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)

(Dollars in thousands)	2018		2017		2016		2015		2014	
	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)

(Dollars in thousands)	2018		2017		2016		2015		2014	
	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 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.

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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:

(Dollars in thousands)	At or For the Years Ended 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	(460)	(296)	(1,085)
Adj: Loss on termination of hedges	—	6,629	—

Total adjusted operating revenue (non-GAAP)	$472,494	$414,219	$297,584
GAAP Total non-interest expense	$310,371	$299,710	$203,302
Less: Total non-operating expense (see above)	(10,752)	(31,558)	(15,761)
Less: Employee and community reinvestment	—	(3,400)	—
Less: Legal settlements	(3,000)	—	—
Less: Systems vendor restructuring costs	(8,379)	—	—
Adjusted operating non-interest expense (non-GAAP)	$288,240	$264,752	$187,541
(in millions, except per share data)			
Total average assets	$11,769	$9,815	$7,958
Total average shareholders' equity	1,546	1,244	911
Total average tangible shareholders equity	991	793	563
Total average tangible common shareholders equity	950	784	563
Total tangible shareholders’ equity, period-end	1,001	939	671
Total tangible common shareholders’ equity, period-end	961	898	671
Total tangible assets, period-end	11,660	11,013	8,740
Total common shares outstanding, period-end (thousands)	45,417	45,290	35,673
Average diluted shares outstanding (thousands)	46,231	39,695	31,167
Earnings per share, diluted	$2.29	$1.39	$1.88
Plus: Net adjustments per share, diluted	0.42	0.90	0.32
Adjusted earnings per share, diluted	2.71	2.29	2.20
Book value per common share, period-end	33.30	32.14	30.65
Tangible book value per common share, period-end	21.15	19.83	18.81
Total shareholders' equity/total assets	12.72	12.93	11.93
Total tangible shareholders' equity/total tangible assets	8.59	8.52	7.68
Performance Ratios			
GAAP return on assets	0.90	0.56	0.74
Adjusted return on assets	1.07	0.93	0.86
GAAP return on equity	6.84	4.45	6.44
Adjusted return on equity	8.11	7.31	7.51
Adjusted return on tangible common equity	13.48	11.82	12.47
Efficiency ratio (2)	58.32	59.97	58.27
Supplementary Data (in thousands)			
Tax benefit on tax-credit investments	5,876	10,182	11,134
Non-interest income charge on tax-credit investments	(4,822)	(8,693)	(8,993)
Net income on tax-credit investments	1,054	1,489	2,143
Intangible amortization	4,934	3,493	2,927
Fully taxable equivalent income adjustment	7,423	11,227	8,098

(1) Acquisition, restructuring, conversion, and other related expenses included $8.9 million of merger and acquisition expenses and $1.8 million of restructuring expenses for the year-ended December 31, 2018. For the year-ended 2017, these expenses included $24.9 million in merger and acquisition expenses and $6.7 million of restructuring expenses. For the year-ended 2016, these expenses included $13.5 million in merger and acquisition expenses and $2.3 million of restructuring, conversion, and other expenses.

(2) Efficiency ratio is computed by dividing total core tangible non-interest expense by the sum of total net interest income on a fully taxable equivalent basis and total core non-interest income adjusted to include tax credit benefit of tax shelter investments. The Company uses this non-GAAP measure to provide important information regarding its operational efficiency.

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ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL
This discussion is intended to assist in understanding the financial condition and results of operations of the Company. This discussion should be read in conjunction with the Consolidated Financial Statements ("financial statements") and accompanying notes contained in this report.

SUMMARY
Berkshire achieved record revenue and earnings in 2018, together with record return on assets. This was achieved with a full year of results from acquired operations of Worcester-based Commerce Bank, which was acquired on October 13, 2017. Merger related cost saving efficiencies were achieved on schedule and on target following the completion of Commerce systems and operations integration. This acquisition, together with the expansion of Berkshire’s regional banking teams at its new Boston corporate headquarters, solidified Berkshire’s emerging Eastern Massachusetts market presence.

Organic loan growth further contributed to the year’s results. Berkshire’s SBA lending business achieved record business volume and profitability; this group broke into the top 30 producers nationally based on both the number and dollar volume of loans originated. These results partially offset a contraction in residential mortgage banking revenues, resulting from lower demand in the industry due to higher interest rates and heightened fintech competition. Berkshire managed operating expenses closely to offset these revenue pressures as well as margin pressure from higher funding costs. Expense discipline also cushioned the additional cost and revenue impacts from the expanded regulatory burden tied to crossing the $10 billion asset threshold. Berkshire initiated the consolidation of six branch offices which is targeted for completion in the first quarter of 2019. Additionally, the Company engaged in a core systems strategic analysis and vendor review, concluding in the restructuring of its core systems contract to improve its future competitive profile and technology cost.

Federal income tax reform was enacted at the end of 2017, effective beginning in 2018. This reform reduced the statutory federal income tax rate from 35% to 21%, and adjustments were made to various elements of income tax computation. Due to this reform, the Company recorded a one-time charge in December 2017 to reduce the carrying value of its net deferred tax asset. The Company’s 2018 effective income tax rate was reduced by an estimated 11% to 21% due to the net impact of the federal tax reform. In response to this reform, Berkshire announced one time employee bonuses and community support contributions which were recorded in 2017. The Company also increased its hourly minimum wage to $15.00 per hour at the beginning of 2018.

Purchased loan accretion accounted for 17% of pretax earnings in 2018 and 15% of pretax earnings in 2017. The Company anticipates this revenue source will decrease significantly in 2019. In order to support future earnings, the Company has initiated a strategic review targeted for the first half of 2019. This review is expected to include: (1) balance sheet composition; (2) line of business profitability; (3) expense structure; and (4) capital management.

Berkshire’s longtime CEO and President, Michael Daly, resigned from the Company on November 26, 2018 pursuant to a Resignation and Separation Agreement. Richard Marotta, the Bank’s President, was promoted to the positions that Mr. Daly had held. Sean Gray, the Bank’s Chief Operating Officer, was promoted to President of the Bank. During 2018, Mr. Marotta initiated a diversity and inclusion initiative, and the Company also appointed a Corporate Social Responsibility (“CSR”) Officer. In 2018, the Company implemented the Massachusetts equal pay law. In the third quarter, the Company received an Impact2030 award from the United Nations, citing its support of volunteerism.

On December 11, 2018, the Company entered into an agreement to acquire SI Financial Group (“SI Financial”), the parent of Savings Institute Bank & Trust, a $1.6 billion bank headquartered in Willimantic, Connecticut with 23 branch offices serving Eastern Connecticut and Southern Rhode Island. Under this agreement, each outstanding SI Financial common share will be exchanged for 0.48 Berkshire common shares. This business combination is targeted to be completed in the second quarter of 2019, subject to shareholder and regulatory approval. This is viewed as a complementary market extension business combination that expands Berkshire's presence in Southeastern New England, adding a stable deposit franchise and targeting attractive earnings accretion.

Berkshire increased its quarterly common stock cash dividend by 5% to $0.22 per share in January 2018, and the common stock dividend was further increased by 5% to $0.23 per share in January 2019. In June, Berkshire's stock was added to the S&P 600 SmallCap^{R} index; this index tracks U.S. small cap companies and is included in the S&P Composite 1500^{R} index. This event widened the visibility of Berkshire's stock. During 2018, the Company obtained an investment grade senior debt rating from a recognized credit rating agency.

U.S and regional economic growth were elevated in 2018 compared to prior years. U.S. unemployment fell to the lowest rate in nearly 50 years. The Company's asset quality and credit performance remained favorable throughout the year. The Federal Reserve Board increased its target Federal Funds interest rate by 0.25% in each quarter, with the target standing at 2.5% at year-end. The yield curve flattened, with the ten year treasury rate increasing to 2.63% from 1.76% over the course of the year. Deposit competition intensified and lending spreads remained pressured in this environment. Residential mortgage volumes declined and gain on sale margins remained under pressure. While the Company's interest rate risk position was generally neutral in its static models, the growth of its business and focus on the competitive Eastern Massachusetts markets resulted in margin pressures as it utilized wholesale funding to build scale, market share, and overall efficiencies across its business lines.

COMPARISON OF FINANCIAL CONDITION AT DECEMBER 31, 2018 AND 2017

Summary: Berkshire offers a competitive mix of loan and deposit products to serve the retail and commercial markets in its regions, and in certain national specialty lending markets. Net interest income from these products is its primary revenue source; the related staff, facilities, and systems are its primary operating expenses. The Company emphasizes services and fee revenue business to deepen market and wallet share, diversify revenues, and lessen the requirement for balance sheet liquidity and capital resources. The Company has expanded its wholesale lending and deposit practices to provide more product and balance sheet flexibility. The Company's current strategic review includes an assessment of the balance sheet structure and capital management to support earnings and profitability metrics while also supporting liquidity, capital, and interest rate sensitivity objectives.

Total assets increased by $641 million, or 6%, to $12.2 billion in 2018. This was driven by a 9% increase in total loans and was funded primarily by borrowings, together with a 3% increase in deposits. Shareholders' equity increased by 4%, and measured $33.30 per common share at year-end. The non-GAAP measure of tangible equity per common share increased by 7% to $21.15, with tangible equity growth outpacing the rate of growth in total assets.

Investment Securities. Berkshire's goal is to maintain a high quality portfolio consisting primarily of liquid investment securities with managed durations. The portfolio generates interest income and provides additional liquidity and interest rate risk management flexibility. The portfolio is managed to contribute to earnings per share and return on equity, taking into account regulatory risk classifications.

The Company continuously evaluates the portfolio's size, yield, diversification, risk, and duration. The newly initiated strategic review in 2019 will include a reassessment of the contribution of this portfolio towards the Company's portfolio objectives.

The securities portfolio was unchanged at $1.9 billion in 2018, with no significant changes in its composition. Some agency mortgage backed securities were shifted from pass throughs to collateralized mortgage backed obligations, and tax advantaged securities declined modestly. The fully taxable equivalent yield of municipal securities decreased due to federal tax reform, but the portfolio generally continued to meet the Company's earnings and liquidity objectives. Marketable equity securities increased modestly. Based on the adoption of ASU 2016-01 in 2018, unrealized equity gains/losses are reported in current period earnings, and are excluded from the Company's non-GAAP measure of adjusted earnings. A stock market decline resulted in a $4 million unrealized loss on equity securities recorded to 2018 income. The total net unrealized loss on the investment portfolio was 1.2% of cost at year-end 2018, compared to a 0.6% net unrealized gain at year-end 2017. This reflected generally lower bond prices due to the higher interest rates prevailing at the end of 2018.

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The fourth quarter portfolio yield decreased year-to-year to 3.38% from 3.55%, while the full year yield decreased to 3.33% from 3.43%. Due to the federal tax reform, the Company had estimated that the fully taxable equivalent yield of the securities portfolio would decrease by approximately 0.15%. This is primarily due to the municipal bond portfolio, which continues to meet the Company’s profitability objectives despite the lower taxable equivalent yield. The year-end weighted average life of the bond portfolio increased slightly to 5.8 years from 5.5 years. The Company estimates that the average life of the portfolio would increase to 7.9 years in the event of a 300 basis point increase in interest rates. During the year, there were no impairments recorded and all securities were performing.

Loans. Berkshire is expanding and deepening retail and commercial lending activities through organic growth and acquisitions, including a focus on specialized lending. The Company uses secondary markets and a growing network of financial institution partners in managing and diversifying its portfolio, as well as supporting its fee income objectives and managing its capital and liquidity.

Total loan growth of 9% in 2018 resulted from 6% commercial loan growth and 22% residential mortgage growth. Berkshire recruited commercial banking leadership for its expanding Eastern Massachusetts region and in its new Mid-Atlantic markets. The Company’s goal is to gain market share based on its expansion into these large and growing markets, including its positioning as the largest regional bank with corporate headquarters in Boston. Residential mortgage growth was primarily related to Eastern Massachusetts relationship oriented mortgages. The Company continues to sell its national mortgage originations into the secondary market on a servicing released basis. Consumer loans decreased by 3% in 2018 due to price competition from national and nonbanking sources in the ongoing economic expansion.

For the longer term, the Company’s primary lending focus is on its commercial banking business across its franchise footprint. Commercial loans constituted 59% of total loans at year-end 2018. Berkshire’s total non-owner occupied commercial real estate exposure measured 238% of regulatory capital at period-end, compared to 270% at the start of the year and compared to the 300% regulatory monitoring guidelines (based on regulatory definitions). Construction loan exposure was 34% of bank regulatory capital at year-end 2018, compared to 40% at year-end 2017, and compared to the 100% regulatory guideline. Berkshire monitors its commercial real estate lending risk using the enhanced processes required for banks exceeding the monitoring thresholds even though it is well margined below those thresholds.

Berkshire’s commercial specialty lending includes asset based lending ("ABL"), business equipment lending, and SBA lending. ABL outstandings totaled $452 million at year-end 2018. Business equipment loans, through Berkshire’s Firestone division, totaled $265 million at year-end 2018. The Bank originates SBA 7(a) loans for sale through its 44 Business Capital division (primarily in the mid-Atlantic area), as well as direct loans by its business banking teams throughout its regions. Based on the annual SBA national originations rankings as of September 30, 2018, Berkshire was among the top 30 originators both in loan count and dollars loaned. Most earnings related to SBA lending are included in loan fee income arising from the sale of guaranteed portions of SBA loans.

The full year loan yield increased by 0.39% to 4.74% in 2018, reflecting the benefit of higher interest rates as well as the contributions from the fair value marked Commerce loans. Purchased loan accretion contributed 0.27% to the 2018 loan yield, compared to 0.21% in the prior year. Most of the portfolio growth in 2018 was in lower yielding residential mortgages, which declined slightly in yield from the fourth quarter of 2017. The fourth quarter loan yield was 4.94% in 2018, compared to 4.47% in 2017.

The repricing terms of the total loan portfolio shortened slightly in 2018, with 43% repricing in one year, 22% in one to five years, and 35% over five years. Growth in variable rate commercial loans generally offset growth in long maturity residential mortgages.

Asset Quality. Berkshire’s Chief Risk Officer and the Risk Management and Capital Committee of the Board oversee risk management and asset quality. This includes setting loan portfolio objectives, maintaining sound underwriting, close portfolio oversight, and careful management of problem assets and potential problem assets. Additionally, merger due diligence is an integral component of maintaining asset quality. Acquired loans are recorded at fair value and are deemed performing regardless of their payment status. Therefore, some overall

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portfolio measures of asset quality are not comparable between years or among institutions as a result of recent business combinations. A general goal is to achieve significant resolutions of impaired loans acquired in bank mergers primarily in the first two years following the acquisition date. Berkshire's asset quality has reflected its strong credit disciplines together with the generally favorable economic environment in the extended U.S. recovery and asset values supported by the low inflation environment.

Asset quality metrics remained favorable during the year. At period-end, non-performing assets were 0.28% of total assets. Net loan charge-offs were 0.18% of average loans in 2018. The balance of troubled debt restructurings decreased to $27 million at year-end from $42 million at the start of the year. At year-end, the total contractual balance of purchased credit impaired loans was $124 million, with a $47 million carrying value. This balance includes taxi medallion loans acquired at a significant discount from Commerce Bank, with a net carrying value less than $30 million at year-end 2018. Due to successful asset recoveries during 2018, the total balance of purchased credit impaired loans declined from a $209 million contractual amount and a $97 million carrying value at the start of the year.

Loan Loss Allowance. The determination of the allowance for loan losses is a critical accounting estimate. The Company's methodologies for determining the loan loss allowance are discussed in Item 1 of this report, and Item 8 includes further information about the accounting policy for the loan loss allowance and the Company's accounting for the allowance in the Consolidated Financial Statements.

The Company considers the allowance for loan losses appropriate to cover probable incurred losses which can be reasonably estimated and which are inherent in the loan portfolio as of the balance sheet date. Under accounting standards for business combinations, acquired loans are recorded at fair value with no loan loss allowance on the date of acquisition. The fair value of acquired loans includes the impact of estimated loan losses for the life of the portfolio, including subjective assessments of risk. A loan loss allowance is recorded by the Company for the emergence of new probable and estimable losses relating to acquired loans which were not impaired as of the acquisition date. In the first period of combined operations, the Company may also establish an environmental component of the allowance related to newly acquired loans. Because of the accounting for acquired loans, some measures of the loan loss allowance are not comparable to periods prior to the acquisition date or to other financial institutions. Loans acquired in business combinations totaled $1.7 billion, or 19% of total loans at year-end 2018, compared to $2.2 billion, or 26% of total loans at year-end 2017.

The loan loss allowance increased by $10 million, or 19%, to $61 million in 2018. The allowance increased to 0.68% percent of loans at year-end 2018, compared to 0.62% at year-end 2017, due to a decline in the percentage of acquired loans noted above. For business activities loans, the ratio of the allowance to loans increased slightly to 0.76% from 0.75% of related loans. For acquired loans, this ratio increased to 0.32% from 0.27%. The year-end allowance coverage of net charge-offs remained unchanged at 3.9X. The allowance provided 1.9X coverage of year-end non-accrual loans in 2018 compared to 2.3X in 2017.

The credit risk profile of the Company's loan portfolio is described in Note 6 - Loan Loss Allowance of the Consolidated Financial Statements. The Company's risk management process focuses primary attention on loans with higher than normal risk, which includes loans rated special mention and classified (substandard and lower). These loans are referred to as criticized loans. Including acquired loans, they totaled $189 million, or 1.5% of total assets at year-end 2018, compared to 1.6% at year-end 2017. An increase in criticized loans from business activities was offset by a decrease in criticized acquired loans. The increase in non-accruing loans was offset by a decrease in special mention loans. Approximately 45% of the $32 million balance of non-accrual loans was related to one commercial real estate relationship in the Company's footprint which became delinquent during the year and is viewed as adequately secured by real estate and which does not require a specific impaired loan reserve.

The Company views its potential problem loans as those loans from business activities which are rated as classified and continue to accrue interest. These loans have a possibility of loss if weaknesses are not corrected. Classified loans acquired in business combinations are recorded at fair value and are classified as performing at the time of acquisition and therefore are not generally viewed as potential problem loans. In 2018, potential problem loans increased to $61 million from $37 million at the start of the year. This was primarily due to several existing

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commercial relationships in the $2-5 million range with no geographic or borrower type concentrations. Criticized commercial loans from business activities measured $107 million, or 2.6% of related loans, at year-end 2018.

As discussed in Note 1 - Summary of Significant Accounting Policies of the Consolidated Financial Statements, in June 2016, the FASB issued ASU No. 2016-13, “Measurement of Credit Losses on Financial Instruments.” The ASU requires companies to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Forward-looking information will now be used in credit loss estimates. ASU No. 2016-13 is effective for interim and annual periods beginning after December 15, 2019. At the date of adoption, the Company expects to increase the allowance for credit losses with a resulting negative adjustment to retained earnings.

Other Assets. Short term investments decreased to $82 million from $158 million in 2018 due to lower overnight liquidity needed for the acquired Commerce payroll processing business as of that date. Residential mortgages held for sale decreased due to lower originations volumes. Due to the fourth quarter 2018 decline in the Company’s stock price and in bank stocks overall, the Company performed tests for impairment of goodwill at year-end, and the book balance was not deemed impaired as a result of this analysis. Beginning in 2019 pursuant to the adoption of ASU 2016-02, qualifying operating leases will be recorded to the balance sheet.

Deposits. Berkshire views its deposit programs as central to its funding and market management goals. Retail and commercial strategies focus on transaction accounts as being key to customer relationships. Interest bearing deposit products are positioned to be competitive while offering local convenience and the safety of FDIC insurance. Due to the impacts of technology on mobile and electronic banking, preferred customer channels are shifting and the Company seeks to maximize the benefits it offers as a local provider with the scale to compete with the delivery channels of national bank and nonbank competitors. The Company has been active in shifting the number, location, and configuration of its offices and customer facing staff in order to move with its markets and to reduce overhead related to older channels that are now less favored. Current initiatives include the expansion of virtual tellers and MyBankers. The Company has also utilized brokered time deposits as an additional funds source to complement its other strategies, manage its funding costs, and to support interest rate risk management goals. With the Commerce acquisition, the Company added a specialty payroll processing business line that processes payments for payroll service bureau customers. In 2017, Berkshire added a senior government banking professional to provide more outreach to municipal accounts in the Company’s regions. The Company has also added a senior international banking professional who is augmenting the Company’s payments related business.

Berkshire’s deposits increased in 2018 by 0.2 billion, or 3%, to $9.0 billion. This increase was due to a $0.3 billion increase in brokered time deposits to support loan growth. The level and mix of deposits changes daily depending on the timing of payroll cycles. Payroll related deposits were $0.5 billion both at the start and at the end of 2018.

Berkshire uses brokered deposits flexibly in combination with short term borrowings in managing its liquidity position and earnings objectives. Brokered deposits are sometimes the most efficient funding in terms of rate and maturity based on asset liability objectives. Brokered time deposits totaled $1.4 billion at year-end 2018, compared to $1.1 billion at the start of the year, and measured 16% of total deposits at year-end. At year-end, estimated uninsured deposits totaled $2.8 billion. The average fourth quarter cost of deposits increased to 1.07% from 0.66% in 2018 compared to 2017. This increase was in line with the Company’s modeling for interest rate increase scenarios. The interest sensitivity of deposits in the current environment of expected future rate increases is a significant uncertainty in the banking industry, following the years of unusually low interest rates. The Company believes that it can benefit from the diverse regional conditions in which it operates, and also continues to emphasize relationship and transactions accounts to manage potential future deposit cost increases.

Early in 2018, Berkshire opened two branch offices - one in Simsbury, Conn., and one in Malta, N.Y. The Company has identified six branch offices for consolidation early in 2019. The Bank is deploying its virtual teller technology in new offices and targeted existing offices. Berkshire continues to diversify its distribution network, including expanding its MyBanker and private banking teams and integrating more closely with its wealth management, investment services, small business, insurance, and other business lines. At year-end, the Bank had four offices operating in metro Boston, which serve the expanding regional team located at the new corporate headquarters on State Street.

Borrowings and Other Liabilities. Nearly all of Berkshire's senior borrowings at year-end were provided by the Federal Home Loan Bank of Boston under established relationship programs. The FHLBB is secured by a general pledge of assets primarily consisting of mortgage backed securities and residential mortgages. The Bank uses FHLBB borrowings and short term investments to manage overnight liquidity and generally to provide funding for its growth. Other components of the Bank's wholesale funding program include correspondent banks and brokerages, and brokered deposits. For contingency liquidity purposes, the Bank has short term credit arrangements with the Federal Reserve Bank and with certain national banks and brokerages, and the holding company maintains a line of credit. There has been no regular ongoing use of these arrangements. The Company evaluates its use of borrowings and of wholesale funds in general in managing its liquidity and strategic growth plans. This is further discussed in the following section on Liquidity.

Total borrowings increased by $0.4 billion, or 33%, in 2018, to help fund loan portfolio growth. Most borrowings are short term. The weighted average interest rate on borrowings was 2.67% in the fourth quarter of 2018, compared to 1.81% in the fourth quarter of 2017. This increase was due to the increase in short term market interest rates during the year. Due to the increased use of borrowings in 2018, and to higher interest rates, the overall cost of funds increased to 1.31% in the fourth quarter of 2018 compared to 0.81% in the fourth quarter of 2017.

Derivative Financial Instruments and Hedging Activities. Berkshire utilizes derivative financial instruments to manage the interest rate risk of its borrowings, to offer these instruments to commercial loan customers for similar purposes, and as part of its residential mortgage banking activities. The instruments sold to commercial and residential mortgage customers are an important source of fee income and generally represent fixed rate contracts purchased by customers which are sold or offset by the Company with national counterparties.

The notional balance of derivative financial instruments increased to $3.3 billion at year-end 2018, compared to $2.5 billion at year-end 2017. This increase was due to a $908 million increase in economic hedges related to commercial loan interest rate swaps. The commercial loan interest rate swap derivatives include back to back hedges with national bank counterparties, along with risk participation agreements with dealer banks. This represents a 43% increase related to strong customer demand during the year. Derivatives related to mortgage banking decreased by $115 million during the year due to a lower volume of mortgage originations. The net fair value of derivatives decreased to $2 million from $3 million during the year due to the lower mortgage pipeline volume at year-end 2018.

Stockholders' Equity. Berkshire pursues a balance of capital to maintain financial soundness while using common equity efficiently with the goal to produce a strong return on equity and a strong return on tangible equity to support opportunities for franchise growth. Long run growth in dividends and in both book value and tangible book value per share are also viewed as elements for shareholder value creation. A sound capital structure reduces risk and enhances shareholder return and access to capital markets to support the Company's banking activities and the markets that it serves. In its payment of dividends, management of treasury shares, issuance of equity compensation, and balancing of capital sources, the Company strives to achieve a capital structure that is attractive to the investment community and which satisfies the policy and supervision purposes of the Company's regulators. When Berkshire negotiates business combinations, it generally targets to use its common shares as a significant component of merger consideration and to balance the mix of cash and stock to arrive at targeted capital metrics based on the characteristics of the combined banks. The Company's common stock is listed on the New York Stock Exchange. Its preferred shares are non-voting conditionally convertible stock owned by one holder which is also the Company's largest non-institutional holder of common stock as a result of the Commerce acquisition. These holdings are restricted pursuant to an agreement filed with the SEC.

Total shareholders’ equity increased by $57 million (or 4%) to $1.6 billion in 2018 primarily due to the benefit of retained earnings. The non-GAAP measure of tangible equity increased by 7% based on internal capital generation, and slightly exceeded the 6% increase in total assets. The Company focuses on its internal generation of tangible equity to support growth and dividends, as well as to support merger and other non-operating charges. The ratio of

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equity to assets decreased to 12.7% from 12.9%, and the non-GAAP ratio of tangible equity to assets increased to 8.6% from 8.5%. At year-end, the Company had a pending agreement to acquire SI Financial Group. If the merger is completed, each outstanding share of SI Financial common stock will be converted into the right to receive 0.48 shares of the Company's common stock. The Company expects to issue approximately 5.7 million shares as merger consideration.

COMPARISON OF OPERATING RESULTS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
Summary: Berkshire achieved record revenue, earnings, and return on assets in 2018. GAAP results included significant charges viewed as non-operating. Based on its non-GAAP adjusted measures, discussed below, Berkshire produced improvement in its earnings per share and ROA measures, which are its primary strategic focus.

Net income increased in 2018 by $51 million, or 91%, to $106 million. Adjusted net income increased by $35 million, or 38%, to $125 million. On a per share basis, net income increased by 65% to $2.29 and adjusted net income per share increased by $0.42, or 18%, to $2.71. This adjusted earnings per share result was consistent with the Company's plan at the start of the year.

Operations in 2018 benefited from the lower federal tax rate, which reduced the Company's effective tax rate by an estimated 10.8%. This benefited adjusted net income by approximately $17 million, or $0.37 per share, and contributed significantly to the year-over-year targeted increase in per share results. This target took into account an estimated $0.03 per share cost of an increase in the minimum wage to $15/hour which was adopted by the Company when the federal tax reform was announced. It also considered the impact of the tax reform on market pricing margins and on the supply and demand for tax advantaged revenue sources, both of which were expected to be adversely affected by tax reform.

The operating results of the Company further benefited from a full year of fully integrated First Choice operations in the Mid Atlantic and a partial year of the fully integrated Commerce operations in Eastern Massachusetts. The successful integrations of these business combinations were a critical focus for the Company. Operating results also benefited from organic loan growth and improved efficiency resulting from increased business scale. Additionally, most restructuring actions were expected to benefit subsequent earnings, including restructuring actions in 2017 and 2018.

Operating results were negatively impacted by the $19 million decrease in mortgage banking revenue due to lower demand and heightened competition. This negative impact was significantly offset by higher purchased loan accretion resulting from unanticipated high levels of recoveries of purchased credit impaired loans. Total purchased loan accretion measured $23 million in 2018, compared to $15 million in the prior year. The Company expects that the contribution from purchased loan accretion will decrease significantly in 2019 and later years. A strategic review has been initiated to identify opportunities to offset the negative impact of this reduction and lower mortgage banking revenue on earnings in 2019 and beyond.

The GAAP return on assets improved to 0.90% in 2018, while the non-GAAP adjusted return on assets measured 1.07%. The return on equity improved to 6.8%, while the non-GAAP measure of adjusted return on tangible common equity improved to 13.5%. This latter ratio is an important measure of the generation of internal capital to support organic growth and dividends. The efficiency ratio improved to 58.3% from 60%.

As noted previously, Berkshire uses a non-GAAP measure of adjusted net income to supplement its evaluation of its operating results. Adjusted net income excludes certain amounts not viewed as related to normalized operations. These items are primarily related to acquisition expenses. Berkshire views its net acquisition related costs as part of the economic investment for its acquisitions. These investments are intended to contribute to long term earnings growth and franchise value. Other significant charges excluded in 2018 were related to the core systems contract restructuring, a legal settlement, and the CEO transition. Charges excluded from the 2017 adjusted earnings measure included contract termination costs for premises restructuring and the termination of hedges. These were mostly offset by the realization of gains on the sale of equity securities. The Company also recorded an $18 million charge in 2017 for the provisional write-down of its net deferred tax asset following the enactment of federal tax reform near year-end. This reform was viewed as positive for shareholder value due to the reduction in the federal statutory

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tax rate beginning in 2018. Berkshire also makes references to adjusted revenues and adjusted expenses in its discussion of operating results. Please see the Non-GAAP reconciliation section of this report for more discussion and information about adjusted net income and other non-GAAP financial measures discussed in this report.

Operations in 2018 included purchased loan accretion totaling $23 million, which accounted for approximately 17% of pre-tax earnings. The contribution in 2017 was $15 million. The Company expects that the contribution from purchased loan accretion will decrease significantly in 2019 and later years. A strategic review has been initiated to identify opportunities to offset the negative impact of this reduction on earnings in 2019 and beyond.

Berkshire's 2018 results included the Commerce operations acquired in October 2017, and systems conversion and merger integration activities were completed by midyear 2018. Due to the Commerce acquisition, most measures of revenue, expense, income, and average balances increased in 2018 compared to 2017. The year 2018 was also the first full year of the fully integrated First Choice operations, which were acquired in December 2016 and fully integrated by midyear 2017. Per share measures were affected by the issuance of shares as merger consideration. Both of these acquisitions were targeted to be accretive to earnings and earnings per share when fully integrated, and to provide a long term double digit return on equity.

Total Net Revenue. Berkshire evaluates its top line with the measure of net revenue, which is the sum of net interest income and non-interest income. The Company also measures adjusted net revenue and adjusted net revenue per share in evaluating its growth strategies, operations, and strategies for generating improved profitability.

Total net revenue increased in 2018 by $49 million, or 12%, to $469 million. On a pro-forma basis, as set forth in the 2017 Consolidated Financial Statements, total 2017 revenue including the Commerce operations measured $480 million. Operations in 2018 resulted in a revenue decline from this pro forma 2017 amount, with a positive net interest income variance which was more than offset by a decline in mortgage banking revenue. Organic loan growth produced a $13 million increase in net interest income to $359 million in 2018 compared to the $345 million pro forma 2017 amount. Non-interest income in 2018 totaled $110 million, compared to $135 million in the 2017 pro forma statement. This decrease was primarily due to a $19 million year-over-year decrease in mortgage banking revenue. Total revenue per share increased by 4% to $9.85 in 2018 compared to $9.44 in 2017.

Net Interest Income. Net interest income is the primary contributor to revenue. Berkshire targets growth in net interest income based on increased business volumes related to market share gains in its markets. Pricing disciplines for loans and deposits target a balance of market share and profitability objectives, while taking into account credit, liquidity, and interest rate sensitivity objectives. The Company also borrows to fund an investment portfolio to contribute to income and profitability, together with other balance sheet objectives. Assets and liabilities acquired in business combinations are marked to market for carrying value and yield, and balance sheet adjustments are often made at or following the acquisition date to integrate the acquired balance sheet with the Company's balance sheet. Net interest income includes significant components related to the amortization of purchase accounting adjustments and deferred items. The most significant component is purchased loan accretion related to recoveries on the resolution of acquired impaired assets, where Berkshire has regularly posted significant gains that are included in net interest income. These gains are difficult to forecast and are highly variable from quarter to quarter, and generally reflect the Company's strong asset management capabilities and strong focus on resolving purchased credit impaired loans. The chief focus of the Company's market risk assessment in the sensitivity of net interest income to changes in interest rates.

Net interest income increased by $65 million, or 22%, to $359 million in 2018 compared to $295 million in 2017 and to $345 million in the pro forma 2017 statement. This income growth was due to the 20% increase in average earning assets, including the benefit of the Commerce assets, together with organic loan growth in 2018. The net interest margin was unchanged at 3.40% in both 2018 and 2017. Measured before accretion, the net interest margin decreased in the second half of the year as higher cost borrowings were used to fund loan growth. The contribution from purchased loan accretion measured 0.22% in 2018 and 0.17% in 2017. This contribution is expected to decrease significantly beginning in 2019. The $23 million in total purchased loan accretion in 2018 included approximately $18 million related to Commerce loans and $4 million related to First Choice loans. The $23 million in 2018 accretion included approximately $12 million of recoveries, $7 million of scheduled purchased impaired loan accretion, and $4 million in accretion related to the interest rate mark on non-impaired loans. The balance of accretable yield on purchased credit impaired loans totaled $3 million at year-end 2018 compared to $12 million at the start of the year.

The margin before accretion in the final quarter of the year measured 3.11%. Due to higher market interest rates, most categories of loans and deposits had higher interest rates in the fourth quarter of 2018 compared to the same quarter of 2017. The fourth quarter yield on earning assets before loan accretion increased year-over-year by 0.30% to 4.35%. Higher growth in lower yielding residential mortgages partially offset the gain in yield from higher interest rates. The fourth quarter cost of funds increased over this interval by 0.50% to 1.31% from 0.81%. The cost of deposits increased by 0.41% to 1.07%. This deposit cost increase was within the range of the Company's estimates of interest rate sensitivity.

Berkshire's sensitivity to interest rates is discussed in Item 7A. Generally, its loan assets tied to LIBOR and prime adjust quickly to interest rate increases, as do short term borrowings, while deposit rates move in line with market forces which have been slower to react. The competitive environment in the northeast pressured spreads on both loans and deposits during the year.

Non-Interest Income. Most of Berkshire's non-interest income is fee income, including various revenue sources related to its operations. Berkshire focuses on fee income to build more enduring customer relationships, to diversify away from potential volatility in net interest income, and to increase return on assets and on equity. Fee income is the primary revenue source for two of the Company's national lending businesses - mortgage banking and SBA lending. Both of these business lines originate loans primarily for sale into the secondary market, and their sales gains are included as a component of fee income.

Fee income decreased by $13 million, or 11%, in 2018 due to a $19 million, or 35%, decrease in mortgage banking revenue. This reflected a downturn in industry demand and increased competition as the industry goes through consolidation due to widespread operating losses. Additionally, fintech providers have gained more market share with their digital offerings. The 35% decrease in mortgage banking revenue was partially offset by expense reduction, including a reduction in the range of 20-25% in mortgage banking FTE staff over the last year. Berkshire's total loans originated for sale decreased by 15% to $2.0 billion.

Loan related fee income increased by 13% and deposit related fee income increased by 10% in 2018. The $24 million in loan related fees included a record $9 million in SBA loan sale gains as Berkshire's team further improved its position among the top 30 SBA 7(a) loan producers in the U.S. Due to the federal government partial shutdown at the end of 2018, some SBA loan originations could not be certificated for sale in the fourth quarter. Commercial loan interest rate swap fees also increased to a record $9 million as demand for fixed rate swaps increased in the environment of rising interest rates. Deposit related fees increased to $30 million including the acquired Commerce operations. In crossing the $10 billion asset regulatory threshold, the Bank lost card related fee income as a result of price restraints mandated by the Durbin Amendment to the Dodd-Frank Act. The Company estimates that this reduces card fee income by $5 million per year, and it became effective on July 1, 2018.

Other non-interest income in 2017 included $13 million in gains realized on the sale of equity securities and a $7 million loss on the termination of interest rate hedges. Berkshire recorded $4 million in unrealized equity securities losses in 2018 based on new accounting rules effective in 2018 requiring that current period unrealized equity security gains and losses be recorded to current period income. The 2018 losses were a result of a market reduction in bank equities' prices in the second half of the year. Securities gains/losses and hedge termination costs are excluded from the Company's non-GAAP adjusted earnings measure. The category of Other Non-Interest Income includes income accrued on bank owned life insurance as well as any death benefits paid. This category also includes the amortization of tax credit investments related to tax credit benefits recorded to income tax expense. The category of Other

Non-Interest Income category swung from a $3 million net charge in 2017 to a $4 million credit to income in 2018 due primarily to lower tax credit investment activity and higher insurance death benefit income.

Provision for Loan Losses. The provision for loan losses is a charge to earnings in an amount sufficient to maintain the allowance for loan losses at a level deemed adequate by the Company. The level of the allowance is a critical

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accounting estimate, which is subject to uncertainty. The level of the allowance was included in the discussion of financial condition. The provision for loan losses increased by $4 million, or 21%, to $25 million in 2018. The provision for loan losses exceeded net loan charge-offs and resulted in an increase in the loan loss allowance to 0.68% of total loans at year-end, compared to 0.62% at the start of the year.

Non-Interest Expense. Berkshire’s goal is to generate positive operating leverage, growing revenues through business expansion and maintaining expense management disciplines. Non-interest expense increases have generally been related to the Company’s growth, including the impact of acquisitions. The Company also invests in building its infrastructure and adding to its market teams, with a focus on fee generating business lines, as part of its long term strategy to occupy a leading position as a regional provider in its footprint. Additionally, the Company has invested in the increased compliance and risk management resources required for banks at the $10 billion threshold established in the Dodd Frank Act.

Non-interest expense includes amounts viewed by the Company as not related to ongoing operations. These expenses are excluded from the Company’s non-GAAP measure of adjusted expense. The primary component of these expenses is merger related expense, which totaled $9 million in 2018 and $25 million in 2017. Merger expenses were primarily related to the Commerce acquisition in 2018 and the First Choice combination in 2017. For both of these business combinations, the Company estimates that merger costs were within its original projections. In 2018, other expenses excluded from adjusted expenses included $8 million for core systems contract restructuring costs, $3 million for a legal settlement, and $1.5 million for the CEO transition. The core systems restructuring included a full core systems technology assessment and a competitive vendor selection process. The restructured contract is targeted to provide more flexibility in developing technology and integrating third party solutions, together with improved efficiency and lower costs related to growth. The Company recorded restructuring and other expense totaling $7 million in 2017, which was primarily related to premises lease terminations as the Company has reduced its rented space. In 2017, the Company recorded $3 million in employee and community investment expense for initiatives undertaken due to the federal tax reform. Total expenses excluded from the measure of adjusted expenses totaled $22 million in 2018 and $35 million in 2017.

Including the acquired Commerce operations, total non-interest expense increased by $11 million, or 4% in 2018. Adjusted expense, excluding the items discussed above, increased by $23 million, or 9%. Expenses in 2018 benefited from a full year of First Choice cost saves, which were targeted at $15 million annualized and a partial year of Commerce cost saves, which were targeted at $8 million. For both mergers, the Company estimated that it met or exceeded its targets for merger related cost saves. Expenses in 2018 also benefited from the restructuring projects in both 2017 and 2018. The efficiency ratio improved to 58.3% in 2018 from 60.0% in 2017. The Company’s current strategic review includes a focus on line of business profitability and expense structure with an objective to achieve the targeted efficiency ratio of 60% or better despite revenue pressures previously noted. Full time equivalent staff at year-end 2018 totaled 1,917 positions including 432 mortgage banking positions. This is down from 1,992 positions including 513 mortgage banking positions at year-end 2017. Excluding mortgage banking, all other FTE staff was essentially flat, with Commerce related reductions offset by staff recruitment to support Eastern Massachusetts expansion and infrastructure to support operations above the $10 billion asset size.

Income Tax Expense. Income taxes are discussed in a note to the Consolidated Financial Statements; this note is important to an understanding of the results of operations. The effective tax rate measured 21% in 2018 for both GAAP income and adjusted income. The GAAP tax rate of 45% in 2017 included the $18 million charge to write-down the net deferred tax assets as a result of the federal income tax reform near year-end. Before this charge, the effective tax rate in 2017 was 26%. As previously noted, federal income tax reform reduced the Company’s effective tax rate in 2018 by an estimated 11% compared to what it would have been without tax reform.Without this tax reform, the Company’s effective tax rate would have increased in 2018 due to its larger size and higher pretax income in relation to the tax advantaged income sources consisting primarily of tax exempt investment income, life insurance income, and investment tax credits.

Total Comprehensive Income. Total comprehensive income includes net income together with other comprehensive income. Other comprehensive income was a loss due mainly to unrealized losses on bonds in the investment

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portfolio as interest rates have increased over the last two years. Net of this unrealized loss, total comprehensive income was $93 million in 2018 and $50 million in the prior year.

Quarterly Results. Quarterly results for 2018 and 2017 are presented in a note to the Consolidated Financial Statements. Results for all of these periods have been discussed in previous SEC Forms 10-Q and 10-K, except for operations in the fourth quarter of 2018. The second and third quarters of each year are often the strongest quarters due to seasonal mortgage banking volume and higher general business activity during the spring and summer. Quarterly results also vary depending on the timing of expenses that are excluded from the measure of adjusted earnings, including especially merger related expenses. Quarterly results are also affected by the timing of recoveries of purchased credit impaired loans. The first quarter of 2017 was the first full quarter including the First Choice operations acquired in December 2016. The first quarter of 2018 was the first full quarter including the Commerce operations acquired in October 2017. The Company's non-GAAP measure of adjusted earnings per share showed results generally improving sequentially due to positive contributions from acquisitions, organic growth, and tax reform. Quarterly EPS peaked in the second quarter of 2018 and subsequently declined due to growing weakness in mortgage banking and rising funding costs. The Company initiated a strategic review at the beginning of 2019 as a result of potential further pressure on operating results due mainly to an expected decrease in purchased loan accretion.

COMPARISON OF OPERATING RESULTS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
Summary: Berkshire's results in 2017 included growth from acquisitions and a significant amount of charges, viewed as non-operating, which depressed GAAP results. Based on its adjusted measures, discussed further below, Berkshire produced improvement in its earnings per share and ROA measures, which are its primary strategic focus.

Berkshire's 2017 results included the First Choice operations acquired in December 2016, including the targeted efficiencies which resulted from the integration of these operations in 2017. Results also included the Commerce operations acquired in October 2017, and the Company is targeted efficiencies in 2018 from integration of those operations. Due to these business combinations, most measures of revenue, expense, income, and average balances increased in 2017 compared to 2016. Additionally, per share measures were affected by the issuance of shares as merger consideration, together with the stock offering in May 2017 which was simultaneous with the Commerce announcement. All acquisitions were targeted to be accretive to earnings and earnings per share when fully integrated, and to provide a long term double digit return on equity.

Net income decreased in 2017 by 6% to $55 million, while adjusted net income increased by 33% to $91 million. On a per share basis, net income decreased by 26% to $1.39, while adjusted net income increased by 4% to $2.29. The Company targets ongoing improvement in this measure to benefit from its investments in organic growth and acquisitions, and to improve profitability. Return on assets decreased by 24% to 0.56%, while adjusted return on assets increased by 8% to 0.93% as the Company moved closer to its target of 1.00% or higher. The federal tax reform and efficiencies from the Commerce integration were targeted to support further improvement in this measure in 2018.

The return on equity decreased by 31% to 4.5% while the adjusted return on equity decreased by 3% to 7.3% due to the excess equity on hand in 2017 while the Commerce merger was pending. The return on tangible common equity decreased by 5% to 11.8% due to the excess equity but continued to be important as a source of internal capital generation to support organic growth and dividends. The efficiency ratio increased by 3% to 60.0% due to the first full year including the acquired First Choice mortgage banking operations, which operate with narrower margins common to this business. Berkshire estimated that the efficiency of operations excluding mortgage banking improved to approximately 56%. This reflected the benefit of ongoing scale efficiencies and was achieved despite the higher regulatory cost burden as the Company crossed the $10 billion regulatory asset threshold.

Total Net Revenue. Total net revenue increased in 2017 by $122 million, or 41% to $420 million. On a pro-forma basis, as set forth in the Consolidated Financial Statements, total 2017 revenue including the Commerce operations reached $480 million, with non-interest income providing 28% of total revenue. Revenue growth in 2017 included a 27% increase in net interest income and a 79% increase in fee income. Total revenue per share increased by 11% to

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$10.59, and on a pro forma basis with Commerce this measure increased to $10.81. These changes indicated the combined impact of the Commerce and First Choice acquisitions on Berkshire's scale and business mix.

Net Interest Income. Annual net interest income increased by $63 million, or 27%, in 2017. As noted in the pro-forma statements in the Company's SEC filings, the business combinations in 2016 were estimated to add $36 million in net interest income in the first year of combined operations based on the assumptions set forth therein. The Commerce pro forma estimated that it would add up to $20 million per quarter in revenue in the first year; the Company owned Commerce operations for most of the fourth quarter of 2017. Interest income also increased as a result of 8% organic increase in loans, funded primarily by the 6% organic increase in deposits. The 27% increase in net interest income was attributable to the 23% increase in average earning assets and the 3% increase in the net interest margin.

The net interest margin increased throughout 2017 from 3.21% in the fourth quarter of 2016 to 3.50% in the fourth quarter of 2017. The margin for the year improved to 3.40% in 2017 from 3.31% in 2016. Factors that contributed to the improvement in the margin included the mix shift towards higher yielding commercial loans, the increase in interest rates, the termination of the fixed payment cash flow hedges, generally low deposit betas (indicating low sensitivity to interest rate changes), and the benefit of purchase accounting initially related to First Choice and then to Commerce. The yield on earning assets increased for the year to 4.16% from 3.93%, while there was a smaller increase in the cost of funds to 0.77% from 0.69%.

The Company measures the impact of purchased loan accretion on the net interest margin. This accretion totaled $15 million and contributed 0.17% to the margin in 2017, compared to $8 million and 0.11% in 2016. The recognition of accretion depends on strategies for managing purchased credit impaired loans which have significantly benefited net interest income but which are uncertain and may vary from quarter to quarter. The Company has also benefited from the amortization of discount on purchased time deposits, which is mostly recognized in the first year or two following a merger.

Non-Interest Income. Fee income increased by $54 million, or 79% in 2017, and totaled $123 million for the year. Mortgage banking fees increased by $47 million to $54 million, representing the first full year of the acquired First Choice national mortgage banking operations. Berkshire originated $2.4 billion in total held for sale mortgages in 2017.

Loan fees increased by $5 million to $21 million. Loan fees in 2017 included $9 million in SBA loan sale gains, $5 million in commercial loan interest rate swap fees, $3 million in gains on the sale of seasoned mortgages, and $2 million in asset based lending fees. The increase was primarily due to higher SBA loan volumes, and included increased cross-sale activities among the lending groups. Deposit related fees increased by $2 million, or 9%, to $27 million including the First Choice and Commerce contributions.

Non-interest income in 2017 included $13 million in securities gains, a $7 million charge for the loss on the termination of hedges, and $3 million in other net charges. The securities gains were due to the equity securities sales described previously in the investment securities section. The loss on the termination of hedges was described previously in the derivative securities section. The $3 million in other net charges was due to a $9 million charge for the amortization of tax credit investments, which was more than offset by benefits to income tax expense as further discussed below. This charge was partially offset by $4 million in accrued income on bank owned life insurance contracts.

Provision for Loan Losses. The provision for loan losses increased by $4 million, or 21%, to $21 million in 2017. The provision for loan losses exceeded net loan charge-offs and resulted in an increase in the loan loss allowance due to portfolio growth.

Non-Interest Expense. Non-interest expense includes amounts viewed by the Company as not related to recurring operations. These expenses are excluded from the Company's non-GAAP measure of adjusted expense. The primary component of these expenses is merger related expense, which totaled $25 million in 2017 and $14 million in 2016. These expenses related mostly to the Commerce and First Choice acquisitions. The Company had targeted $32

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million in Commerce merger related expenses, of which $21 million was recorded in 2017. The Company recorded restructuring and other expense totaling $7 million in 2017 and $2 million in 2016, which was primarily related to premises lease terminations as the Company has right sized its facilities. In 2017, the Company recorded $3 million in employee and community investment expense for initiatives undertaken due to the federal tax reform. Total expenses excluded from the measure of adjusted expenses totaled $35 million in 2017 compared to $16 million in 2016.

Total non-interest expense increased by $96 million, or 47%, to $300 million in 2017. Adjusted expense, excluding items discussed above, increased by $77 million, or 41%, to $265 million. The largest expense growth was in compensation (46%), premises and technology (30%), and marketing (276%). The compensation and marketing expense changes were affected by the mortgage banking expense structure, which has higher variable compensation expense and marketing payments related to designated business channels. Expenses benefited from the First Choice integration, which was targeted to result in $15 million in annualized cost savings on completion of integration. The Commerce integration in 2018 was targeted to result in $8 million in such annualized savings. Expenses in 2017 also benefited from the restructuring initiatives early in the year which reduced ongoing overhead costs.

The efficiency ratio increased to 59.97% in 2017 from 58.27% in 2016. The acquired mortgage banking business operates with lower margins and therefore a higher efficiency ratio. The Company estimates that it operated with an efficiency ratio of approximately 56% in 2017 excluding mortgage banking. This demonstrated the ongoing benefit of the Company's growth strategies. Berkshire had full time equivalent staff totaling 1,992 at year-end 2017, including the Commerce positions which were reported at 226 as of September 30, 2017. Berkshire reported 1,788 full time equivalent staff as of that date. Full time equivalent staff totaled 1,731 positions as of year-end 2016.

Income Tax Expense. The effective tax rate increased to 45% in 2017 from 24% in 2016. This included the $18 million charge to write-down the net deferred tax assets as a result of the federal income tax reform near year-end. Before this charge, the effective tax rate in 2017 was 26%.

The Company also measures its effective tax rate on adjusted income as a non-GAAP measure. The Company excluded the $18 million deferred tax provisional write-down from its tax expense in this analysis. The adjusted effective tax rate on adjusted pre-tax income measured 29% in 2017. This adjusted rate exceeded the 26% GAAP rate before the deferred tax charge due to the total net adjustments to GAAP income, primarily from merger charges. These charges resulted in lower GAAP pre-tax income, compared to adjusted pre-tax income. As a result, the GAAP tax rate (before the deferred tax charge) had a higher proportionate benefit from tax advantaged revenues, and therefore was lower than the adjusted rate. This is a normal occurrence for the Company due to its record of acquisitions which result in merger costs that reduce GAAP earnings.

The 29% adjusted income tax rate on adjusted income in 2017 increased from 26% in 2016. This increase primarily reflected the increase in pre-tax adjusted income and the proportionately lower benefit of slower growing tax advantaged sources and a decrease in the benefit from investment tax credit programs. As the Company has grown, ongoing earnings growth has been a normal contributor to changes in the tax rate.

The 29% adjusted effective tax rate on adjusted income in 2017 was 6% lower than the 35% federal statutory rate due to the benefit of items listed in the effective tax rate table in the Consolidated Financial Statements. Federal tax reform reduced the future federal statutory tax rate to 21%, and also adjusted certain other deductions and benefits that impact the overall effective tax rate.

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LIQUIDITY AND CASH FLOWS
Liquidity is the ability to meet cash needs at all times with available cash and established external liquidity sources or by conversion of other assets to cash at a reasonable price and in a timely manner. Berkshire evaluates liquidity at the holding company and on a consolidated basis, which is primarily a function of the Bank’s liquidity.

The primary liquidity need at the holding company is to support its capital structure, including shareholder dividends and debt service. Additionally, the holding company uses cash to support certain organizational expenses, stock purchases and buybacks, merger related costs, and limited business functions that cannot be performed at the Bank or the insurance subsidiary. The holding company primarily relies on dividends from the Bank to meet its ongoing cash needs. The holding company generally expects to maintain cash on hand equivalent to normal cash uses, including common stock dividends, for at least a one year period. Sources and uses of cash at the parent are reported in the condensed statements of the parent company included in the notes to the Consolidated Financial Statements. There are certain restrictions on the payment of dividends by the Bank as discussed in Note 1 - Shareholders' Equity and Earnings Per Common Share of the Consolidated Financial Statements. This amount is based on retained earnings of the Bank and is expected to be supplemented by future bank earnings in accordance with the statutory formula. Dividends by the holding company require notice and non-objection from the Federal Reserve Bank in the event that earnings are not sufficient to cover the dividend. There was no objection to the dividend declared on fourth quarter operations which resulted in a loss due to the charge recorded due to federal tax reform.

At year-end 2018, the holding company had $69 million in cash and equivalents, compared to $83 million at the start of the year. The Parent’s cash is held on deposit in the Bank. The Bank paid $46 million in dividends to the holding company in 2018, which was an increase from $39 million in 2016 due to the increase in common shareholders. The holding company has a $5 million unsecured line of credit, which was unused at year-end 2018. The holding company manages a portfolio of equity securities in support of the consolidated strategy for investments and asset liability management.

The Bank’s primary ongoing source of liquidity is customer deposits and wholesale funding, and the main use of liquidity is the funding of loans and lending commitments. Additional routine sources are repayments of loans and investment securities, and the sale of investment securities. The Bank targets to grow customer deposits by increasing its market share among its regions in order to sustain loan growth as a primary component of its strategy. Deposit strategies also consider relative deposit costs as well as relationship and market share objectives. The Bank’s acquisition strategy is also targeted to supplement business activities including bank acquisitions and acquisitions of branches. Additionally, the Bank utilizes wholesale funding sources, including borrowings and brokered time deposits. Around year-end 2017, the Bank recruited government banking and international banking professionals who are developing municipal, institutional, and commercial deposit sources in the future.

The Company monitors the loans/deposits ratio in assessing directional changes in its liquidity. Deposit concentrations are monitored as well. The Company also monitors the levels of its wholesale funding in relationship to total assets. Brokered deposits can be more volatile than customer deposits depending on Company and economic events. FHLBB borrowings are in the context of standard, long-term FHLB programs but overall availability is constrained by collateral tests.

The Company also monitors the liquidity of investment securities. The Bank relies on its borrowings availability with the FHLBB for routine operating liquidity, and has other overnight borrowing relationships for contingency liquidity purposes. The Bank has improved its collateral management to improve its credit availability with the FHLBB and the Federal Reserve Bank of Boston. The Bank has also expanded its interest rate swaps with national counterparties to provide fixed interest instruments to large commercial borrowers. The Company has strengthened its liquidity planning and management processes in conjunction with its overall growth and regulatory expectations.

In 2018, the Bank’s primary use of funds was loan growth and the primary source of funds was brokered deposits and short term FHLBB borrowings. The Bank’s total FHLBB unused borrowing availability was $1.1 billion at year-end 2018, which was unchanged from the prior year. The Bank scrubbed additional collateral assets for FHLBB eligibility during the year, which offset its higher usage of borrowings. The Bank is also expanding its list of approved correspondent banks and the availability of federal funds lines to the Company. While most investment

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securities are pledged as collateral, at year-end 2018, the Bank had $251 million in segregated and unencumbered securities available to provide additional liquidity if needed.

Berkshire operates a payroll deposit and transfer service, which works with payroll service bureau clients to accept their deposits and process ACH payments to their commercial customer employee accounts. The balances in this business fluctuate daily based on payroll cycles. As a result, the Bank's daily cash management has expanded and it maintains additional focus on overnight liquidity and the management of daily cash clearing activity. During 2018, the average balance of these deposits was $324 million, with a high balance of $631 million and a low balance of $154 million.

The Bank utilizes the mortgage secondary market as a source of funds for residential mortgages which are sold into that market. Secondary market counterparties include federal mortgage agencies and selected U.S. financial institutions. The Bank works with third parties in hedging interest rate locks with to-be-announced mortgage backed securities and arranging commitments for the sale of individual loans to approved secondary market investors. Most sales are on a servicing released basis. Mortgage loans originated for sale in 2018 totaled $2.0 billion.

Berkshire has additionally developed financial institution banking relationships in and around its regions for the wholesale purchase and sale of seasoned loans. Berkshire's financial institution banking has also expanded wholesale transactions of commercial loans, including purchases and sales of whole loans and participations in syndicated loan transactions.

The greatest sources of uncertainty affecting liquidity are deposit withdrawals and usage of loan commitments, which are influenced by interest rates, economic conditions, and competition. Due to the unusual and prolonged low interest rate environment prior to 2018, there is uncertainty about the behavior of deposits if interest rates increase at some future time as is anticipated. The Company believes that its market positioning and relationship focus will generally enhance the stability of its deposits, and it also models various scenarios for the purpose of contingency liquidity planning. The Bank manages the concentration of deposits from customers and in various regions and product types. The Bank relies on competitive rates, customer service, and long-standing relationships with customers to manage deposit and loan liquidity. Based on its historical experience, management believes that it has adequately provided for deposit and loan liquidity needs. Both liquidity and capital resources are managed according to policies approved by the Board of Directors and executive management and the Board reviews liquidity metrics and contingency plans on a regular basis. The Bank actively manages all aspects of its balance sheet to achieve its objectives for earnings, liquidity, asset quality, interest rate risk, and capital.

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CAPITAL RESOURCES

The Company and the Bank target to maintain sufficient capital to qualify for the "Well Capitalized" designation by federal regulators. Berkshire's long term goal is to use capital efficiently to achieve its objective to become a higher performance company with a targeted return on equity exceeding 10%. A double digit return on equity is used to benchmark all lending and investment programs, together with all acquisition analyses. The Company seeks to maintain a competitive cost of capital and capital structure. The Company monitors its ratio of tangible equity/tangible assets. This ratio increased slightly to 8.6% in 2018 due to strong internal capital generation which supported asset growth, a higher dividend, and improvement in this ratio.

Berkshire views its internal return on tangible capital as the primary capital resource of the Company. The return on tangible equity averaged over 12% for the four years 2015-2018. The Company focuses on internal capital generation to support shareholder dividends and targeted organic growth and also to support non-operating charges and/or improvement in its capital ratios. The Company has maintained a universal shelf registration of capital securities with the SEC. The Company sometimes uses issuances of unregistered stock for targeted small contractual payments. The Company has an approved stock repurchase program for 500,000 shares. The Company normally uses common stock as a significant component of consideration for business combinations. The resulting stock issuances have meaningfully increased the float and market capitalization of the Company.

Due to the stock issuances in 2017, the Company had utilized most of its authorized common and preferred shares. In 2018, the Company obtained shareholder approval to amend the Certificate of Incorporation to increase authorized shares. As previously noted, the Company has a pending agreement to acquire SI Financial Group and to issue common stock as merger consideration. The Company has also announced that it has initiated a strategic review, which will include its capital structure and evaluate possible changes in its balance sheet and capital needed to support its operations.

The Company regularly evaluates the markets for capital instruments and views itself as well positioned to access additional capital in various ways if appropriate based on future changes in conditions. In 2018, the Company obtained an investment grade senior debt rating from a recognized credit rating agency. Additional discussion of the Company's capital management is contained in the Shareholders' Equity section of the discussion of Changes in Financial Condition in this report.

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CONTRACTUAL OBLIGATIONS

The year-end 2018 contractual obligations were as follows:

Item 7-7A - Table 1 - Contractual Obligations

(In thousands)	Total	Less than One Year	One to Three Years	Three to Five Years	After Five Years
FHLBB borrowings (1)	$1,428,298	$ 1,268,882	$ 152,840	$ 5,165	$1,411
Subordinated notes	89,518	—	—	—	89,518
Operating lease obligations (2)	99,146	13,554	24,021	18,722	42,849
Purchase obligations (3)	93,173	13,523	25,083	22,081	32,486
Total Contractual Obligations	$1,710,135	$ 1,295,959	$ 201,944	$ 45,968	$166,264

Acquisition related obligations are not included.

(1) Consists of borrowings from the Federal Home Loan Bank. The maturities extend through 2038 and the rates vary by borrowing.

(2) Consists of leases, bank branches, and ATMs through 2039.

(3) Consists of obligations with multiple vendors to purchase a broad range of services.

Further information about borrowings and lease obligations is disclosed in Note 11 - Borrowed Funds and Note 16 - Other Commitments, Contingencies, and Off-Balance Sheet Activities of the Consolidated Financial Statements. Note 24 - Subsequent Events describes the Company’s contractual obligation under an agreement to acquire SI Financial Group which was pending as of year-end 2018.

OFF-BALANCE SHEET ARRANGEMENTS

In the normal course of operations, Berkshire engages in a variety of financial transactions that, in accordance with generally accepted accounting principles are not recorded in the Company’s financial statements. As previously reported in the discussion of changes in financial condition, Berkshire has outstanding derivative financial instruments and engages in hedging activities, and the fair value of these contracts is recorded on the balance sheet. The previously mentioned pending agreement to acquire SI Financial Group is expected to be recorded in the Company’s financial statements on completion of the merger agreement, which is expected to occur in the second quarter of 2019.

FAIR VALUE MEASUREMENTS

The most significant fair value measurements recorded by the Company are those related to assets and liabilities acquired in business combinations. These measurements are discussed further in the mergers and acquisitions note to the financial statements. The premium or discount value of acquired loans has historically been the most significant element of this presentation.

The Company makes further measurements of fair value of certain assets and liabilities, as described in the related note in the financial statements. The most significant measurements of recurring fair values of financial instruments primarily relate to securities available for sale, marketable equity securities, and derivative instruments. These measurements were included in the previous discussion of changes in financial condition, and were generally based on Level 2 market based inputs. Non-recurring fair value measurements primarily relate to impaired loans, capitalized mortgage servicing rights, and other real estate owned. When measurement is required, these measures are generally based on Level 3 inputs.

Berkshire provides a summary of estimated fair values of financial instruments at each period-end. The premium or discount value of loans has historically been the most significant element of this presentation. This amount is a Level 3 estimate and reflects management’s subjective judgments. At year-end 2018, the premium value of the loan portfolio was $45 million, or 0.5% of carrying value, compared to $175 million, or 2.1% of carrying value at year-end 2017.

This decrease reflected the higher prevailing market interest rates at year-end 2018, resulting in a lower present value of the fixed rate instruments in the portfolio.

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IMPACT OF INFLATION AND CHANGING PRICES

The financial statements and related financial data presented in this Form 10-K have been prepared in conformity with accounting principles generally accepted in the United States of America, which require the measurement of financial position and operating results in terms of historical dollars, without considering changes in the relative purchasing power of money over time due to inflation. Unlike many industrial companies, substantially all of the assets and liabilities of the Bank are monetary in nature. As a result, interest rates have a more significant impact on the Bank's performance than the general level of inflation. Interest rates may be affected by inflation, but the direction and magnitude of the impact may vary. A sudden change in inflation (or expectations about inflation), with a related change in interest rates, would have a significant impact on our operations.

IMPACT OF NEW ACCOUNTING PRONOUNCEMENTS

Please refer to the notes on Recently Adopted Accounting Principles and Future Application of Accounting Pronouncements in Note 1 - Summary of Significant Accounting Policies of the Consolidated Financial Statements.

APPLICATION OF CRITICAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

The Company's significant accounting policies are described in Note 1 - Summary of Significant Accounting Policies of the Consolidated Financial Statements. Please see those policies in conjunction with this discussion. The accounting and reporting policies followed by the Company conform, in all material respects, to accounting principles generally accepted in the United States and to general practices within the financial services industry. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. While the Company bases estimates on historical experience, current information and other factors deemed to be relevant, actual results could differ from those estimates.

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. Please see those policies in conjunction with this discussion. Management believes that the following policies would be considered critical under the SEC's definition:

Allowance for Loan Losses. The allowance for loan losses represents probable incurred credit losses that are inherent in the loan portfolio at the financial statement date and which may be estimated. Management uses historical information, as well as current economic data, to assess the adequacy of the allowance for loan losses as it is affected by changing economic conditions and various external factors, which may impact the portfolio in ways currently unforeseen. Although management believes that it uses appropriate available information to establish the allowance for loan losses, future additions to the allowance may be necessary if certain future events occur that cause actual results to differ from the assumptions used in making the evaluation. Conditions in the local economy and real estate values could require the Company to increase provisions for loan losses, which would negatively impact earnings.

Acquired Loans. Loans that the Company acquired in business combinations are initially recorded at fair value with no carryover of the related allowance for credit losses. Determining the fair value of the loans involves estimating the amount and timing of principal and interest cash flows initially expected to be collected on the loans and discounting those cash flows at an appropriate market rate of interest. Going forward, the Company continues to evaluate reasonableness of expectations for the timing and the amount of cash to be collected. Subsequent decreases in expected cash flows may result in changes in the amortization or accretion of fair market value adjustments, and in some cases may result in the loan being considered impaired. For collateral dependent loans with deteriorated credit quality, the Company estimates the fair value of the underlying collateral of the loans. These values are discounted using market derived rates of return, with consideration given to the period of time and costs associated with the foreclosure and disposition of the collateral.

Income Taxes. Significant management judgment is required in determining income tax expense and deferred tax assets and liabilities. The Company uses the asset and liability method of accounting for income taxes in which deferred tax assets and liabilities are established for the temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities. The realization of the net deferred tax asset generally

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depends upon future levels of taxable ordinary income, taxable capital gain income, and the existence of prior years' taxable income, to which "carry back" refund claims could be made. A valuation allowance is maintained for deferred tax assets that management estimates are more likely than not to be unrealizable based on available evidence at the time the estimate is made. In determining the valuation allowance, the Company uses historical and forecasted future operating results, including a review of the eligible carry-forward periods, tax planning opportunities and other relevant considerations. In particular, income tax benefits and deferred tax assets generated from tax-advantaged commercial development projects are based on management's assessment and interpretation of applicable tax law as it currently stands. These underlying assumptions can change from period to period. For example, tax law changes or variances in projected taxable ordinary income or taxable capital gain income could result in a change in the deferred tax asset or the valuation allowance. Should actual factors and conditions differ materially from those considered by management, the actual realization of the net deferred tax asset could differ materially from the amounts recorded in the financial statements. If the Company is not able to realize all or part of its net deferred tax asset in the future, an adjustment to the deferred tax asset in excess of the valuation allowance would be charged to income tax expense in the period such determination is made.

Goodwill and Identifiable Intangible Assets. Goodwill and identifiable intangible assets are recorded as a result of business acquisitions and combinations. These assets are evaluated for impairment annually or whenever events or changes in circumstances indicate the carrying value of these assets may not be recoverable. When these assets are evaluated for impairment, if the carrying amount exceeds fair value, an impairment charge is recorded to income. The fair value is based on observable market prices, when practicable. Other valuation techniques may be used when market prices are unavailable, including estimated discounted cash flows and analysis of market pricing multiples. These types of analyses contain uncertainties because they require management to make assumptions and to apply judgment to estimate industry economic factors and the profitability of future business strategies. In the event of future changes in fair value, the Company may be exposed to an impairment charge that could be material.

Determination of Other-Than-Temporary Impairment of Securities. The Company evaluates debt securities within the Company's available for sale and held to maturity portfolios for other-than-temporary impairment ("OTTI"), at least quarterly. If the fair value of a debt security is below the amortized cost basis of the security, OTTI is required to be recognized if any of the following are met: (1) the Company intends to sell the security; (2) it is "more likely than not" that the Company will be required to sell the security before recovery of its amortized cost basis; or (3) for debt securities, the present value of expected cash flows is not sufficient to recover the entire amortized cost basis. For all impaired debt securities that the Company intends to sell, or more likely than not will be required to sell, the full amount of the loss is recognized as OTTI through earnings. Credit-related OTTI for all other impaired debt securities is recognized through earnings. Noncredit related OTTI for such debt securities is recognized in other comprehensive income, net of applicable taxes. Should actual factors and conditions differ materially from those expected by management, the actual realization of gains or losses on investment securities could differ materially from the amounts recorded in the financial statements.

Fair Value of Financial Instruments. The Company uses fair value measurements to record fair value adjustments to certain financial instruments and to determine fair value disclosures. Trading assets, securities available for sale, and derivative instruments are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other assets on a nonrecurring basis, or to establish a loss allowance or write-down based on the fair value of impaired assets. Further, the notes to financial statements include information about the extent to which fair value is used to measure assets and liabilities, the valuation methodologies used and its impact to earnings. For financial instruments not recorded at fair value, the notes to financial statements disclose the estimate of their fair value. Due to the judgments and uncertainties involved in the estimation process, the estimates could result in materially different results under different assumptions and conditions.

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

MANAGEMENT OF INTEREST RATE RISK AND MARKET RISK ANALYSIS
Qualitative Aspects of Market Risk. The Company's most significant form of market risk is interest rate risk. The Company seeks to avoid fluctuations in its net interest income and to maximize net interest income within acceptable levels of risk through periods of changing interest rates. The Company also seeks to manage the risk of interest rate changes to its net income and the economic value of equity. Further, where prudent, the Company seeks to be positioned to benefit from expected interest rate changes, within its risk parameters. The Company manages interest rate risk within policy limits approved by the Board.

The Company maintains an Enterprise Risk Management/Asset-Liability Committee (ERM/ALCO) that is responsible for reviewing its asset-liability policies and interest rate risk position. This Committee meets regularly, and the Chief Financial Officer and Treasurer report trends and interest rate risk position to the Risk Management and Capital Committee of the Board of Directors on a quarterly basis. The extent of the movement of interest rates is an uncertainty that could have a negative impact on the Company's net interest income and earnings.

The Company manages its interest rate risk by analyzing the sensitivities and adjusting the mix of its assets and liabilities, including derivative financial instruments. The Company also uses secondary markets, brokerages, and counterparties to accommodate customer demand for long term fixed rate loans and to provide it with flexibility in managing its balance sheet positions. When the Company enters into business combinations, it considers interest rate risk as part of its merger analysis and it integrates existing and acquired operations as appropriate to achieve its objectives for the combined businesses.
Quantitative Aspects of Market Risk. Berkshire has recently maintained a neutral or asset sensitive interest rate risk profile, as measured by the sensitivity of net interest income to market interest rate changes. The Company measures this sensitivity primarily by evaluating models of net interest income over one year, two years, and three year time horizons. The Company models a base case assuming no changes in interest rates or balance sheet composition and then assuming various scenarios of ramped interest rate changes, shocked interest rate changes, changes predicted by the forward yield curve, and changes involving twists in the yield curve. The focus is on a two-year scenario where interest rates ramp up by 200 basis points in the first year compared to a base case of flat interest rates. The Bank also evaluates its equity at risk from interest rate changes through discounted cash flow analysis. This measure assesses the present value of changes to equity based on long term impacts of rate changes beyond the time horizons evaluated for net interest income at risk.

The Company uses a simulation model to measure the changes in net interest income. The chart below shows the analysis of the ramped change described above, assuming a parallel shift in the yield curve. Loans, deposits, and borrowings were expected to reprice at the repricing or maturity date. Pricing caps and floors are included in the simulation model. The Company uses prepayment guidelines set forth by market sources as well as Company generated data where applicable. Cash flows from loans and securities are assumed to be reinvested to maintain a static balance sheet. Other assumptions about balance sheet mix are generally held constant. There were no material changes to the way that the Company measures market risk in 2018.

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Item 7-7A - Table 2 - Qualitative Aspects of Market Risk

Change in Interest Rates-Basis Points (Rate Ramp)	1- 12 Months		13- 24 Months	
	$ Change	% Change	$ Change	% Change
(In thousands)				
At December 31, 2018				
+300	$8,200	2.20 %	$4,400	1.20 %
+200	6,700	1.80	3,500	0.90
+100	4,600	1.20	2,100	0.60
-100	(5,900)	(1.60)	(9,500)	(2.50)
At December 31, 2017				
+300	$9,806	2.95 %	$11,193	3.40 %
+200	7,940	2.39	9,374	2.85
+100	4,683	1.41	5,890	1.79
-100	(6,424)	(1.93)	(12,532)	(3.81)

During 2018, the Company moved from being modestly asset sensitive to generally neutral in the modeled scenario of a static balance sheet and focusing on the second year of a 200 basis point parallel upward move in interest rates. This has been primarily due to the use of short term wholesale funding to fund loan growth. The Company has modeled a 100 basis point decrease in interest income in recent years due to low interest rates. As market rates have moved upward, the Company will expand its modeling of downward rate scenarios, which are expected to indicate more sensitivity to a decrease in net interest income than the 100 basis point scenario shown above.

In a flat rate scenario, the Company anticipates that there would be modest margin pressure on the year-end balance sheet. This is due to some asset repricings and the lagged nature of deposit repricings, along with anticipated decreases in the accretive benefits of purchase accounting. The interest sensitivity analyses are in comparison to this flat rate base case. The Company also analyzes its interest sensitivity based on the forward yield curve, which indicates that net interest income is generally neutral compared to the flat rate base case.

The Company also evaluates net income at risk, taking into account primarily changes in fee income that may result from interest rate changes. Generally, fee income is viewed as negatively correlated with changes in interest rates. Higher rates can depress demand for fixed rate products that are the chief source of loan sale gains in mortgage banking and SBA lending, as well as interest rate swap income. Higher rates also are related to higher earnings credit rates on commercial transactions accounts, which reduces deposit service charges. The Company estimates that its net income is generally neutral in the modeled scenario of a 200 basis point upward interest rate ramp on its static balance sheet.

The Company's equity at risk is normally liability sensitive due to the overall shorter duration of its funds sources compared to its loans and investments. The Company estimated that the economic value of its equity was 6% negatively impacted by a modeled 200 basis point interest rate shock at year-end 2018, which was not significantly different from the 5% risk estimated at the start of the year.

The Company estimates that its deposit interest rate sensitivity in 2018 has approximated the 40% beta level utilized in the Company's modeling. The Company's modeling assumes no shift in the deposit mix in rate change scenarios. The Company has a pending agreement to acquire SI Financial Group. The Company anticipates that this acquisition will be neutral or slightly positive to its interest rate sensitivity when the merger is complete and integrated. The Company will also be assessing its interest rate sensitivity as it considers balance sheet scenarios in the strategic review that it is conducting.

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ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Consolidated Financial Statements and supplementary data required by this item are presented elsewhere in this report beginning on page F-1, in the order shown below:

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

On August 3, 2017, the Audit Committee (the "Committee") of the Board of Directors of Berkshire Hills Bancorp, Inc. (the "Company") notified PricewaterhouseCoopers, LLP ("PwC") of its dismissal as the Company's independent registered public accounting firm. The dismissal was effective on August 9, 2017, with PwC having served as the Company's principal accountants for the first two quarters of the fiscal year ended December 31, 2017. The Committee participated in, and approved the decision to change its independent registered public accounting firm.

PwC's audit reports on the Company's Consolidated Financial Statements as of and for the year ended December 31, 2016 and did not contain any adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope or accounting principles.

During the fiscal year ended December 31, 2016 and the subsequent interim period through August 9, 2017, there were (i) no disagreements between the Company and PwC on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedures, which, if not resolved to the satisfaction of PwC, would have caused PwC to make reference thereto in their reports on the consolidated financial statements for such years, and (ii) no "reportable events" as that term is defined in Item 304(a)(1)(v) of Regulation S-K.

Also on August 3, 2017, the Committee completed a competitive selection process and selected Crowe LLP ("Crowe") as the Company's independent registered public accounting firm, effective August 10, 2017. During the fiscal year ended December 31, 2016 and the subsequent interim period preceding the selection of Crowe, the Company did not consult with Crowe regarding: (i) the application of accounting principles to a specified transaction, either completed or proposed; (ii) the type of audit opinion that might be rendered on the Company's financial statements, and Crowe did not provide any written report or oral advice that Crowe concluded was an important factor considered by the Company in reaching a decision as to any such accounting, auditing or financial reporting issue; or (iii) any matter that was either the subject of a disagreement with PwC on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure or the subject of a reportable event.

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ITEM 9A. CONTROLS AND PROCEDURES

The Company’s management, including the Company’s Principal Executive Officer and Principal Financial Officer, have evaluated the effectiveness of the Company’s “disclosure controls and procedures,” as such term is defined in Rule 13a and 15(d) -15(e) promulgated under the Securities Exchange Act of 1934, as amended, (the “Exchange Act”) as of December 31, 2018. Based upon their evaluation, the Principal Executive Officer and Principal Financial Officer concluded that, as of that date, the Company’s disclosure controls and procedures were effective for the purpose of ensuring that the information required to be disclosed in the reports that the Company files or submits under the Exchange Act with the Securities and Exchange Commission (the “SEC”): (1) is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms; and (2) is accumulated and communicated to the Company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company evaluated changes in its internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) that occurred during the last fiscal quarter. The Company determined that there were no changes that materially affected, or were reasonably likely to materially affect, the Company’s internal control over financial reporting. Management’s report on internal control over financial reporting and the independent registered public accounting firm’s report on the Company’s internal control over financial reporting are contained in “Item 8 — Consolidated Financial Statements and Supplementary Data.”

ITEM 9B. OTHER INFORMATION

None.

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PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

For information concerning the directors of the Company, the information contained under the sections captioned "Proposals to be Voted on by Stockholders - Proposal 1 - Election of Directors" in Berkshire's Proxy Statement for the 2019 Annual Meeting of Stockholders ("Proxy Statement") is incorporated by reference. The following table sets forth certain information regarding the executive officers of the Company.

Name	Age	Position
Richard M. Marotta	60	President and Chief Executive Officer of the Company; Chief Executive Officer - Berkshire Bank
Sean A. Gray	43	Senior Executive Vice President of the Company; President - Berkshire Bank
James M. Moses	42	Senior Executive Vice President, Chief Financial Officer of the Company; Senior Executive Vice President, Chief Financial Officer - Berkshire Bank
George F. Bacigalupo	64	Senior Executive Vice President, Commercial Banking - Berkshire Bank
Michael D. Carroll	57	Executive Vice President, Commercial Banking and Specialty Lending - Berkshire Bank
Tami F. Gunsch	56	Senior Executive Vice President & Director of Relationship Banking - Berkshire Bank
Linda A. Johnston	66	Senior Executive Vice President of Human Resources - Berkshire Bank
Gregory D. Lindenmuth	51	Senior Executive Vice President, Chief Risk Officer - Berkshire Bank
Allison P. O'Rourke	43	Senior Executive Vice President, Chief Administrative Officer - Berkshire Bank
Wm. Gordon Prescott	57	Senior Executive Vice President, General Counsel and Corporate Secretary - Berkshire Bank

The executive officers are elected annually and hold office until their successors have been elected and qualified or until they are removed or replaced.

BIOGRAPHICAL INFORMATION

Richard M. Marotta. Age 60. Mr. Marotta was appointed to the role of President and Chief Executive Officer of the Company and Chief Executive Officer of the Bank in November 2018. Prior to these appointments, Mr. Marotta served as Senior Executive Vice President of the Company and President of the Bank from 2015. Mr. Marotta joined the Company in 2010 as Executive Vice President, Chief Risk Officer and has held additional positions including Chief Credit Officer and Chief Administrative Officer. Mr. Marotta has all functions reporting to him except for those reporting to Mr. Gray. Mr. Marotta was previously Executive Vice President and Group Head, Asset Recovery at KeyBank.

Sean A. Gray. Age 43. Mr. Gray was appointed to the role of Senior Executive Vice President of the Company and President of the Bank in November 2018. Prior to this appointment, Mr. Gray was Senior Executive Vice President of the Company and Chief Operating Officer of the Bank from 2015. Mr. Gray joined the Company in 2007 as First Vice President, Retail Banking and has held various position including, Executive Vice President, Retail Banking and Senior Vice President. Mr. Gray has Ms. Gunsch and Ms. Johnston reporting to him, together with the wealth management, insurance, government banking, cash management, and home lending business lines, as well as marketing Prior to joining the Bank, Mr. Gray was Vice President and Consumer Market Manager at Bank of

America, in Waltham, Massachusetts.

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James M. Moses. Age 42. Mr. Moses is Senior Executive Vice President, Chief Financial Officer of the Company and the Bank, since joining the Bank in July 2016. He is responsible for the accounting, treasury, tax, investor relations, capital markets functions, and facilities management. Mr. Moses previously served at Webster Bank as Senior Vice President and Asset/Liability Manager. Mr. Moses joined Webster Bank in 2011 from M&T Bank where he spent four years in various roles including head mortgage trader, deposit products pricing manager, and consumer credit card product manager.

George F. Bacigalupo. Age 64. Mr. Bacigalupo was promoted to Senior Executive Vice President, Commercial Banking in September 2015, having previously served as an Executive Vice President since October 2013 and Senior Vice President, Chief Credit Officer since 2011. Mr. Bacigalupo is responsible for commercial banking, including the middle-market, business banking and asset based lending teams in Eastern and Central Massachusetts and Connecticut. Previously, Mr. Bacigalupo was EVP of Specialty Lending at TD Banknorth, where he established the ABL and other middle-market lending groups. Subsequently, at TD Bank, he was the Senior Lender for New England.

Michael D. Carroll. Age 57. Mr. Carroll is Senior Executive Vice President, Commercial Banking and Specialty Lending of Berkshire Bank, a position he was promoted to 2018. Mr. Carroll has previously held the positions of EVP, Commercial Banking and Specialty Lending, EVP, Chief Risk Officer and SVP, Chief Credit Officer managing the risk and credit departments of the Bank. In his role as SEVP, Commercial Banking and Specialty Lending, he is responsible for Firestone Financial (equipment leasing) and 44 Business Capital (SBA lending) and is the executive leader of the regional commercial teams in Berkshire County, Vermont, Albany, Syracuse, and the Mid-Atlantic region. He joined the company in 2009 as SVP, New York Regional Commercial Leader. Previously, Mr. Carroll was Senior Vice President, Middle Market banking at KeyBank.

Tami F. Gunsch. Age 56. Ms. Gunsch is Senior Executive Vice President & Director of Relationship Banking, she also serves as President of First Choice Loan Services, a subsidiary of Berkshire Bank. In this role, Ms. Gunsch is responsible for all aspects of the retail banking consumer experience, including branch operations, consumer lending, private banking, investment services, call center, electronic/mobile banking and MyBanker team, as well as the deployment of the Bank's relationship banking strategy across all lines of business. Ms. Gunsch has previously held the positions of EVP, Retail Banking and Senior Vice President. Ms. Gunsch joined Berkshire from Citizens Bank in 2009 as First VP of Retail Banking.

Linda A. Johnston. Age 66. Ms. Johnston is Senior Executive Vice President of Human Resources for Berkshire Bank. Ms. Johnston is responsible for overseeing and directing the Company’s human resources functions including compensation and benefits, performance and talent management, training, recruitment, development, executive compensation, and initiatives and practices that support the Company’s strategic direction. Ms. Johnston also serves as a key advisor to the Compensation Committee of the Company’s Board of Directors and has been part of the Company for more than 30 years.

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Gregory D. Lindenmuth. Age 51. Mr. Lindenmuth is Senior Executive Vice President, Chief Risk Officer of the Bank, a position he was promoted to in October 2018. Mr. Lindenmuth is responsible for enterprise risk management as well as loan review, information security and strategic services. Mr. Lindenmuth joined Berkshire in 2016 from the FDIC where he was employed for 24 years and held multiple positions including Senior Risk Examiner for the Division of Risk Management Supervision and Acting Regional Manager for the Division of Insurance and Research. With the FDIC, Mr. Lindenmuth was also a Capital Markets, Mortgage Banking and Fraud Specialist.

Allison P. O’Rourke. Age 43. Ms. O'Rourke is Senior Executive Vice President, Chief Administrative Officer of the Bank, a position she was promoted to in October 2018. In this role, Ms. O'Rourke is responsible for information technology and project management as well as leading corporate strategy and innovation. Ms. O'Rourke previously held the positions of EVP, Corporate Sales Director and EVP, Finance and Investor Relations. She joined the Bank as Vice President, Investor Relations Officer in 2013 from NYSE Euronext and previously worked in securities brokerage with Goldman Sachs.

Wm. Gordon Prescott, Age 57. Mr. Prescott is Senior Executive Vice President, General Counsel and Corporate Secretary of the Bank, a position he was promoted to in October 2018. Mr. Prescott joined Berkshire in 2008 as VP, General Counsel and Corporate Secretary. Mr. Prescott has 30 plus years of experience in the legal profession, including extensive experience as in-house corporate counsel, and holds a law degree from Boston University School of Law.

Reference is made to the cover page of this report and to the section captioned “Other Information Relating to Directors and Executive Officers - Section 16(a) Beneficial Ownership Reporting Compliance” in the Proxy Statement for information regarding compliance with Section 16(a) of the Exchange Act. For information concerning the audit committee and the audit committee financial expert, reference is made to the section captioned “Corporate Governance - Committees of the Board of Directors” and “Corporate Governance - Audit Committee” in the Proxy Statement.

For information concerning the Company’s code of ethics, the information contained under the section captioned “Corporate Governance - Code of Business Conduct” in the Proxy Statement is incorporated by reference. A copy of the Company’s code of ethics is available to stockholders on the Company’s website at http://ir.berkshirebank.com.

ITEM 11. EXECUTIVE COMPENSATION

For information regarding executive compensation, the sections captioned “Director Compensation”, “Compensation Discussion and Analysis,” and “Executive Compensation” in the Proxy Statement are incorporated herein by reference.

For information regarding the Compensation Committee Report, the section captioned “Compensation Committee Report” in the Proxy Statement is incorporated herein by reference.

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ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS

(a)Security Ownership of Certain Beneficial Owners
Information required by this item is incorporated herein by reference to the section captioned “Stock Ownership” in the Proxy Statement.

(b)Security Ownership of Management
Information required by this item is incorporated herein by reference to the section captioned “Stock Ownership” in the Proxy Statement.

(c)Changes in Control
Management of Berkshire knows of no arrangements, including any pledge by any person of securities of Berkshire, the operation of which may at a subsequent date result in a change in control of the registrant.

(d)Equity Compensation Plan Information
The following table sets forth information, as of December 31, 2018, about Company common stock that may be issued upon exercise of options under stock-based benefit plans maintained by the Company, as well as the number of securities available for issuance under equity compensation plans:

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column)
Equity compensation plans approved by security holders	31,422	$ 10.82	1,357,545
Equity compensation plans not approved by security holders	—	—	—
Total	31,422	$ 10.82	1,357,545

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item is incorporated herein by reference to the sections captioned “Other Information Relating to Directors and Executive Officers — Transactions with Related Persons” and “Procedures Governing Related Persons Transactions” in the Proxy Statement. Information regarding director independence is incorporated herein by reference to the section “Proposals to be Voted on by Shareholders — Proposal 1 — Election of Directors” in the Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this item is incorporated herein by reference to the section captioned “Proposals to be Voted on by Shareholders — Proposal 3 — Ratification of the Appointment of the Independent Registered Public Accounting Firm” in the Proxy Statement.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) [1] Consolidated Financial Statements

The Consolidated Financial Statements required to be filed in our Annual Report on Form 10-K are included in Part II, Item 8 hereof.

[2] Financial Statement Schedules

All financial statement schedules are omitted because the required information is either included or is not applicable.

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[3] Exhibits

3.1	Certificate of Incorporation of Berkshire Hills Bancorp, Inc. (1)
3.2	Amended and Restated Bylaws of Berkshire Hills Bancorp, Inc. (2)
3.3	Certificate of Amendment to the Certificate of Incorporation of Berkshire Hills Bancorp, Inc. (3)
3.4	Certificate of Designations of the Series B Non-Voting Preferred Stock (4)
4.1	Form of Common Stock Certificate of Berkshire Hills Bancorp, Inc. (1)
4.2	Note Subscription Agreement by and among Berkshire Hills Bancorp, Inc. and certain subscribers dated September 20, 2012 (5)
10.1	Three-Year Employment Agreement by and among Berkshire Bank, Berkshire Hills Bancorp, Inc. and Richard M. Marotta (6)
10.2	Amended and Restated Supplemental Executive Retirement Agreement between Berkshire Bank and Richard M. Marotta (6)
10.3	Supplemental Executive Retirement Agreement between Berkshire Bank and Sean A. Gray (6)
10.4	Three Year Executive Change in Control Agreement by and among Berkshire Bank, Berkshire Hills Bancorp, Inc., and George F. Bacigalupo (7)
10.5	Three-Year Executive Change in Control Agreement by and among Berkshire Bank, Berkshire Hills Bancorp, Inc., and James M. Moses (8)
10.6	Amended and Restated Three Year Change in Control Agreement by and among Berkshire Bank, Berkshire Hills Bancorp, Inc., and Sean A. Gray (9)
10.7	Amended and Restated Three-Year Change in Control Agreement by and among Berkshire Bank, Berkshire Hills Bancorp, Inc. and Linda A. Johnston (9)
10.8	Form of Split Dollar Agreement entered into with Sean A. Gray and Richard M. Marotta (10)
10.10	Berkshire Hills Bancorp, Inc. 2011 Equity Incentive Plan (11)
10.11	Berkshire Hills Bancorp, Inc. 2013 Equity Incentive Plan (12)
10.12	Berkshire Bank Executive Long-Term Care Insurance Plan (13)
10.13	Berkshire Hills Bancorp, Inc. 2018 Equity Incentive Plan (14)
10.14	Senior Executive Short Term Incentive Plan (15)
21.0	Subsidiary Information
23.1	Consent of Crowe LLP
23.2	Consent of PricewaterhouseCoopers LLP
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Statements of Condition, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Changes in Shareholders’ Equity, (v) the Consolidated Statements of Cash Flows, and (vi) the Notes to Consolidated Financial Statements tagged as blocks of text and in detail

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(1)	Incorporated herein by reference from the Exhibits to Form S-1, Registration Statement and amendments thereto, initially filed on March 10, 2000, Registration No. 333-32146.
(2)	Incorporated herein by reference from the Exhibits to the Form 8-K as filed on June 26, 2017.
(3)	Incorporated herein by reference from the Exhibits to the Form 10-Q as filed on November 9, 2017.
(4)	Incorporated herein by reference from the Exhibits to the Form 8-K as filed on October 16, 2017.
(5)	Incorporated herein by reference from the Exhibits to the Form 8-K as filed on September 26, 2012.
(6)	Incorporated herein by reference from the Exhibits to the Form 8-K as filed on February 22, 2019.
(7)	Incorporated herein by reference from the Exhibit to the Form 10-K as filed on March 17, 2014.
(8)	Incorporated herein by reference from the Exhibits to the Form 8-K as filed on September 23, 2016.
(9)	Incorporated herein by reference from the Exhibits to the Form 10-K as filed on March 16, 2011.
(10)	Incorporated herein by reference from the Exhibit to the Form 8-K as filed on January 19, 2011.
(11)	Incorporated herein by reference from the Appendix to the Proxy Statement as filed on March 24, 2011.
(12)	Incorporated herein by reference from the Appendix to the Proxy Statement as filed on April 2, 2013.
(13)	Incorporated herein by reference from the Exhibits to the Form 8-K as filed on January 23, 2015.
(14)	Incorporated herein by reference from the Appendix to the Proxy Statement as filed on April 6, 2018.
(15)	Incorporated herein by reference from the Exhibits to the Form 10-K as filed on March 1, 2018.

ITEM 16. FORM 10-K SUMMARY

None.

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SIGNATURES

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

	Berkshire Hills Bancorp, Inc.	
Date: March 1, 2019	By:	/s/ Richard M. Marotta
		Richard M. Marotta
		President & Chief Executive Officer

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

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/s/ Richard M. Marotta Richard M. Marotta	President & Chief Executive Officer (principal executive officer)	March 1, 2019
/s/ James M. Moses James M. Moses	Senior Executive Vice President, Chief Financial Officer (principal financial and accounting officer)	March 1, 2019
/s/ William J. Ryan William J. Ryan	Non-Executive Chairman	March 1, 2019
/s/ Paul T. Bossidy Paul T. Bossidy	Director	March 1, 2019
/s/ David M. Brunelle David M. Brunelle	Director	March 1, 2019
/s/ Robert M. Curley Robert M. Curley	Director	March 1, 2019
/s/ John B. Davies John B. Davies	Director	March 1, 2019
/s/ J. Williar Dunlaevy J. Williar Dunlaevy	Director	March 1, 2019
/s/ Cornelius D. Mahoney Cornelius D. Mahoney	Director	March 1, 2019
/s/ Pamela A. Massad Pamela A. Massad	Director	March 1, 2019
/s/ Laurie Norton Moffatt Laurie Norton Moffatt	Director	March 1, 2019
/s/ Richard J. Murphy Richard J. Murphy	Director	March 1, 2019
/s/ Patrick J. Sheehan	Director	

Patrick J. Sheehan		March 1, 2019
/s/ D. Jeffrey Templeton D. Jeffrey Templeton	Director	March 1, 2019

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ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is a process designed under the supervision of the Company's Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's Consolidated Financial Statements for external reporting purposes in accordance with generally accepted accounting principles.

As of December 31, 2018, management conducted an assessment of the effectiveness of the Company's internal control over financial reporting based on the framework established in Internal Control—Integrated Framework issued in 2013, by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has determined that the Company's internal control over financial reporting as of December 31, 2018 was effective.

The Company's internal control over financial reporting includes policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2018 has been audited by Crowe LLP, an independent registered public accounting firm, as stated in their report, which follows. This report expresses an unqualified opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2018.

/s/ Richard M. Marotta	/s/ James M. Moses
Richard M. Marotta	James M. Moses
President & Chief Executive Officer	Senior Executive Vice President & Chief Financial Officer
March 1, 2019	March 1, 2019

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To Shareholders and the Board of Directors of
Berkshire Hills Bancorp, Inc.

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Berkshire Hills Bancorp, Inc. (the "Company") as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, changes in shareholders’ equity, and cash flows for each of the years in the two-year period ended December 31, 2018, and the related notes (collectively referred to as the "financial statements"). We also have audited the Company’s internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework issued in 2013 by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2018 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework issued in 2013 by COSO.

Basis for Opinions

The Company’s management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s financial statements and an opinion on the Company’s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Crowe LLP
We have served as the Company's auditor since 2017
New York, New York
March 1, 2019

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Berkshire Hills Bancorp, Inc.

In our opinion, the consolidated statements of income, comprehensive income, changes in shareholders’ equity and cash flows for the year ended December 31, 2016 present fairly, in all material respects, the results of operations and cash flows of Berkshire Hills Bancorp, Inc. and its subsidiaries for the year ended December 31, 2016, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP
Boston, Massachusetts
March 1, 2017

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BERKSHIRE HILLS BANCORP, INC.

CONSOLIDATED BALANCE SHEETS

	December 31,	
(In thousands, except share data)	2018	2017
Assets		
Cash and due from banks	$100,972	$91,122
Short-term investments	82,217	157,641
Total cash and cash equivalents	183,189	248,763
Trading security	11,212	12,277
Marketable equity securities, at fair value	56,638	45,185
Securities available for sale, at fair value	1,399,647	1,380,914
Securities held to maturity (fair values of $371,224 in 2018 and $405,276 in 2017)	373,763	397,103
Federal Home Loan Bank stock and other restricted securities	77,344	63,085
Total securities	1,918,604	1,898,564
Loans held for sale, at fair value	96,233	153,620
Commercial real estate loans	3,400,221	3,264,742
Commercial and industrial loans	1,980,046	1,803,939
Residential mortgages	2,566,424	2,102,807
Consumer loans	1,096,562	1,127,850
Total loans	9,043,253	8,299,338
Less: Allowance for loan losses	(61,469)	(51,834)
Net loans	8,981,784	8,247,504
Premises and equipment, net	108,367	109,352
Other real estate owned	—	—
Goodwill	518,325	519,287
Other intangible assets	33,418	38,296
Cash surrender value of bank-owned life insurance	190,609	191,221
Deferred tax assets, net	39,164	47,061
Other assets	142,538	117,083
Total assets	$12,212,231	$11,570,751
Liabilities		
Demand deposits	$1,603,019	$1,606,656
NOW and other deposits	1,122,321	734,558
Money market deposits	2,245,195	2,776,157
Savings deposits	724,129	741,954
Time deposits	3,287,717	2,890,205
Total deposits	8,982,381	8,749,530
Short-term debt	1,118,832	667,300
Long-term Federal Home Loan Bank advances	309,466	380,436
Subordinated notes	89,518	89,339
Total borrowings	1,517,816	1,137,075
Other liabilities	159,116	187,882
Total liabilities	10,659,313	10,074,487

(continued)

Shareholders’ equity		
Preferred Stock (Series B non-voting convertible preferred stock - $0.01 par value; 2,000,000 shares authorized, 521,607 shares issued and outstanding in 2018; 1,000,000 shares authorized, 521,607 shares issued and outstanding in 2017)	40,633	40,633
Common stock ($.01 par value; 100,000,000 shares authorized, 46,211,894 shares issued, and 45,416,855 shares outstanding in 2018; 50,000,000 shares authorized, 46,211,894 shares issued, and 45,290,433 shares outstanding in 2017)	460	460
Additional paid-in capital - common stock	1,245,013	1,242,487
Unearned compensation	(6,594)	(6,531)
Retained earnings	308,839	239,179
Accumulated other comprehensive (loss)/income	(13,470)	4,161
Treasury stock, at cost (795,039 shares in 2018 and 921,461 shares in 2017)	(21,963)	(24,125)
Total shareholders’ equity	1,552,918	1,496,264
Total liabilities and shareholders’ equity	$12,212,231	$11,570,751

The accompanying notes are an integral part of these consolidated financial statements.

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BERKSHIRE HILLS BANCORP, INC.
CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31,		
(In thousands)	2018	2017	2016
Interest and dividend income			
Loans	$411,489	$308,099	$242,600
Securities and other	59,672	52,159	37,839
Total interest and dividend income	471,161	360,258	280,439
Interest expense			
Deposits	78,364	43,855	30,883
Borrowings and subordinated notes	33,461	21,608	17,289
Total interest expense	111,825	65,463	48,172
Net interest income	359,336	294,795	232,267
Non-interest income			
Mortgage banking income	35,197	54,251	7,555
Loan related income	24,168	21,401	16,694
Deposit related fees	29,806	27,165	24,963
Insurance commissions and fees	10,983	10,589	10,477
Wealth management fees	9,447	9,395	8,917
Total fee income	109,601	122,801	68,606
Other	3,557	(3,377)	(3,289)
(Loss)/Gain on securities, net	(3,719)	12,598	(551)
Gain on sale of business operations, net	460	296	1,085
Loss on termination of hedges	—	(6,629)	—
Total non-interest income	109,899	125,689	65,851
Total net revenue	469,235	420,484	298,118
Provision for loan losses	25,451	21,025	17,362
Non-interest expense			
Compensation and benefits	165,185	152,979	104,600
Occupancy and equipment	40,841	35,422	27,220
Technology and communications	28,600	25,900	19,883
Marketing and promotion	7,980	11,877	3,161
Professional services	8,693	9,165	6,199
FDIC premiums and assessments	5,734	6,457	5,066
Other real estate owned and foreclosures	68	44	691
Amortization of intangible assets	4,934	3,493	2,927
Merger, restructuring and conversion related expenses	22,144	31,558	15,461
Other	26,192	22,815	18,094
Total non-interest expense	310,371	299,710	203,302
Income from continuing operations before income taxes	133,413	99,749	77,454
Income tax expense	27,648	44,502	18,784
Net income	$105,765	$55,247	$58,670
Preferred stock dividend	918	219	—
Income available to common shareholders	$104,847	$55,028	$58,670
Earnings per common share:			
Basic	$2.30	$1.40	$1.89
Diluted	$2.29	$1.39	$1.88
Weighted average common shares outstanding:			

Basic	46,024	39,456	30,988
Diluted	46,231	39,695	31,167

The accompanying notes are an integral part of these consolidated financial statements.

BERKSHIRE HILLS BANCORP, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31,		
(In thousands)	2018	2017	2016
Net income	$105,765	$55,247	$58,670
Other comprehensive income (loss), before tax:			
Changes in unrealized gains and losses on securities available-for-sale	(16,923)	(15,142)	18,859
Changes in unrealized gains and losses on derivative hedges	—	6,573	1,959
Changes in unrealized gains and losses on pension	336	(94)	515
Total other comprehensive (loss)/income, before tax	(16,587)	(8,663)	21,333
Income taxes related to other comprehensive income (loss):			
Changes in unrealized gains and losses on securities available-for-sale	4,421	5,610	(7,199)
Changes in unrealized gains and losses on derivative hedges	—	(2,589)	(835)
Changes in unrealized gains and losses on pension	(108)	37	(228)
Total income tax (expense) benefit related to other comprehensive income (loss)	4,313	3,058	(8,262)
Total other comprehensive (loss)/income	(12,274)	(5,605)	13,071
Total comprehensive income	$93,491	$49,642	$71,741

The accompanying notes are an integral part of these consolidated financial statements.

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BERKSHIRE HILLS BANCORP, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Preferred Stock		Common Stock		Additional paid-in	Unearned	Retained	Accumulated other comprehensive	Treasury	
(In thousands, except per share data)	Shares	Amount	Shares	Amount	capital	compensation	earnings	(loss) income	stock	Total
Balance at January 1, 2016	—	—	30,974	$ 322	$ 742,619	$ (6,997)	$ 183,885	$ (3,305)	$ (29,335)	$ 887,189
Comprehensive income:										
Net income	—	—	—	—	—	—	58,670	—	—	58,670
Other net comprehensive (loss)	—	—	—	—	—	—	—	13,071	—	13,071
Total comprehensive income	=sum(J5:J6)	=sum(J5:J6)	=sum(J5:J6)	=sum(J5:J6)	=sum(J5:J6)	=sum(J5:J6)	58,670	13,071	—	71,741
Acquisition of 44 Business Capital	—	—	45	—	—	—	—	—	1,217	1,217
Acquisition of First Choice Bank	—	—	4,410	44	151,004	—	—	—	—	151,048
Cash dividends declared on common shares ($0.80 per share)	—	—	—	—	—	—	(24,916)	—	—	(24,916)
Treasury stock adjustment (1)	—	—	—	—	4,632	—	—	—	(4,632)	—
Forfeited shares	—	—	(70)	—	148	1,789	—	—	(1,937)	—
Exercise of stock options	—	—	151	—	—	—	(145)	—	3,857	3,712
Restricted stock grants	—	—	211	—	575	(5,787)	—	—	5,212	—
Stock-based compensation	—	—	—	—	—	4,621	—	—	—	4,621
Net tax benefit related to stock-based compensation	—	—	—	—	(1)	—	—	—	—	(1)
Other, net	—	—	(48)	—	12	—	—	—	(1,325)	(1,313)
Balance at December 31, 2016	—	—	35,673	$ 366	$ 898,989	$ (6,374)	$ 217,494	$ 9,766	$ (26,943)	$ 1,093,298
Comprehensive income:		0								
Net income	—	—	—	—	—	—	55,247	—	—	55,247
	—	—	—	—	—	—	—	(5,605)	—	(5,605)

Other net comprehensive (loss)										
Total comprehensive income	—	—	—	—	—	—	55,247	(5,605)	—	49,642
Acquisition of Commerce Bank	522	40,632	4,842	48	188,552	—	—	—	—	229,233
Common stock issued, net of $7.1 million offering costs	—	—	4,638	46	152,938	—	—	—	—	152,984
Cash dividends declared on common shares ($0.84 per share)	—	—	—	—	—	—	(33,022)	—	—	(33,022)
Cash dividends declared on preferred shares ($0.42 per share)	—	—	—	—	—	—	(219)	—	—	(219)
Forfeited shares	—	—	(17)	—	102	516	—	—	(618)	—
Exercise of stock options	—	—	19	—	—	—	(158)	—	487	329
Restricted stock grants	—	—	161	—	1,650	(5,775)	—	—	4,125	—
Stock-based compensation	—	—	—	—	—	5,102	—	—	—	5,102
Other, net	—	—	(26)	—	256	—	(163)	—	(1,176)	(1,083)
Balance at December 31, 2017	522	40,632	45,290	$ 460	$ 1,242,487	$ (6,531)	$ 239,179	$ 4,161	$ (24,125)	$ 1,496,264
Comprehensive income:										
Net income	—	—	—	—	—	—	105,765	—	—	105,765
Other net comprehensive (loss)	—	—	—	—	—	—	—	(12,274)	—	(12,274)
Total comprehensive income	—	—	—	—	—	—	105,765	(12,274)	—	93,491
Adoption of ASU No 2016-01, Financial Instruments - Overall (Subtopic 825-10) - Recognition and Measurement of Financial Assets	—	—	—	—	—	—	6,253	(6,253)	—	—

and Liabilities									
Adoption of ASU No 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220) - Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income	—	——	—	—	—	(896	) 896	—	—
Cash dividends declared on common shares ($0.88 per share)	—	——	—	—	—	(39,966	) —	—	(39,966)
Cash dividends declared on preferred shares ($1.76 per share)	—	—							