2014

Table of Contents**HAMPDEN BANCORP, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

	June 30,	
	2014	2013
	(In Thousands)	
ASSETS		
Cash and due from banks	\$ 9,437	\$ 13,737
Federal funds sold and other short-term investments	3,230	11,881
Cash and cash equivalents	12,667	25,618
Securities available for sale, at fair value	133,936	138,730
Securities held to maturity, at cost	9,302	
Federal Home Loan Bank of Boston stock, at cost	6,648	5,092
Loans held for sale	330	1,274
Loans, net of allowance for loan losses of \$5,651 at June 30, 2014 and \$5,414 at June 30, 2013	507,635	450,347
Other real estate owned	309	1,221
Premises and equipment, net	4,668	5,010
Accrued interest receivable	1,688	1,636
Deferred tax asset, net	4,182	4,584
Bank-owned life insurance	17,459	16,956
Other assets	2,673	2,494
Total assets	\$ 701,497	\$ 652,962
LIABILITIES AND STOCKHOLDERS' EQUITY		
Interest-bearing deposits	\$ 407,508	\$ 400,717
Non-interest bearing deposits	84,224	74,081
Total deposits	491,732	474,798
Short-term borrowings	4,000	4,500
Long-term debt	112,446	82,492
Mortgagors' escrow accounts	1,184	1,100
Accrued expenses and other liabilities	4,976	6,413
Total liabilities	614,338	569,303
Commitments and contingencies (Note 11)		
Preferred stock (\$.01 par value, 5,000,000 shares authorized, none issued or outstanding)		
Common stock (\$.01 par value, 25,000,000 shares authorized; 8,034,027 issued at June 30, 2014 and 7,982,976 issued at June 30, 2013; 5,651,130 outstanding at June 30, 2014 and 5,629,099 outstanding at June 30, 2013)	80	80
Additional paid-in-capital	80,389	79,926
Unearned compensation ESOP (317,998 shares unallocated at June 30, 2014 and 360,397 shares unallocated at June 30, 2013)	(3,180)	(3,604)
Unearned compensation equity incentive plan	(8)	(16)
Retained earnings	37,697	34,450
Accumulated other comprehensive income	158	346
Treasury stock, at cost (2,382,897 shares at June 30, 2014 and 2,353,877 shares at June 30, 2013)	(27,977)	(27,523)

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Total stockholders' equity	87,159	83,659
Total liabilities and stockholders' equity	\$ 701,497	\$ 652,962

See accompanying notes to consolidated financial statements.

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HAMPDEN BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF NET INCOME

	Years Ended June 30,		
	2014	2013	2012
(Dollars in Thousands, except per share data)			
Interest and dividend income:			
Loans, including fees	\$ 22,729	\$ 21,570	\$ 21,805
Debt securities:			
Taxable	2,615	2,713	2,981
Tax-exempt	68	1	
Dividends	62	25	22
Federal funds sold and other short-term investments	38	39	25
Total interest and dividend income	25,512	24,348	24,833
Interest expense:			
Deposits	3,009	3,664	4,197
Borrowings	2,161	1,821	1,567
Total interest expense	5,170	5,485	5,764
Net interest income	20,342	18,863	19,069
Provision for loan losses	550	675	425
Net interest income, after provision for loan losses	19,792	18,188	18,644
Non-interest income:			
Customer service fees	2,168	1,989	1,712
Gain on sales of securities, net		114	19
Gain on sales of loans, net	276	910	625
Increase in cash surrender value of bank-owned life insurance	503	529	470
Other	691	660	414
Total non-interest income	3,638	4,202	3,240
Non-interest expense:			
Salaries and employee benefits	9,132	9,959	9,870
Occupancy and equipment	1,857	1,921	1,837
Data processing services	931	1,022	593
Advertising	592	570	663
Net (gain) loss on other real estate owned	(1)	(38)	41
FDIC insurance and assessment	399	370	310
Other general and administrative	3,461	3,835	3,771
Total non-interest expense	16,371	17,639	17,085
Income before income taxes	7,059	4,751	4,799
Income tax provision	2,544	1,777	1,783
Net income	\$ 4,515	\$ 2,974	\$ 3,016

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Earnings per share:

Basic	\$	0.85	\$	0.55	\$	0.52
Diluted	\$	0.83	\$	0.54	\$	0.51

Weighted average shares outstanding:

Basic	5,304,151	5,414,851	5,806,977
Diluted	5,435,761	5,548,151	5,888,591

See accompanying notes to consolidated financial statements.

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HAMPDEN BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended June 30,		
	2014	2013	2012
	(In Thousands)		
Net income	\$ 4,515	\$ 2,974	\$ 3,016
Other comprehensive income (loss):			
Unrealized holding gains (losses) on available-for-sale securities	(308)	(2,658)	584
Reclassification adjustment for gains realized in income(1)		(114)	(19)
Net unrealized gains (losses)	(308)	(2,772)	565
Tax effect	120	1,001	(205)
Other comprehensive income (loss), net-of-tax	(188)	(1,771)	360
Comprehensive income	\$ 4,327	\$ 1,203	\$ 3,376

-
- (1) Amounts are included in gain on sales of securities, net in the consolidated statements of net income. The related income tax-provision amounted to \$42,000 and \$6,000 for the years ended June 30, 2013 and 2012, respectively.

See accompanying notes to consolidated financial statements.

Table of Contents**HAMPDEN BANCORP, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY****YEARS ENDED JUNE 30, 2014, 2013 and 2012**

	Common Stock		Additional	Unearned	Unearned	Accumulated	Retained	Other	Treasury	Total
	Shares	Amount	Paid-in	Compensation-	Equity	Comprehensive	Earnings	Income	Stock	
			Capital	ESOP	Incentive	Income				
					Plan					
(Dollars In Thousands)										
Balance at June 30, 2011	6,799,499	\$ 80	\$ 78,517	\$ (4,452)	\$ (871)	\$ 30,327	\$ 1,757	\$ (11,842)	\$	\$ 93,516
Comprehensive income						3,016	360			3,376
Issuance of common stock for exercise of stock options	1,169									
Cash dividends paid (\$0.14 per share)						(820)				(820)
Common stock repurchased	(832,273)							(10,410)		(10,410)
Stock-based compensation			330		596					926
Tax benefit from Equity Incentive Plan vesting			42							42
Forfeiture of restricted stock					50	(50)				
ESOP shares allocated or committed to be allocated (42,399 shares)			106	424						530
Balance at June 30, 2012	5,968,395	80	78,995	(4,028)	(225)	32,473	2,117	(22,252)		87,160
Comprehensive income						2,974	(1,771)			1,203
Issuance of common stock for exercise of stock options	31,428		343							343
Cash dividends paid (\$0.18 per share)						(997)				(997)
Common stock repurchased	(370,724)							(5,271)		(5,271)
Stock-based compensation			294		209					503
Tax benefit from Equity Incentive Plan vesting			105							105
ESOP shares allocated or committed to be allocated (42,399 shares)			189	424						613
Balance at June 30, 2013	5,629,099	80	79,926	(3,604)	(16)	34,450	346	(27,523)		83,659
Comprehensive income						4,515	(188)			4,327
Issuance of common stock for exercise of stock options	51,051		163							163
Cash dividends paid (\$0.24 per share)						(1,268)				(1,268)
Common stock repurchased	(29,020)							(454)		(454)
Stock-based compensation			38		8					46
Tax benefit from Equity Incentive Plan vesting			1							1
ESOP shares allocated or committed to be allocated (42,399 shares)			261	424						685
Balance at June 30, 2014	5,651,130	\$ 80	\$ 80,389	\$ (3,180)	\$ (8)	\$ 37,697	\$ 158	\$ (27,977)	\$	\$ 87,159

See accompanying notes to consolidated financial statements.

Table of Contents**HAMPDEN BANCORP, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Years Ended June 30,		
	2014	2013	2012
	(In Thousands)		
Cash flows from operating activities:			
Net income	\$ 4,515	\$ 2,974	\$ 3,016
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	550	675	425
Changes in fair value of mortgage servicing rights	41	161	(159)
Net amortization of securities premiums	372	783	199
Depreciation and amortization	671	734	764
Gain on sales of securities, net		(114)	(19)
Loans originated for sale	(16,615)	(31,285)	(23,073)
Proceeds from loan sales	17,835	31,848	23,171
Gain on sales of loans, net	(276)	(910)	(625)
Net (gain) loss on other real estate owned	(1)	(38)	41
Increase in cash surrender value of bank-owned life insurance	(503)	(529)	(470)
Deferred tax provision (benefit)	522	(179)	1,296
Employee Stock Ownership Plan expense	685	613	530
Stock-based compensation	46	503	926
Tax benefit from Equity Incentive Plan vesting	(1)	(105)	(42)
Net change in:			
Accrued interest receivable	(52)	39	(134)
Other assets	(219)	1,031	(461)
Accrued expenses and other liabilities	(1,437)	539	(893)
Net cash provided by operating activities	6,133	6,740	4,492
Cash flows from investing activities:			
Activity in available-for-sale securities:			
Sales		3,189	1,308
Maturities and calls	6,626	178	1,000
Principal payments	29,547	45,899	29,766
Purchases	(41,361)	(47,588)	(63,620)
Purchase of loans	(5,321)	(6,576)	(8,390)
Loan originations, net of principal payments	(53,073)	(38,559)	(1,578)
Proceeds from sales of other real estate owned	1,469	1,100	304
Purchase of bank-owned life insurance		(222)	(5,000)
(Purchase) redemption of Federal Home Loan Bank stock	(1,556)	(133)	274
Purchase of premises and equipment	(329)	(585)	(514)
Net cash used by investing activities	(63,998)	(43,297)	(46,450)
Cash flows from financing activities:			
Net change in deposits	16,934	39,966	17,577
Net change in securities sold under agreements to repurchase		(7,315)	82
Net change in short-term borrowings	(500)	1,500	3,000
Proceeds from issuance of long-term debt	72,203	28,135	35,411
Repayment of long-term debt	(42,249)	(22,304)	(6,228)
Net change in mortgagors' escrow accounts	84	90	80
Tax benefit from Equity Incentive Plan vesting	1	105	42
Issuance of common stock for exercise of stock options	163	343	
Repurchase of common stock	(454)	(5,271)	(10,410)
Payment of dividends on common stock	(1,268)	(997)	(820)
Net cash provided by financing activities	44,914	34,252	38,734

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Net change in cash and cash equivalents	(12,951)	(2,305)	(3,224)
Cash and cash equivalents at beginning of year	25,618	27,923	31,147
Cash and cash equivalents at end of year	\$ 12,667	\$ 25,618	\$ 27,923

Supplemental cash flow information:

Interest paid on deposits	\$ 3,009	\$ 3,664	\$ 4,197
Interest paid on borrowings	2,156	1,832	1,597
Income taxes paid	2,333	960	284
Securities reclassified from available-for-sale to held-to-maturity	9,302		
Transfers from loans to other real estate owned	556	413	907

See accompanying notes to consolidated financial statements.

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HAMPDEN BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2014, 2013 and 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Consolidation

The accompanying consolidated financial statements include the accounts of Hampden Bancorp, Inc. (the "Company"), a Delaware corporation, and its wholly-owned subsidiaries, Hampden Bank (the "Bank") and Hampden LS, Inc. Hampden Bank is a Massachusetts-chartered stock savings bank. The Company contributed funds to Hampden LS, Inc. to enable it to make a 15-year loan to the Employee Stock Ownership Plan ("ESOP") to allow it to purchase shares of the Company's common stock. The Bank has three wholly-owned subsidiaries: Hampden Investment Corporation and Hampden Investment Corporation II, which engage in buying, selling, holding and otherwise dealing in securities, and Hampden Insurance Agency, which is inactive. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The determination of the allowance for loan losses and the valuation of deferred tax assets are material estimates that are particularly susceptible to significant change in the near term.

Business and Operating Segments

The Company provides a variety of financial services to individuals and small businesses through its Internet operations and ten offices in Hampden County, Massachusetts, and surrounding communities. Its primary deposit products are checking, savings and term certificate accounts and its primary lending products are residential mortgage and commercial loans.

Financial information is reported on the basis that it is used internally for evaluating segment performance and deciding how to allocate resources to segments. Management evaluates the Company's performance and allocates resources based on a single segment concept. Accordingly, there are no separately identified material operating segments for which discrete financial information is available. The Company does not derive revenues from, or have assets located in foreign countries, nor does it derive revenues from any single customer that represents 10% or more of the Company's total revenues.

Reclassification

Amounts in prior years consolidated financial statements are reclassified where necessary to conform to the current year presentation.

Cash and Cash Equivalents and Statements of Cash Flows

Cash and due from banks, federal funds sold and short-term investments with original maturities of less than 90 days are recognized as cash equivalents in the consolidated statements of cash flows. Federal funds sold generally mature in one day. Cash flows from loans and deposits are reported on a

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HAMPDEN BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

YEARS ENDED JUNE 30, 2014, 2013 and 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

net basis, except for loan purchases. The Company maintains amounts due from banks that, at times, may exceed federally insured limits. The Company has not experienced any losses from such concentrations.

Securities

Debt securities that management has the positive intent and ability to hold to maturity are classified as "held to maturity" and recorded at amortized cost. Securities not classified as held to maturity, including equity securities with readily determinable fair values, are classified as "available for sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Realized gains and losses on disposition of securities are recorded on the trade date and determined using the specific identification method.

Fair Value Hierarchy

The Company groups its assets generally measured at fair value in three levels based on the markets in which the assets are traded and the reliability of the assumptions used to determine the fair value, as follows:

- Level 1:* Inputs to the valuation methodology are quoted prices, unadjusted, for identical assets in active markets. A quoted price in an active market provides the most reliable evidence of fair value and is used to measure fair value whenever available.
- Level 2:* Inputs to the valuation methodology include quoted prices for similar assets in active markets; inputs to the valuation methodology include quoted prices for identical or similar assets in markets that are not active; or inputs to the valuation methodology that are derived principally from or can be corroborated by observable market data by correlation or other means.
- Level 3:* Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Level 3 assets include financial instruments whose value is determined using discounted cash flow methodologies, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Transfers between levels are recognized at the end of a reporting period if applicable.

Federal Home Loan Bank Stock

The Bank, as a member of the Federal Home Loan Bank of Boston ("FHLB"), is required to invest in shares of \$100 par value stock of the FHLB in the amount of 1% of the Bank's outstanding residential loans or 5% of its outstanding advances from the FHLB, whichever is higher. Based on redemption provisions of the FHLB, the stock has no quoted market value and is carried at cost. At its discretion, the FHLB may declare dividends on its stock. The Company reviews its investment in FHLB

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HAMPDEN BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

YEARS ENDED JUNE 30, 2014, 2013 and 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

stock for impairment based on the ultimate recoverability of the cost basis in the FHLB stock. As of June 30, 2014, no impairment has been recognized.

Loans Held for Sale

Loans originated and intended for sale in the secondary market are carried at the lower of amortized cost or fair value in the aggregate, as determined by outstanding commitments from investors or current investor yield requirements. Net unrealized losses, if any, are recognized through a valuation allowance by charges to non-interest income. Gains or losses on sales of mortgage loans are recognized based on the difference between the selling price and the carrying value of the related mortgage loans sold. As of June 30, 2014 and 2013, the Company had no material derivative loan commitments.

Loans

The Company grants mortgage, commercial, and consumer loans to customers. A substantial portion of the loan portfolio consists of mortgage loans in Hampden and Hampshire Counties, Massachusetts, and surrounding communities. The ability of the Company's debtors to honor their contracts is dependent upon the local real estate market and economy.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and any deferred fees or costs on originated and purchased loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method.

The accrual of interest on mortgage and commercial loans is discontinued when reasonable doubt exists as to the full collection of interest and principal or at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Other personal loans are typically charged off no later than 180 days past due. Past due status is based on the contractual term of the loans. In all cases, loans are placed on non-accrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. All interest accrued but not collected for loans that are placed on non-accrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual status. Loans are reclassified to accrual status once the borrower has shown the ability and an acceptable history of repayment of six months. The Company may also return a loan to accrual status if the borrower evidences sufficient cash flow to service the debt and provides additional collateral to support the collectability of the loan.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

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HAMPDEN BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

YEARS ENDED JUNE 30, 2014, 2013 and 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The allowance for loan losses is evaluated on a quarterly basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The analysis of the allowance for loan losses has two components: specific and general allocations, which are further described below.

Specific allocation

Specific loss allocations are made for loans determined to be impaired. Specific allocations result in a charge-off if the likelihood of loss is evaluated as probable. The Company's policy for charging off uncollectible loans is based on an analysis of the financial condition of the borrower and/or the collateral value. To determine the adequacy of collateral on a particular loan, an estimate of the fair value of the collateral is based on the most current appraised value, tax assessed value, discounted cash flow valuation or other available information.

A loan is considered impaired when, based on current information and events, it is probable that a creditor will be unable to collect the scheduled payments of principal and interest when due according to the contractual terms of the loan agreement. Impaired loans are generally placed on non-accrual status either when there is reasonable doubt as to the full collection of payments or when the loans become 90 days past due unless an evaluation clearly indicates that the loan is well secured and in the process of collection. Impairment is measured on a loan by loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, or the fair value of the collateral, adjusted for selling expenses, if the loan is collateral dependent.

The Company may periodically agree to modify the contractual terms of loans. When a loan is modified and a concession is made to a borrower experiencing financial difficulty, the modification is considered a troubled debt restructuring ("TDR"). All TDRs are initially classified as impaired.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment unless such loans are subject to a troubled debt restructuring agreement.

General allocation

The general allocation is determined by segregating the remaining loans, by loan segment and payment history. Consideration is given to historical loss experience, and qualitative factors such as delinquency trends, changes in underwriting standards or lending policies, procedures and practices, experience and depth of management and lending staff, and general economic conditions. This analysis establishes loss factors that are applied to the loan groups to determine the amount of the general allocations. 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 that have been established which could have a material negative effect on financial results. There were no changes in

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HAMPDEN BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

YEARS ENDED JUNE 30, 2014, 2013 and 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

the Company's policies or methodology pertaining to the general component of the allowance for loan losses during the year ended June 30, 2014.

On a quarterly basis, management's Loan Review 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 concentrates on non-accrual and classified loans with risk ratings of six or higher. Any loan determined to be impaired is evaluated for potential loss exposure as previously described.

The qualitative factors are assessed based on the various risk characteristics of each loan segment. Risk characteristics relevant to each portfolio segment are as follows:

Residential real estate The Company generally does not originate loans with a loan-to-value ratio greater than 80 percent unless there is private mortgage insurance. All loans in this segment are collateralized by one- to four-family 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 segment.

Commercial real estate Loans in this segment are primarily income-producing properties throughout Massachusetts and Connecticut. The underlying cash flows generated by the properties can be adversely impacted by a downturn in the economy as evidenced by increased vacancy rates, which in turn, will have an effect on the credit quality in this segment. Management requires annual borrower financial statements, obtains rent rolls annually and continually monitors the cash flows of these loans.

Home equity loans Home equity loans are broken out into two segments, secured by first or second mortgages on one- to four-family owner occupied properties, and are generally underwritten in amounts such that the combined first and second mortgage balances generally do not exceed 85% of the value of the property serving as collateral at time of origination. The lines of credit are available to be drawn upon for 10 to 20 years, at the end of which time they become term loans amortized over 5 to 10 years. Interest rates on home equity lines normally adjust based on the month-end prime rate published in the Wall Street Journal.

Residential construction loans Loans in this segment primarily include non-speculative real estate loans. All loans in this segment are collateralized by one- to four-family 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 segment.

Commercial construction loans Loans in this segment primarily include construction to permanent non-speculative real estate loans. The underlying cash flows generated by the properties are adversely impacted by a downturn in the economy, which in turn, will have an effect on the credit quality in this segment.

Commercial loans Loans in this segment are made to businesses and are generally secured by assets of the business. Repayment is expected from the cash flows of the business. A weakened economy, and resultant decreased consumer spending, will have an effect on the credit quality in this segment.

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HAMPDEN BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

YEARS ENDED JUNE 30, 2014, 2013 and 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Manufactured home loans Loans in this segment are secured by first liens on properties located primarily in the Northeast. Repayment is dependent on the credit quality of the individual borrower. The overall health of the economy, including unemployment rates, will have an effect on the credit quality in this segment.

Automobile and other secured loans Loans in this segment include consumer non-real estate secured loans that the Company originates as well as automobile loans that the Company purchases from third parties. The Company has the ability to select the automobile loans it purchases based on its own underwriting standards.

Other consumer loans Loans in this segment are generally unsecured and repayment is dependent on the credit quality of the individual borrower.

Troubled Debt Restructurings

A modified loan is considered a TDR when two conditions are met: (1) the borrower is experiencing financial difficulty and (2) concessions are made by the Company that would not otherwise be considered for a borrower with similar risk characteristics. The most common types of modifications include below market interest rate reductions, deferrals of principal and maturity extensions. Modified terms are dependent upon the financial position and needs of the individual borrower. If the modification agreement is violated, the loan is handled by the Company's Collections Department for resolution, which may result in foreclosure. The Company's determination of whether a loan modification is a TDR considers the individual facts and circumstances surrounding each modification.

The Company's nonaccrual policy is followed for TDRs. If the loan was current prior to modification, nonaccrual status may not be required. If the loan was on nonaccrual prior to modification or if the payment amount significantly increases, the loan will remain on nonaccrual for a period of at least six months. Loans qualify for return to accrual status once the borrower has demonstrated the willingness and the ability to perform in accordance with the restructured terms of the loan agreement for a period of not less than six months and future payments are reasonably assured.

TDR classifications may be removed if the borrower demonstrates compliance with the modified terms and the restructuring agreement specifies an interest rate equal to that which would be provided to a borrower with similar risk characteristics at the time of restructuring. All TDRs are initially reported as impaired.

Loan Servicing

Servicing assets are recognized as separate assets at fair value when rights are acquired through purchase or through sale of financial assets. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation technique using the present value of estimated future cash flows calculated using current market discount rates. Servicing assets are measured at fair value at each reporting period and changes in fair value are recognized in other non-interest income in the period in which the change occurs.

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HAMPDEN BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

YEARS ENDED JUNE 30, 2014, 2013 and 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

During the normal course of business, the Company may transfer a portion of a financial asset, for example, a participation loan or the government guaranteed portion of a loan. In order to be eligible for sales treatment, the transfer of the portion of the loan must meet the criteria of a participating interest. If it does not meet the criteria of a participating interest, the transfer must be accounted for as a secured borrowing. In order to meet the criteria for a participating interest, all cash flows from the loan must be divided proportionately, the rights of each loan holder must have the same priority, the loan holders must have no recourse to the transferor other than standard representations and warranties and no loan holder can have the right to pledge or exchange the entire loan.

Bank-Owned Life Insurance

Bank-owned life insurance policies are reflected on the consolidated balance sheet at cash surrender value. Changes in cash surrender value are reflected in non-interest income on the consolidated statement of net income and are not subject to income taxes.

Premises and Equipment

Land is carried at cost. Buildings, leasehold improvements and equipment are stated at cost, less accumulated depreciation and amortization, computed on the straight-line method over the estimated useful lives of the assets or the expected term of the lease, if shorter. Expected terms include lease option periods to the extent that the exercise of such options is reasonably assured. The cost of maintenance and repairs is expensed as incurred.

Other Real Estate Owned

The Company classifies property acquired through foreclosure or acceptance of a deed in lieu of foreclosure as other real estate owned ("OREO") in its consolidated financial statements. When property is placed into OREO, it is recorded at the fair value less estimated costs to sell at the date of foreclosure or acceptance of deed in lieu of foreclosure. At the time of transfer to OREO, any excess of carrying value over fair value less estimated cost to sell is charged to the allowance for loan losses. Management, or its designee, inspects all OREO property periodically. Holding costs and declines in fair value subsequent to transfer result in charges to non-interest expense.

Advertising Costs

All advertising costs are expensed as incurred.

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HAMPDEN BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

YEARS ENDED JUNE 30, 2014, 2013 and 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

The Company uses the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. As changes in the tax laws or rates are enacted, deferred tax assets and liabilities are adjusted accordingly through the provision for income taxes. The Company's base amount of its federal income tax reserve for loan losses is a permanent difference for which there is no recognition of a deferred tax liability. However, the loan loss allowance maintained for financial reporting purposes is a temporary difference with allowable recognition of a related deferred tax asset, if it is deemed realizable. The Company exercises significant judgment in evaluating the amount and timing of recognition of the resulting tax assets and liabilities. These judgments require projections of future taxable income. These judgments and estimates, which are inherently subjective, are reviewed periodically as regulatory and business factors change. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that all or some portion of the deferred tax assets will not be realized.

The Company has no material uncertain tax positions as of June 30, 2014 or 2013.

The Company records interest and penalties as part of income tax expense. No interest and penalties were recorded for the years ended June 30, 2014, 2013 and 2012.

Income tax benefits related to stock compensation in excess of grant date fair value less any proceeds on exercise are recognized as an increase to additional paid-in capital upon vesting or exercising and delivery of the stock. Any income tax effects related to stock compensation that are less than grant date fair value less any proceeds on exercise would be recognized as a reduction of additional paid-in capital to the extent of previously recognized income tax benefits and then through income tax expense for the remaining amount.

Treasury Stock

Common stock shares repurchased are recorded as treasury stock at cost.

Equity Incentive Plan

The Company measures compensation cost relating to share-based payment transactions based on the grant date fair value of the equity instruments issued. Compensation cost is recognized over the vesting period of such awards on a straight-line basis. Unrecognized compensation cost applicable to restricted stock awards is recorded as unearned compensation and a reduction of stockholders' equity. The fair value of stock option awards are estimated on the date of grant using the Black-Scholes option pricing model, which includes several assumptions such as expected volatility, dividends, term and risk-free rate for each stock option award. See Note 14 for additional information. Reductions in compensation expense associated with forfeited awards are estimated at the grant date, and this estimated forfeiture rate is adjusted based on actual forfeiture experience.

Table of Contents**HAMPDEN BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****YEARS ENDED JUNE 30, 2014, 2013 and 2012****1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)*****Employee Stock Ownership Plan***

Compensation expense is recognized based on the fair value of shares at the time they are committed to be released to the Employee Stock Ownership Plan ("ESOP") participants. All shares held by the ESOP that are released and committed to be released are deemed outstanding for purposes of earnings per share calculations. The value of unearned shares to be allocated to ESOP participants for future services not yet performed is recorded as unearned compensation and a reduction of stockholders' equity.

Comprehensive Income/loss

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the stockholders' equity section of the consolidated balance sheet, such items, along with net income, are components of comprehensive income.

The components of accumulated other comprehensive income and related tax effects are as follows:

	June 30,	
	2014	2013
	(In Thousands)	
Net unrealized gains on available-for-sale securities	\$ 233	\$ 541
Tax effects	(75)	(195)
Net-of-tax amount	\$ 158	\$ 346

Earnings Per Common Share

Basic earnings per share ("EPS") excludes dilution and is calculated by dividing net income available to common stockholders by the weighted-average number of shares of common stock outstanding during the period. Diluted EPS is computed in a manner similar to that of basic EPS except that the weighted-average number of common shares outstanding is increased to include the number of incremental common shares (computed using the treasury stock method) that would have been outstanding if all potentially dilutive common stock equivalents (such as unvested restricted stock or shares subject to options) were issued during the period. Unallocated common shares held by the ESOP are shown as a reduction of stockholders' equity, and are included in the weighted-average number of common shares outstanding for both basic and diluted earnings per share calculations when committed to be released. Unvested restricted shares are not considered outstanding in the computation of basic earnings per share since the rights to the dividends are forfeitable.

Table of Contents**HAMPDEN BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****YEARS ENDED JUNE 30, 2014, 2013 and 2012****1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Earnings per common share have been computed based upon the following:

	Years Ended June 30,		
	2014	2013	2012
Net income available to common stock (in thousands)	\$ 4,515	\$ 2,974	\$ 3,016
Average number of shares issued	8,019,352	7,970,174	7,950,748
Less: average unallocated ESOP shares	(340,868)	(383,264)	(425,660)
Less: average treasury stock	(2,371,873)	(2,142,150)	(1,631,852)
Less: average unvested restricted stock awards	(2,460)	(29,909)	(86,259)
Average number of basic shares outstanding	5,304,151	5,414,851	5,806,977
Plus: dilutive unvested restricted stock awards	1,487	20,942	37,545
Plus: dilutive stock option shares	130,123	112,358	44,069
Average number of diluted shares outstanding	5,435,761	5,548,151	5,888,591
Basic earnings per share	\$ 0.85	\$ 0.55	\$ 0.52
Diluted earnings per share	\$ 0.83	\$ 0.54	\$ 0.51

There were 10,000 stock options for the year ended June 30, 2014, which were excluded from the diluted earnings per share because their effect is anti-dilutive. There were no anti-dilutive shares for the years ended June 30, 2013 and 2012.

Recent Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2013-2 *Comprehensive Income (Topic 220), Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*. The standard requires that companies present either in a single note or parenthetically on the face of the financial statements, the effect of significant amounts reclassified from each component of accumulated other comprehensive income based on its source and the income statement line items affected by the reclassification. The new requirements took effect for public companies in fiscal years, and interim periods within those years, beginning after December 15, 2012. This ASU guidance did not have a material impact on the Company's consolidated financial statements.

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HAMPDEN BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

YEARS ENDED JUNE 30, 2014, 2013 and 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In January 2014, the FASB issued ASU No. 2014-04, *Receivables - Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure*. The ASU was issued to clarify that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the ASU amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The ASU is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2014, and the ASU is to be adopted using either a modified retrospective transition method or a prospective transition method. The Company does not believe such ASU will have a material effect on the Company's consolidated financial statements for the interim and annual periods in 2014, other than the additional disclosures required.

2. RESTRICTIONS ON CASH AND AMOUNTS DUE FROM BANKS

The Company is required to maintain average balances on hand or with the Federal Reserve Bank of Boston. At June 30, 2014 and 2013, these reserve balances amounted to \$7.3 million and \$6.4 million, respectively.

Table of Contents**HAMPDEN BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****YEARS ENDED JUNE 30, 2014, 2013 and 2012****3. INVESTMENT SECURITIES**

The amortized cost and estimated fair value of the Company's investment securities, with gross unrealized gains and losses, follows:

	Amortized Cost	June 30, 2014		Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
(In Thousands)				
<i>Available for Sale</i>				
Debt securities:				
Corporate bonds	\$ 3,026	\$ 60	\$	\$ 3,086
Residential mortgage-backed securities:				
Agency	128,938	1,629	(1,494)	129,073
Non-agency	1,688	15	(5)	1,698
Total debt securities	133,652	1,704	(1,499)	133,857
Marketable equity securities	51	28		79
Total securities available for sale	\$ 133,703	\$ 1,732	\$ (1,499)	\$ 133,936

<i>Held to Maturity</i>				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(In Thousands)				
Municipal bonds	\$ 9,302	\$	\$	\$ 9,302
Total securities held to maturity	\$ 9,302	\$	\$	\$ 9,302

	Amortized Cost	June 30, 2013		Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
(In Thousands)				
<i>Available for Sale</i>				
Debt securities:				
Municipal bonds	\$ 395	\$	\$	\$ 395
Corporate bonds	3,036	40		3,076
Residential mortgage-backed securities:				
Agency	132,498	1,916	(1,426)	132,988
Non-agency	2,209	10	(16)	2,203
Total debt securities	138,138	1,966	(1,442)	138,662
Marketable equity securities	51	17		68
Total securities available for sale	\$ 138,189	\$ 1,983	\$ (1,442)	\$ 138,730

Residential mortgage-backed agency securities are mortgage-backed securities that have been issued by the federal government or its agencies or government-sponsored enterprises. Residential mortgage-backed non-agency securities are mortgage-backed securities that have been issued by private mortgage originators.

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During the year ended June 30, 2014, \$9.3 million in municipal securities were transferred at fair value from the available for sale category to the held to maturity category, as management has no intentions of selling any municipal security prior to maturity. There is no readily available market pricing and no active market to sell these securities, however management believes that the amortized cost of these securities approximates fair value based on their relatively short terms to maturity.

Certain investment securities are pledged to secure FHLB advances. See Note 8.

The amortized cost and estimated fair value of debt securities by contractual maturity at June 30, 2014 are set forth below. Expected maturities will differ from contractual maturities because the issuer may have the right to call or prepay obligations with or without call or prepayment penalties.

	Securities Available for Sale		Securities Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In Thousands)			
Within 1 year	\$	\$	\$	\$
After 1 year but within 5 years	3,026	3,086	2,489	2,489
Total bonds, obligations, and municipals	3,026	3,086	9,302	9,302
Residential mortgage-backed securities:				
Agency	128,938	129,073		
Non-agency	1,688	1,698		
Total debt securities	\$ 133,652	\$ 133,857	\$ 9,302	\$ 9,302

For the year ended June 30, 2014 there were no sales of securities available for sale. For the years ended June 30, 2013 and 2012, proceeds from sales of securities available for sale amounted to \$3.2 million and \$1.3 million, respectively. For the same periods, gross realized gains amounted to \$114,000 and \$19,000, respectively.

Table of Contents**HAMPDEN BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****YEARS ENDED JUNE 30, 2014, 2013 and 2012****3. INVESTMENT SECURITIES (Continued)**

Information pertaining to securities with gross unrealized losses at June 30, 2014 and 2013, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	Less Than Twelve Months		Over Twelve Months		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
(In Thousands)						
June 30, 2014:						
Residential mortgage-backed securities:						
Agency	\$ 38	\$ 7,357	\$ 1,456	\$ 51,094	\$ 1,494	\$ 58,451
Non-agency	1	143	4	234	5	377
	\$ 39	\$ 7,500	\$ 1,460	\$ 51,328	\$ 1,499	\$ 58,828
June 30, 2013:						
Residential mortgage-backed securities:						
Agency	\$ 1,337	\$ 68,456	\$ 89	\$ 6,142	\$ 1,426	\$ 74,598
Non-agency	5	330	11	1,047	16	1,377
	\$ 1,342	\$ 68,786	\$ 100	\$ 7,189	\$ 1,442	\$ 75,975

Management conducts, at least on a quarterly basis, a review of our investment securities to determine if the value of any security has declined below its cost or amortized cost and whether such decline represents other-than-temporary impairment ("OTTI"). There was no impairment charge recognized for the years ended June 30, 2014, 2013 and 2012.

At June 30, 2014, 47 debt securities had unrealized losses with aggregate depreciation of 2.5% from the Company's amortized cost basis. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government, its agencies or government-sponsored enterprises, whether downgrades by bond rating agencies have occurred, and industry analyst's reports. The unrealized losses in residential mortgage-backed securities were primarily caused by interest rate changes. As management has not decided to sell these securities, nor is it likely that the Company will be required to sell these securities, no declines are deemed to be other than temporary. At June 30, 2014, nine securities issued by private mortgage originators had unrealized losses. Such securities had an amortized cost of \$382,000 and a fair value of \$377,000. All of these investments are "Senior" Class tranches and have underlying credit enhancement. These securities were originated in the period 2002-2005 and are performing in accordance with contractual terms. Management estimates the loss projections for each security by evaluating the industry rating, amount of delinquencies, amount of foreclosure, amount of other real estate owned, average credit scores, average amortized loan to value and credit enhancement. Based on this review, management determined that no OTTI existed as of June 30, 2014.

Table of Contents**HAMPDEN BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****YEARS ENDED JUNE 30, 2014, 2013 and 2012****4. LOAN SERVICING**

In the ordinary course of business, the Company sells real estate loans in the secondary market. The Company retains servicing on loans sold and earns servicing fees of .25% per annum based on the monthly outstanding balances of the loans serviced. The Company recognizes servicing assets each time it undertakes an obligation to service loans sold. Calculation of the fair value of mortgage servicing assets is based on Service Release Premium ("SRP") rates for conforming fixed rate mortgages obtained from correspondent lenders. SRP rates vary based on the outstanding balances of the mortgages and are periodically adjusted based on mortgage prepayments and market conditions.

The changes in servicing assets measured using fair value are as follows:

	Years Ended June 30,	
	2014	2013
	(In Thousands)	
Fair value at the beginning of year	\$ 654	\$ 445
Capitalized servicing assets	97	48
Changes in fair value	41	161
Fair value at end of year	\$ 792	\$ 654

The unpaid principal balance of mortgages serviced for others was \$71.8 million and \$67.7 million at June 30, 2014 and June 30, 2013, respectively. There are no recourse provisions for the loans that are serviced for others. The risks inherent in mortgage servicing assets relate primarily to changes in prepayments that result from shifts in mortgage interest rates. For the years ended June 30, 2014, 2013, and 2012, amounts recognized for loan servicing fees amounted to \$321,000, \$346,000, and \$239,000, respectively, which are included in other non-interest income in the consolidated statements of net income.

Table of Contents**HAMPDEN BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****YEARS ENDED JUNE 30, 2014, 2013 and 2012****5. LOANS**

A summary of the balances of loans follows:

	June 30,	
	2014	2013
	(In Thousands)	
Mortgage loans on real estate:		
One- to four-family	\$ 107,498	\$ 107,617
Commercial	200,750	167,381
Home equity:		
First lien	36,299	36,093
Second lien	39,845	42,328
Construction:		
Residential	3,807	3,736
Commercial	36,189	21,237
Total mortgage loans on real estate	424,388	378,392
Other loans:		
Commercial	54,756	43,566
Consumer:		
Manufactured homes	21,766	21,716
Automobile and other secured loans	7,172	7,682
Other	2,566	1,679
Total other loans	86,260	74,643
Total loans	510,648	453,035
Net deferred loan costs	2,638	2,726
Allowance for loan losses	(5,651)	(5,414)
Total loans, net	\$ 507,635	\$ 450,347

The Company has transferred a portion of its originated commercial real estate and commercial loans to participating lenders. The amounts transferred have been accounted for as sales and are therefore not included in the Company's accompanying consolidated balance sheets. The Company and participating lenders share in any gains or losses that may result from a borrower's lack of compliance with contractual terms of the loan. The Company continues to service the loans on behalf of the participating lenders and, as such, collects cash payments from the borrowers, remits payments (net of servicing fees) to participating lenders and disburses required escrow funds to relevant parties. At June 30, 2014 and June 30, 2013, the Company was servicing loans for participants aggregating \$34.4 million and \$35.0 million, respectively.

During fiscal years 2014 and 2013, the Company purchased manufactured home loans aggregating \$3.0 million and \$2.9 million, respectively. During fiscal years 2014 and 2013, the Company purchased automobile loans aggregating \$2.3 million and \$3.7 million, respectively.

Certain residential and home equity loans are subject to a blanket lien securing FHLB advances. See Note 8.

Table of Contents**HAMPDEN BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****YEARS ENDED JUNE 30, 2014, 2013 and 2012****5. LOANS (Continued)**Credit Quality Information

The Company utilizes a nine grade internal loan rating system for all loans as follows:

Loans rated 1 - 5: Loans in these categories are considered "pass" rated loans with low to average risk.

Loans rated 6: Loans in this category are considered "special mention." These loans are starting to show signs of potential weakness and are being closely monitored by management.

Loans rated 7: Loans in this category are considered "substandard." Generally, a loan is considered substandard if it is inadequately protected by the current net worth and paying capacity of the obligors and/or the collateral pledged. There is a distinct possibility that the Company will sustain some loss if the weakness is not corrected.

Loans rated 8: Loans in this category are considered "doubtful." Loans classified as doubtful have all the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, highly questionable and improbable.

Loans rated 9: Loans in this category are considered uncollectible ("loss") and of such little value that their continuance as loans is not warranted. These loans are generally charged off at each quarter end.

On an annual basis, or more often if needed, the Company formally reviews the ratings on all commercial real estate, commercial construction and commercial loans. 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 annual review process. All credits rated 6 or worse are reviewed on a quarterly basis by management. At origination, management assigns risk ratings to one-to four-family residential loans, home equity loans, residential construction loans, manufactured home loans, and other consumer loans. The Company updates these risk ratings as needed based primarily on delinquency, bankruptcy, or tax delinquency.

The following tables present the Company's loans by risk rating at June 30, 2014 and 2013:

June 30, 2014

	One- to Four-Family	Commercial Real Estate	Home Equity First Lien	Home Equity Second Lien	Residential Construction	Commercial Construction
	(In Thousands)					
Loans rated 1 - 5	\$ 104,221	\$ 184,317	\$ 36,299	\$ 39,688	\$ 3,807	\$ 36,189
Loans rated 6	523	12,447		7		
Loans rated 7	2,608	3,986		150		
Loans rated 8	146					
Loans rated 9						
	\$ 107,498	\$ 200,750	\$ 36,299	\$ 39,845	\$ 3,807	\$ 36,189

Table of Contents**HAMPDEN BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****YEARS ENDED JUNE 30, 2014, 2013 and 2012****5. LOANS (Continued)**

	Commercial	Manufactured Homes	Automobile and Other Secured Loans	Other Consumer	Total
(In Thousands)					
Loans rated 1 - 5	\$ 49,874	\$ 21,342	\$ 7,172	\$ 2,564	\$ 485,473
Loans rated 6	533	160		1	13,671
Loans rated 7	4,349	59		1	11,153
Loans rated 8		205			351
Loans rated 9					
	\$ 54,756	\$ 21,766	\$ 7,172	\$ 2,566	\$ 510,648

June 30, 2013

	One- to Four-Family	Commercial Real Estate	Home Equity First Lien	Home Equity Second Lien	Residential Construction	Commercial Construction
(In Thousands)						
Loans rated 1 - 5	\$ 105,529	\$ 153,513	\$ 36,093	\$ 41,963	\$ 3,736	\$ 21,237
Loans rated 6	835	7,624				
Loans rated 7	686	6,244		115		
Loans rated 8	567			250		
Loans rated 9						
	\$ 107,617	\$ 167,381	\$ 36,093	\$ 42,328	\$ 3,736	\$ 21,237

	Commercial	Manufactured Homes	Automobile and Other Secured Loans	Other Consumer	Total
(In Thousands)					
Loans rated 1 - 5	\$ 36,827	\$ 21,398	\$ 7,682	\$ 1,678	\$ 429,656
Loans rated 6	994	146			9,599
Loans rated 7	5,745	36		1	12,827
Loans rated 8		136			953
Loans rated 9					
	\$ 43,566	\$ 21,716	\$ 7,682	\$ 1,679	\$ 453,035

The results of the Company's quarterly loan review process are summarized by, and appropriate recommendations and loan loss allowances are approved by, the Loan Review Committee (the "Committee"). All supporting documentation with regard to the evaluation process, loan loss experience, allowance levels and the schedules of classified loans is maintained by the Company. The Committee is chaired by the Company's Chief Financial Officer. The allowance for loan losses calculation is presented to the Board of Directors on a quarterly basis with recommendations on its adequacy.

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HAMPDEN BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

YEARS ENDED JUNE 30, 2014, 2013 and 2012

5. LOANS (Continued)

The Company had no new TDR loan relationships in the year ended June 30, 2014. During fiscal 2014 and 2013, there were no TDR loans that were restructured within the previous twelve months that had any payment defaults.

The Company had two new TDR loan relationships in the year ended June 30, 2013. One loan relationship consists of a commercial real estate loan with a pre-modification balance totaling \$528,000 and post-modification balance totaling \$551,000. An impairment amount of \$13,000 was calculated from the present value of expected future cash flows discounted at the loan's effective interest rate. The Company capitalized the interest and expenses and restructured the payments for this loan. The second new TDR loan relationship is a commercial loan with a pre-modification and post-modification balance totaling \$1.0 million. The restructure did not result in any impairment from the present value of expected future cash flows discounted at the loan's effective interest rate. The Company restructured the payments for this loan.

The Company had two new TDR loan relationships in the year ended June 30, 2012. One loan relationship consists of a home equity loan and a one-to-four family residential loan with pre-modification balances aggregating \$225,000 and post-modification balances aggregating \$232,000. The Company capitalized the interest and expenses and restructured the payments for these loans. The restructure did not result in any impairment from the present value of expected future cash flows discounted at the loan's effective interest rate. The second was a commercial loan totaling \$686,000 where the maturity date was extended by two years and a small impairment amount was calculated from the present value of expected future cash flows discounted at the loan's effective interest rate. One TDR loan relationship that was restructured as of June 30, 2011 had payment defaults during the year ended June 30, 2012. This loan relationship included four loans comprised of two one-to-four family residential loans totaling \$199,000, one home equity loan totaling \$26,000, and one commercial real estate loan totaling \$170,000 as of June 30, 2012.

Table of Contents**HAMPDEN BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****YEARS ENDED JUNE 30, 2014, 2013 and 2012****5. LOANS (Continued)**

The following are summaries of past due and non-accrual loans:

	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Loans on Non-accrual
(In Thousands)					
June 30, 2014					
Mortgage loans on real estate:					
One- to four-family	\$ 607	\$ 236	\$ 2,437	\$ 3,280	\$ 2,755
Commercial	583			583	534
Home equity:					
First lien					
Second lien	159		111	270	150
Commercial			1,500	1,500	1,500
Consumer:					
Manufactured homes	304	27	240	571	240
Automobile and other secured loans					
Other	12	1		13	
Total	\$ 1,665	\$ 264	\$ 4,288	\$ 6,217	\$ 5,179
June 30, 2013					
Mortgage loans on real estate:					
One- to four-family	\$ 642	\$	\$ 1,013	\$ 1,655	\$ 1,405
Commercial	148			148	148
Home equity:					
First lien					
Second lien	180	29	268	477	335
Commercial	16	75	1,984	2,075	1,988
Consumer:					
Manufactured homes	115		103	218	103
Automobile and other secured loans	18			18	
Other	1			1	
Total	\$ 1,120	\$ 104	\$ 3,368	\$ 4,592	\$ 3,979

At June 30, 2014 and 2013, there were no loans past due 90 days or more and still accruing.

Table of Contents**HAMPDEN BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****YEARS ENDED JUNE 30, 2014, 2013 and 2012****5. LOANS (Continued)**

The following are summaries of impaired loans:

	June 30, 2014			June 30, 2013		
	Recorded	Unpaid	Related	Recorded	Unpaid	Related
	Investment	Principal	Allowance	Investment	Principal	Allowance
	(In Thousands)					
Impaired loans without a valuation allowance:						
Mortgage loans on real estate:						
One- to four-family	\$ 2,755	\$ 2,814	\$	\$ 1,405	\$ 1,676	\$
Commercial	3,147	3,147		5,962	5,962	
Home equity:						
Second lien	150	170		335	335	
Other loans:						
Commercial	2,952	2,952		4,408	4,415	
Manufactured homes	239	275		103	103	
Total	9,243	9,358		12,213	12,491	
Impaired loans with a valuation allowance:						
Mortgage loans on real estate:						
Commercial	537	537	11	2,208	2,208	32
Other loans:						
Commercial				533	533	
Total	537	537	11	2,741	2,741	32
Total impaired loans	\$ 9,780	\$ 9,895	\$ 11	\$ 14,954	\$ 15,232	\$ 32

Table of Contents**HAMPDEN BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****YEARS ENDED JUNE 30, 2014, 2013 and 2012****5. LOANS (Continued)**

At June 30, 2014, the Company has no impaired loans with additional funds committed to be advanced. Information pertaining to impaired loans for the years ended June 30, 2014, 2013 and 2012 are as follows:

	Year Ended June 30, 2014			Year Ended June 30, 2013			Year Ended June 30, 2012		
	Average Recorded Investment on Impaired Loans	Interest Income Recognized	Investment on a Cash Basis	Average Recorded Investment on Impaired Loans	Interest Income Recognized	Investment on a Cash Basis	Average Recorded Investment on Impaired Loans	Interest Income Recognized	Investment on a Cash Basis
(In Thousands)									
Mortgage loans on real estate:									
One- to four-family	\$ 1,682	\$ 36	\$ 33	\$ 1,506	\$ 69	\$ 69	\$ 1,789	\$ 89	\$ 89
Commercial	5,905	252	17	10,795	682	682	10,482	701	685
Home equity:									
First lien				34	2	2			
Second lien	214	5	5	238	11	7	253	4	4
Construction:									
Commercial							232	15	15
Commercial	4,199	131	6	4,294	138	138	4,606	226	226
Consumer:									
Manufactured homes	112	1	1	131	11		104		1
Total loans	\$ 12,112	\$ 425	\$ 62	\$ 16,998	\$ 913	\$ 898	\$ 17,466	\$ 1,035	\$ 1,020

Information pertaining to activity in the allowance for loan losses for the years ended June 30, 2014, 2013 and 2012 is as follows:

	One- to Four-Family		Home Commercial Equity		Home Equity Residential Construction		Commercial Construction		Automobile and Other Secured Loans		Other Consumer	Total
	Real Estate	First Lien	Second Lien	Residential Construction	Commercial Construction	Commercial	Manufactured Homes					
(In Thousands)												
Balance at June 30, 2011	\$ 893	\$ 2,922	\$ 196	\$ 321	\$ 33	\$ 32	\$ 1,020	\$	\$	\$ 56	\$ 5,473	
Charge-offs	(391)	(166)	(69)				(213)			(20)	(859)	
Recoveries	71	16	5				11			6	109	
Provision (credit)	292	(412)	74	(41)	5	(12)	151	375	25	(32)	425	
Balance at June 30, 2012	865	2,360	206	280	38	20	969	375	25	10	5,148	
Charge-offs	(185)	(207)		(70)					(53)	(29)	(544)	
Recoveries	8		4				104		12	7	135	
Provision (credit)	74	62	23	92	(5)	295	(8)	57	50	35	675	
Balance at June 30, 2013	762	2,215	233	302	33	315	1,065	432	34	23	5,414	
Charge-offs	(147)	(22)		(19)				(189)	(5)	(5)	(387)	

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Recoveries			5				50		18	1	74
Provision (credit)	82	95	(34)	(15)	(3)	157	101	174	(17)	10	550
Balance at June 30, 2014	\$ 697	\$ 2,288	\$ 204	\$ 268	\$ 30	\$ 472	\$ 1,216	\$ 417	\$ 30	\$ 29	\$ 5,651

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Table of Contents**HAMPDEN BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****YEARS ENDED JUNE 30, 2014, 2013 and 2012****5. LOANS (Continued)**

Information pertaining to the allowance for loan losses and recorded investment in loans at June 30, 2014, and 2013 are as follows:

	At June 30, 2014											
	One- to Four- Family	Commercial Real Estate	Home Equity First Lien	Home Equity Second Lien	Residential Construction	Commercial Construction	Commercial	Manufactured Homes	Automobile and Other Secured Loans	Other Consumer	Total	
	(In Thousands)											
Allowance:												
Impaired loans	\$	\$	11	\$	\$	\$	\$	\$	\$	\$	\$	11
Non-impaired loans	697	2,277	204	268	30	472	1,216	417	30	29	5,640	
Total allowance for loan losses	\$ 697	\$ 2,288	\$ 204	\$ 268	\$ 30	\$ 472	\$ 1,216	\$ 417	\$ 30	\$ 29	\$ 5,651	
Loans:												
Impaired loans	\$ 2,755	\$ 3,684	\$	\$ 150	\$	\$	\$ 2,952	\$ 239	\$	\$	\$ 9,780	
Non-impaired loans	104,743	197,066	36,299	39,695	3,807	36,189	51,804	21,527	7,172	2,566	500,868	
Total loans	\$ 107,498	\$ 200,750	\$ 36,299	\$ 39,845	\$ 3,807	\$ 36,189	\$ 54,756	\$ 21,766	\$ 7,172	\$ 2,566	\$ 510,648	
At June 30, 2013												
	One- to Four- Family	Commercial Real Estate	Home Equity First Lien	Home Equity Second Lien	Residential Construction	Commercial Construction	Commercial	Manufactured Homes	Automobile and Other Secured Loans	Other Consumer	Total	
	(In Thousands)											
Allowance:												
Impaired loans	\$	\$	32	\$	\$	\$	\$	\$	\$	\$	\$	32
Non-impaired loans	762	2,183	233	302	33	315	1,065	432	34	23	5,382	
Total allowance for loan losses	\$ 762	\$ 2,215	\$ 233	\$ 302	\$ 33	\$ 315	\$ 1,065	\$ 432	\$ 34	\$ 23	\$ 5,414	
Loans:												
Impaired loans	\$ 1,405	\$ 8,170	\$	\$ 335	\$	\$	\$ 4,941	\$ 103	\$	\$	\$ 14,954	
Non-impaired loans	106,212	159,211	36,093	41,993	3,736	21,237	38,625	21,613	7,682	1,679	438,081	
Total loans	\$ 107,617	\$ 167,381	\$ 36,093	\$ 42,328	\$ 3,736	\$ 21,237	\$ 43,566	\$ 21,716	\$ 7,682	\$ 1,679	\$ 453,035	

6. PREMISES AND EQUIPMENT

A summary of the cost and accumulated depreciation and amortization is as follows:

	June 30,		
	2014	2013	Estimated
	(In Thousands)		Useful Lives
Premises:			
Land	\$ 763	\$ 763	
Buildings and improvements	5,693	5,616	5 - 39 Years
Leasehold improvements	2,902	2,811	5 - 10 Years
Equipment	3,890	3,723	3 - 10 Years
	13,248	12,913	
Accumulated depreciation and amortization	(8,580)	(7,903)	
	\$ 4,668	\$ 5,010	

Table of Contents**HAMPDEN BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****YEARS ENDED JUNE 30, 2014, 2013 and 2012****6. PREMISES AND EQUIPMENT (Continued)**

Depreciation and amortization expense for the years ended June 30, 2014, 2013 and 2012 amounted to \$671,000, \$734,000 and \$764,000, respectively.

7. DEPOSITS

A summary of deposit balances by type is as follows:

	At June 30,	
	2014	2013
	(In Thousands)	
Demand	\$ 84,224	\$ 74,081
NOW	42,376	46,220
Regular and other savings	102,909	104,893
Money market deposits	99,505	84,277
Total non-certificate accounts	329,014	309,471
Term certificates less than \$100,000	60,027	67,398
Term certificates of \$100,000 and greater	102,691	97,929
Total certificate accounts	162,718	165,327
Total deposits	\$ 491,732	\$ 474,798

At June 30, 2014, the scheduled maturities of time deposits (in thousands) are as follows:

Year Ending June 30,	
2015	\$ 68,184
2016	32,233
2017	31,646
2018	13,895
2019	16,760
	\$ 162,718

8. SHORT-TERM BORROWINGS

Short-term borrowings consist of FHLB advances with an original maturity within one year at a weighted average rate of 0.33% and 0.37%, at June 30, 2014 and 2013, respectively. All borrowings from the FHLB are secured by a blanket lien on qualified collateral, defined principally as 75% of the carrying value of first mortgage and first lien fixed rate home equity loans on owner-occupied residential property, and investments held at Hampden Investment Corporation ("HIC"). All of the assets held at HIC are pledged to the FHLB, at June 30, 2014, total

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assets of HIC were \$108.7 million.

At June 30, 2014 and 2013, the Company had an Ideal Way Line of Credit available with the FHLB of \$2.0 million, of which there were no amounts outstanding. In addition, the Company had lines of credit with the Federal Reserve Bank of Boston and Bankers Bank Northeast totaling \$10.0 million and \$7.4 million at June 30, 2014, respectively, of which there were no amounts

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Table of Contents**HAMPDEN BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****YEARS ENDED JUNE 30, 2014, 2013 and 2012****8. SHORT-TERM BORROWINGS (Continued)**

outstanding. As of June 30, 2014, the investments pledged for collateral with the Federal Reserve Bank of Boston had a fair value of \$11.3 million.

9. LONG-TERM DEBT

A summary of outstanding long-term fixed rate advances from the FHLB at June 30, 2014 and 2013 is as follows:

	Amount		Weighted Average Rate	
	2014	2013	2014	2013
	(In Thousands)			
Advances maturing in the years ending June 30,				
2014	\$	\$ 3,754	%	1.45%
*2015	13,427	6,053	0.53%	0.85%
2016	35,800	28,800	1.30%	1.47%
2017	26,000	25,000	1.92%	1.95%
2018	18,885	18,885	2.09%	2.09%
*2021	8,992		1.94%	%
*2024	9,342		2.75%	%
Total FHLB advances	\$ 112,446	\$ 82,492	1.66%	1.71%

*

For all starred items at June 30, 2014, includes amortizing advances aggregating \$19.6 million requiring combined monthly principal and interest payments of \$360,000.

At June 30, 2014, FHLB advances in the amount of \$6.0 million are callable by the FHLB commencing in fiscal year 2015. These advances have maturity dates in fiscal year 2017 and 2018.

In September 2012, the Company restructured \$8.6 million of FHLB borrowings. After the restructuring, the weighted average cost of these borrowings was reduced by 1.00% to 2.74%.

Table of Contents**HAMPDEN BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****YEARS ENDED JUNE 30, 2014, 2013 and 2012****10. INCOME TAXES**

Allocation of the federal and state income taxes between current and deferred portions is as follows:

	Years Ended June 30,		
	2014	2013	2012
	(In Thousands)		
Current tax provision:			
Federal	\$ 1,672	\$ 1,564	\$ 452
State	350	392	35
	2,022	1,956	487
Deferred tax provision (benefit):			
Federal	398	610	1,019
State	124	(54)	252
	522	556	1,271
Change in valuation allowance		(735)	25
	522	(179)	1,296
Total tax provision	\$ 2,544	\$ 1,777	\$ 1,783

The reasons for the differences between the statutory federal income tax rate and the effective tax rates are summarized as follows:

	Years Ended June 30,		
	2014	2013	2012
Statutory tax rate	34.0%	34.0%	34.0%
Increase (decrease) resulting from:			
State taxes, net of federal tax benefit	4.4	4.7	3.9
Tax exempt income	(0.8)	(0.6)	(0.6)
Bank-owned life insurance	(2.4)	(3.8)	(3.2)
Change in valuation allowance assumptions, net of carryover expiration		0.7	0.5
Stock options	(0.2)	1.3	1.8
Other, net	1.0	1.1	0.8
Effective income tax rate	36.0%	37.4%	37.2%

Table of Contents**HAMPDEN BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****YEARS ENDED JUNE 30, 2014, 2013 and 2012****10. INCOME TAXES (Continued)**

The components of the net deferred tax asset are as follows:

	June 30,	
	2014	2013
	(In Thousands)	
Deferred tax assets:		
Federal	\$ 3,923	\$ 4,297
State	1,132	1,257
	5,055	5,554
Deferred tax liabilities:		
Federal	(689)	(786)
State	(184)	(184)
	(873)	(970)
Net deferred tax asset	\$ 4,182	\$ 4,584

The tax effects of each item that give rise to deferred taxes are as follows:

	June 30,	
	2014	2013
	(In Thousands)	
Non-accrued interest income	\$ 158	\$ 64
Net unrealized gain on securities available for sale	(75)	(195)
Depreciation	439	547
Mortgage servicing rights	(316)	(261)
Allowance for loan losses	2,345	2,261
Employee benefit plans	1,771	2,234
Other-than-temporary impairment of securities		91
Other, net	(140)	(157)
Net deferred tax asset	\$ 4,182	\$ 4,584

In fiscal 2013, the Company eliminated its valuation allowance against the deferred tax asset related to its charitable contribution carryforward as it expired. There was a charge of \$35,000 to income tax expense as a result of the expiration. In fiscal 2012, the Company increased the valuation allowance by \$25,000. The valuation allowance was established to reflect the uncertainty of fully utilizing a five-year charitable contribution carryforward of approximately \$3.5 million that expired on October 31, 2012. The carryforward was created primarily by the contribution of 378,566 shares of the Company's common stock to the Hampden Bank Charitable Foundation as part of the mutual to stock conversion.

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As of June 30, 2014, management believes it is more likely than not that the net deferred tax assets will be realizable through future earnings and future reversals of existing taxable temporary differences.

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Table of Contents**HAMPDEN BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****YEARS ENDED JUNE 30, 2014, 2013 and 2012****10. INCOME TAXES (Continued)**

The federal income tax reserve for loan losses at the Company's base year amounted to \$2.3 million. If any portion of the reserve is used for purposes other than to absorb loan losses, approximately 150% of the amount actually used, limited to the amount of the reserve, would be subject to taxation in the fiscal year in which used. As the Company intends to use the reserves solely to absorb loan losses, a deferred income tax liability of \$887,000 has not been provided.

The Company's income tax returns are subject to review and examination by federal and state taxing authorities. The Company is currently open to audit under applicable statutes of limitation by the Internal Revenue Service for the years ended October 31, 2011 through June 30, 2013. The Company changed its tax year end to coincide with the Company's fiscal year end, and a short return was filed for the period November 1, 2012 to June 30, 2013. The years open to examination by state taxing authorities vary by jurisdiction. However, no years prior to October 31, 2011 are open.

11. COMMITMENTS AND CONTINGENCIES

In the normal course of business, there are outstanding commitments which are not reflected in the accompanying consolidated balance sheets.

Loan commitments

The Company is a 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. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the accompanying consolidated balance sheets.

The Company's exposure to credit loss is represented by the contractual amount of these commitments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. A summary of financial instruments outstanding whose contract amounts represent credit risk is as follows:

	June 30,	
	2014	2013
	(In Thousands)	
Commitments to grant loans	\$ 20,380	\$ 63,607
Unadvanced funds on home equity lines of credit	35,718	34,498
Unadvanced funds on personal lines of credit	1,828	1,852
Unadvanced funds on commercial lines of credit	37,789	29,882
Unadvanced funds on construction loans	37,889	25,164
Standby letters of credit	500	548
Total loan commitments	\$ 134,104	\$ 155,551

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. Commitments to grant loans are generally secured by real estate. Unadvanced lines of credit do not necessarily represent future cash requirements as these commitments may expire without being drawn upon. The Company evaluates

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HAMPDEN BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

YEARS ENDED JUNE 30, 2014, 2013 and 2012

11. COMMITMENTS AND CONTINGENCIES (Continued)

each customer's creditworthiness on a case-by-case basis. Funds disbursed on construction loans and home equity lines of credit are collateralized by real estate. Overdraft lines of credit are unsecured.

Unadvanced funds on commercial lines of credit are generally secured by the business assets of the borrower.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance by a customer to a third party. Standby letters of credit are generally secured by cash, business assets, or real estate. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The amount of the liability related to guarantees at June 30, 2014 and 2013 is not material.

Operating Leases

Pursuant to the terms of noncancelable lease agreements in effect at June 30, 2014, pertaining future minimum rent commitments under various operating leases for the years ending June 30, 2015 through 2019 and thereafter amounted to \$349,000, \$331,000, \$330,000, \$297,000, \$271,000 and \$1,567,000, respectively.

The leases contain options to extend for periods of five and ten year terms. The cost of such rentals is not included above. Rent expense amounted to \$366,000, \$378,000 and \$324,000 for the years ended June 30, 2014, 2013 and 2012, respectively.

Contingencies

Various legal claims arise from time to time in the ordinary course of business. In the opinion of management, these claims will have no material effect on the Company's consolidated financial position or results of operations.

Employment and change-of-control agreements

The Company entered into an employment agreement with the Company's Chief Executive Officer and President in October 2012. The employment agreement provides for an annual base salary, subject to increase, and certain other benefits. It also guarantees customary corporate indemnification and insurance coverage under a standard directors' and officers' insurance policy throughout the employment term. The initial term of the agreement is three years. The term automatically extends at the conclusion of the initial term for a successive term of twelve months, unless notice not to renew is given by either party, or unless the agreement is earlier terminated by the parties. Following termination of the executive's employment, the executive must adhere to non-competition and non-disclosure restrictions for one year, or for a period of time equal to the officer's severance benefit, whichever is longer. Our employment agreement also provides certain termination and change in control benefits and payments. Under the agreement, if within the period ending two years after a change in control as defined in the agreement, Hampden Bank or Hampden Bancorp terminates the executive without "cause" or the executive resigns with "good reason", as defined in the agreements, the Company's Chief Executive Officer and President would be entitled to a severance payment equal to two times the average of his annual compensation for the five preceding taxable years.

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HAMPDEN BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

YEARS ENDED JUNE 30, 2014, 2013 and 2012

11. COMMITMENTS AND CONTINGENCIES (Continued)

The Company entered into change-in-control agreements with certain other officers. Depending on the officer, the change-in-control agreements provide for a severance payment equal to either one or two times the individual's average annual compensation for the five most recent taxable years. The terms of each change-in-control agreement may be extended by the Board of Directors of Hampden Bank for an additional year.

12. MINIMUM REGULATORY CAPITAL REQUIREMENTS

The Company (on a consolidated basis) and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Company's and the Bank's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to the Company.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of June 30, 2014 and 2013, that the Company and the Bank meets all capital adequacy requirements to which they are subject.

As of June 30, 2014, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank 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 table. There are no conditions or events since that notification that management believes have changed the Bank's category.

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HAMPDEN BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

YEARS ENDED JUNE 30, 2014, 2013 and 2012

12. MINIMUM REGULATORY CAPITAL REQUIREMENTS (Continued)

The Company's and the Bank's actual and minimum required capital amounts and ratios are as follows:

	Actual		Minimum For Capital Adequacy Purposes		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in Thousands)						
As of June 30, 2014						
Total capital (to risk weighted assets):						
Consolidated	\$ 92,586	18.3%	\$ 40,547	8.0%	N/A	N/A
Bank	80,715	15.9	40,570	8.0	\$ 50,712	10.0%
Tier 1 capital (to risk weighted assets):						
Consolidated	86,922	17.2	20,273	4.0	N/A	N/A
Bank	75,051	14.8	20,285	4.0	30,427	6.0
Tier 1 capital (to average assets):						
Consolidated	86,922	12.2	28,420	4.0	N/A	N/A
Bank	75,051	10.6	28,297	4.0	35,372	5.0
As of June 30, 2013						
Total capital (to risk weighted assets):						
Consolidated	\$ 88,670	19.1%	\$ 37,077	8.0%	N/A	N/A
Bank	80,350	17.5	36,788	8.0	\$ 45,985	10.0%
Tier 1 capital (to risk weighted assets):						
Consolidated	83,248	18.0	18,538	4.0	N/A	N/A
Bank	74,928	16.3	18,394	4.0	27,591	6.0
Tier 1 capital (to average assets):						
Consolidated	83,248	12.7	26,240	4.0	N/A	N/A
Bank	74,928	11.6	25,827	4.0	32,284	5.0

In July 2013, the FDIC and the other federal bank regulatory agencies issued a final rule that will revise their leverage and risk-based capital requirements and the method for calculating risk-weighted assets to make them consistent with agreements that were reached by the Basel Committee on Banking Supervision and certain provisions of the Dodd-Frank Act. Among other things, the rule establishes a new common equity Tier 1 minimum capital requirement (4.5% of risk-weighted assets), increases the minimum Tier 1 capital to risk-based assets requirement (from 4% to 6% of risk-weighted assets) and assigns a higher risk weight (150%) to exposures that are more than 90 days past due or are on nonaccrual status and to certain commercial real estate facilities that finance the acquisition, development or construction of real property. The final rule also requires unrealized gains and losses on certain "available-for-sale" securities holdings to be included for purposes of calculating regulatory capital unless a one-time opt-out is exercised. The rule limits a banking organization's capital distributions and certain discretionary bonus payments if the banking organization does not hold a "capital conservation buffer" consisting of 2.5% of common equity Tier 1 capital to risk-weighted assets in addition to the amount necessary to meet its minimum risk-based capital requirements. The final rule becomes effective for the Company and the Bank on January 1, 2015. The capital conservation

Table of Contents**HAMPDEN BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****YEARS ENDED JUNE 30, 2014, 2013 and 2012****12. MINIMUM REGULATORY CAPITAL REQUIREMENTS (Continued)**

buffer requirement will be phased in beginning January 1, 2016 and ending January 1, 2019, when the full capital conservation buffer requirement will be effective. Management believes that the Company and the Bank will continue to exceed all minimum capital ratio requirements.

A reconciliation of the Company's year-end total stockholders' equity to the Bank's regulatory capital is as follows:

	June 30, 2014	
	Consolidated	Bank
	(In Thousands)	
Total stockholders' equity per consolidated financial statements	\$ 87,159	\$ 87,159
Adjustments for Tier 1 capital:		
Holding company equity adjustment		(11,871)
Accumulated gains on securities available for sale, net of tax	(158)	(158)
Mortgage servicing rights	(79)	(79)
Total Tier 1 capital	86,922	75,051
Adjustments for total capital:		
Unrealized gains on securities available for sale	13	13
Allowance for loan losses	5,651	5,651
Total capital per regulatory reporting	\$ 92,586	\$ 80,715

	June 30, 2013	
	Consolidated	Bank
	(In Thousands)	
Total stockholders' equity per consolidated financial statements	\$ 83,659	\$ 83,659
Adjustments for Tier 1 capital:		
Holding company equity adjustment		(8,320)
Accumulated gains on securities available for sale, net of tax	(346)	(346)
Mortgage servicing rights	(65)	(65)
Total Tier 1 capital	83,248	74,928
Adjustments for total capital:		
Unrealized gains on securities available for sale	8	8
Allowance for loan losses	5,414	5,414
Total capital per regulatory reporting	\$ 88,670	\$ 80,350

13. EMPLOYEE BENEFIT PLANS

401(k) plan

The Company provides a 401(k) retirement savings plan for eligible employees. Each employee reaching the age of 21 and having completed at least 1,000 hours of service in a twelve-month period automatically becomes a participant in the plan. For participating employees, the Company contributes an amount equal to 3% of each employee's compensation for the plan year to their participation

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Table of Contents**HAMPDEN BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****YEARS ENDED JUNE 30, 2014, 2013 and 2012****13. EMPLOYEE BENEFIT PLANS (Continued)**

account and makes matching contributions equal to 50% of the first 2% of each participant's deferred compensation for the plan year. Contributions for the years ended June 30, 2014, 2013 and 2012 amounted to \$257,000, \$268,000 and \$220,000, respectively.

Supplemental retirement benefits

The Company has entered into supplemental retirement benefit agreements with certain officers and directors which provide for annual retirement benefits. The present value of future payments is being accrued monthly over the required service periods. Supplemental retirement benefit expense for the years ended June 30, 2014, 2013 and 2012 amounted to \$246,000, \$306,000 and \$382,000, respectively. In connection with the supplemental retirement agreements, the Company maintains a liability account with balances of \$2.3 million and \$3.3 million at June 30, 2014 and 2013, respectively.

Employee Stock Ownership Plan

The Company contributed funds to a subsidiary, Hampden LS, Inc., to enable it to make a 15-year loan to the ESOP to allow it to purchase shares of the Company common stock. On January 16, 2007, the ESOP purchased 635,990 shares, or 8% of the 7,949,879 shares issued in the Company's initial public offering. This plan is a tax-qualified retirement plan for the benefit of eligible Company employees. The plan is created for the purpose of providing retirement benefits to participants and their beneficiaries in a manner consistent with the requirements of the Internal Revenue Code and Title I of ERISA. Eligible employees who have attained age 21 and have been employed by the Company for three months as of January 16, 2007 were eligible to participate in the plan. Thereafter, employees who have attained the age of 21 and have completed 1,000 hours of service during a continuous 12-month period will be eligible to participate as of the first entry date following completion of the plan's eligibility requirements.

At June 30, 2014, the principal balance on the ESOP debt is payable over the years ending June 30, 2015 to 2019 and thereafter in the amount of \$399,000, \$432,000, \$467,000, \$506,000, \$548,000, and \$1.9 million, respectively.

The Company has committed to make contributions to the ESOP sufficient to support the debt service of the loan. The loan is secured by the shares purchased, which are held in a suspense account and allocated among the participants as the loan is repaid. Cash dividends paid on allocated shares are distributed to participants and cash dividends paid on unallocated shares are used to repay the outstanding debt of the ESOP.

Shares held by the ESOP include the following:

	June 30,		
	2014	2013	2012
Allocated	243,956	232,721	199,907
Committed to be allocated	21,200	21,200	21,200
Unallocated	317,998	360,397	402,796
	583,154	614,318	623,903

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Total compensation expense for the years ended June 30, 2014, 2013 and 2012 was \$685,000, \$613,000 and \$530,000, respectively. The total fair value of the unallocated shares as of June 30, 2014, and 2013 was \$5.4 million.

14. EQUITY INCENTIVE PLAN*Stock Options*

Under the Company's 2008 Equity Incentive Plan (the "Plan"), the Company may grant stock options to its directors, employees, and consultants for up to 794,987 shares of common stock. Both incentive stock options and non-qualified stock options may be granted under the Plan. On April 29, 2008, the Board of Directors of the Company granted stock options to purchase 595,000 shares of common stock to its directors and employees. The exercise price of each option equals the market price of the Company's stock on the date of grant and the maximum term of each option is 10 years. For the options that were awarded on April 29, 2008, the vesting period is five years from date of grant, with vesting at 20% per year, except that the Company's options granted to its former chief executive officer vest over four years from date of grant at 25% per year. At June 30, 2014, all of these options were fully vested. During the year ended June 30, 2013, 35,000 stock options with an exercise price of \$12.51 per share were awarded to employees and the vesting period is five years from date of grant. During the year ended June 30, 2014, 10,000 stock options with an exercise price of \$16.49 per share were awarded to an employee and the vesting period is five years from date of grant. There are 188,987 stock options that are available to be granted as of June 30, 2014. The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions for options granted during the years ended June 30, 2014, 2013 and 2012:

	Years Ended June 30,		
	2014	2013	2012
Fair value	\$ 4.45	\$ 3.34	\$ 3.44
Expected dividends	1.49%	1.26%	0.94%
Expected term (years)	6.50	6.50	6.25
Expected volatility	26.45%	27.97%	27.97%
Risk-free interest rate	2.84%	1.75%	2.19%

The expected volatility is based on historical volatility through the date of grant. The risk-free interest rate for periods within the contractual life of the awards is based on the U.S. Treasury yield curve in effect at the time of the grant. The expected term is based on the simplified method calculation allowed for "plain vanilla" share options. The dividend yield assumption is based on the Company's history and expectation of dividend payouts.

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A summary of options under the Plan for the year ended June 30, 2014 is presented below:

	Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (in Years)
Outstanding at June 30, 2013	555,183	\$ 11.02	
Granted	10,000	16.49	
Exercised	(126,500)	10.86	
Outstanding at June 30, 2014	438,683	\$ 11.20	4.4
Exercisable at June 30, 2014	393,183	\$ 10.95	3.9

Share-based compensation expense applicable to stock options was \$37,000, \$256,000 and \$330,000 for the years ended June 30, 2014, 2013 and 2012, respectively, and the recognized tax benefit related to this expense was \$13,000, \$63,000 and \$84,000, respectively. As of June 30, 2014, unrecognized stock-based compensation expense related to nonvested options amounted to \$133,000. This amount is expected to be recognized over a weighted average period of 3.3 years. The intrinsic value of all stock options outstanding and exercisable at June 30, 2014 was \$2,484,000 and \$2,323,000, respectively. The intrinsic value of stock options that were exercised in fiscal 2014 was \$656,000.

Stock Awards

Under the Company's 2008 Equity Incentive Plan, the Company may grant stock awards to its directors, employees and consultants for up to 317,996 shares of common stock. The stock awards vest at 20% - 25% per year. During the year ended June 30, 2013, 3,000 shares of restricted stock were awarded with a grant date fair value of \$12.51 per share that vest over a five years period. There were no shares of restricted stock awarded during the year ended June 30, 2014. The fair market value of the stock awards, based on the market price at grant date, is recorded as unearned compensation. Unearned compensation is amortized over the applicable vesting period. The Company recognized compensation expense related to restricted stock awards of \$9,000, \$247,000 and \$596,000 for the years ended June 30, 2014, 2013 and 2012, respectively. The tax benefit related to the vesting of restricted stock awards was \$1,000, \$105,000 and \$42,000 for the years ended June 30, 2014, 2013 and 2012, respectively. As of June 30, 2014, there was \$8,000 of total unrecognized compensation cost related to nonvested stock awards granted under the Plan, which is expected to be recognized over a period of 3.1 years.

A summary of the status of the Company's stock awards is presented below:

	Nonvested Shares
Balance at June 30, 2013	3,000
Granted	
Vested	(600)
Balance at June 30, 2014	2,400

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HAMPDEN BANCORP, INC. AND SUBSIDIARIES

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YEARS ENDED JUNE 30, 2014, 2013 and 2012

14. EQUITY INCENTIVE PLAN (Continued)

The aggregate fair value of the stock awards that vested in fiscal year 2014 was \$9,000.

15. RESTRICTIONS ON DIVIDENDS, LOANS AND ADVANCES

Federal and state banking regulations place certain restrictions on dividends paid and loans or advances made by the Bank to the Company. The total amount of dividends which may be paid at any date is generally limited to the retained earnings of the Bank, and loans or advances are limited to 10% of the Bank's capital stock and surplus on a secured basis.

At June 30, 2014, the Bank's retained earnings available for the payment of dividends was \$45.5 million. At June 30, 2014, \$29.8 million of the Company's equity in the net assets of the Bank was restricted. Funds available for loans or advances by the Bank to the Company amounted to \$7.5 million.

In addition, dividends paid by the Bank to the Company would be prohibited if the effect thereof would cause the Bank's capital to be reduced below applicable minimum capital requirements.

In 2007, as part of the conversion to a stock company, the Company established a liquidation account in an amount equal to the net worth of the Bank as of the date of the last consolidated balance sheet appearing in the final prospectus distributed in connection with the conversion. The amount of the liquidation account as of June 30, 2014 is \$4.3 million; however, this amount will decline over time. The liquidation account is maintained for the benefit of eligible account holders and supplemental eligible account holders who maintain their accounts at the Company after the conversion. The liquidation account will be reduced annually to the extent that such account holders have reduced their qualifying deposits as of each anniversary date. Subsequent increases will not restore an account holder's interest in the liquidation account. In the event of a complete liquidation, each eligible account holder will be entitled to receive balances for accounts then held.

16. FAIR VALUE OF ASSETS AND LIABILITIES

Determination of Fair Value

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The fair value of a financial instrument is 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. Fair value is best determined based on quoted market prices. However, in many instances, there are no quoted market prices for the Company's assets and liabilities. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates for future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the asset or liability.

Methods and assumptions for valuing the Company's financial instruments are set forth below. Estimated fair values are calculated based on the value without regard to any premium or discount that may result from concentrations of ownership of a financial instrument, possible tax ramifications or estimated transaction costs.

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HAMPDEN BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

YEARS ENDED JUNE 30, 2014, 2013 and 2012

16. FAIR VALUE OF ASSETS AND LIABILITIES (Continued)

Cash and cash equivalents: The carrying amounts of cash and short-term investments approximate fair values.

Securities: The securities measured at fair value utilizing Level 1 and Level 2 inputs are government-sponsored enterprises, corporate bonds and other obligations, mortgage-backed securities and common stocks. The fair values used by the Company are obtained from an independent pricing service which are not adjusted by management and, represents either quoted market prices for identical securities, quoted market prices for comparable securities or fair values determined by pricing models that consider observable market data, such as interest rate volatilities, credit spreads and prices from market makers and live trading systems and other market indicators, industry and economic events. Municipal securities are valued utilizing Level 3 inputs. Since there is no readily available market pricing and no active market to sell these securities, management believes that the amortized cost of these securities approximates fair value based on their relatively short terms to maturity.

FHLB stock: The carrying amount of FHLB stock approximates fair value based upon the redemption provisions of the FHLB.

Loans held for sale: Fair value of loans held for sale are estimated based on commitments on hand from investors or prevailing market prices.

Loans: Fair values for loans are estimated using discounted cash flow analysis, using market interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. This analysis assumes no prepayment. Fair values for non-performing loans are estimated using discounted cash flow analysis or underlying collateral values, where applicable.

Mortgage servicing rights: Mortgage servicing rights ("MSR") are the rights of a mortgage servicer to collect mortgage payments and forward them, after deducting a fee, to the mortgage lender. The fair value of servicing rights is estimated using a present value cash flow model. The fair value of MSR is highly sensitive to changes in assumptions. Changes in prepayment speed assumptions generally have the most significant impact on the fair value of our MSR. Generally, as interest rates decline, mortgage loan prepayments accelerate due to increased refinance activity, which results in a decrease in the fair value of MSR. As interest rates rise, mortgage loan prepayments slow down, which results in an increase in the fair value of MSR. Thus, any measurement of the fair value of our MSR is limited by the conditions existing and the assumptions utilized as of a particular point in time, and those assumptions may not be appropriate if they are applied at a different point in time.

Deposits and mortgage escrow accounts: The fair values for non-certificate accounts and mortgage escrow accounts are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). Fair values for certificate accounts are estimated using a discounted cash flow calculation that applies market interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Short-term borrowings: The carrying amount of short-term borrowings approximates fair value.

Long-term debt: The fair values of the Company's advances are estimated using discounted cash flow analysis based on current market borrowing rates for similar types of borrowing arrangements.

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Accrued interest: The carrying amounts of accrued interest approximate fair value.

Off-balance-sheet instruments: Fair values for off-balance-sheet lending commitments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. The estimated fair value of off-balance sheet financial instruments at June 30, 2014 and 2013 was not material.

The Company does not measure any liabilities at fair value on either a recurring or non-recurring basis.

Assets Measured at Fair Value on a Recurring Basis

The following table presents the balances of assets measured at fair value on a recurring basis as of June 30, 2014 and 2013:

	Level 1	Level 2	Level 3	Total
	(In Thousands)			
June 30, 2014				
Securities available for sale:				
Debt securities	\$	\$ 133,857	\$	\$ 133,857
Marketable equity securities	79			79
Mortgage servicing rights			792	792
Total	\$ 79	\$ 133,857	\$ 792	\$ 134,728

June 30, 2013				
Securities available for sale:				
Debt securities	\$	\$ 138,662	\$	\$ 138,662
Marketable equity securities	68			68
Mortgage servicing rights			654	654
Total	\$ 68	\$ 138,662	\$ 654	\$ 139,384

The table below presents, for the years ended June 30, 2014 and 2013, the changes in Level 3 assets that are measured at fair value on a recurring basis:

	Mortgage Servicing Rights (In Thousands)
Balance as of July 1, 2012	\$ 445
Total realized and unrealized gains included in net income	161
Capitalized servicing assets	48
Balance as of June 30, 2013	654
Total realized and unrealized gains included in net income	41

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Capitalized servicing assets 97

Balance as of June 30, 2014 \$ 792

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Also, the Company may be required, from time to time, to measure certain other financial assets at fair value on a non-recurring basis in accordance with generally accepted accounting principles. These adjustments to fair value usually result from the application of lower-of-cost-or-market accounting or write-downs of individual assets. The following table summarizes the carrying value of the related individual assets as of June 30, 2014 and 2013 all classified in Level 3 fair value hierarchy:

	June 30,	
	2014	2013
	(In Thousands)	
Impaired loans	\$ 461	\$ 292
Other real estate owned	309	1,221
Total	\$ 770	\$ 1,513

During the years ended June 30, 2014, 2013 and 2012 there were no transfers from levels 1, 2, or 3.

The amount of impaired loans represents the carrying value of loans that include adjustments which are based on the estimated fair value of the underlying collateral. The fair value of collateral used by the Company represents the current tax assessed value, discounted by 20%. This data includes information such as selling price of similar properties, expected future cash flows or earnings of the subject property based on current market expectations, as well as relevant legal, physical and economic factors. If the impaired loan is being actively marketed, the Company uses the realtor's market analysis or listing price discounted by 10% and less 5% for realtor commission, instead of the tax assessment. The Company had a \$102,000 loss on impaired loans for the year ended June 30, 2014 compared to a \$103,000 loss and a \$121,000 loss for years ended June 30, 2013 and 2012, respectively. Any resulting losses are recognized in earnings through the provision for loan losses. The Company charges off any collateral shortfall on collateral dependent impaired loans.

The Company classifies property acquired through foreclosure or acceptance of a deed in lieu of foreclosure as OREO in its consolidated financial statements. When property is placed into OREO, it is recorded at the fair value less estimated costs to sell at the date of foreclosure or acceptance of deed in lieu of foreclosure. At the time of transfer to OREO, any excess of carrying value over fair value is charged to the allowance for loan losses. Management, or its designee, inspects all OREO property periodically. Holding costs and declines in fair value result in charges to expense after the property is acquired. The Company had \$226,000 loss on OREO, including a charge to the allowance for loan losses, for the year ended June 30, 2014. The Company had no loss on OREO, for the year ended June 30, 2013. The Company had a \$362,000 loss on OREO, including a charge to the allowance for loan losses, for the year ended June 30, 2012.

Summary of Fair Values of Financial Instruments

The carrying amounts and related estimated fair values of the Company's financial instruments are as follows. Certain financial instruments and all non-financial instruments are exempt from disclosure

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requirements. Accordingly, the aggregate fair value amounts presented herein may not necessarily represent the underlying fair value of the Company.

	Carrying Amount	Fair Value			Total
		Level 1	Level 2	Level 3	
(In Thousands)					
June 30, 2014					
Financial assets:					
Cash and cash equivalents	\$ 12,667	\$ 12,667	\$	\$	\$ 12,667
Securities available for sale	133,936	79	133,857		133,936
Securities held to maturity	9,302			9,302	9,302
Federal Home Loan Bank stock	6,648			6,648	6,648
Loans held for sale	330		330		330
Loans, net	507,635			513,765	513,765
Accrued interest receivable	1,688			1,688	1,688
Mortgage servicing rights(1)	792			792	792
Financial liabilities:					
Deposits	491,732			493,500	493,500
Short-term borrowings	4,000		4,000		4,000
Long-term debt	112,446		113,823		113,823
Mortgagors' escrow accounts	1,184			1,184	1,184

(1) Included in other assets.

June 30, 2013					
Financial assets:					
Cash and cash equivalents	\$ 25,618	\$ 25,618	\$	\$	\$ 25,618
Securities available for sale	138,730	68	138,662		138,730
Federal Home Loan Bank stock	5,092			5,092	5,092
Loans held for sale	1,274		1,274		1,274
Loans, net	450,347			459,018	459,018
Accrued interest receivable	1,636			1,636	1,636
Mortgage servicing rights(1)	654			654	654
Financial liabilities:					
Deposits	474,798			477,059	477,059
Short-term borrowings	4,500		4,500		4,500
Long-term debt	82,492		82,527		82,527
Mortgagors' escrow accounts	1,100			1,100	1,100

(1)

Included in other assets.

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HAMPDEN BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

YEARS ENDED JUNE 30, 2014, 2013 and 2012

17. PARENT COMPANY ONLY CONDENSED FINANCIAL STATEMENTS

The condensed financial information pertaining only to the parent company, Hampden Bancorp, Inc., is as follows:

BALANCE SHEETS

	June 30,	
	2014	2013
	(In Thousands)	
Assets		
Cash on hand	\$ 4,920	\$ 967
Short-term investments		65