BERKSHIRE HILLS BANCORP INC
Form 10-K
March 01, 2019

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended: December 31, 2018

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

For the transition period from to

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

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

60 State Street, Boston, Massachusetts	02109
(Address of principal executive offices)	(Zip Code)

Registrant’s telephone number, including area code: (800) 773-5601, ext. 133773

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

Title of each class	Name of Exchange on which registered
Common stock, par value $0.01 per share	New York Stock Exchange

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of the Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definition of "large accelerated filer," "accelerated filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one)

Large Accelerated Filer x	Accelerated Filer o
Non-Accelerated Filer o	Smaller Reporting Company o
	Emerging Growth Company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates was approximately $1.8 billion, based upon the closing price of $40.60 as quoted on the New York Stock Exchange as of the last business day of the registrant's most recently completed second fiscal quarter.

The number of shares outstanding of the registrant's common stock as of February 25, 2019 was 45,532,727.

DOCUMENTS INCORPORATED BY REFERENCE: Portions of the Proxy Statement for the 2019 Annual Meeting of Shareholders are incorporated by reference in Part III of this Form 10-K.

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PART I

ITEM 1. BUSINESS

FORWARD-LOOKING STATEMENTS

Certain statements contained in this document that are not historical facts may constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (referred to as the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (referred to as the Securities Exchange Act), and are intended to be covered by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. You can identify these statements from the use of the words “may,” “will,” “should,” “could,” “would,” “plan,” “potential,” “estimate,” “believe,” “intend,” “anticipate,” “expect,” “target” and similar expressions. These forward-looking statements are subject to significant risks, assumptions and uncertainties, including among other things, changes in general economic and business conditions, increased competitive pressures, changes in the interest rate environment, legislative and regulatory change, changes in the financial markets, and other risks and uncertainties disclosed from time to time in documents that Berkshire Hills Bancorp files with the Securities and Exchange Commission. You should not place undue reliance on forward-looking statements, which reflect our expectations only as of the date of this report. We do not assume any obligation to revise forward-looking statements except as may be required by law.

GENERAL

Berkshire Hills Bancorp, Inc. (“Berkshire” or “the Company”) is headquartered in Boston, Massachusetts. Berkshire is a Delaware corporation and the holding company for Berkshire Bank (“the Bank”) and Berkshire Insurance Group, Inc.

The Bank profiles itself as follows:

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Berkshire's common shares are listed on the New York Stock Exchange under the trading symbol "BHLB." At year-end 2018, Berkshire's closing stock price was $26.97 and there were 45.417 million shares outstanding. Berkshire is a regional bank and financial services company providing the service capabilities of a larger institution and the focus and responsiveness of a local partner to its communities. The Company seeks to distinguish itself based on the following attributes:

- Strong momentum and improving profitability
- Diversified revenue drivers and controlled expenses
- Well positioned footprint in attractive markets
- Entrepreneurial culture - results driven
- Focused on long-term profitability goals and shareholder value
- Acquisition disciplines a strength in a consolidating market

The Bank has 115 full-service banking offices in its New England, New York, and Mid-Atlantic footprint. The Bank also owns mortgage banking and specialty equipment finance subsidiaries which serve markets nationwide. Additionally, it is a leading provider of SBA loan solutions in targeted markets. The Company offers a wide range of deposit, lending, insurance, and wealth management products to retail and commercial customers in its market areas. Its business goal is to expand and deepen market share and wallet share through organic growth and acquisition strategies.

The Bank serves the following regions shown below:

- Greater Boston, where the Company has relocated its headquarters in a prominent downtown Boston financial district location. This region includes 19 branch offices and several lending offices. The Company expanded in this region with its acquisition of Commerce Bancshares Corp. ("Commerce") in October 2017. Berkshire's asset based lending operations and the headquarters of its Firestone Financial subsidiary are located in this region. Greater Boston is the largest economic area in New England. The Greater Boston combined statistical area, including Worcester, is the sixth largest in the country. Boston is viewed as a leading commercial real estate market nationally, including foreign demand for investment real estate. Major local industries include biotechnology, technology, education, healthcare, trade, and financial service. The Boston MSA 2017 GDP was $439 billion and the Worcester 2017 MSA GDP was $44 billion.

- Western New England, with 23 branches, includes the Company's traditional Berkshire County market, where it has a leading market share in many of its product lines. This region also includes Southern Vermont, and many of the region's branches are in communities close to Route 7, which runs north/south through the valleys to the west of the Berkshire Hills and Green Mountains. This region is within commuting range of both Albany, N.Y., and Springfield, Mass., and is known throughout the world as a tourist and recreational destination area, with vacation and second home traffic from Boston and New York City. The Pittsfield 2017 MSA GDP totaled $7 billion.

- New York, with 40 branches serving the Albany Capital District and Central New York. Albany is the state capital and is part of New York's Tech Valley which is gaining prominence as a world technology hub including leading edge nanotechnology initiatives representing a blend of private enterprise and public investment. The Company's Central New York area includes operations in the Rome/Utica MSA and in the Syracuse MSA. These are markets along Interstate 90 with longstanding local industries and expansion influences from the Albany Capital District. The Albany/Schenectady 2017 MSA GDP was $54 billion, and the Rome/Utica/Syracuse total 2017 MSA GDP was $45 billion.

- Hartford/Springfield, with 25 branches serving the market along the Connecticut River in this region, which is the second largest economic area in New England. This region is centrally located between Boston and New York City at the crossroads of Interstate 91, which traverses the length of New England, and Interstate 90, which traverses the width of Massachusetts. This region also has easy access to Bradley International Airport, which is a major airport serving central New England. Major local industries include insurance, defense manufacturing, education, and assembly/distribution. The Springfield area is receiving major commercial

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investment including the first Massachusetts casino/entertainment complex. The Hartford/Springfield combined 2017 MSA GDP was $118 billion.

- Mid-Atlantic, with 8 branches and mortgage banking and SBA lending operations. Berkshire established its presence in this region in 2016 with its acquisition of First Choice Bank ("First Choice") located in the Princeton, New Jersey area and its acquisition of the business assets and operations of 44 Business Capital, LLC ("44 Business Capital"), located in the greater Philadelphia area. Major local industries include bio-science, financial services, trade, iron, steel, and rubber. The Philadelphia MSA 2017 GDP was $445 billion, while the Trenton 2017 MSA GDP was $30 billion.

Shown below is information about total loans and deposits within the Company's banking footprint, by region, as of year-end 2018 (wholesale deposit and loan balances are excluded).

These regions are viewed as having favorable economic and demographic characteristics and provide an attractive regional niche for the Bank to distinguish itself from larger national and super-regional banks, as well as from smaller community banks, while serving its market area. The Company's regions have competitive economic strengths in precision manufacturing, distribution, technology, health care, and education which are expected to continue to support above average personal incomes and wealth. These regions include two major U.S. metropolitan areas and port cities - Boston and the Philadelphia area. As a result of its growth, the Company has increased and diversified its revenues both geographically and by product type and this has improved its flexibility in pursuing growth opportunities as they arise. The Company believes it has attractive long-term growth prospects because of the Bank's positioning as a leading regional bank in its markets with the ability to serve retail and commercial customers with a strong product set and responsive local management. The Company has acquired and is developing targeted national lending operations to support its strategic growth and profitability. The Company also pursues organic growth through ongoing business development, de novo branching, product development, and delivery channel diversification and enhancement.

The Company has a pending agreement to acquire SI Financial Group, which owns Savings Institute Bank & Trust, a $1.6 billion bank headquartered in Willimantic, Conn., with 23 branches serving Eastern Connecticut and Southern Rhode Island. This is viewed by Berkshire as a complementary market extension business combination.

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FILINGS
Information regarding the Company is available through the Investor Relations tab at berkshirebank.com. The Company's annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports filed pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available free of charge at sec.gov and at berkshirebank.com under the Investor Relations tab. Information on the website is not incorporated by reference and is not a part of this annual report on Form 10-K.

COMPETITION
The Company is subject to strong competition from banks and other financial institutions and financial service providers. Its competition includes national and super-regional banks. Non-bank competitors include credit unions, brokerage firms, insurance providers, financial planners, and the mutual fund industry. New technology is reshaping customer interaction with financial service providers and the increase of internet-accessible financial institutions increases competition for the Company's customers. The Company generally competes on the basis of customer service, relationship management, and the fair pricing of loan and deposit products and wealth management and insurance services. The location and convenience of branch offices is also a significant competitive factor, particularly regarding new offices. The Company does not rely on any individual, group, or entity for a material portion of its deposits.

LENDING ACTIVITIES
General. The Bank originates loans in the four basic portfolio categories discussed below. Lending activities are limited by federal and state laws and regulations. Loan interest rates and other key loan terms are affected principally by the Bank's credit policy, asset/liability strategy, loan demand, competition, and the supply of money available for lending purposes. These factors, in turn, are affected by general and economic conditions, monetary policies of the federal government, including the Federal Reserve, legislative tax policies, and governmental budgetary matters. Most of the Bank's loans held for investment are made in its market areas and are secured by real estate located in its market areas. Lending is therefore affected by activity in these real estate markets. The Bank does not engage in subprime lending activities. The Bank monitors and manages the amount of long-term fixed-rate lending volume. Adjustable-rate loan products generally reduce interest rate risk but may produce higher loan losses in the event of sustained rate increases. The Bank generally originates loans for investment except for residential mortgages, which are generally originated for sale on a servicing released basis. Additionally, the Bank also originates SBA 7A loans for sale to investors. The Bank also conducts wholesale purchases and sales of loans and loan participations generally with other banks doing business in its markets, including selected national banks.

The Bank changed its charter several years ago from a savings bank to a trust company, which is the common charter for Massachusetts chartered commercial banks. The majority of the Bank's held for investment loans are commercial loans. The Company's strategy is to be a leading regional bank in its markets, and to develop commercial market share and wallet share across its commercial banking product areas. The Company's recent expansion into more urban markets is targeted to facilitate further development of this strategy. The Company also is building its specialized commercial business lines which have higher margins and provide for revenue diversification and geographic expansion into other national markets. The Bank has focused on team recruitments to establish its market prominence and deliver revenue synergies in new markets entered by acquisition.

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Loan Portfolio Analysis. The following table sets forth the year-end composition of the Bank's loan portfolio in dollar amounts and as a percentage of the portfolio at the dates indicated. Further information about the composition of the loan portfolio is contained in Note 6 - Loans of the Consolidated Financial Statements.

Item 1 - Table 1 - Loan Portfolio Analysis

	2018		2017		2016		2015		2014	
(In millions)	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
Commercial real estate	$3,400	38 %	$3,264	39 %	$2,617	40 %	$2,060	36 %	$1,612	35 %
Commercial and industrial loans	1,980	22	1,804	22	1,062	16	1,048	18	804	17
Total commercial loans	5,380	60	5,068	61	3,679	56	3,108	54	2,416	52
Residential mortgages	2,566	28	2,103	25	1,893	29	1,815	32	1,496	32
Consumer	1,097	12	1,128	14	978	15	802	14	768	16
Total loans	$9,043	100 %	$8,299	100 %	$6,550	100 %	$5,725	100 %	$4,680	100 %
Allowance for loan losses	(61)		(52)		(44)		(39)		(35)	
Net loans	$8,982		$8,247		$6,506		$5,686		$4,645	

Commercial Real Estate. The Bank originates commercial real estate loans on properties used for business purposes such as small office buildings, industrial, healthcare, lodging, recreation, or retail facilities. Commercial real estate loans are provided on owner-occupied properties and on investor-owned properties. The portfolio includes commercial 1-4 family and multifamily properties. The Bank's expansion in Greater Boston may involve increased lending to finance new types of properties and reliance on more expensive property values compared to its traditional markets. Loans may generally be made with amortizations of up to 25 years and with interest rates that adjust periodically (primarily from short-term to five years). Most commercial real estate loans are originated with final maturities of 10 years or less. As part of its business activities, the Bank also enters into commercial loan participations with regional and national banks and purchases and sells commercial loans.

Commercial real estate loans are among the largest of the Bank's loans, and may have higher credit risk and lending spreads. Because repayment is often dependent on the successful operation or management of the properties, repayment of commercial real estate loans may be affected by adverse conditions in the real estate market or the economy. The Bank seeks to manage these risks through its underwriting disciplines and portfolio management processes. The Bank generally requires that borrowers have debt service coverage ratios (the ratio of available cash flows before debt service to debt service) of at least 1.25 times based on stabilized cash flows of leases in place, with some exceptions for national credit tenants. For variable rate loans, the Bank underwrites debt service coverage to interest rate shocks of 300 basis points or higher based on a minimum of 1.0 times coverage and it uses loan maturities to manage risk based on the lease base and interest sensitivity. Loans at origination may be made up to 80% of appraised value based on property type and risk, with sublimits of 75% or less for designated specialty property types. Generally, commercial real estate loans are supported by full or partial personal guarantees by the principals. Credit enhancements in the form of additional collateral or guarantees are normally considered for start-up businesses without a qualifying cash flow history.

The Bank offers interest rate swaps to certain larger commercial mortgage borrowers. These swaps allow the Bank to originate a mortgage based on short-term LIBOR rates and allow the borrower to swap into a longer-term fixed rate. The Bank simultaneously sells an offsetting back-to-back swap to an investment grade national bank so that it does not retain this fixed-rate risk. The Bank also records fee income on these interest rate swaps based on the terms of the offsetting swaps with the bank counterparties.

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The Bank originates construction loans to developers and commercial borrowers in and around its markets. The maximum loan to value limits for construction loans follow FDIC supervisory limits, up to a maximum of 85 percent. The Bank commits to provide the permanent mortgage financing on most of its construction loans on income-producing property. Advances on construction loans are made in accordance with a schedule reflecting the cost of the improvements. Construction loans include land acquisition loans up to a maximum 50 percent loan to value on raw land. Construction loans may have greater credit risk due to the dependence on completion of construction and other real estate improvements, as well as the sale or rental of the improved property. The Bank generally mitigates these risks with presale or preleasing requirements and phasing of construction.

Commercial and Industrial Loans. The Bank offers secured commercial term loans with repayment terms which are normally limited to the expected useful life of the asset being financed, and generally not exceeding ten years. The Bank also offers revolving loans, lines of credit, letters of credit, time notes and Small Business Administration guaranteed loans. Business lines of credit have adjustable rates of interest and can be committed or are payable on demand, subject to annual review and renewal. Commercial and industrial loans are generally secured by a variety of collateral such as accounts receivable, inventory and equipment, and are generally supported by personal guarantees. Loan-to-value ratios depend on the collateral type and generally do not exceed 80 percent of orderly liquidation value. Some commercial loans may also be secured by liens on real estate. The Bank generally does not make unsecured commercial loans. Commercial loans are of higher risk and are made primarily on the basis of the borrower’s ability to make repayment from the cash flows of its business. Further, any collateral securing such loans may depreciate over time, may be difficult to monitor and appraise and may fluctuate in value. The Bank gives additional consideration to the borrower’s credit history and the guarantor’s capacity to help mitigate these risks. Additionally, the Bank uses loan structures including shorter terms, amortizations, and advance rate limitations to additionally mitigate credit risk. The Company considers these loans, together with its owner-occupied commercial real estate loans, as constituting the primary relationship based component of its commercial lending activities.

The Asset Based Lending Group serves the commercial middle market in New England, as well as the Bank’s market in northeastern New York. In 2017, this group expanded into the Mid-Atlantic. The group expands the Bank’s business lending offerings to include revolving lines of credit and term loans secured by accounts receivable, inventory, and other assets to manufacturers, distributors and select service companies experiencing seasonal working capital needs, rapid sales growth, a turnaround, buyout or recapitalization with credit needs ranging from $2 to $25 million. Asset based lending involves monitoring loan collateral so that outstanding balances are always properly secured by business assets, which reduces the risks associated with these loans. At year-end 2018, asset based loans outstanding totaled $452 million.

In 2016, the Bank created the Specialty Lending Group to oversee its equipment lending, SBA lending, and small business lending activities. The specialty equipment lending operation is conducted by Firestone Financial Corp. ("Firestone"), which was acquired in 2015. Firestone originates loans secured by business-essential equipment through over 160 equipment distributors and manufacturers and directly via the end borrower in all 50 states. Key customer segments include the fitness, carnival, gaming, and entertainment industries. These loans function similarly to the Bank’s commercial and industrial portfolio. However, some credits have payment schedules tailored to the meet the needs of the seasonality of these borrowers’ businesses. These loans generally have higher interest rates than the Bank's other commercial loans, reflecting the niche expertise required in servicing these industries. Firestone’s loans outstanding totaled $265 million at year-end 2018.

In 2016, Berkshire acquired 44 Business Capital, a dedicated SBA 7(a) program lending team based in the Philadelphia area. This team originates loans primarily in the Mid-Atlantic area. This team sells the guaranteed portions of these loans with servicing retained and the Bank retains the unguaranteed portions of the loans, which are pari-passu with the SBA for loan repayment. Some of the SBA’s underwriting parameters are outside of the Bank’s normal commercial lending standards. The Bank is a preferred SBA lender and closely manages the servicing portfolio pursuant to SBA requirements. This team is the Bank's largest source of commercial lending fee revenue, and it is targeting to further expand these operations to other markets, as well as increasing SBA product penetration to the market served by Firestone. Berkshire also originates SBA loans in its regional markets. The SBA's annual report of SBA originators for the year-ended September 30, 2018 ranked Berkshire among the top 30th

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in the nation by both number of loans and dollar amount of loans. Berkshire has the top SBA ranking in several of its regional markets.

Residential Mortgages. Through its mortgage banking operations, the Bank offers fixed-rate and adjustable-rate residential mortgage loans to individuals with maturities of up to 30 years that are fully amortizing with monthly loan payments. The majority of loans are originated for sale with rate lock commitments which are recorded as derivative financial instruments. Mortgages are generally underwritten according to U.S. government sponsored enterprise guidelines designated as “A” or “A-” and referred to as “conforming loans”. The Bank also originates jumbo loans above conforming loan amounts which generally are consistent with secondary market guidelines for these loans and are often held in portfolio. The Bank does not offer subprime mortgage lending programs. The Bank buys and sells seasoned mortgages primarily with smaller financial institutions operating in its markets.

The majority of the Bank’s secondary marketing is to U.S. secondary market investors on a servicing-released basis. The Bank also sells directly to government sponsored enterprises with servicing retained. Mortgage sales generally involve customary representations and warranties and are nonrecourse in the event of borrower default. The Bank is also an approved originator of loans for sale to the Federal Housing Administration (“FHA”), U.S. Department of Veteran Affairs (“VA”), state housing agency programs, and other government sponsored mortgage programs.

The Bank does not offer interest-only or negative amortization mortgage loans. Adjustable rate mortgage loan interest rates may rise as interest rates rise, thereby increasing the potential for default. The Bank also originates construction loans which generally provide 15-month construction periods followed by a permanent mortgage loan, and follow the Bank’s normal mortgage underwriting guidelines.

Most of the Bank’s mortgages are originated by commissioned mortgage lenders. With the First Choice Bank acquisition in December 2016, the Company acquired First Choice Loan Services Inc. ("First Choice Loan Services"), which now operates its mortgage banking business as a subsidiary of Berkshire Bank. This operation has a team of more than 400 members originating mortgages in targeted markets in nine states, with headquarters in East Brunswick, N.J. First Choice Loan Services originates directly through its originators as well as online including a mortgage marketing partnership with Costco.

Berkshire’s mortgage banking operations are its largest source of non-interest revenue. The portfolio of mortgages held for sale is a high yielding short term asset. The Bank’s portfolio of mortgages held for investment is a significant source of interest income to the bank. Mortgage operations require significant interest rate risk management both for the interest rate lock derivative financial instruments and for the long term assets held in portfolio. Mortgage banking also requires flexible and scalable operations due to the volatility of mortgage demand over time. Investor management is integral to maintaining the secondary market support that is required for these operations. The management of commissioned originations staff across national markets in this highly regulated business line requires strong controls and compliance management.

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Consumer Loans. The Bank’s consumer loans are centrally underwritten and processed by its experienced consumer lending team based in Syracuse, New York. The Bank’s primary consumer lending activity is indirect auto lending. In the second half of 2015, the Bank recruited new leadership to expand this activity from its Central New York base to other parts of Berkshire’s footprint. The Bank provides prime auto loans to finance new and used autos and is evaluating secondary marketing to further support this activity. At year-end 2018, outstanding auto and other loans totaled $720 million. The Bank’s other major consumer lending activity is prime home equity lending, following its conforming mortgage underwriting guidelines with more streamlined verifications and documentation. Most of these outstanding loans are prime based home equity lines with a maximum combined loan-to-value of 85 percent. Home equity line credit risks include the risk that higher interest rates will affect repayment and possible compression of collateral coverage on second lien home equity lines. At year-end 2018, home equity loans totaled $377 million.

Maturity and Sensitivity of Loan Portfolio. The following table shows contractual final maturities of selected loan categories at year-end 2018. The contractual maturities do not reflect premiums, discounts, deferred costs, or prepayments.

Item 1 - Table 2 - Loan Contractual Maturity - Scheduled Loan Amortizations are not included in the maturities presented.

Contractual Maturity (In thousands)	One Year or Less	One to Five Years	More Than Five Years	Total
Construction real estate loans:				
Commercial	$196,394	$156,618	$—	$353,012
Residential	8,070	341	1,345	9,756
Commercial and industrial loans	355,477	1,025,178	599,391	1,980,046
Total	$559,941	$1,182,137	$600,736	$2,342,814

For the $1.8 billion of loans above which mature in more than one year, $0.5 billion of these loans are fixed-rate and $1.3 billion are variable rate.

Loan Administration. Lending activities are governed by a loan policy approved by the Board’s Risk Management and Capital Committee. Internal staff perform and monitor post-closing loan documentation review, quality control, and commercial loan administration. The lending staff assigns a risk rating to all commercial loans, excluding point scored small business loans. Management primarily relies on internal risk management staff to review the risk ratings of the majority of commercial loan balances.

The Bank’s lending activities follow written, non-discriminatory underwriting standards and loan origination procedures established by the Risk Management and Capital Committee and Management, under the leadership of the Chief Risk Officer. The Bank’s loan underwriting is based on a review of certain factors including risk ratings, recourse, loan-to-value ratios, and material policy exceptions. The Risk Management and Capital Committee has established individual and combined loan limits and lending approval authorities. Management’s Executive Loan Committee is responsible for commercial loan approvals in accordance with these standards and procedures. Generally, pass rated secured commercial loans can be approved jointly up to $7 million by the regional lending manager and regional credit officer. Loans up to $15 million can be approved with the additional signature of the Chief Credit Officer. Loans in excess of this amount, and designated lower rated loans are approved by the Executive Loan Committee. These limits were expanded in 2016. The Bank tracks loan underwriting exceptions and exception reports are actively monitored by executive lending management.

The Bank’s lending activities are conducted by its salaried and commissioned loan personnel. Designated salaried branch staff originate conforming residential mortgages and receive bonuses based on overall performance. Additionally, the Bank employs commissioned residential mortgage originators. Commercial lenders receive salaries and are eligible for bonuses based on individual and overall performance. The Bank purchases whole loans and participations in loans from banks headquartered in its market and from outside of its market. These loans are underwritten according to the Bank's underwriting criteria and procedures and are generally serviced by the

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originating lender under terms of the applicable agreement. The Bank routinely sells newly originated, fixed-rate residential mortgages in the secondary market. Customer rate locks are offered without charge and rate locked applications are generally committed for forward sale or hedged with derivative financial instruments to minimize interest rate risk pending delivery of the loans to the investors. The Bank also sells residential mortgages and commercial loan participations on a non-recourse basis. The Bank issues loan commitments to its prospective borrowers conditioned on the occurrence of certain events. Loan origination commitments are made in writing on specified terms and conditions and are generally honored for up to 60 days from approval; some commercial commitments are made for longer terms. The Company also monitors pipelines of loan applications and has processes for issuing letters of interest for commercial loans and pre-approvals for residential mortgages, all of which are generally conditional on completion of underwriting prior to the issuance of formal commitments.

The loan policy sets certain limits on concentrations of credit and requires periodic reporting of concentrations to the Risk Management and Capital Committee. The Bank also actively monitors its 25 largest borrower relationships. Commercial real estate is generally managed within federal regulatory monitoring guidelines of 300% of risk based capital for non-owner occupied commercial real estate and 100% for construction loans. At year-end 2018, non-owner occupied commercial real estate totaled 238% of Bank risk based capital and outstanding construction loans were 34% of Bank risk based capital. The Bank has hold limits for several categories of commercial specialty lending including healthcare, hospitality, designated franchises, and leasing, as well as hold limits for designated commercial loan participations purchased. In most cases, these limits are below 100% of risk based capital for all outstandings in each monitored category.

Problem Assets. The Bank prefers to work with borrowers to resolve problems rather than proceeding to foreclosure. For commercial loans, this may result in a period of forbearance or restructuring of the loan, which is normally done at current market terms and does not result in a “troubled” loan designation. For residential mortgage loans, the Bank generally follows FDIC guidelines to attempt a restructuring that will enable owner-occupants to remain in their home. However, if these processes fail to result in a performing loan, then the Bank generally will initiate foreclosure or other proceedings no later than the 90th day of a delinquency, as necessary, to minimize any potential loss. Management reports delinquent loans and non-performing assets to the Board quarterly. Loans are generally removed from accruing status when they reach 90 days delinquent, except for certain loans which are well secured and in the process of collection. Loan collections are managed by a combination of the related business units and the Bank’s special assets group, which focuses on larger, riskier collections and the recovery of purchased credit impaired loans.

Real estate obtained by the Bank as a result of loan collections, including foreclosures, is classified as real estate owned until sold. When property is acquired it is recorded at fair market value less estimated selling costs at the date of foreclosure, establishing a new cost basis. Holding costs and decreases in fair value after acquisition are expensed. Interest income that would have been recorded for 2018, if non-accruing loans had been current according to their original terms, amounted to $4.2 million. Included in the amount is $948 thousand related to troubled debt restructurings. The amount of interest income on those loans that was recognized in net income in 2018 was $1.7 million. Included in this amount is $318 thousand related to troubled debt restructurings. Interest income on accruing troubled debt restructurings totaled $652 thousand for 2018. The total carrying value of troubled debt restructurings was $27.4 million at year-end.

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The following table sets forth additional information on year-end problem assets and accruing troubled debt restructurings ("TDR"). Due to accounting standards for business combinations, non-accrual loans of acquired banks are recorded as accruing on the acquisition date. Therefore, measures related to accruing and non-accruing loans reflect these standards and may not be comparable to prior periods.

Item 1 - Table 3 - Problem Assets and Accruing TDR

(In thousands)	2018	2017	2016	2015	2014
Non-accruing loans:					
Commercial real estate	$20,371	$7,267	$5,883	$4,882	$12,878
Commercial and industrial loans	6,003	7,311	7,523	8,259	1,705
Residential mortgages	2,217	2,883	3,795	3,966	3,908
Consumer	3,834	5,438	5,039	3,768	3,214
Total non-performing loans	32,425	22,899	22,240	20,875	21,705
Real estate owned	—	—	151	1,725	2,049
Repossessed assets	1,209	1,147	—	—	—
Total non-performing assets	$33,634	$24,046	$22,391	$22,600	$23,754
Troubled debt restructurings (accruing)	$11,871	$36,172	$28,241	$12,497	$12,612
Accruing loans 90+ days past due	$19,690	$16,480	$9,863	$5,229	$4,568
Total non-performing loans/total loans	0.36 %	0.28 %	0.34 %	0.36 %	0.46 %
Total non-performing assets/total assets	0.28 %	0.21 %	0.24 %	0.29 %	0.37 %

Asset Classification and Delinquencies. The Bank performs an internal analysis of its commercial loan portfolio and assets to classify such loans and assets in a manner similar to that employed by federal banking regulators. There are four classifications for loans with higher than normal risk: Loss, Doubtful, Substandard, and Special Mention. Usually an asset classified as Loss is fully charged-off. Substandard assets have one or more defined weaknesses and are characterized by the distinct possibility that the insured institution will sustain some loss if the deficiencies are not corrected. Doubtful assets have the weaknesses of substandard assets with the additional characteristic that the weaknesses make collection or liquidation in full on the basis of currently existing facts, conditions, and values questionable, and there is a high possibility of loss. Assets that do not currently expose the insured institution to sufficient risk to warrant classification in one of the aforementioned categories, but possess weaknesses, are designated Special Mention. Please see the additional discussion of non-accruing and potential problem loans in Item 7 and additional information in Note 7 - Loan Loss Allowance of the Consolidated Financial Statements. Impaired loans acquired in business combinations are normally rated Substandard or lower and the fair value assigned to such loans at acquisition includes a component for the possibility of loss if deficiencies are not corrected.

Allowance for Loan Losses. The Bank's loan portfolio is regularly reviewed by management to evaluate the adequacy of the allowance for loan losses. The allowance represents management's estimate of inherent incurred losses that are probable and estimable as of the date of the financial statements. The allowance includes a specific component for impaired loans (a "specific loan loss reserve") and a general component for portfolios of all outstanding loans (a "general loan loss reserve"). At the time of acquisition, no allowance for loan losses is assigned to loans acquired in business combinations. These loans are initially recorded at fair value, including the impact of expected losses, as of the acquisition date. An allowance on such loans is established subsequent to the acquisition date through the provision for loan losses based on an analysis of factors including environmental factors. The loan loss allowance is discussed further in Note 1 - Summary of Significant Accounting Policies of the Consolidated Financial Statements.

Management believes that it uses the best information available to establish the allowance for loan losses. However, future adjustments to the allowance for loan losses may be necessary, and results of operations could be adversely affected if circumstances differ substantially from the assumptions used in making its determinations. Because the estimation of inherent losses cannot be made with certainty, there can be no assurance that the existing allowance for loan losses is adequate or that increases will not be necessary should the quality of any loan or loan portfolio

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category deteriorate as a result of the factors discussed above. Additionally, the regulatory agencies, as an integral part of their examination process, also periodically review the Bank's allowance for loan losses. Such agencies may require the Bank to make additional provisions for estimated losses based upon judgments different from those of management. Any material increase in the allowance for loan losses may adversely affect the Bank's financial condition and results of operations.

The following table presents an analysis of the allowance for loan losses for the five years indicated:

Item 1 - Table 4 - Allowance for Loan Loss

(In thousands)	2018	2017	2016	2015	2014
Balance at beginning of year	$51,834	$43,998	$39,308	$35,662	$33,323
Charged-off loans:					
Commercial real estate	7,671	4,646	3,104	7,546	5,684
Commercial and industrial loans	4,799	4,217	5,715	3,110	3,010
Residential mortgages	1,248	1,603	2,865	1,857	2,596
Consumer	4,293	4,118	2,342	2,175	2,563
Total charged-off loans	18,011	14,584	14,026	14,688	13,853
Recoveries on charged-off loans:					
Commercial real estate	344	235	303	582	270
Commercial and industrial loans	906	424	389	458	228
Residential mortgages	165	313	304	205	365
Consumer	780	423	358	363	361
Total recoveries	2,195	1,395	1,354	1,608	1,224
Net loans charged-off	15,816	13,189	12,672	13,080	12,629
Provision for loan losses	25,451	21,025	17,362	16,726	14,968
Balance at end of year	$61,469	$51,834	$43,998	$39,308	$35,662
Ratios:					
Net charge-offs/average loans	0.18 %	0.19 %	0.21 %	0.25 %	0.29 %
Recoveries/charged-off loans	12.19	9.57	9.65	10.95	8.84
Net loans charged-off/allowance for loan losses	25.73	25.44	28.80	33.28	35.41
Allowance for loan losses/total loans	0.68	0.62	0.67	0.69	0.76
Allowance for loan losses/non-accruing loans	189.57	226.36	197.83	188.30	164.30

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The following tables present year-end data for the approximate allocation of the allowance for loan losses by loan categories at the dates indicated (including an apportionment of any unallocated amount). The first table shows for each category the amount of the allowance allocated to that category as a percentage of the outstanding loans in that category. The second table shows the allocated allowance together with the percentage of loans in each category to total loans. Management believes that the allowance can be allocated by category only on an approximate basis. The allocation of the allowance to each category is not indicative of future losses and does not restrict the use of any of the allowance to absorb losses in any category. Due to the impact of accounting standards for acquired loans, data in the accompanying tables may not be comparable between accounting periods.

Item 1 - Table 5A - Allocation of Allowance for Loan Loss by Category (as of year-end)

	2018		2017		2016		2015		2014	
(Dollars in thousands)	Amount Allocated	Percent Allocated to Total Loans in Each Category	Amount Allocated	Percent Allocated to Total Loans in Each Category	Amount Allocated	Percent Allocated to Total Loans in Each Category	Amount Allocated	Percent Allocated to Total Loans in Each Category	Amount Allocated	Percent Allocated to Total Loans in Each Category
Commercial real estate	$24,885	0.73 %	$20,699	0.63 %	$18,801	0.72 %	$16,494	0.80 %	$15,539	0.96 %
Commercial and industrial loans	17,568	0.88 %	14,975	0.83 %	10,611	1.00 %	8,715	0.83 %	6,322	0.79 %
Residential mortgages	11,165	0.44 %	10,018	0.48 %	8,571	0.45 %	8,589	0.47 %	7,480	0.50 %
Consumer	7,851	0.72 %	6,142	0.54 %	6,015	0.61 %	5,510	0.69 %	6,321	0.82 %
Total	$61,469	0.68 %	$51,834	0.62 %	$43,998	0.67 %	$39,308	0.69 %	$35,662	0.76 %

Item 1 - Table 5B - Allocation of Allowance for Loan Loss (as of year-end)

	2018		2017		2016		2015		2014	
(Dollars in thousands)	Amount Allocated	Percent of Loans in Each Category to Total Loans	Amount Allocated	Percent of Loans in Each Category to Total Loans	Amount Allocated	Percent of Loans in Each Category to Total Loans	Amount Allocated	Percent of Loans in Each Category to Total Loans	Amount Allocated	Percent of Loans in Each Category to Total Loans
Commercial real estate	$24,885	37.60 %	$20,699	39.33 %	$18,801	39.95 %	$16,494	41.96 %	$15,539	34.43 %
Commercial and industrial loans	17,568	21.90 %	14,975	21.74 %	10,611	16.22 %	8,715	22.10 %	6,322	17.19 %
Residential mortgages	11,165	28.37 %	10,018	25.34 %	8,571	28.90 %	8,589	21.91 %	7,480	31.97 %
Consumer	7,851	12.13 %	6,142	13.59 %	6,015	14.93 %	5,510	14.03 %	6,321	16.41 %
Total	$61,469	100.00%	$51,834	100.00%	$43,998	100.00%	$39,308	100.00%	$35,662	100.00%

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INVESTMENT SECURITIES ACTIVITIES

The securities portfolio provides cash flow to protect the safety of customer deposits and as a potential source of liquidity. The portfolio is also used to manage interest rate risk and to earn a reasonable return on investment. Decisions are made in accordance with the Company's investment policy and include consideration of risk, return, duration, and portfolio concentrations. Day-to-day oversight of the portfolio rests with the Chief Financial Officer and the Treasurer. The Enterprise Risk Management/Asset-Liability Committee meets multiple times each quarter and reviews investment strategies. The Risk Management and Capital Committee of the Board of Directors provides general oversight of the investment function.

The Company has historically maintained a high-quality portfolio of managed duration mortgage-backed securities, together with a portfolio of municipal bonds including national and local issuers and local economic development bonds issued to non-profit organizations. Nearly all of the mortgage-backed securities are issued by Ginnie Mae, Fannie Mae, or Freddie Mac, consisting principally of collateralized mortgage obligations (generally consisting of planned amortization class bonds). Other than securities issued by the above agencies, no other issuer concentrations exceeding 10% of stockholders' equity existed at year-end 2018. The municipal portfolio provides tax-advantaged yield, and the local economic development bonds were originated by the Company to area borrowers. The Company invests in investment grade corporate bonds and commercial mortgage-backed securities. Purchases of non-investment grade fixed-income securities have consisted primarily of capital instruments issued by local and regional financial institutions and a mutual fund investing in non-investment grade bonds of national corporate issuers and in community reinvestment projects. The Company also invests in equity securities of local financial institutions, including those that might be future potential partners, as well as dividend yielding equity securities of national corporate exchange traded issuers. Historically, the Company acquired equity securities in the Bank, which was allowed under its savings bank charter. As a result of the Bank's charter change in 2014, equity security purchases after that date have been conducted at the holding company level. The Bank owns restricted equity in the Federal Home Loan Bank of Boston ("FHLBB") based on its operating relationship with the FHLBB. The Company owns an interest rate swap against a tax advantaged economic development bond issued to a local not-for-profit organization, and as a result this security is carried as a trading account security. The Company generally designates debt securities as available for sale, but sometimes designates longer-duration municipal securities as held to maturity based on its intent. This also allows the Company to more effectively manage the potential impact of longer-duration, fixed-rate securities on stockholders' equity in the event of rising interest rates. Based on a new accounting pronouncement effective in 2018, changes in fair value on equity securities are recorded to current period income, rather than to equity.

The following tables present the year-end amortized cost and fair value of the Company's securities, by type of security, for the three years indicated.

Item 1 - Table 6A - Amortized Cost and Fair Value of Securities

	2018		2017		2016	
(In thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Securities available for sale						
Municipal bonds and obligations	$109,648	$111,207	$113,427	$118,233	$117,910	$119,816
Mortgage-backed securities	1,182,552	1,160,130	1,142,656	1,130,403	948,661	945,129
Other bonds and obligations	129,073	128,310	131,167	132,278	78,877	79,051
Total securities available for sale	$1,421,273	$1,399,647	$1,387,250	$1,380,914	$1,145,448	$1,143,996
Securities held to maturity						
Municipal bonds and obligations	$264,524	$264,492	$270,310	$278,895	$203,463	$204,986
Mortgage-backed securities	89,273	88,442	92,115	92,242	95,302	95,495
	19,718	18,042	34,357	33,818	35,278	36,874

Tax advantaged economic development bonds						
Other bonds and obligations	248	248	321	321	325	325
Total securities held to maturity	$373,763	$371,224	$397,103	$405,276	$334,368	$337,680
Trading account security	$10,090	$11,212	$10,755	$12,277	$11,387	$13,229
Marketable equity securities	$55,471	$56,638	$36,483	$45,185	$47,858	$65,541
Restricted equity securities	$77,344	$77,344	$63,085	$63,085	$71,112	$71,112

Item 1 - Table 6B - Amortized Cost and Fair Value of Securities

	2018		2017		2016	
(In thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
U.S. Treasuries, other Government agencies and corporations	$1,327,296	$1,305,210	$1,271,254	$1,267,830	$1,091,821	$1,106,165
Municipal bonds and obligations and tax advantaged securities	403,980	404,953	428,849	443,223	368,038	374,905
Other	206,665	205,902	194,573	195,684	150,314	150,488
Total Securities	$1,937,941	$1,916,065	$1,894,676	$1,906,737	$1,610,173	$1,631,558

The schedule includes available-for-sale and held-to-maturity securities, as well as the trading security, marketable equity securities, and restricted equity securities.

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The following table summarizes year-end 2018 amortized cost, weighted average yields, and contractual maturities of debt securities. Yields are shown on a fully taxable equivalent basis. A significant portion of the mortgage-based securities are planned amortization class bonds. Their expected durations are 3-5 years at current interest rates, but the contractual maturities shown reflect the underlying maturities of the collateral mortgages. Additionally, the mortgage-based securities maturities shown below are based on final maturities and do not include scheduled amortization. Yields include amortization and accretion of premiums and discounts.

Item 1 - Table 7 - Weighted Average Yield

	One Year or Less		More than One Year to Five Years		More than Five Years to Ten Years		More than Ten Years		Total	
(In millions)	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield
Municipal bonds and obligations	$ 5.4	2.0 %	$ 28.8	3.0 %	$ 24.3	3.0 %	$ 309.3	3.0 %	$367.8	3.0 %
Mortgage-backed securities	—	— %	5.4	2.0 %	43.4	2.0 %	1,223.2	3.0 %	1,272.0	3.0 %
Other bonds and obligations	2.0	1.0 %	15.6	0.3 %	63.8	5.0 %	73.9	5.0 %	155.3	5.0 %
Total	$ 7.4	2.1 %	$ 49.8	2.7 %	$ 131.5	3.7 %	$ 1,606.4	2.9 %	$1,795.1	3.0 %

DEPOSIT ACTIVITIES AND OTHER SOURCES OF FUNDS

Deposits are the major source of funds for the Bank’s lending and investment activities. Deposit accounts are the primary product and service interaction with the Bank’s customers. The Bank serves personal, commercial, non-profit, and municipal deposit customers. Most of the Bank’s deposits are generated from the areas surrounding its branch offices. The Bank offers a wide variety of deposit accounts with a range of interest rates and terms. The Bank also periodically offers promotional interest rates and terms for limited periods of time. The Bank’s deposit accounts consist of demand deposits (non-interest-bearing checking), NOW (interest-bearing checking), regular savings, money market savings, and time certificates of deposit. The Bank emphasizes its transaction deposits -- checking and NOW accounts -- for personal accounts and checking accounts promoted to businesses. These accounts have the lowest marginal cost to the Bank and are also often a core account for a customer relationship. The Bank offers a courtesy overdraft program to improve customer service, and also provides debit cards and other electronic fee producing payment services to transaction account customers. The Bank offers targeted online deposit account opening capabilities for personal accounts. The Bank promotes remote deposit capture devices so that commercial accounts can make deposits from their place of business. Additionally, the Bank offers a variety of retirement deposit accounts to personal and business customers. Deposit related fees are a significant source of fee income to the Bank, including overdraft and interchange fees related to debit card usage. Deposit service fee income also includes other miscellaneous transactions and convenience services sold to customers through the branch system as part of an overall service relationship. The Bank offers compensating balance arrangements for larger business customers as an alternative to fees charged for checking account services. Berkshire’s Business Connection is a personal financial services benefit package designed for the employees of its business customers. In addition to providing service through its branches, Berkshire provides services to deposit customers through its private bankers, MyBankers, commercial/small business relationship managers, and call center representatives. Commercial cash management services are an important commercial service offered to commercial depositors and a fee income source to the bank. With the Commerce acquisition, the Bank acquired a commercial payment processing business that serves regional and national payroll service bureau customers. Online banking and mobile banking functionality is increasingly important as a component of deposit account access and service delivery. The Bank is also gradually deploying its MyTeller video tellers to complement and extend its service capabilities in its branches.

The Company also is monitoring the development of payment services which are growing in their importance in the personal and commercial deposit markets. Near the end of 2017, the Company recruited experienced senior officers to enhance its offerings and market development for government banking and international services, which are expected to support further development of commercial deposit sources.

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The Bank’s deposits are insured by the FDIC. The Bank utilizes brokered time deposits to broaden its funding base, augment its interest rate risk management vehicles, and to support loan growth. The Bank also offers brokered reciprocal money market arrangements to provide additional deposit protection to certain large commercial and institutional accounts. These balances are viewed as part of overall relationship balances with regional customers. Brokered deposits are sourced through selected Board approved brokers; these deposits are viewed as potentially more volatile than other deposits and are managed as a component of the Bank's liquidity policies.

The following table presents information concerning average balances and weighted average interest rates on the Bank’s interest-bearing deposit accounts for the years indicated.

Item 1 - Table 8 - Average Balance and Weighted Average Rates for Deposits

	2018			2017			2016		
(In millions)	Average Balance	Percent of Total Average Deposits	Weighted Average Rate	Average Balance	Percent of Total Average Deposits	Weighted Average Rate	Average Balance	Percent of Total Average Deposits	Weighted Average Rate
Demand	$1,622.4	19 %	— %	$1,296.4	18 %	— %	$1,081.0	19 %	— %
NOW and other	824.7	9	0.5	591.0	8	0.3	487.8	8	0.1
Money market	2,432.2	28	0.9	1,935.8	27	0.6	1,470.3	26	0.5
Savings	740.8	9	0.2	680.1	10	0.1	610.8	11	0.1
Time	3,075.5	35	1.7	2,581.1	37	1.2	2,094.8	36	1.1
Total	$8,695.6	100 %	0.9 %	$7,084.4	100 %	0.6 %	$5,744.7	100 %	0.5 %

At year-end 2018, the Bank had time deposit accounts in amounts of $100 thousand or more maturing as follows:

Item 1 - Table 9 - Maturity of Deposits > $100,000

Maturity Period	Amount	Weighted Average Rate
(In thousands)		
Three months or less	$767,372	1.88 %
Over 3 months through 6 months	428,802	1.85
Over 6 months through 12 months	558,411	2.10
Over 12 months	813,443	2.27
Total	$2,568,028	2.05 %

The Company also uses borrowings from the FHLBB as an additional source of funding, particularly for daily cash management and for funding longer duration assets. FHLBB advances also provide more pricing and option alternatives for particular asset/liability needs. The FHLBB functions as a central reserve bank providing credit for member institutions. As an FHLBB member, the Company is required to own capital stock of the organization. Borrowings from this institution are secured by a blanket lien on most of the Bank’s mortgage loans and mortgage-related securities, as well as certain other assets. Advances are made under several different credit programs with different lending standards, interest rates, and range of maturities.

The Company has a $15 million trust preferred obligation outstanding as well as $74 million in senior subordinated notes. The Company’s common stock is listed on the New York Stock Exchange. Subject to certain limitations, the Company can also choose to issue common stock, preferred stock, subordinated debt, or senior debt in public stock offerings or private placements. The Company maintains a universal shelf registration with the SEC to facilitate future potential capital issuances.

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DERIVATIVE FINANCIAL INSTRUMENTS

The Company offers interest rate swaps to commercial loan customers who wish to fix the interest rates on their loans, and the Company backs these swaps with offsetting swaps with national bank counterparties. With other lending institutions, the Company engages in risk participation agreements. These arrangements are structured similarly to its swaps with commercial borrowers, but a different bank is the lead underwriter. The Company gets paid a fee to take on the risk associated with having to make the lead bank whole on Berkshire's portion of the pro-rated swap should the borrower default. These swaps are designated as economic hedges. Based on changes in federal regulation, interest rate swaps that meet certain criteria to be viewed as conforming are required to be cleared through exchanges beginning when the $10 billion threshold is crossed. The Bank has designated a national financial institution as its clearing agent.

The Company's mortgage banking activities result in derivatives. Commitments to lend are provided on applications for residential mortgages intended for resale and are accounted for as non-hedging derivatives. The Company arranges offsetting forward sales commitments for most of these rate-locks with national bank counterparties, which are designated as economic hedges. Commitments on applications intended to be held for investment are not accounted for as derivative financial instruments. The Company has a policy for managing its derivative financial instruments, and the policy and program activity are overseen by the Risk Management and Capital Committee. Derivative financial instruments with counterparties which are not customers are limited to a select number of national financial institutions. Collateral may be required based on financial condition tests. The Company works with third-party firms which assist in marketing derivative transactions, executing transactions, and providing information for bookkeeping and accounting purposes.

The Company sometimes uses interest rate swap instruments for its own account to fix the interest rate on some of its borrowings, all of which have been designated as cash flow hedges. The Company terminated its outstanding cash flow hedges in the first quarter of 2017. The Company evaluates these hedges as part of its overall interest rate risk management. The Company also expects to begin offering forward foreign exchange derivatives to its commercial markets as part of its expanded international banking services. The Company expects to back these forwards with offsetting forwards with national bank counterparties. This activity would be targeted to support routine commercial needs of customers engaged in international trading activities and would only be offered for bank approved currencies and durations.

WEALTH MANAGEMENT SERVICES

The Company's Wealth Management Group provides consultative investment management, trust administration, and financial planning to individuals, businesses, and institutions, with an emphasis on personal investment management. The Wealth Management Group has built a track record over more than a decade with its dedicated in-house investment management team. The Bank also provides a full line of investment products, financial planning, and brokerage services through BerkshireBanc Investment Services utilizing Commonwealth Financial Network as the broker/dealer. The Group's principal operations are in Western New England and it is expanding services in the Company's other regions. In 2016, the Bank purchased the business assets and operations of Ronald N. Lazzaro, P.C., a provider of financial advisory services in Rutland, Vermont. At year-end 2018, assets under management totaled $1.4 billion, primarily held in the Bank's traditional wealth/trust platform and the remainder is managed through its investment services and financial advisory teams. The Bank is integrating with its growing private banking and MyBanker teams to further develop wealth management account generation.

INSURANCE

As an independent insurance agent, the Berkshire Insurance Group represents a carefully selected group of financially sound, reputable insurance companies offering attractive coverage at competitive prices. The Insurance Group offers a full line of personal and commercial property and casualty insurance. It also offers employee benefits insurance and a full line of personal life, health, and financial services insurance products. Berkshire Insurance Group operates a focused cross-sell program of insurance and banking products through all offices and branches of the Bank with some of the Group's offices located within the Bank's branches. The Group's principal operations are in Western New England, and it is expanding its services in the Company's other regions. The Group focuses on the Bank's distribution channels in order to broaden its retail and commercial customer base. The Company may consider acquisitions of insurance agencies in support of its growth strategy.

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PERSONNEL

At year-end 2018, the Company had 1,917 full time equivalent employee positions, compared to 1,992 at the end of 2017. This included 432 positions and 513 positions in the mortgage banking business line at these respective dates. The Company's employees are not represented by a collective bargaining unit. In 2018, the Bank's president initiated a diversity and inclusion initiative as part of Berkshire's expanded social responsibility focus. In 2018, the Company increased its hourly minimum wage to $15.00 and implemented the new Massachusetts equal pay law.

SUBSIDIARY ACTIVITIES

The Company wholly-owns two active consolidated subsidiaries: the Bank and Berkshire Insurance Group, Inc. The Bank operates as a commercial bank under a Massachusetts trust company charter. Berkshire Insurance Group is incorporated in Massachusetts. Berkshire Bank owns Firestone Financial, LLC which is a Massachusetts limited liability company, First Choice Loan Services Inc. which is a New Jersey corporation, as well as consolidated subsidiaries operated as Massachusetts securities corporations. The Company also owns all of the common stock of a Delaware statutory business trust, Berkshire Hills Capital Trust I. The capital trust is unconsolidated and its only material asset is a $15 million trust preferred security related to the junior subordinated debentures reported in the Company's Consolidated Financial Statements. Additional information about the subsidiaries is contained in Exhibit 21 to this report.

REGULATION AND SUPERVISION

The Company is a Delaware corporation and a bank holding company that has elected financial holding company status within the meaning of the Bank Holding Company Act of 1956, as amended. As such, it is registered with, supervised by and required to comply with the rules and regulations of the Federal Reserve Board. The Federal Reserve Board requires the Company to file various reports and also conducts examinations of the Company. The Company must receive the approval of the Federal Reserve Board to engage in certain transactions, such as acquisitions of additional banks and savings associations.

The Bank is a Massachusetts-chartered trust company and its deposits are insured up to applicable limits by the FDIC. The Bank was previously a Massachusetts-chartered savings bank and converted to a Massachusetts-chartered trust company in July 2014. The Bank is subject to extensive regulation by the Massachusetts Commissioner of Banks (the "Commissioner"), as its chartering agency, and by the FDIC, as its deposit insurer. The Bank is required to file reports with the Commissioner and the FDIC concerning its activities and financial condition in addition to obtaining regulatory approvals prior to entering into certain transactions such as mergers with, or acquisitions of, other depository institutions or branches of other institutions. The Commissioner and the FDIC conduct periodic examinations to test the Bank's safety and soundness and compliance with various regulatory requirements. The regulatory structure gives the regulatory authorities extensive discretion in connection with supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes. Any change in such regulatory requirements and policies, whether by the Commissioner, the Massachusetts legislature, the FDIC, the Federal Reserve Board, or Congress, could have a material adverse impact on the Company, the Bank, and their operations.

Federal Legislation

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") was enacted in 2010. The Dodd-Frank Act has significantly changed the bank regulatory structure and is affecting the lending, investment, trading and operating activities of depository institutions and their holding companies.

Many of the provisions of the Dodd-Frank Act were subject to delayed effective dates and/or the issuance of implementing regulations. The regulatory process is ongoing and the impact on operations cannot yet be fully assessed. However, the Dodd-Frank Act has, and is expected to continue to, at a minimum, result in increased regulatory burden, compliance costs and interest expense for the Company and the Bank.

Certain regulatory requirements applicable to the Company are referred to below. The description of statutory provisions and regulations applicable to financial institutions and their holding companies set forth in this Form 10-

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K does not purport to be a complete description of such statutes and regulations and their effects on the Company and is qualified in its entirety by reference to the actual laws and regulations.

Massachusetts Banking Laws and Supervision
General. As a Massachusetts-chartered depository institution, the Bank is subject to various Massachusetts statutes and regulations which govern, among other things, investment powers, lending and deposit-taking activities, borrowings, maintenance of surplus and reserve accounts, distribution of earnings and payment of dividends. In addition, the Bank is subject to Massachusetts consumer protection and civil rights laws and regulations. The approval of the Commissioner is required for a Massachusetts-chartered institution to establish or close branches, merge with other financial institutions, issue stock, and undertake certain other activities.

Massachusetts law and regulations generally allow Massachusetts institutions to engage in activities permissible for federally chartered banks or banks chartered by another state. There is a 30-day notice procedure to the Commissioner in order to engage in such activities. Massachusetts law also authorized Massachusetts institutions to engage in activities determined to be “financial in nature,” or incidental or complementary to such a financial activity, subject to a 30-day notice to the Commissioner.

Dividends. Under Massachusetts law, the Bank may declare cash dividends from net profits not more frequently than quarterly and non-cash dividends at any time. No dividends may be declared, credited, or paid if the institution’s capital stock is impaired. An institution with outstanding preferred stock may not, without the prior approval of the Commissioner, declare dividends to the common stock without also declaring dividends to the preferred stock. The approval of the Commissioner is generally required if the total of all dividends declared in any calendar year exceeds the total of its net profits for that year combined with its retained “net profits,” as defined, of the preceding two years.

Loans to One Borrower Limitations. Massachusetts banking law grants broad lending authority. However, with certain limited exceptions, total obligations of one borrower to an institution may not exceed 20.0% of the total of the institution’s capital, which is defined under Massachusetts law as the sum of the institution’s capital stock, surplus account and undivided profits.

Investment Activities. In general, Massachusetts-chartered institutions may invest in preferred and common stock of any corporation organized under the laws of the United States or any state provided such investments do not involve control of any corporation and do not, in the aggregate, exceed 4.0% of the bank’s deposits. Massachusetts-chartered institutions may also invest an amount equal to 1.0% of their deposits in stocks of Massachusetts corporations or companies with substantial employment in Massachusetts which have pledged to the Commissioner that such monies will be used for further development within the Commonwealth. However, these powers are constrained by federal law, which generally limit the activities and equity investments of state banks to those permitted for national banks.

Regulatory Enforcement Authority. Any Massachusetts-chartered institution that does not operate in accordance with the regulations, policies, and directives of the Commissioner may be sanctioned for non-compliance, including seizure of the property and business of the institution and suspension or revocation of its charter. The Commissioner may, under certain circumstances, suspend or remove officers or directors who have violated the law, conducted the institution’s business in a manner which is unsafe, unsound or contrary to the depositors interests, or been negligent in the performance of their duties. In addition, upon finding that an institution has engaged in an unfair or deceptive act or practice, the Commissioner may issue an order to cease and desist and impose a fine on the institution concerned. Finally, Massachusetts consumer protection and civil rights statutes applicable to the Bank permit private individual and class action lawsuits and provide for the rescission of consumer transactions, including loans, and the recovery of statutory and punitive damage and attorney’s fees in the case of certain violations of those statutes.

Massachusetts has other statutes or regulations that are similar to the federal provisions discussed below.

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Federal Regulations

Capital Requirements. Federal regulations require FDIC insured depository institutions to meet several minimum capital standards: a common equity Tier 1 capital to risk-based assets ratio of 4.5%, a Tier 1 capital to risk-based assets ratio of 6.0%, a total capital to risk-based assets of 8.0%, and a 4.0% Tier 1 capital to total assets leverage ratio. The existing capital requirements were effective January 1, 2015 and are the result of a final rule implementing regulatory amendments based on recommendations of the Basel Committee on Banking Supervision and certain requirements of the Dodd-Frank Act.

Common equity Tier 1 capital is generally defined as common stockholders' equity and retained earnings. Tier 1 capital is generally defined as common equity Tier 1 and additional Tier 1 capital. Additional Tier 1 capital includes certain noncumulative perpetual preferred stock and related surplus and minority interests in equity accounts of consolidated subsidiaries. Total capital includes Tier 1 capital (common equity Tier 1 capital plus additional Tier 1capital) and Tier 2 capital. Tier 2 capital is comprised of capital instruments and related surplus, meeting specified requirements, and may include cumulative preferred stock and long-term perpetual preferred stock, mandatory convertible securities, intermediate preferred stock and subordinated debt. Also included in Tier 2 capital is the allowance for loan and lease losses limited to a maximum of 1.25% of risk-weighted assets and, for institutions that have exercised an opt-out election regarding the treatment of accumulated other comprehensive income ("AOCI"), up to 45% of net unrealized gains on available-for-sale equity securities with readily determinable fair market values. The Bank chose the opt-out election. Calculation of all types of regulatory capital is subject to deductions and adjustments specified in the regulations.

In determining the amount of risk-weighted assets for purposes of calculating risk-based capital ratios, all assets, including certain off-balance sheet assets (e.g., recourse obligations, direct credit substitutes, residual interests) are multiplied by a risk weight factor assigned by the regulations based on the risks believed inherent in the type of asset. Higher levels of capital are required for asset categories believed to present greater risk. For example, a risk weight of 0% is assigned to cash and U.S. government securities, a risk weight of 50% is generally assigned to prudently underwritten first lien one to four-family residential mortgages, a risk weight of 100% is assigned to commercial and consumer loans, a risk weight of 150% is assigned to certain past due loans and a risk weight of between 0% and 600% is assigned to permissible equity interests, depending on certain specified factors. In addition to establishing the minimum regulatory capital requirements, the regulations limit capital distributions and certain discretionary bonus payments to management if the institution does not hold a "capital conservation buffer" consisting of 2.5% of common equity Tier 1 capital to risk-weighted asset above the amount necessary to meet its minimum risk-based capital requirements. The capital conservation buffer requirement was phased in beginning January 1, 2016 at 0.625% of risk-weighted assets and increasing each year until fully implemented at 2.5% on January 1, 2019.

In assessing an institution's capital adequacy, the FDIC takes into consideration not only these numeric factors, but qualitative factors as well, and has the authority to establish higher capital requirements for individual institutions where deemed necessary. As a bank holding company, the Company is also subject to regulatory capital requirements, as described in a subsequent section.

Interstate Banking and Branching. Federal law permits an institution, such as the Bank, to acquire another institution by merger in a state other than Massachusetts unless the other state has opted out. Federal law, as amended by the Dodd-Frank Act, authorizes de novo branching into another state to the extent that the target state allows its state chartered banks to establish branches within its borders. The Bank currently operates branches in New York, Vermont, Connecticut, New Jersey, and Pennsylvania as well as Massachusetts. At its interstate branches, the Bank may conduct any activity authorized under Massachusetts law that is permissible either for an institution chartered in that state (subject to applicable federal restrictions) or a branch in that state of an out-of-state national bank. The New York State Superintendent of Banks, the Vermont Commissioner of Banking and Insurance, the Connecticut Commissioner of Banking, the New Jersey Commissioner of Banking and Insurance and the Pennsylvania Secretary of Banking and Securities may exercise certain regulatory authority over the Bank’s branches in their respective states.

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Prompt Corrective Regulatory Action. Federal law requires that federal bank regulatory authorities take "prompt corrective action" with respect to banks that do not meet minimum capital requirements. For this purpose, the law establishes three categories of capital deficient institutions: undercapitalized, significantly undercapitalized, and critically undercapitalized. The FDIC regulations implementing the prompt corrective action law were amended to incorporate the previously discussed increased regulatory capital standards that were effective January 1, 2015. An institution is deemed to be "well capitalized" if it has a total risk-based capital ratio of 10.0% or greater, a Tier 1 risk-based capital ratio of 8.0% or greater, a leverage ratio of 5.0% or greater, and a common equity Tier 1 ratio of 6.5% or greater. An institution is "adequately capitalized" if it has a total risk-based capital ratio of 8.0% or greater, a Tier 1 risk-based capital ratio of 6.0% or greater, a leverage ratio of 4.0% or greater, and a common equity Tier 1 ratio of 4.5% or greater. An institution is "undercapitalized" if it has a total risk-based capital ratio of less than 8.0%, a Tier 1 risk-based capital ratio of less than 6.0%, a leverage ratio of less than 4.0%, or a common equity Tier 1 ratio of less than 4.5%. An institution is deemed to be "significantly undercapitalized" if it has a total risk-based capital ratio of less than 6.0%, a Tier 1 risk-based capital ratio of less than 4.0%, a leverage ratio of less than 3.0%, or a common equity Tier 1 ratio of less than 3.0%. An institution is considered to be "critically undercapitalized" if it has a ratio of tangible equity (as defined in the regulations) to total assets that is equal to or less than 2.0%.

"Undercapitalized" banks must adhere to growth, capital distribution (including dividend), and other limitations and are required to submit a capital restoration plan. A bank's compliance with such plans must be guaranteed by its holding company in an amount equal to the lesser of 5% of the institution's total assets when deemed "undercapitalized" or the amount needed to comply with regulatory capital requirements. If an "undercapitalized" bank fails to submit an acceptable plan, it is treated as if it is "significantly undercapitalized." "Significantly undercapitalized" banks must comply with one or more of a number of additional restrictions, including but not limited to an order by the FDIC to sell sufficient voting stock to become "adequately capitalized," requirements to reduce assets and cease receipt of deposits from correspondent banks or dismiss directors or officers, and restrictions on interest rates paid on deposits, compensation of executive officers, and capital distributions by the holding company. "Critically undercapitalized" institutions must comply with additional sanctions including, subject to a narrow exception, the appointment of a receiver or conservator within 270 days after it obtains such status.

At December 31, 2018, the Bank met the criteria for being considered "well capitalized" as defined in the prompt corrective action regulations.

Transactions with Affiliates and Loans to Insiders. Transactions between depository institutions and their affiliates are governed by Sections 23A and 23B of the Federal Reserve Act. In a holding company context, at a minimum, the parent holding company of an institution and any companies which are controlled by the holding company are affiliates of the institution. Generally, Section 23A limits the extent to which the institution or its subsidiaries may engage in "covered transactions," such as loans, with any one affiliate to 10% of such institution's capital stock and surplus. There is also an aggregate limit on all such transactions with all affiliates to 20% of capital stock and surplus. Loans to affiliates and certain other specified transactions must comply with specified collateralization requirements. Section 23B requires that transactions with affiliates be on terms that are no less favorable to the institution or its subsidiary as similar transactions with non-affiliates.

Federal law also restricts an institution with respect to loans to directors, executive officers, and principal stockholders ("insiders"). Loans to insiders and their related interests may not exceed, together with all other outstanding loans to such persons and affiliated entities, the institution's total capital and surplus. Loans to insiders above specified amounts must receive the prior approval of the Board of Directors. Further, loans to insiders must be made on terms substantially the same as offered in comparable transactions to other persons, except that such insiders may receive preferential loans made under a benefit or compensation program that is widely available to the institution's employees and does not give preference to the insider over the employees. Federal law places additional limitations on loans to executive officers. Massachusetts law previously had a separate law regarding insider transactions but that law was amended in 2015 to generally incorporate the federal restrictions.

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Insurance of Deposit Accounts. The Bank's deposit accounts are insured by the Deposit Insurance Fund of the FDIC up to applicable limits. The FDIC insures deposits up to the standard maximum deposit insurance amount ("SMDIA") of $250,000.

The FDIC charges insured depository institutions premiums to maintain the Deposit Insurance Fund. The Dodd-Frank Act required the FDIC to revise its procedures to base its assessments upon each insured institution's total assets less tangible equity instead of deposits.

Under the FDIC's risk-based assessment system, insured institutions are assessed based on perceived risk to the Deposit Insurance Fund with institutions deemed less risky pay lower FDIC assessments. Assessments for institutions with $10 billion or more of assets are primarily based on a scorecard approached by the FDIC, including factors such as examination ratings and modeling measuring the institution's ability to withstand asset-related and funding-related stress and potential loss to the Deposit Insurance Fund should the bank fail. The assessment range (inclusive of possible adjustments specified by the regulations) for institutions with greater than $10 billion of total assets is 1.5 to 40 basis points. The Dodd-Frank Act required that banks of greater than $10 billion of assets bear the burden of raising the Deposit Insurance Fund reserve ratio from 1.15% to 1.35%. Such institutions were subject to an annual surcharge of 4.5 basis points of total assets exceeding $10 billion, effective July 1, 2016. The FDIC announced in November 2018 that the 1.35% reserve ratio had been reached so that the surcharges would cease.

FDIC insured institutions are also required to pay assessments to the FDIC to fund interest payments on bonds issued by the Financing Corporation, an agency of the federal government established to recapitalize a predecessor deposit insurance fund. These assessments continue until the Financing Corporation bonds mature in September 2019. The assessment rate is adjusted quarterly to reflect changes in the assessment base of the fund. For the quarter ended December 31, 2018, the Financing Corporation assessment amounted to 0.32 basis points of total assets less Tier 1 capital.

Insurance of deposits may be terminated by the FDIC upon a finding that the institution has engaged in unsafe or 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 a regulator. Management does not know of any practice, condition or violation that might lead to termination of FDIC deposit insurance.

The FDIC has authority to increase insurance assessments. A significant increase in insurance premiums would likely have an adverse effect on the operating expenses and results of operations of the Bank. Management cannot predict what insurance assessment rates will be in the future.

Federal Home Loan Bank System. The Bank is a member of the Federal Home Loan Bank system, which consists of 12 regional Federal Home Loan Banks that provide a central credit facility primarily for member institutions. The Bank, as a member, is required to acquire and hold shares of capital stock in the FHLBB.

The Federal Home Loan Banks are required to provide funds for certain purposes including contributing funds for affordable housing programs. These requirements, and general financial results, could reduce the amount of dividends that the Federal Home Loan Banks pay to their members and result in the Federal Home Loan Banks imposing a higher rate of interest on advances to their members. Historically, the FHLBB has paid dividends to member banks based on money market rates.

Enforcement

The FDIC has primary federal enforcement responsibility over state chartered banks that are not members of Federal Reserve System, which includes the Bank. The FDIC has authority to bring enforcement actions against such institutions and their "institution-related parties," including officers, directors, certain shareholders, and attorneys, appraisers and accountants who knowingly or recklessly participate in wrongful action likely to have an adverse effect on an insured institution. Formal enforcement action may range from the issuance of a capital directive or cease and desist order to removal of officers and/or directors of the institution or receivership or conservatorship in certain circumstances. Potential civil money penalties cover a wide range of violations and actions, and range up to $25 thousand per day or, in extreme cases, as high as $1.0 million per day.

Holding Company Regulation
General. The Company is subject to examination, regulation, and periodic reporting as a bank holding company under the Bank Holding Company Act of 1956, as amended. The Company is required to obtain the prior approval of the Federal Reserve Board to acquire all, or substantially all, of the assets of any other bank or bank holding company. Prior Federal Reserve Board approval would be required for the Company to acquire direct or indirect ownership or control of any voting securities of any bank or bank holding company if, after such acquisition, it would, directly or indirectly, own or control more than five percent of any class of voting shares of the bank or bank holding company.

A bank holding company is generally prohibited from engaging in non-banking activities, or acquiring direct or indirect control of more than five percent of the voting securities of any company engaged in non-banking activities. The Federal Reserve Board has allowed by regulation some exceptions based on activities closely related to banking including: (i) making or servicing loans; (ii) performing certain data processing services; (iii) providing discount brokerage services; (iv) acting as fiduciary, investment or financial advisor; and (v) acquiring a savings and loan association whose direct and indirect activities are limited to those permitted for bank holding companies.

The Gramm-Leach-Bliley Act of 1999 authorized a bank holding company that meets specified conditions, including being “well capitalized” and “well managed” as defined in the regulations, to opt to become a “financial holding company” and thereby engage in a broader array of financial activities. Such activities can include insurance and investment banking. The Company has elected to become a financial holding company.

The Company is subject to the Federal Reserve Board’s capital adequacy requirements for bank holding companies. The Dodd-Frank Act required the Federal Reserve Board to promulgate consolidated capital requirements for depository institution holding companies that are no less stringent, both quantitatively and in terms of components of capital, than those applicable to institutions themselves. The previously discussed final rule regarding regulatory capital requirements implemented the Dodd-Frank Act as to bank holding company capital standards. Consolidated regulatory capital requirements identical to those applicable to the Bank applied to the Company, effective January 1, 2015. As is the case with institutions themselves, the capital conservation buffer was phased in beginning in 2016 and was fully effective on January 1, 2019.

Federal Reserve Board policy requires that a bank holding company serve as a source of financial strength to its subsidiary banks by standing ready to use available resources to provide adequate capital funds to those banks during periods of financial stress or adversity and by maintaining the financial flexibility and capital-raising capacity to obtain additional resources for assisting its subsidiary banks where necessary. The Dodd-Frank Act codified the source of strength doctrine.

The Federal Reserve Board has issued a policy statement regarding the payment of dividends and the repurchase of shares of common stock by bank holding companies. In general, the policy provides that dividends should be paid only out of current earnings and only if the prospective rate of earnings retention by the holding company appears consistent with the organization’s capital needs, asset quality and overall financial condition. Regulatory guidance provides for prior regulatory consultation with respect to dividends in certain circumstances such as where the company’s net income for the past four quarters, net of dividends’ previously paid over that period, is insufficient to fully fund the dividend or the company’s overall rate of earnings retention is inconsistent with the company’s capital needs and overall financial condition. The ability of a holding company to pay dividends may be restricted if a subsidiary bank becomes undercapitalized.

Federal regulations require a bank holding company to give the Federal Reserve Board prior written notice of any repurchase or redemption of then outstanding equity securities if the gross consideration for the repurchase or redemption, when combined with the net consideration paid for all such repurchases or redemptions during the preceding 12 months, is equal to 10% or more of the company’s consolidated net worth. The Federal Reserve Board may disapprove such a purchase or redemption under certain circumstances. There is an exception to this approval requirement for well-capitalized bank holding companies that meet certain other conditions. Federal Reserve policy provides for regulatory consultation prior to a holding company redeeming or repurchasing regulatory capital instruments under specified circumstances regardless of the applicability of the previously referenced notification

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requirement. Most recently, the Federal Reserve Board's staff has been interpreting its regulatory capital regulation as requiring a bank holding company to apply and receive its approval before repurchasing or redeeming shares that are included by the holding company for regulatory capital purposes.

These regulatory policies could affect the ability of the Company to pay dividends, repurchase shares of its stock, or otherwise engage in capital distributions.

The status of the Company as a registered bank holding company under the Bank Holding Company Act does not exempt it from certain federal and state laws and regulations applicable to corporations generally, including, without limitation, certain provisions of the federal securities laws.

Acquisition of the Company. Under the Change in Bank Control Act, no person may acquire control of a bank holding company such as the Company unless the Federal Reserve Board has been given 60 days' prior written notice and has not issued a notice disapproving the proposed acquisition, taking into consideration certain factors, including the financial and managerial resources of the acquirer and the competitive effects of the acquisition. Control, as defined under federal law, means ownership, control of or holding irrevocable proxies representing more than 25% of any class of voting stock, control in any manner of the election of a majority of the company's directors, or a determination by the regulator that the acquirer has the power to direct, or directly or indirectly to exercise a controlling influence over, the management or policies of the institution. Acquisition of more than 10% of any class of a bank holding company's voting stock constitutes a rebuttable presumption of control under the regulations under certain circumstances including where, is the case with the Company, the issuer has registered securities under Section 12 of the Securities Exchange Act of 1934.

Massachusetts Holding Company Regulation. In addition to the federal holding company regulations, a bank holding company organized or doing business in Massachusetts must comply with requirements under Massachusetts law. Approval of the Massachusetts regulatory authorities is generally be required for the Company to acquire 25 percent or more of the voting stock of another depository institution. Similarly, prior regulatory approval would be necessary for any person or company to acquire 25 percent or more of the voting stock of the Company.

Mergers and Acquisitions

The Company and the Bank have authority to engage, and have engaged, in acquisitions of other depository institutions. Such transactions are subject to a variety of conditions including, but not limited to, required stockholder approvals and the receipt of all necessary regulatory approvals. Necessary regulatory approvals include those required by the federal Bank Holding Company Act and/or Bank Merger Act, Massachusetts law and, if the target institution is located in a state other than Massachusetts, the law of that state. When considering merger applications, the federal regulators must evaluate such factors as the financial and managerial resources and future prospects of the parties, the convenience and needs of the communities to be served (including performance of the parties under the Community Reinvestment Act), 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. Both the Bank Holding Company Act and the Bank Merger Act provide for a waiting period of 15 to 30 days following approval by the federal banking regulator within which the United States Department of Justice may file objections to the merger under the federal antitrust laws. Massachusetts law requires the Commissioner (or Board of Bank Incorporation in certain cases) to consider such factors as whether competition among banking institutions will be unreasonably affected and whether public convenience and advantage will be promoted (including whether the merger will result in net new benefits).

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Other Regulations

Consumer Protection Laws. The Bank is subject to federal and state consumer protection statutes and regulations applicable to depository institutions. These include the Truth-In-Lending Act, governing disclosures of credit terms to consumer borrowers; Home Mortgage Disclosure Act, requiring financial institutions to provide certain information about home mortgage and refinance loans; the Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit; the Fair Credit Reporting Act, governing the provision of consumer information to credit reporting agencies and the use of consumer information; the Fair Debt Collection Act, governing the manner in which consumer debts may be collected by collection agencies; and the Electronic Funds Transfer Act, governing automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services.

The Bank also is subject to Massachusetts and federal laws protecting the confidentiality of consumer financial records, and limiting the ability of the institution to share non-public personal information with third parties.

The Community Reinvestment Act ("CRA") establishes a requirement for federal banking agencies that, in connection with examinations of depository institutions within their jurisdiction, the agencies evaluate the record of the depository institutions in meeting the credit needs of their local communities, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of those institutions. These factors are also considered in evaluating mergers, acquisitions and applications to open a branch or new facility. Under the CRA, institutions are assigned a rating of "outstanding," "satisfactory," "needs to improve," or "substantial non-compliance." A less than "satisfactory" rating would result in the suspension of any growth of the Bank through acquisitions or opening de novo branches until the rating is improved. As of the most recent CRA examination by the FDIC, the Bank's CRA rating was "satisfactory."

Anti-Money Laundering Laws. The Bank is subject to extensive anti-money laundering provisions and requirements, which require the institution to have in place a comprehensive customer identification program and an anti-money laundering program and procedures. These laws and regulations also prohibit depository institutions from engaging in business with foreign shell banks; require depository institutions to have due diligence procedures and, in some cases, enhanced due diligence procedures for foreign correspondent and private banking accounts; and improve information sharing between depository institutions and the U.S. government. The Bank has established policies and procedures intended to comply with these provisions.

Taxation

The Company reports its income on a calendar year basis using the accrual method of accounting. This discussion of tax matters is only a summary and is not a comprehensive description of the tax rules applicable to the Company and its subsidiaries. Further discussion of income taxation is contained in Note 14 - Income Taxes of the Consolidated Financial Statements. The federal income tax laws apply to the Company in the same manner as to other corporations with some exceptions. The Company may exclude from income 100 percent of dividends received from the Bank and from Berkshire Insurance Group as members of the same affiliated group of corporations. The Company reports income on a calendar year basis to the Commonwealth of Massachusetts. Massachusetts tax law generally permits special tax treatment for a qualifying limited purpose "securities corporation." The Bank's securities corporations all qualify for this treatment, and are taxed at a 1.3% rate on their gross income.

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ITEM 1A. RISK FACTORS

The risks set forth below, in addition to the other risks described in this Annual Report on Form 10-K, may adversely affect the Company's business, financial condition, and operating results. In addition to the risks set forth below and the other risks described in this annual report, there may be additional risks and uncertainties that are not currently known to the Company or that the Company currently deems to be immaterial that could materially and adversely affect the Company's business, financial condition or operating results. As a result, past financial performance may not be a reliable indicator of future performance, and historical trends should not be used to anticipate results or trends in future periods. Further, to the extent that any of the information contained in this Annual Report on Form 10-K constitutes forward-looking statements, the risk factors set forth below also are cautionary statements identifying important factors that could cause actual results to differ materially from those expressed in any forward-looking statements made by or on behalf of the Company.

Lending

Deterioration in the Housing Sector, Commercial Real Estate, and Related Markets May Adversely Affect Business and Financial Results.

Real estate lending is a major business activity for the Company. Real estate market conditions affect the value and marketability of real estate collateral, and they also affect the cash flows, liquidity, and net worth of many borrowers whose operations and finances depend on real estate market conditions. Adverse conditions in the Company's market areas could reduce growth rates, affect the ability of our customers to repay their loans, and generally affect the Company's financial condition and results of operations. Potential increases in interest rates could increase capitalization rates which could adversely affect commercial property appraisals and collateral value.

The Company’s Emphasis on Commercial Lending May Expose the Company to Increased Lending Risks, Which Could Hurt Profits.

The Company emphasizes commercial lending, which generally exposes the Company to a greater risk of nonpayment and loss because repayment of such loans often depends on the successful operations and income stream of the borrowers. Commercial loans are historically more susceptible to delinquency, default, and loss during economic downturns. Commercial lending involves larger loan sizes and larger relationship exposures, with greater potential impact on profits in the event of adverse loan performance. The majority of the Company’s commercial loans are secured by real estate and subject to the previously discussed real estate risk factors. Geographic expansion may result in new risks not identified by the Company or which it is unfamiliar with monitoring or resolving. Recent expansion has been focused on the Greater Boston market, where the Bank may be financing projects with larger loan amounts and where the Bank has less experience than in its traditional market areas and where competition may result in different lending structures.

The Company is subject to a variety of risks in connection with any sale of loans it may conduct.

In connection with the Company’s sale of one or more loan portfolios, it may make certain representations and warranties to the purchaser concerning the loans sold and the procedures under which those loans have been originated and serviced. If any of these representations and warranties are invalid, the Company may be required to indemnify the purchaser for any related losses, or it may be required to repurchase part or all of the affected loans, which may be impaired. The Company may also be required to repurchase loans as a result of borrower fraud or in the event of early payment default by the borrower on a loan it has sold. The Company’s ability to maintain seller/servicer relationships with government agencies and government backed entities may be jeopardized in the event of the emergence of one or more of the above risks. Demand for the Company’s loans in the secondary markets could also be affected by these risks, which could lead to a reduction in related business activities.

The Company may be required to reduce the value of any loans it marks as held for sale, which could adversely affect its results of operations.

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The Company is exposed to risk of environmental liability when it takes title to property.
In the course of its business, the Company may foreclose on and take title to real estate. As a result, the Company could be subject to environmental liabilities with respect to these properties for property damage, personal injury, investigation and clean-up costs. The costs associated with investigation or remediation activities could be substantial. The Company may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from the property.

Operating
Expansion, Growth, and Acquisitions Could Negatively Impact Earnings If Not Successful.
The Company plans to grow organically, by geographic expansion, through business line expansion, and through acquisitions. Successful expansion depends on the maintenance and development of an adequate infrastructure. Success also depends on customer acceptance and the long-term recruitment and retention of key personnel and acquired customer relationships. Profitability depends on whether the income generated will offset the increased operating expenses. The Company implemented certain expense restructuring activities, related in part to the rationalization of acquired operations. Changes in operations may result in inefficiencies or control deficiencies.

Merger and acquisition activities are subject to a number of risks, including lending, operating, and integration risks. Such growth requires careful due diligence, evaluation of risks, and projections of future operations and financial conditions. Adverse developments could have a material adverse effect on the Company's financial condition and results of operations. Acquisitions often involve extensive merger agreements, which may lead to litigation risks or operating constraints.

The Company has recruited executive and business line management to support its growth and expansion, and it has absorbed management of acquired operations. This involves retention risks, operating risks, and financial risks. Such recruitment can affect the retention of new and old business, and can also be affected by competitive reactions and other relationship risks in retaining accounts. The relocation of the Company’s headquarters may affect operational functioning.

Regulatory examinations may identify matters requiring attention. Deficiencies related to regulatory compliance may result in changes that affect operating revenues and costs, including the scope or scale of business activities and/or potential future expansion initiatives. The Company has crossed the $10 billion threshold for additional Dodd Frank regulatory requirements. These regulations affect revenues and operating costs, and introduce additional compliance requirements. If targeted earnings accretion is not achieved, some profitability metrics may be reduced. The Company may also face additional acquisition approval requirements, and growth plans could be slowed if expected approvals are not obtained.

Competition From Financial Institutions and Other Financial Service Providers May Adversely Affect the Company’s Growth and Profitability.
Competition in the banking and financial services industry is intense. Larger banking institutions have substantially greater resources and lending limits and may offer certain services not offered by the Company. Local competitors with excess capital may accept lower returns on new business. There is increased competition by out-of-market competitors through the internet and mobile technology. Federal regulations and financial support programs may in some cases favor competitors. Competition includes competition for banking teams and talent. Competition creates risk that revenues, earnings, or market share could be adversely affected by the loss of talent.

Market Changes May Adversely Affect Demand For The Company’s Services and Impact Revenue, Costs, and Earnings.
Channels for servicing the Company’s customers are evolving rapidly, with less reliance on traditional branch facilities, more use of online and mobile banking, and demand for universal bankers and other relationship managers

who can service multiple product lines. The Company has an ongoing process for evaluating the profitability of its branch system and other office and operational facilities. The identification of unprofitable operations and facilities can lead to restructuring charges and introduce the risk of disruptions to revenues and customer relationships. The Company competes with larger providers who are rapidly evolving their service channels and escalating the costs of evolving the service process.

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The Company is Subject to Security and Operational Risks Relating to the Use of Technology that Could Damage the Company's Reputation and Business.
Security breaches of confidential information in our technology platforms could expose the Company to possible liability and damage its reputation. Any compromise of data security could also deter customers from using the Company's services. The Company relies on industry standard internet security and authentication systems to effect secure transmission of data. These precautions may not protect the Company's security systems from compromises or breaches and could result in damage to its reputation and business. The Company utilizes third party core banking software, in addition to other outsourced data processing. If third party providers encounter difficulties or if the Company has difficulty in communicating and/or transmitting with such third parties, it could significantly affect its ability to adequately process and account for customer transactions, which could significantly affect its business operations. The Company interfaces with electronic payments systems which are subject to security and operational risks. The Company utilizes file encryption in designated internal systems and networks and is subject to certain state and federal regulations regarding how the Company manages data security. The Company's enterprise governance risk and compliance function includes a framework of controls, policies and technologies to monitor and protect information from cyberattacks, mishandling, and loss, together with safeguards related to the confidentiality, integrity, and availability of information. Natural disasters and disaster recovery risks could affect its operating systems, which could affect its reputation. The Company's business continuity program addresses crisis management, business impact, and data and systems recovery. Potential problems with the management of technology security and operational risks may affect regulatory compliance, which could affect operating costs and expansion plans.

The Company Faces Cybersecurity Risks, Including Denial of Service Attacks, Hacking and Identity Theft that Could Result in the Disclosure of Confidential Information or the Creation of Unauthorized Transactions, Which Could Adversely Affect the Company’s Business or Reputation and Create Significant Legal and Financial Exposure.
The Company’s computer systems and network infrastructure are subject to security risks and could be susceptible to cyber-attacks, such as denial of service attacks, hacking, terrorist activities or identity theft. Financial services institutions and companies engaged in data processing have reported breaches in the security of their websites or other systems, some of which have involved sophisticated and targeted attacks intended to obtain unauthorized access to confidential information, destroy data, steal financial assets, disable or degrade service, or sabotage systems, often through the introduction of computer viruses or malware, cyber-attacks and other means. Denial of service attacks have been launched against a number of large financial services institutions. As a growing regional bank, the Company may be subject to similar attacks in the future. Hacking and identity theft risks could cause serious reputational harm and possible financial loss to the Company. Cyber threats are rapidly evolving and the Company may not be able to anticipate or prevent all such attacks.

The Company may incur increasing costs in an effort to minimize these risks and could be held liable for any security breach or loss. Despite efforts to ensure the integrity of its systems, the Company will not be able to anticipate all security breaches of these types, and the Company may not be able to implement effective preventive measures against such security breaches. The techniques used by cyber criminals change frequently and can originate from a wide variety of sources, including outside groups such as external service providers, organized crime affiliates, terrorist organizations or hostile foreign governments. Those parties may also attempt to fraudulently induce employees, customers or other users of the Company’s systems to disclose sensitive information in order to gain access to its data or that of its clients or to conduct unauthorized financial transactions.

These risks may increase in the future as the Company continues to increase its mobile-payment and other internet-based product offerings and expands its internal usage of web-based products and applications. A successful penetration or circumvention of system security could cause serious negative consequences to the Company, including significant disruption of operations, misappropriation of confidential information of the Company or that of its customers, or damage to computers or systems of the Company or those of its customers and counterparties. A security breach could result in violations of applicable privacy and other laws, financial loss to the Company or to its customers, loss of confidence in the Company's security measures, significant litigation exposure, and harm to the Company's reputation, all of which could have a material adverse effect on the Company.

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The Company is subject to regulatory environment changes regarding privacy and data protection and could have a material impact on our results of operations.
The growth and expansion of the company into a variety of new fields may potentially involve new regulatory issues/requirements such as the EU General Data Protection Regulation (GDPR) or the New York Department of Financial Services (NYDFS) Cybersecurity Regulation. The potential costs of compliance with or imposed by new/existing regulations and policies that are applicable to us may affect the use of our products and services and could have a material adverse impact on our results of operations.

Financial and Operating Counterparties Expose the Company to Risks.
The Company's use of derivative financial instruments exposes us to financial and contractual risks with counterparties. The Company maintains correspondent bank relationships, manage certain loan participations, engage in securities and funding transactions, and undergo other activities with financial counterparties that are customary to its industry. The Company also utilizes services from major vendors of technology, telecommunications, and other essential operating services. There is financial and operating risk in these relationships, which the Company seeks to manage through internal controls and procedures, but there are no assurances that the Company will not experience loss or interruption of its business as a result of unforeseen events with these providers. The Company's expanded mortgage banking operations have also exposed us to more counterparty transactions including the use of third parties to participate in the management of interest rate risk and mortgage sales and hedging. Financial and operational risks are inherent in these counterparty relationships. The Company could experience losses if there are failures in the controls or accounting, including those related to derivatives activities or if there are performance failures by any counterparties. The risk of loss is increased when interest rates change suddenly and if the intended hedging objectives are not achieved as a result of market or counterparty behaviors.

Changes in Executive Management Could Affect Operations.
Changes in executive and senior management could introduce control risks in the oversight of operating activities and in the planning and execution of strategic objectives, which could adversely affect the operations of the Bank.

The Company May Not Be Able to Attract and Retain Skilled People.
The Company's success depends, in large part, on its ability to attract new employees, retain and motivate its existing employees, and continue to compensate employees competitively. Competition for the best people can be intense and the Company may not be able to hire or retain appropriately qualified individuals. As a result of restructuring activities, the Company could experience challenges in the retention of existing employees.

Controls and Procedures May Fail or Be Circumvented.
Management regularly reviews and updates the Company’s internal controls, disclosure requirements and practices, and corporate governance policies and procedures. Any system of controls, however well designed and operated, can only provide reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of the controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on the Company’s business, results of operations, and financial condition.

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The Company’s Business Is Reliant on Outside Vendors.

The Company’s business is highly dependent on the use of certain outside vendors for its day-to-day operations. The Company’s operations are exposed to risk that a vendor may not perform in accordance with established performance standards required in its agreements for any number of reasons including a change in their senior management, their financial condition, their product line or mix and how they support existing customers, or a simple change in their strategic focus. While the Company has comprehensive policies and procedures in place to mitigate risk at all phases of vendor management from selection, to performance monitoring and renewals, the failure of a vendor to perform in accordance with contractual agreements could be disruptive to its business, which could have a material adverse effect on its financial condition and results of operations.

Development of New Products and Services May Impose Additional Costs on the Company and May Expose It to Increased Operational Risk.

The Company’s financial performance depends, in part, on its ability to develop and market new and innovative services and to adopt or develop new technologies that differentiate its products or provide cost efficiencies, while avoiding increased related expenses. This dependency is exacerbated in the current “FinTech” environment, where financial institutions are investing significantly in evaluating new technologies, such as “Blockchain,” and developing potentially industry-changing new products, services and industry standards. The introduction of new products and services can entail significant time and resources, including regulatory approvals. Substantial risks and uncertainties are associated with the introduction of new products and services, including technical and control requirements that may need to be developed and implemented, rapid technological change in the industry, the Company’s ability to access technical and other information from its clients, the significant and ongoing investments required to bring new products and services to market in a timely manner at competitive prices and the preparation of marketing, sales and other materials that fully and accurately describe the product or service and its underlying risks. The Company’s failure to manage these risks and uncertainties also exposes it to enhanced risk of operational lapses which may result in the recognition of financial statement liabilities. Regulatory and internal control requirements, capital requirements, competitive alternatives, vendor relationships and shifting market preferences may also determine if such initiatives can be brought to market in a manner that is timely and attractive to the Company’s clients. Failure to successfully manage these risks in the development and implementation of new products or services could have a material adverse effect on the Company’s business and reputation, as well as on its consolidated results of operations and financial condition.

Our Strategic Review May Expose the Company to Operating Risks.

The Company has announced a strategic review to support earnings which will include its balance sheet structure, line of business profitability, expense levels, and capital management. This review may expose the Company to unanticipated operating risks if large scale changes are made in a condensed timeframe. Such risks could include an unexpected loss of revenue, elevated one time expenses, or disruptions of controls or customer service.

Liquidity

The Company's Wholesale Funding Sources May Prove Insufficient to Replace Deposits at Maturity and Support Operations and Future Growth.

The Company must maintain sufficient funds to respond to the needs of depositors and borrowers. As a part of its liquidity management, the Company uses a number of funding sources in addition to deposit growth and cash flows from loans and investments. These sources include Federal Home Loan Bank advances, proceeds from the sale of loans, and liquidity resources at the holding company. The Company uses brokered deposits both to support ongoing growth and to provide enhanced deposit insurance to support large dollar commercial relationships. The Company's financial flexibility will be severely constrained if the Company is unable to maintain access to wholesale funding or if adequate financing is not available to accommodate future growth at acceptable costs. Turbulence in the capital and credit markets may adversely affect liquidity and financial condition and the willingness of certain counterparties and customers to do business with the Company.

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The Company's Ability to Service Our Debt, Pay Dividends, and Otherwise Pay Obligations as They Come Due Is Substantially Dependent on Capital Distributions from the Bank, and These Distributions Are Subject to Regulatory Limits and Other Restrictions.
A substantial source of holding company income is the receipt of dividends from the Bank, from which the Company services debt, pay obligations, and pay shareholder dividends. The availability of dividends from the Bank is limited by various statutes and regulations. It is possible, depending upon the financial condition of the Bank and other factors, that the applicable regulatory authorities could assert that payment of dividends or other types of payments are an unsafe or unsound practice. If the Bank is unable to pay dividends, the Company may not be able to service debt, pay debt obligations, or pay dividends on its common stock.

Secondary mortgage market conditions could have a material impact on the Company’s financial condition and results of operations.
In addition to being affected by interest rates, the secondary mortgage markets are also subject to investor demand for residential mortgage loans and increased investor yield requirements for these loans. These conditions may fluctuate or worsen in the future. As a result, a prolonged period of secondary market illiquidity may reduce the Company’s loan production volumes and operating results.

Secondary markets are significantly affected by Fannie Mae, Freddie Mac and Ginnie Mae (collectively, the “Agencies”) for loan purchases that meet their conforming loan requirements. These agencies could limit purchases of conforming loans due to capital constraints, a change in the criteria for conforming loans or other factors. Proposals to reform mortgage finance could affect the role of the Agencies and the market for conforming loans which comprise the majority of the Company’s mortgage lending and related originations income.

Interest Rates
Market Interest Rate Conditions Could Adversely Affect Results of Operations and Financial Condition.
Net interest income is the Company's largest source of income. Changes in interest rates can affect the level of net interest income and other elements of net income. The Company’s interest rate sensitivity is discussed in more detail in Item 7A of this report and is the primary market risk to its condition and operations. Changes in interest rates can also affect the demand for the Company’s products and services, and the supply conditions in the U.S. financial and capital markets. Changes in the level of interest rates may negatively affect the Company’s ability to originate real estate loans, the value of its assets and its ability to realize gains from the sale of assets, all of which ultimately affect earnings.

Securities Market Values
Declines in the Value of Certain Investment Securities Could Require Write-Downs, Which Would Reduce Earnings.
Declines in the value of investment securities due to market conditions and/or issuer impairment could result in losses that can reduce capital and earnings. The Company’s investment in equity securities and non-investment grade debt securities present heightened credit and price risks. Under new accounting standards, equity gains and losses are recorded to current period operating results. The Company has an investment in the stock of the Federal Home Loan Bank of Boston ("FHLBB") which could result in write-down in the event of impairment.

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Taxation

Changes in Tax Preference Items May Affect Results of Operations.

Higher tax expense due to planned or unplanned changes in tax preference items may result in lower profitability. Quarterly results may vary significantly from annual results.

The Company May Be Adversely Affected by Recent Changes in U.S. Tax Laws.

Changes in tax laws contained in the Tax Cuts and Jobs Act, which was enacted in December 2017, include a number of provisions that will have an impact on the banking industry, borrowers and the market for single-family residential real estate. Changes include (i) a lower limit on the deductibility of mortgage interest on single-family residential mortgage loans, (ii) the elimination of interest deductions for home equity loans, (iii) a limitation on the deductibility of business interest expense and (iv) a limitation on the deductibility of property taxes and state and local income taxes. The recent changes in the tax laws may have an adverse effect on the market for, and valuation of, residential properties, and on the demand for such loans in the future, and could make it harder for borrowers to make their loan payments. If home ownership becomes less attractive, demand for mortgage loans could decrease. The value of the properties securing loans in the Company’s loan portfolio may be adversely impacted as a result of the changing economics of home ownership, which could require an increase in its provision for loan losses, which would reduce its profitability and could materially adversely affect its business, financial condition and results of operations.

Regulatory

Legislative and Regulatory Initiatives May Affect Business Activities and Increase Operating Costs.

New federal or state laws and regulations could affect lending, funding practices, capital, and liquidity standards. New laws, regulations, and other regulatory changes may also increase compliance costs and affect business and operations. Moreover, the FDIC sets the cost of FDIC insurance premiums, which can affect profitability.

Regulatory capital requirements and their impact on the Company may change. It may need to raise additional capital in the future to support operations and continued growth. The Company's ability to raise capital, if needed, will depend on its condition and performance, and on market conditions. If additional capital is not available when needed, it could affect operations and the execution of the strategic plan, which includes further expanding operations through internal growth and acquisitions.

New laws, regulations, and other regulatory changes, along with negative developments in the financial industry and the domestic and international credit markets, may significantly affect the markets in which the Company does business, the markets for and value of its loans and investments, and ongoing operations, costs and profitability. For more information, see “Regulation and Supervision” in Item 1 of this report.

In 2017, the Company crossed the $10 billion asset threshold established by the Dodd-Frank act. The Company and the Bank are now subject to closer supervision by their primary regulators and the Consumer Financial Protection Bureau. The Company and the Bank are subject to capital stress testing expectations which require significant resources and infrastructure. If the Company’s compliance with the enhanced supervision and requirements is insufficient, there can be significant negative consequences for its operations, profitability, and ability to further pursue its strategic growth plan.

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Provisions of the Company's Certificate of Incorporation, Bylaws, and Delaware Law, as Well as State and Federal Banking Regulations, Could Delay or Prevent a Takeover of Us by a Third Party.
Provisions in the Company's certificate of incorporation and bylaws, the corporate law of the State of Delaware, and state and federal regulations could delay, defer or prevent a third party from acquiring us, despite the possible benefit stockholders, or otherwise adversely affect the price of its common stock. These provisions include: limitations on voting rights of beneficial owners of more than 10 percent of common stock; supermajority voting requirements for certain business combinations; the election of directors to terms of one year; and advance notice requirements for nominations for election to the Company's Board of Directors and for proposing matters that stockholders may act on at stockholder meetings. In addition, the Company is subject to Delaware laws, including one that prohibits engaging in a business combination with any interested stockholder for a period of three years from the date the person became an interested stockholder unless certain conditions are met. These provisions may discourage potential takeover attempts, discourage bids for the Company's common stock at a premium over market price or adversely affect the market price of, and the voting and other rights of the holders of, its common stock. These provisions could also discourage proxy contests and make it more difficult for stockholders to elect directors other than the candidates nominated by the Board.

Significant Accounting Estimates May Not Be Realized in Accordance with Recorded Estimates.
Unexpected Changes May Adversely Affect Condition or Performance.
The Company’s significant accounting policies are described in Note 1 - Summary of Significant Accounting Policies of the Consolidated Financial Statements in Item 8 of this report. The SEC defines “critical accounting policies” as those that require application of management’s most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in future periods. The Company’s critical accounting policies are further discussed in Item 7 of this report. If actual events and results do not conform to critical estimates, there could be a material impact on financial condition, operating performance, and execution of the strategic plan.

If the Company determines goodwill or other intangible assets to be impaired, the Company’s financial condition and results would be negatively affected.
When the Company completes a business combination, a portion of the purchase price of the acquisition is allocated to goodwill and other identifiable intangible assets. The amount of the purchase price which is allocated to goodwill and other intangible assets is determined by the excess of the purchase price over the net identifiable assets acquired. At least annually (or more frequently if indicators arise), the Company evaluates goodwill for impairment by comparing the fair value of its reporting entities against the carrying value. If the Company determines goodwill or other intangible assets are impaired, the Company will be required to write down these assets. Any write-down would have a negative effect on the Consolidated Financial Statements.

A New Accounting Standard May Require the Company to Increase Its Allowance For Loan Losses and May Have a Material Adverse Effect on Its Financial Condition and Results of Operations.
The Financial Accounting Standards Board has adopted a new accounting standard that will be effective for the Company for its 2020 fiscal year ended. This standard, referred to as Current Expected Credit Loss, or CECL, will require financial institutions to determine periodic estimates of lifetime expected credit losses on loans, and recognize the expected credit losses as allowances for loan losses. This will change the current method of providing allowances for loan losses that are probable, which may require the Company to increase its allowance for loan losses, and to greatly increase the types of data it would need to collect and review to determine the appropriate level of the allowance for loan losses. Any increase in the Company’s allowance for loan losses or expenses incurred to determine the appropriate level of the allowance for loan losses may have a material adverse effect on its financial condition and operating results.

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Mergers and Acquisitions

Acquisitions may disrupt the Company's business and dilute stockholder value.

The Company has a pending merger agreement with SI Financial Group, which is targeted for completion in the second quarter of 2019 and for completion of integration of operations by year-end 2019. The Company regularly evaluates merger and acquisition opportunities with other financial institutions and financial services companies. Future mergers or acquisitions involving cash, debt, or equity securities may occur from time to time. The Company seeks acquisition partners that offer either significant market presence or the potential to expand its market footprint and improve profitability through economies of scale or expanded services.

Acquiring other banks, businesses, or branches may have an adverse effect on the Company's financial results and may involve various other risks commonly associated with acquisitions, including, among other things:

- difficulty in estimating the value of the target company
- payment of a premium over book and market values that may dilute the Company's tangible book value and earnings per share in the short and long term;
- exposure to unknown or contingent liabilities, or asset quality problems, of the target company;
- unexpected regulatory responses to merger related applications
- larger than anticipated merger-related expenses;
- difficulty and expense of integrating the operations and personnel of the target company, and retaining key employees and customers;
- inability to realize the expected revenue increases, cost savings, increases in geographic or product presence, and/or other projected benefits; and
- potential diversion of Company management's time and attention.
- potential litigation could lead to additional expenses or prevent the completion of a merger agreement, which could result in the loss of the benefits which are targeted to offset merger costs.

If the Company is unable to successfully integrate an acquired company, the anticipated benefits may not be realized fully or may take longer to realize than expected. A significant decline in asset valuations or cash flows may also prevent the attainment of targeted results. Additional discussion about the risk of acquisitions is included above in the discussion of Operating Risk.

Trading of the Company's Common Stock

The Trading History of The Company's Common Stock Is Characterized By Low Trading Volume. The Value of Shareholder Investments May be Subject To Sudden Decreases Due To the Volatility of the Price of the Common Stock.

The level of interest and trading in the Company's stock depends on many factors beyond the Company's control. The market price of the Company's common stock may be highly volatile and subject to wide fluctuations in response to numerous factors, including, but not limited to, the factors discussed in other risk factors and the following: actual or anticipated fluctuations in operating results; changes in interest rates; changes in the legal or regulatory environment; press releases, announcements or publicity relating to the Company or its competitors or relating to trends in its industry; changes in expectations as to future financial performance, including financial estimates or recommendations by securities analysts and investors; future sales of its common stock; changes in economic conditions in the marketplace, general conditions in the U.S. economy, financial markets or the banking industry; and other developments. These factors may adversely affect the trading price of the Company's common stock, regardless of actual operating performance, and could prevent stockholders from selling their common stock at a desirable price.

In the past, stockholders have brought securities class action litigation against a company following periods of volatility in the market price of their securities. The Company could be the target of similar litigation in the future, which could result in substantial costs and divert management's attention and resources.

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ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The Company's headquarters are located at 60 State Street in leased property in Boston, Mass. The Bank's headquarters are located in owned and leased facilities located in Pittsfield, Mass. The Company also owns or leases other facilities within its primary market areas: Greater Boston (including Worcester, MA); Berkshire County, Massachusetts; Pioneer Valley (Springfield area), Massachusetts; Southern Vermont; the Capital Region (Albany area), New York; Central New York; Northern Connecticut; and Princeton area, New Jersey.

As of December 31, 2018, the Company had 115 full-service branches in Massachusetts, New York, Connecticut, Vermont, Central New Jersey, and Eastern Pennsylvania. Early in 2018, the Company opened two branch offices -- one in Simsbury, Conn., and one in Malta, N.Y. Subsequent to year-end 2018, the Company closed two branches as a part of its ongoing strategy to identify opportunities for consolidation.

The Company also has regional locations which are full-service commercial offices located in Boston, MA.; Pittsfield, MA.; Springfield, MA.; Albany, N.Y.; East Syracuse, N.Y.; Hartford, Conn.; Worcester, MA.; Burlington, MA.; and Lawrenceville, N.J. In addition, the Company has eight lending locations in Central/Eastern, Massachusetts. The Bank's wholly-owned subsidiary, Firestone Financial, LLC, is headquartered in the Boston metro area.

Berkshire Insurance Group Inc. operates from 12 locations in Western Massachusetts and East Syracuse, N.Y. in both stand-alone premises as well as in rented space located in the Bank’s premises.

The Company acquired Commerce Bancshares in October of 2017, obtaining 13 branches in and around the Worcester, MA area. The Company also assumed three branches and three lending offices in the Boston metro area in the transaction.

The Company acquired First Choice Bank in December of 2016, assuming eight full-service branches in the Princeton, N.J. and greater Philadelphia areas. As a part of the acquisition, First Choice Loan Services Inc., headquartered in East Brunswick, N.J., became a wholly-owned subsidiary of the Bank. As a national mortgage lender, the Company acquired its 12 loan production offices across six states. In 2016, the Company sold two existing branches that management determined to have redundancy with its current footprint.

Berkshire continues to enhance its new retail branch design which eliminates traditional teller counters and provides an interactive customer service environment through “pod” stations which include automated cash handling technology. In many cases, this branch design also includes a multimedia community room which is offered for use by nonprofit community groups. The Company has begun introducing MyTeller automated remote teller stations at new offices and targeted existing offices.

ITEM 3. LEGAL PROCEEDINGS

As of December 31, 2018, neither the Company nor the Bank was involved in any pending legal proceedings believed by management to be material to the Company's financial condition or results of operations. Periodically, there have been various claims and lawsuits involving the Bank, such as claims to enforce liens, condemnation proceedings on properties in which the Bank holds security interests, claims involving the making and servicing of real property loans, and other issues incident to the Bank's business. A summary of legal matters involving unsettled litigation or pertaining to pending transactions are as follows:

On April 28, 2016, the Company and the Bank were served with a complaint filed in the United States District Court, District of Massachusetts, Springfield Division. The complaint was filed by an individual Berkshire Bank depositor, who claims to have filed the complaint on behalf of a purported class of Berkshire Bank depositors, and alleges violations of the Electronic Funds Transfer Act and certain regulations thereunder, among other matters. On July 15, 2016, the complaint was amended to add purported claims under the Massachusetts Consumer Protection Act. On January 4, 2019, the Parties reached an agreement in principle to settle the matter on a class-wide basis. Among other terms, the agreement in principle provides that the Defendants will pay a total of Three Million Dollars ($3.0 million) in exchange for the dismissal with prejudice and release of all claims that have been or could have been asserted in the lawsuit on behalf of the Plaintiff and the Settlement Class Members. The Parties are in the process of negotiating the final terms of a written Settlement Agreement. Once the Parties execute the Settlement Agreement, it will be presented to the Court for preliminary approval, class notice, a period for members to opt out or object, and a final approval hearing. The Company accrued $3.0 million as of December 31, 2018, in anticipation of a settlement.

On January 29, 2018, the Bank was served with an amended complaint filed nominally against Berkshire Hills in the Business Litigation Session of the Massachusetts Superior Court sitting in Suffolk County. The amended complaint was filed by two residuary beneficiaries of an estate planning trust that was administered by the Bank as successor trustee following the death of the trust donor, and alleges the Bank breached its fiduciary duty and violated the Massachusetts Consumer Protection Act in the course of performing its duties as trustee. The complaint seeks compensatory, statutory, and punitive damages. Berkshire Hills and Berkshire Bank deny the allegations contained in the complaint and are vigorously defending this lawsuit.

On February 9, 2019, the Company received notice of a lawsuit filed in the United States District Court for the District of Connecticut by a purported SI Financial Group, Inc. ("SI Financial") shareholder. The lawsuit purports to be filed as a putative class action lawsuit against SI Financial, the individual members of the SI Financial board of directors, and the Company, in connection with the Company's announced intention to acquire and merge with SI Financial. The Plaintiff, on behalf of himself and similarly-situated SI Financial shareholders, generally alleges that the registration statement filed with the SEC on February 4, 2019 contains materially misleading omissions or misrepresentations in violation of Section 14(a) and Section 20(a) of the Exchange Act, and Rule 14a-9 promulgated thereunder. The Plaintiff seeks injunctive relief, unspecified damages, and an award of attorneys' fees and expenses. Of note, although the Company is named in the caption to atop this complaint, neither the Company, nor Berkshire Bank, nor any of their affiliates are identified as defendants in this action. The Company, SI Financial and the individual Defendants deny the allegations contained in the complaint and intend to vigorously defend this lawsuit.

On February 15, 2019, the Company received notice of another lawsuit filed in the United States District Court for the District of Connecticut by a purported SI Financial shareholder against SI Financial and the individual members of the SI Financial board of directors in connection with the Company's announced intention to acquire and merge with SI Financial. The plaintiff, solely on behalf of himself, generally alleges that the registration statement filed with the SEC on February 4, 2019 contains materially misleading omissions or misrepresentations in violation of Section 14(a) and Section 20(a) of the Exchange Act, and Rule 14a-9 promulgated thereunder. The plaintiff seeks injunctive relief, unspecified damages, and an award of attorneys' fees and expenses. Of note, although the Company is named as an interested non-party in this complaint, neither the Company, nor Berkshire Bank, nor any of their affiliates are identified as defendants in this action. SI Financial and the individual Defendants deny the allegations contained in the complaint and intend to vigorously defend this lawsuit.

On February 21, 2019, the Company received notice of a lawsuit filed in the Maryland Circuit Court for Baltimore County by a purported SI Financial shareholder. The lawsuit purports to be filed as a putative class action lawsuit and as a derivative action on behalf of SI Financial against the individual members of the SI Financial board of directors and the Company, in connection with the Company's announced intention to acquire and merge with SI Financial. The Plaintiff, on behalf of himself and both similarly-situated SI Financial shareholders and SI Financial itself, generally alleges that the individual Defendants breached their fiduciary duties as directors of SI Financial by causing SI Financial to agree to the merger transaction with the Company. The Plaintiff seeks injunctive and other equitable relief, unspecified damages, and an award of attorneys' fees and expenses. Of note, although the Company is named as a defendant in this complaint, there are no direct allegations or causes of action stated in the complaint against Company, or Berkshire Bank, or any of their affiliates. The Company, SI Financial and the individual Defendants deny the allegations contained in the complaint and intend to vigorously defend this lawsuit.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information
The common shares of the Company trade on the New York Stock Exchange under the symbol "BHLB". The following table sets forth the quarterly high and low sales price information and dividends declared per share of common stock in 2018 and 2017.

2018	High	Low	Dividends Declared
First quarter	$40.10	$35.80	$ 0.22
Second quarter	44.10	37.05	0.22
Third quarter	44.25	40.00	0.22
Fourth quarter	41.49	25.77	0.22
2017			
First quarter	$37.45	$32.90	$0.21
Second quarter	38.65	33.55	0.21
Third quarter	39.00	32.85	0.21
Fourth quarter	40.00	35.10	0.21

The Company had approximately 3,517 holders of record of common stock at February 25, 2018.

Dividends
The Company intends to pay regular cash dividends to common and preferred shareholders; however, there is no assurance as to future dividends because they are dependent on the Company's future earnings, capital requirements, financial condition, and regulatory environment. Dividends from the Bank have been a source of cash used by the Company to pay its dividends, and these dividends from the Bank are dependent on the Bank's future earnings, capital requirements, and financial condition. Further information about dividend restrictions is disclosed in Note 17 - Shareholders' Equity and Earnings per Common Share of the Consolidated Financial Statements.

Recent Sales of Unregistered Securities; Use of Proceeds from Registered Securities
The Company occasionally issues unregistered shares of common stock to vendors or as consideration in contracts for the purchase of assets, services or operations. The Company issued 23,877 shares in 2018 and 30,478 shares in 2017.

Purchases of Equity Securities by the Issuer and Affiliated Purchases
On December 2, 2015, the Company announced that its Board of Directors authorized a new stock repurchase program, pursuant to which the Company may repurchase up to 500 thousand shares of the Company's common stock, representing approximately 1.6% of the Company's then outstanding shares. The timing of the purchases will depend on certain factors, including but not limited to, market conditions and prices, available funds, and alternative uses of capital. The stock repurchase program may be carried out through open-market purchases, block trades, negotiated private transactions or pursuant to a trading plan adopted in accordance with Rule 10b5-1 under the Securities Exchange Act of 1934. Any repurchased shares will be recorded as treasury shares. The repurchase plan will continue until it is completed or terminated by the Board of Directors. As of year-end 2018, no shares had been purchased under this program.

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Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares that may yet be purchased under the plans or programs
October 1-31, 2018	—	$ —	—	500,000
November 1-30, 2018	—	—	—	500,000
December 1-31, 2018	—	—	—	500,000
Total	—	—	—	500,000

Common Stock Performance Graph

The performance graph compares the Company's cumulative shareholder return on its common stock over the last five years to the cumulative return of the NYSE Composite Index and the PHLX KBW Regional Bank Index. Total shareholder return is measured by dividing total dividends (assuming dividend reinvestment) for the measurement period plus share price change for a period by the share price at the beginning of the measurement period. The Company's cumulative shareholder return over a five-year period is based on an initial investment of $100 on December 31, 2013.

Information used on the graph and table was obtained from a third party provider, a source believed to be reliable, but the Company is not responsible for any errors or omissions in such information.

	Period Ending					
Index	12/31/13	12/31/14	12/31/15	12/31/16	12/31/17	12/31/18
Berkshire Hills Bancorp, Inc.	100.00	100.70	112.96	147.28	149.70	112.90
NYSE Composite Index	100.00	106.87	102.63	115.02	136.76	124.73
PHLX KBW Regional Banking Index	100.00	102.43	108.57	151.04	153.77	126.88

In accordance with the rules of the SEC, this section captioned "Common Stock Performance Graph," shall not be incorporated by reference into any of our future filings made under the Securities Exchange Act of 1934 or the Securities Act of 1933. The Common Stock Performance Graph, including its accompanying table and footnotes, is not deemed to be soliciting material or to be filed under the Exchange Act or the Securities Act.

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ITEM 6. SELECTED FINANCIAL DATA

The following summary data is based in part on the Consolidated Financial Statements and accompanying notes, and other schedules appearing elsewhere in this Form 10-K. Historical data is also based in part on, and should be read in conjunction with, prior filings with the SEC.

	At or For the Years Ended December 31,				
(In thousands, except per share data)	2018	2017	2016	2015	2014
Per Common Share Data:					
Net earnings, diluted	$2.29	$1.39	$1.88	$1.74	$1.36
Total book value per common share	33.30	32.14	30.65	28.64	28.17
Dividends	0.88	0.84	0.80	0.76	0.72
Common stock price:					
High	44.25	40.00	37.35	30.40	27.28
Low	25.77	32.85	24.71	24.32	22.06
Close	26.97	36.60	36.85	29.11	26.66
Performance Ratios: (1)					
Return on assets	0.90 %	0.56 %	0.74 %	0.68 %	0.55 %
Return on equity	6.84	4.45	6.44	6.14	4.87
Net interest margin, fully taxable equivalent (FTE) (2)	3.40	3.40	3.31	3.34	3.30
Fee income/Net interest and fee income	23.36	29.41	22.80	21.18	23.02
Growth Ratios:					
Total commercial loans	6.17 %	37.79 %	18.39 %	28.65 %	14.80 %
Total loans	8.96	26.71	14.41	22.32	11.96
Total deposits	2.66	32.13	18.48	20.08	20.95
Total net revenues, (compared to prior year)	11.59	41.05	11.18	18.40	(0.23)
Earnings per share, (compared to prior year)	64.75	(26.06)	8.62	27.21	(17.58)
Selected Financial Data:					
Total assets	$12,212,231	$11,570,751	$9,162,542	$7,831,086	$6,501,079
Total earning assets	11,140,307	10,509,163	8,340,287	7,140,387	5,923,462
Securities	1,918,604	1,898,564	1,628,246	1,371,316	1,205,794
Total loans	9,043,253	8,299,338	6,549,787	5,725,236	4,680,600
Allowance for loan losses	(61,469)	(51,834)	(43,998)	(39,308)	(35,662)
Total intangible assets	551,743	557,583	422,551	334,607	276,270
Total deposits	8,982,381	8,749,530	6,622,092	5,589,135	4,654,679
Total borrowings	1,517,816	1,137,075	1,313,997	1,263,318	1,051,371
Total shareholders’ equity	1,552,918	1,496,264	1,093,298	887,189	709,287

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	At or For the Years Ended December 31,				
	2018	2017	2016	2015	2014
Selected Operating Data:					
Total interest and dividend income	$471,161	$360,258	$280,439	$247,030	$207,042
Total interest expense	111,825	65,463	48,172	33,181	28,351
Net interest income (3)	359,336	294,795	232,267	213,849	178,691
Fee income	109,601	122,801	68,606	57,480	53,434
All other non-interest income (loss)	298	2,888	(2,755)	(3,192)	(5,664)
Total net revenue	469,235	420,484	298,118	268,137	226,461
Provision for loan losses	25,451	21,025	17,362	16,726	14,968
Total non-interest expense	310,371	299,710	203,302	196,829	165,986
Income tax expense - continuing operations	27,648	44,502	18,784	5,064	11,763
Net income	$105,765	$55,247	$58,670	$49,518	$33,744
Dividends per preferred share	$1.76	$0.42	$—	$—	$—
Dividends per common share	0.88	0.84	0.80	0.76	0.72
Basic earnings per common share	2.30	1.40	1.89	1.74	1.36
Diluted earnings per common share	2.29	1.39	1.88	1.73	1.36
Weighted average common shares outstanding - basic	46,024	39,456	30,988	28,393	24,730
Weighted average common shares outstanding - diluted	46,231	39,695	31,167	28,564	24,854
Asset Quality and Condition Ratios: (4)					
Net loans charged-off/average loans	0.18 %	0.19 %	0.21 %	0.25 %	0.29 %
Allowance for loan losses/total loans	0.68	0.62	0.67	0.69	0.76
Loans/deposits	101	95	99	102	101
Capital Ratios:					
Tier 1 capital to average assets - Company (5)	9.04 %	9.01 %	7.88 %	7.71 %	7.01 %
Total capital to risk-weighted assets - Company (5)	12.99	12.43	11.87	11.91	11.38
Tier 1 capital to risk-weighted assets - Company (5)	11.57	11.15	10.07	9.94	9.03
Shareholders’ equity/total assets	12.73	12.93	11.93	11.33	10.91

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(1) All performance ratios are annualized and are based on average balance sheet amounts, where applicable.
(2) Fully taxable equivalent considers the impact of tax advantaged investment securities and loans.
(3) For the year 2014 the above schedule includes an immaterial adjustment of prior period interest income earned on loans acquired in bank acquisition.
(4) Generally accepted accounting principles require that loans acquired in a business combination be recorded at fair value, whereas loans from business activities are recorded at cost. The fair value of loans acquired in a business combination includes expected loan losses, and there is no loan loss allowance recorded for these loans at the time of acquisition. Accordingly, the ratio of the loan loss allowance to total loans is reduced as a result of the existence of such loans, and this measure is not directly comparable to prior periods. Similarly, net loan charge-offs are normally reduced for loans acquired in a business combination since these loans are recorded net of expected loan losses. Therefore, the ratio of net loan charge-offs to average loans is reduced as a result of the existence of such loans, and this measure is not directly comparable to prior periods. Other institutions may have loans acquired in a business combination, and therefore there may be no direct comparability of these ratios between and among other institutions.
(5) In July 2014, the Company changed its status from a savings and loan holding company to a bank holding company through the Bank's conversion from a Massachusetts-chartered savings bank to a Massachusetts-chartered

trust company. As a result of this change, the Company became subject to bank holding company capital requirements including the requirement to report Tier 1 capital to average assets, Tier 1 capital to risk-weighted assets, and total capital to risk-weighted assets.

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Average Balances, Interest and Average Yields/Cost

The following table presents an analysis of average rates and yields on a fully taxable equivalent basis for the years presented. Tax exempt interest revenue is shown on a tax-equivalent basis for proper comparison.

Item 6 - Table 3 - Average Balance, Interest and Average Yields / Costs

	2018			2017			2016		
(Dollars in millions)	Average Balance	Interest	Average Yield/ Rate	Average Balance	Interest	Average Yield/ Rate	Average Balance	Interest	Average Yield/ Rate
Assets									
Loans: (1)									
Commercial real estate	$3,283.6	$167.7	5.11 %	$2,789.8	$130.0	4.66 %	$2,239.6	$95.8	4.28 %
Commercial and industrial loans	1,867.9	107.6	5.76	1,259.9	65.7	5.21	1,019.7	51.2	5.02
Residential loans	2,353.1	86.3	3.67	1,962.4	71.5	3.64	1,808.8	66.1	3.66
Consumer loans	1,115.3	47.2	4.23	1,032.6	39.4	3.82	873.3	29.9	3.42
Total loans	8,619.9	408.8	4.74	7,044.7	306.6	4.35	5,941.4	243.0	4.09
Investment securities (2)	1,931.7	64.4	3.33	1,757.3	60.3	3.43	1,260.5	41.4	3.28
Short-term investments and loans held for sale	146.3	5.4	3.72	134.5	4.6	3.38	51.6	0.9	1.70
Total interest-earning assets	10,697.9	478.6	4.47	8,936.5	371.5	4.16	7,253.5	285.3	3.93
Intangible assets	554.6	0		449.7			347.7		
Other non-interest earning assets	516.9	0		428.4			357.9		
Total assets	$11,769.4			$9,814.6			$7,959.1		
Liabilities and shareholders' equity									
Deposits:									
NOW and other	$824.7	$4.0	0.49 %	$591.0	$1.5	0.25 %	$487.8	$0.7	0.14 %
Money market	2,432.2	21.9	0.90	1,935.8	11.2	0.58	1,470.3	7.0	0.48
Savings	740.8	1.1	0.15	680.1	0.9	0.14	610.8	0.7	0.12
Certificates of deposit	3,075.5	51.3	1.67	2,581.1	30.3	1.17	2,094.8	22.5	1.07
Total interest-bearing deposits	7,073.2	78.4	1.11	5,788.0	43.9	0.76	4,663.7	30.9	0.66
Borrowings and notes (3)	1,409.0	33.4	2.37	1,373.8	21.6	1.57	1,218.2	17.3	1.42
Total interest-bearing liabilities	8,482.2	111.8	1.32	7,161.8	65.5	0.91	5,881.9	48.2	0.82
Non-interest-bearing demand deposits	1,622.4			1,296.4			1,081.0		
Other non-interest-bearing liabilities	119.3			112.6			85.2		
Total liabilities	10,223.9			8,570.8			7,048.1		
Total shareholders' equity	1,545.5			1,243.8			911.0		
Total liabilities and equity	$11,769.4			$9,814.6			$7,959.1		
Net interest-earning assets	$2,215.7			$1,774.7			$1,371.6		
Net interest income		$366.8			$306.0			$237.1	

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	2018			2017			2016		
(Dollars in millions)	Average Balance	Interest	Average Yield/ Rate	Average Balance	Interest	Average Yield/ Rate	Average Balance	Interest	Average Yield/ Rate
Net interest spread			3.16 %			3.25 %			3.11 %
Net interest margin (4)			3.40			3.40			3.31
Cost of funds			1.11			0.77			0.69
Cost of deposits			0.90			0.62			0.54
Interest-earning assets/interest-bearing liabilities			126.12			124.78			123.32
Supplementary data									
Total non-maturity deposits	$5,620.1			$4,503.3			$3,649.9		
Total deposits	8,695.6			7,084.4			5,744.7		
Fully taxable equivalent adjustment	7.4			11.2			8.1		

Notes:
(1) The average balances of loans include nonaccrual loans, and deferred fees and costs.
(2) The average balance of investment securities is based on amortized cost.
(3) The average balances of borrowings and notes include the capital lease obligation presented under other liabilities on the consolidated balance sheet.
(4) Purchased loan accretion totaled $23.1 million, $14.8 million, and $8.1 million for the years-ended December 31, 2018, 2017, and 2016, respectively. The effect of purchased loan accretion on the net interest margin was an increase in all years, which is shown sequentially as follows beginning with the most recent year and ending with the earliest year: 0.22%, 0.17%, and 0.11%.

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Rate/Volume Analysis

The following table presents the effects of rate and volume changes on the fully taxable equivalent net interest income. Tax exempt interest revenue is shown on a tax-equivalent basis for proper comparison. For each category of interest-earning assets and interest-bearing liabilities, information is provided with respect to changes attributable to (1) changes in rate (change in rate multiplied by prior year volume), (2) changes in volume (change in volume multiplied by prior year rate), and (3) changes in volume/rate (change in rate multiplied by change in volume) have been allocated proportionately based on the absolute value of the change due to the rate and the change due to volume.

Item 6 - Table 4 - Rate Volume Analysis

	2018 Compared with 2017 (Decrease) Increase Due to			2017 Compared with 2016 (Decrease) Increase Due to		
(In thousands)	Rate	Volume	Net	Rate	Volume	Net
Interest income:						
Commercial real estate	$13,206	$24,444	$37,650	$9,145	$25,080	$34,225
Commercial and industrial loans	7,492	34,426	41,918	1,999	12,457	14,456
Residential loans	467	14,318	14,785	(259)	5,595	5,336
Consumer loans	4,487	3,304	7,791	3,698	5,839	9,537
Total loans	25,652	76,492	102,144	14,583	48,971	63,554
Investment securities	(1,784)	5,853	4,069	1,985	16,978	18,963
Short-term investments and loans held for sale	470	418	888	1,405	2,271	3,676
Total interest income	$24,338	$82,763	$107,101	$17,973	$68,220	$86,193
Interest expense:						
NOW accounts	$1,809	$739	$2,548	$627	$165	$792
Money market accounts	7,332	3,382	10,714	1,698	2,506	4,204
Savings accounts	77	87	164	122	88	210
Certificates of deposit	14,526	6,557	21,083	2,205	5,561	7,766
Total deposits	23,744	10,765	34,509	4,652	8,320	12,972
Borrowings	11,286	567	11,853	1,981	2,338	4,319
Total interest expense	$35,030	$11,332	$46,362	$6,633	$10,658	$17,291
Change in net interest income	$(10,692)	$71,431	$60,739	$11,340	$57,562	$68,902

NON-GAAP FINANCIAL MEASURES

This document contains certain non-GAAP financial measures in addition to results presented in accordance with Generally Accepted Accounting Principles (“GAAP”). These non-GAAP measures are intended to provide the reader with additional supplemental perspectives on operating results, performance trends, and financial condition. Non-GAAP financial measures are not a substitute for GAAP measures; they should be read and used in conjunction with the Company’s GAAP financial information. A reconciliation of non-GAAP financial measures to GAAP measures is provided below. In all cases, it should be understood that non-GAAP measures do not depict amounts that accrue directly to the benefit of shareholders. An item which management excludes when computing non-GAAP adjusted earnings can be of substantial importance to the Company’s results for any particular quarter or year. The Company’s non-GAAP adjusted earnings information set forth is not necessarily comparable to non-GAAP information which may be presented by other companies. Each non-GAAP measure used by the Company in this report as supplemental financial data should be considered in conjunction with the Company’s GAAP financial information.

The Company utilizes the non-GAAP measure of adjusted earnings in evaluating operating trends, including components for adjusted revenue and expense. These measures exclude amounts which the Company views as unrelated to its normalized operations, including securities gains/losses, gains on the sale of business operations, losses recorded for hedge terminations, merger costs, restructuring costs, systems conversion costs, and certain dispute settlement costs. Non-GAAP adjustments are presented net of an adjustment for income tax expense. In 2017, there was a large adjustment for the write-down of the deferred tax asset at year-end due to the passage of federal tax reform. There was also an adjustment for investments in employees and communities which were made by the Company in recognition of the future benefits of federal tax reform. The Company also measures adjusted revenues and adjusted expenses which result from the above adjustments.

The Company calculates certain profitability measures based on its adjusted revenue, expenses, and earnings. The Company also calculates adjusted earnings per share based on its measure of adjusted earnings. The Company views these amounts as important to understanding its operating trends, particularly due to the impact of accounting standards related to merger and acquisition activity. Analysts also rely on these measures in estimating and evaluating the Company’s performance. Management also believes that the computation of non-GAAP adjusted earnings and adjusted earnings per share may facilitate the comparison of the Company to other companies in the financial services industry.

Charges related to merger and acquisition activity consist primarily of severance/benefit related expenses, contract termination costs, and professional fees. Systems conversion costs relate primarily to the Company’s core systems conversion and related systems conversions costs. Restructuring costs primarily consist of the Company's continued effort to create efficiencies in operations through calculated adjustments to the branch banking footprint. Expense adjustments include variable rate compensation related to non-operating items. An adjustment was recorded in 2018 for an $8 million core systems contract restructuring charge, and an adjustment of $1.5 million was recorded for charges related to the CEO transition.

The Company also adjusts certain equity related measures to exclude intangible assets due to the importance of these measures to the investment community.

The following table summarizes the reconciliation of non-GAAP items recorded for the time periods indicated:

	At or For the Years Ended		
(Dollars in thousands)	December 31, 2018	December 31, 2017	December 31, 2016
GAAP Net income	$105,765	$55,247	$58,670
Non-GAAP measures			
Adj: Loss/(gain) on securities, net	3,719	(12,598)	551
Adj: Net gains on sale of business operations	(460)	(296)	(1,085)
Adj: Loss on termination of hedges	—	6,629	—
Adj: Acquisition, restructuring, conversion, and other related expenses (1)	10,752	31,558	15,761
Adj: Employee and community investment	—	3,400	—
Adj: Legal settlements	3,000	—	—
Adj: Systems vendor restructuring costs	8,379	—	—
Adj: Deferred tax asset impairment	—	18,145	—
Adj: Income taxes	(5,788)	(11,277)	(5,455)
Net non-operating charges	19,602	35,561	9,772
Total adjusted net income (non-GAAP)	$125,367	$90,808	$68,442
GAAP Total revenue	$469,235	$420,484	$298,118
Adj: Loss/(gain) on securities, net	3,719	(12,598)	551
Adj: Net gains on sale of business operations			