

BERKSHIRE HILLS BANCORP INC
Form 10-Q
August 09, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended: June 30, 2018

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

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 No

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

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 definitions of "large accelerated filers," "accelerated filers," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Emerging growth company

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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.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)

Yes No

The Registrant had 45,423,719 shares of common stock, par value \$0.01 per share, outstanding as of August 7, 2018.

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PART I

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

BERKSHIRE HILLS BANCORP, INC.
CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)	June 30, 2018	December 31, 2017
Assets		
Cash and due from banks	\$90,964	\$91,122
Short-term investments	48,093	157,641
Total cash and cash equivalents	139,057	248,763
Trading security, at fair value	11,483	12,277
Marketable equity securities, at fair value	59,726	45,185
Securities available for sale, at fair value	1,393,250	1,380,914
Securities held to maturity (fair values of \$377,486 and \$405,276)	379,905	397,103
Federal Home Loan Bank stock and other restricted securities	75,530	63,085
Total securities	1,919,894	1,898,564
Loans held for sale, at fair value	149,182	153,620
Commercial real estate loans	3,319,323	3,264,742
Commercial and industrial loans	1,875,118	1,803,939
Residential mortgages	2,397,192	2,102,807
Consumer loans	1,118,333	1,127,850
Total loans	8,709,966	8,299,338
Less: Allowance for loan losses	(55,925)	(51,834)
Net loans	8,654,041	8,247,504
Premises and equipment, net	112,217	109,352
Goodwill	519,128	519,287
Other intangible assets	35,838	38,296
Cash surrender value of bank-owned life insurance policies	193,121	191,221
Deferred tax assets, net	53,679	47,061
Other assets	125,806	117,083
Total assets	\$11,901,963	\$11,570,751
Liabilities		
Demand deposits	\$1,553,039	\$1,606,656
NOW and other deposits	858,014	734,558
Money market deposits	2,619,943	2,776,157
Savings deposits	747,722	741,954
Time deposits	3,060,034	2,890,205
Total deposits	8,838,752	8,749,530
Short-term debt	1,002,000	667,300
Long-term Federal Home Loan Bank advances	272,342	380,436
Subordinated borrowings	89,429	89,339
Total borrowings	1,363,771	1,137,075
Other liabilities	183,199	187,882
Total liabilities	\$10,385,722	\$10,074,487
(continued)		

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	June 30, 2018	December 31, 2017
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 and 46,211,894 shares issued and 45,420,276 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	1,244,691	1,242,487
Unearned compensation	(10,096	) (6,531)
Retained earnings	283,256	239,179
Accumulated other comprehensive (loss) income	(21,266	) 4,161
Treasury stock, at cost (791,618 shares in 2018 and 921,461 shares in 2017)	(21,437	) (24,125)
Total shareholders' equity	1,516,241	1,496,264
Total liabilities and shareholders' equity	\$11,901,963	\$11,570,751
The accompanying notes are an integral part of these consolidated financial statements.		

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CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)	Three Months Ended		Six Months Ended	
	June 30, 2018	2017	June 30, 2018	2017
Interest and dividend income				
Loans	\$ 101,649	\$ 71,983	\$ 194,484	\$ 140,926
Securities and other	15,230	12,683	29,635	24,449
Total interest and dividend income	116,879	84,666	224,119	165,375
Interest expense				
Deposits	17,768	9,971	33,093	19,069
Borrowings	7,990	5,150	14,435	9,875
Total interest expense	25,758	15,121	47,528	28,944
Net interest income	91,121	69,545	176,591	136,431
Non-interest income				
Mortgage banking originations	10,195	16,281	20,342	28,959
Loan related income	6,549	5,275	11,987	9,454
Deposit related fees	7,605	6,645	15,671	12,849
Insurance commissions and fees	2,549	2,588	5,574	5,724
Wealth management fees	2,280	2,286	4,877	4,812
Total fee income	29,178	33,075	58,451	61,798
Other, net	155	(276)	1,423	(183)
(Loss)/gain on securities, net	718	(1)	(784)	12,569
(Loss)/gain on sale of business operations and other assets, net	(21)	—	460	—
Loss on termination of hedges	—	—	—	(6,629)
Total non-interest income	30,030	32,798	59,550	67,555
Total net revenue	121,151	102,343	236,141	203,986
Provision for loan losses	6,532	4,889	12,107	9,984
Non-interest expense				
Compensation and benefits	41,134	36,997	83,318	73,116
Occupancy and equipment	10,230	8,678	20,312	17,704
Technology and communications	7,359	6,883	14,189	12,970
Marketing and promotion	2,369	3,177	4,981	5,176
Professional services	1,139	2,190	3,192	4,641
FDIC premiums and assessments	1,411	1,588	2,606	2,886
Other real estate owned and foreclosures	1	30	68	58
Amortization of intangible assets	1,246	770	2,514	1,571
Acquisition, restructuring, and other expenses	847	2,903	5,940	14,585
Other	6,601	6,307	12,086	11,142
Total non-interest expense	72,337	69,523	149,206	143,849
Income before income taxes	42,282	27,931	74,828	50,153
Income tax expense	8,251	8,237	15,549	14,999
Net income	\$ 34,031	\$ 19,694	\$ 59,279	\$ 35,154
Preferred stock dividend	229	—	459	—
Income available to common shareholders	33,802	19,694	58,820	35,154
Earnings per common share:				
Basic	\$ 0.74	\$ 0.53	\$ 1.29	\$ 0.97

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Diluted	\$0.74	\$0.53	\$1.28	\$0.96
Weighted average shares outstanding:				
Basic	46,032	37,324	45,999	36,305
Diluted	46,215	37,474	46,206	36,466

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

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income	\$34,031	\$19,694	\$59,279	\$35,154
Other comprehensive income, before tax:				
Changes in unrealized loss on debt securities available-for-sale	(7,840)	3,927	(27,002)	(5,505)
Changes in unrealized loss on derivative hedges	—	—	—	6,573
Income taxes related to other comprehensive income:				
Changes in unrealized loss on debt securities available-for-sale	2,001	(1,455)	6,932	2,086
Changes in unrealized gains on derivative hedges	—	—	—	(2,589)
Total other comprehensive (loss)/income	(5,839)	2,472	(20,070)	565
Total comprehensive income	\$28,192	\$22,166	\$39,209	\$35,719

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	Unearned	Retained	Accumulated	Treasury			
(In thousands)	Shares	Shares	paid-in	compensation	earnings	other	stock	Total		
	Amount	Amount	capital			comprehensive				
	—	—	—	—	—	income/(loss)				
Balance at December 31, 2016	—	35,673	\$366	\$898,989	\$(6,374)	\$217,494	\$9,766	\$(26,943)	\$1,093,298	
Comprehensive income:										
Net income	—	—	—	—	—	35,154	—	—	35,154	
Other comprehensive loss	—	—	—	—	—	—	565	—	565	
Total comprehensive income	—	—	—	—	—	35,154	565	—	35,719	
Common stock issued	—	4,638	46	152,879	—	—	—	—	152,925	
Cash dividends declared (\$0.42 per share)	—	—	—	—	—	(15,024)	—	—	(15,024)	
Forfeited shares	—	(10)	—	63	304	—	—	(367)	—	
Exercise of stock options	—	7	—	—	—	(85)	—	196	111	
Restricted stock grants	—	154	—	1,566	(5,505)	—	—	3,939	—	
Stock-based compensation	—	—	—	—	2,524	—	—	—	2,524	
Other, net	—	(34)	—	(4)	—	(69)	—	(1,286)	(1,359)	
Balance at June 30, 2017	—	40,428	\$412	\$1,053,493	\$(9,051)	\$237,470	\$10,331	\$(24,461)	\$1,268,194	
Balance at December 31, 2017	522	\$40,633	45,290	\$460	\$1,242,487	\$(6,531)	\$239,179	\$4,161	\$(24,125)	\$1,496,264
Comprehensive income:										
Net income	—	—	—	—	—	59,279	—	—	59,279	
Other comprehensive loss	—	—	—	—	—	—	(20,070)	—	(20,070)	
Total comprehensive income	—	—	—	—	—	59,279	(20,070)	—	39,209	

Adoption of ASU No 2016-01, Financial Instruments - Overall (Subtopic 825-10) - Recognition and Measurement of Financial Assets and Liabilities	—	—	—	—	—	—	6,253	(6,253)	—	—
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 (\$0.44 per share)	—	—	—	—	—	—	(19,977)	—	—	(19,977)
Cash dividends declared on preferred shares (\$0.88 per share)	—	—	—	—	—	—	(459)	—	—	(459)
Forfeited shares	—	—	(15)	—	88	478	—	—	(566)	—
Exercise of stock options	—	—	8	—	—	—	(123)	—	224	101
Restricted stock grants	—	—	181	—	2,100	(6,841)	—	—	4,741	—
Stock-based compensation	—	—	—	—	—	2,798	—	—	—	2,798
Other, net	—	—	(44)	—	16	—	—	—	(1,711)	(1,695)
Balance at June 30, 2018	522	\$40,633	45,420	\$460	\$1,244,691	\$(10,096)	\$283,256	\$(21,266)	\$(21,437)	\$1,516,241

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

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	Six Months Ended June 30, 2018	2017
Cash flows from operating activities:		
Net income	\$ 59,279	\$ 35,154
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	12,107	9,984
Net amortization of securities	1,460	1,332
Change in unamortized net loan costs and premiums	(1,520)	(158)
Premises and equipment depreciation and amortization expense	5,215	4,961
Stock-based compensation expense	2,798	2,524
Accretion of purchase accounting entries, net	(11,114)	(7,971)
Amortization of other intangibles	2,514	1,571
Income from cash surrender value of bank-owned life insurance policies	(2,359)	(1,188)
Securities losses (gains), net	784	(12,571)
Originations of loans held for sale	(1,106,100)	(1,105,114)
Proceeds from sale of loans held for sale	1,130,880	1,108,264
Net gain on sale of loans and other mortgage banking income	(20,342)	(28,959)
Loss on disposition of assets	—	912
Loss on sale of real estate	—	(12)
	2,100	2,782

Amortization of interest in tax-advantaged projects			
Net change in other	(9,748	)	4,374
Net cash provided by operating activities	65,954		15,885
Cash flows from investing activities:			
Net decrease in trading security	329		311
Proceeds from sales of securities available for sale	—		3,444
Proceeds from maturities, calls, and prepayments of securities available for sale	93,049		88,821
Purchases of securities available for sale	(165,312	)	(227,484
Proceeds from sales of marketable equity securities	26,096		38,575
Purchases of marketable equity securities	(12,688	)	(14,230
Proceeds from maturities, calls, and prepayments of securities held to maturity	23,981		6,076
Purchases of securities held to maturity	(7,781	)	(23,582
Net change in loans	(413,717	)	(279,723
Proceeds from surrender of bank-owned life insurance	459		310
Proceeds from sale of Federal Home Loan Bank stock	28,673		68,672
Purchase of Federal Home Loan Bank stock	(41,118	)	(76,433
Net investment in limited partnership tax credits	2,464		(756
Purchase of premises and equipment, net	(7,958	)	(6,921

Payment to terminate cash flow hedges	—		6,573	
Proceeds from sale of other real estate	1,600		274	
Net cash (used) by investing activities (continued)	(471,923)	(416,073)

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(In thousands)	Six Months Ended June 30, 2018 2017	
Cash flows from financing activities:		
Net increase in deposits	90,009	94,324
Proceeds from Federal Home Loan Bank advances and other borrowings	2,287,898	2,841,600
Repayments of Federal Home Loan Bank advances and other borrowings	2,061,888	2,783,292
Exercise of stock options	101	111
Common and preferred stock cash dividends paid	20,436	15,023
Common stock issued, net	—	—