

2019

Annual
Report



forward momentum

Western New England Bancorp





Connecticut Team

Wayne Webster, Vice President, Commercial Lender; **Cathy Turowsky**, Vice President, Business and Government Deposit Services; **Dan Danilowicz**, Assistant Vice President, Mortgage Loan Officer; **Todd Navin**, Senior Vice President, Commercial Lender; and **Matt Cuddy**, Vice President, Area Manager

Dear Shareholder,

Westfield Bank is taking the next step forward.

From our origins in Westfield, Massachusetts, with a single branch in 1853, we have progressed at a steady pace, growing along with the cities and towns we serve. We have done this by anticipating our customers' needs, reinvesting in our communities, taking advantage of opportunities that arise and, importantly, by seeking new markets in which to expand our delivery network.



In 2019, Westfield Bank created new opportunities for growth and success across our service area. In Springfield, we built a brand-new office at Tower Square and opened a branch office on Liberty Street. In addition to our investment in the City of Homes, we also announced plans for new branches in West Hartford and Bloomfield, Connecticut, and in Huntington, Massachusetts. These latest additions will give us a network of 25 full-service branch offices.

In addition to the investment we've made in our brick and mortar facilities, we also remain focused on enhancing the customer experience by providing the latest technology and convenience-based services. Our goal is to provide our customers with multiple ways to access their accounts and make banking with us as easy and convenient as possible.

Our expansion plan and investments in new products and services are yielding positive results. Westfield Bank experienced growth in both deposits and loans in 2019. Total deposits increased by \$81.9 million, or 5.1%, while core deposits increased by 9.5% and now total \$1.0 billion. Our hard work has paid off, as we now have the largest share of deposits in Hampden County.* On the other side of the ledger, total loans increased \$79.2 million, or 4.7%, to \$1.8 billion, thanks to strong commercial real estate, residential real estate, and commercial and industrial loan growth. I'm also pleased to report we were ranked the number one Mortgage Lender in Hampden County in 2019 by the Warren Group.**

Westfield Bank has always been committed to supporting the communities we serve and last year was no exception. In 2019, the bank provided \$1.2 million in financial support via The Future Fund, sponsorships, and the Chicopee Savings Charitable Foundation, which is affiliated with Westfield Bank. To us, making our communities better places to live and work is what better banking's all about.

With every step forward we take, we are grateful to all of those who help us flourish, including our dedicated staff, our Board of Directors, and especially our customers. Thank you all. As successful as we've been, we're just hitting our stride!


James C. Hagan
President and Chief Executive Officer

* FDIC Insurance Corporation Deposit Market Share Report, June 2019

** Warren Group December 2019 Report for Hampden County, by dollar amount





In Memoriam

It is with great sadness that we announce the passing of our Chairman of the Board of Directors and good friend **Chris Tapases** on March 6, 2020. Chris was a generous, soft spoken, and caring individual who enriched the lives of us all. Anyone who had the privilege of knowing him was

blessed to have him in their lives. He was a kind person who always had a smile on his face and lived life with joy. He cared deeply for friends, family, and co-workers and treated everyone with dignity and respect no matter their position in life and carried that through all of his personal and professional relationships.

He was a thoughtful and understanding leader of, and advisor to, our Board, respecting the views and opinions of directors, members of management, shareholders, and the greater community as a whole. He led by example and always accepted the most difficult tasks with great courage and fortitude and understood and always honored the role of Chairman. Chris reminded us all of the continual creation of shareholder value and the need for Board transparency which will always be his lasting legacy for our company. We were blessed to have such an astute, knowledgeable, passionate, and insightful leader of our Board of Directors.

We truly and sincerely thank you Chris, for the privilege of knowing you and sharing your life with us. You enriched us in many ways and you made us all better persons and professionals. You will always be in our hearts and our minds and we will always honor the shining example you set for us all.

Securities and Exchange Commission
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2019

Commission File No.: 001-16767

Western New England Bancorp, Inc.

(Exact name of registrant as specified in its charter)

Massachusetts

(State or other jurisdiction of incorporation or organization)

73-1627673

(I.R.S. Employer Identification No.)

141 Elm Street, Westfield, Massachusetts 01085

(Address of principal executive offices, including zip code)

(413) 568-1911

(Registrant's telephone number, including area code)

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

<i>(Title of each class)</i>	<i>(Trading Symbol)</i>	<i>(Name of each exchange on which registered)</i>
Common Stock, \$0.01 par value per share	WNEB	The NASDAQ Global Select Market

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 ☐ No ☒

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 ☐ No ☒

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit 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 filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐ Smaller reporting company ☒ Emerging growth company ☐

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 Act). Yes ☐ No ☒

The aggregate market value of the voting stock held by non-affiliates of the registrant as of June 30, 2019, was \$249,410,391. This amount was based on the closing price as of June 28, 2019 on the NASDAQ Global Select Market ("NASDAQ") for a share of the registrant's common stock, which was \$9.34 on June 28, 2019.

As of March 6, 2020, the registrant had 26,204,065 shares of common stock, \$0.01 per value, issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Proxy Statement for the 2020 Annual Meeting of Shareholders are incorporated by reference into Part III of this report.

WESTERN NEW ENGLAND BANCORP, INC.
ANNUAL REPORT ON FORM 10-K
FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2019

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FORWARD-LOOKING STATEMENTS

We may, from time to time, make written or oral “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, including statements contained in our filings with the Securities and Exchange Commission (the “SEC”), our reports to shareholders and in other communications by us. This Annual Report on Form 10-K contains “forward-looking statements” which may be identified by the use of such words as “believe,” “expect,” “anticipate,” “should,” “planned,” “estimated,” and “potential.” Examples of forward-looking statements include, but are not limited to, estimates with respect to our financial condition, results of operations and business that are subject to various factors which could cause actual results to differ materially from these estimates. These factors include, but are not limited to:

- changes in the interest rate environment that reduce margins;
- the effect on our operations of governmental legislation and regulation, including changes in accounting regulation or standards, the nature and timing of the adoption and effectiveness of new requirements under the Dodd-Frank Act Wall Street Reform and Consumer Protection Act of 2010 (“Dodd-Frank Act”), Basel guidelines, capital requirements and other applicable laws and regulations;
- the highly competitive industry and market area in which we operate;
- general economic conditions, either nationally or regionally, resulting in, among other things, a deterioration in credit quality;
- changes in business conditions and inflation;
- changes in credit market conditions;
- the inability to realize expected cost savings or achieve other anticipated benefits in connection with business combinations and other acquisitions;
- changes in the securities markets which affect investment management revenues;
- increases in Federal Deposit Insurance Corporation deposit insurance premiums and assessments;
- changes in technology used in the banking business;
- the soundness of other financial services institutions which may adversely affect our credit risk;
- certain of our intangible assets may become impaired in the future;
- our controls and procedures may fail or be circumvented;
- new lines of business or new products and services, which may subject us to additional risks;
- changes in key management personnel which may adversely impact our operations;
- severe weather, natural disasters, acts of war or terrorism and other external events which could significantly impact our business; and
- other factors detailed from time to time in our SEC filings.

Although we believe that the expectations reflected in such forward-looking statements are reasonable, actual results may differ materially from the results discussed in these forward-looking statements. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. We do not undertake any obligation to republish revised forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events, except to the extent required by law.

Unless the context indicates otherwise, all references in this prospectus to “Western New England Bancorp,” “WNEB,” “we,” “us,” “our company,” and “our” refer to Western New England Bancorp, Inc. and its subsidiaries (including Westfield Bank, CSB Colts, Inc., Elm Street Securities Corporation, WFD Securities, Inc. and WB Real Estate Holdings, LLC).

PART I

ITEM 1. BUSINESS

General.

Western New England Bancorp, Inc. (“WNEB” or “Company”) (f/k/a “Westfield Financial, Inc.”) headquartered in Westfield, Massachusetts, is a Massachusetts-chartered stock holding company and is registered as a savings and loan holding company with the Federal Reserve Board under the Bank Holding Company Act of 1956, as amended (“BHC Act”). In 2001, the Company reorganized from a Massachusetts-chartered savings bank holding company to a Massachusetts-chartered stock corporation with the second step conversion being completed in 2007. WNEB is the parent company and owns all of the capital stock of Westfield Bank (“Westfield” or “Bank”). The Company is also subject to the jurisdiction of the SEC and is subject to the disclosure and other regulatory requirements of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, as administered by the SEC. Western New England Bancorp is traded on the NASDAQ under the ticker symbol “WNEB” and is subject to the NASDAQ stock market rules. At December 31, 2019, WNEB had consolidated total assets of \$2.2 billion, total net loans of \$1.8 billion, total deposits of \$1.7 billion and total shareholders’ equity of \$232.0 million.

Westfield Bank, headquartered in Westfield, Massachusetts, is a federally-chartered savings bank organized in 1853 and is regulated by the Office of the Comptroller of the Currency (“OCC”). The Bank is a full-service, community oriented financial institution offering a full range of commercial and retail products and services as well as wealth management financial products. As of December 31, 2019, the Bank had 22 branches and 25 free-standing automated teller machines (“ATMs”), and an additional 23 seasonal or temporary ATMs, serving Hampden County and Hampshire County in western Massachusetts and northern Connecticut. In addition, we have announced plans to open three new locations in 2020: a branch in Huntington, Massachusetts, which was purchased from Peoples United and opened on February 25, 2020, and two full-service branches in Bloomfield, Connecticut and West Hartford, Connecticut, which are currently undergoing construction and are anticipated to open in 2020. The West Hartford branch will be a Financial Solution Center and is expected to serve as our Connecticut hub, housing Commercial Lending, Cash Management and a Mortgage Loan Officer (“MLO”). The Bank also provides a variety of banking services including automated teller machines, telephone and online banking, remote deposit capture, cash management services, overdraft facilities, night deposit services, and safe deposit facilities. As a member of the Federal Deposit Insurance Corporation (“FDIC”), the Bank’s deposits are insured up to the maximum FDIC insurance coverage limits. The Bank is also a member of the Federal Home Loan Bank of Boston (“FHLB”).

On October 21, 2016, the Company acquired Chicopee Bancorp, Inc. (“Chicopee”), the holding company for Chicopee Savings Bank and in conjunction with the acquisition, the name of the Company was changed to Western New England Bancorp, Inc. The transaction qualified as a tax-free reorganization for federal income tax purposes.

Subsidiary Activities.

Western New England Bancorp, Inc. has two subsidiaries that are included in the Company’s consolidated financial statements:

- **Westfield Bank:** The Company conducts its principal business activities through its wholly owned subsidiary Westfield Bank.
- **WFD Securities, Inc. (“WFD”).** WFD is a Massachusetts chartered security corporation, for the primary purpose of holding qualified securities.

Westfield Bank has three wholly owned subsidiaries that are included in the Company’s consolidated financial statements:

- **Elm Street Securities Corporation (“Elm”).** Elm is a Massachusetts-chartered security corporation, formed for the primary purpose of holding qualified securities.
- **WB Real Estate Holdings, LLC. (“WB”).** WB is a Massachusetts-chartered limited liability company formed for the primary purpose of holding other real estate owned (“OREO”).

- **CSB Colts, Inc. (“CSB Colts”).** CSB Colts is a Massachusetts-chartered security corporation, formed for the primary purpose of holding qualified securities. CSB Colts was acquired on October 21, 2016, in conjunction with the acquisition of Chicopee.

Market Area.

Westfield Bank’s headquarters are located at 141 Elm Street in Westfield, Massachusetts. The Bank’s primary lending and deposit market areas include all of Hampden County and Hampshire County in western Massachusetts and Hartford and Tolland Counties in northern Connecticut. The Bank operates 22 banking offices in Agawam, Chicopee, Feeding Hills, East Longmeadow, Holyoke, Ludlow, South Hadley, Southwick, Springfield, Ware, West Springfield and Westfield, Massachusetts and Granby and Enfield, Connecticut. In addition, we have announced plans to open three new locations in 2020: a branch in Huntington, Massachusetts, which was purchased from Peoples United and opened on February 25, 2020, and two full-service branches in Bloomfield, Connecticut and West Hartford, Connecticut, which are currently undergoing construction and are anticipated to open in 2020. The West Hartford branch will be a Financial Solution Center and is expected to serve as our Connecticut hub, housing Commercial Lending, Cash Management and a MLO. In 2014, we relocated our middle market and commercial real estate lending team to offices in Springfield, Massachusetts. We operate full-service ATMs at our branch location and we also have 25 free-standing ATM locations in Chicopee, Holyoke, Southwick, Springfield, West Springfield and Westfield, Massachusetts and 23 traveling/seasonal ATMs. In addition, we provide online banking services, including online deposit account opening and residential mortgage and consumer loan applications through our website at www.westfieldbank.com.

The markets served by our branches are primarily suburban market areas located in western Massachusetts and two in northern Connecticut. Our middle market commercial lending team is located in Springfield, the Pioneer Valley’s primary urban market. Westfield, Massachusetts, is located near the intersection of U.S. Interstates 90 (the Massachusetts Turnpike) and 91. The Pioneer Valley of western Massachusetts encompasses the sixth largest metropolitan area in New England. The Springfield Metropolitan area covers a relatively diverse area ranging from densely populated urban areas, such as Springfield, to outlying rural areas.

A diversified mix of industry groups also operate within Hampden and Hampshire County, including manufacturing, health care, higher education, wholesale and retail trade and service. The economy of our primary market area has benefited from the presence of large employers such as Baystate Health, Big Y Supermarkets, University of Massachusetts, Mass Mutual Financial Group, Hasbro Games, Peter Pan Bus Lines, Friendly’s Ice Cream Corporation, Sisters of Providence Health Systems, Westover Air Force Base, Westfield-Barnes Regional Airport, Smith and Wesson and Yankee Candle. Other employment and economic activity is provided by financial institutions, nine other colleges and universities, eight other hospitals, and a variety of wholesale and retail trade business. Our Hampden market also enjoys a strong tourism business with attractions such as the Eastern States Exposition called the Big E, the largest fair in the northeast, the Basketball Hall of Fame, Six Flags New England and MGM Springfield.

Competition.

The Company faces significant competition to attract and retain customers within existing and neighboring geographic markets. This competition stems from national and larger regional banks, numerous local savings banks, commercial banks, cooperative banks and credit unions which have a large presence in the region. Competition for loans, deposits and cash management services, and investment advisory assets also comes from other businesses that provide financial services, including consumer finance companies, mortgage brokers and lenders, private lenders, insurance companies, securities brokerage firms, institutional mutual funds, registered investment advisors, non-bank electronic payment and funding channels, internet-based banks and other financial intermediaries.

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

At June 30, 2019, which is the most recent date for which data is available from the FDIC, we held approximately 14.2% of the deposits in Hampden County, which was the largest market share out of the 17 banks and thrifts with offices in Hampden County.

Personnel.

As of December 31, 2019, the Company had 274 full-time employees and 66 part-time employees. The employees are not represented by a collective bargaining unit and we believe we have an excellent relationship with our employees.

Lending Activities.

General. The Company's loan portfolio totaled \$1.8 billion, or 81.2% of total assets, at December 31, 2019, compared to \$1.7 billion, or 79.9% of total assets, at December 31, 2018. The Company lends to individuals, business entities, non-profit organizations and professional practices. The Company's primary lending focus is on the development of high quality commercial relationships achieved through active business development efforts, long-term relationships with established commercial developers, community involvement, and focused marketing strategies. Loans made to businesses, non-profits, and professional practices may include commercial mortgage loans, construction and land development loans, commercial and industrial loans, including lines of credit and letters of credit. Loans made to individuals may include conventional residential mortgage loans, home equity loans and lines, residential construction loans on owner-occupied primary and secondary residences, and secured and unsecured personal loans and lines of credit. The Company manages its loan portfolio to avoid concentration by industry, relationship size, and source of repayment to lessen its credit risk exposure.

Interest rates on loans may be fixed or variable and variable rate loans may have fixed initial periods before periodic rate adjustments begin. Individual rates offered are dependent on the associated degree of credit risk, term, underwriting and servicing costs, loan amount, and the extent of other banking relationships maintained with the borrower, and may be subject to interest rate floors. Rates are also subject to competitive pressures, the current interest rate environment, availability of funds, and government regulations.

The Company employs a seasoned commercial lending staff, with commercial lenders supporting the Company's loan growth strategy. The Company contracts with an external loan review company to review the internal credit ratings assigned to loans in the commercial loan portfolio on a pre-determined schedule, based on the type, size, rating, and overall risk of the loan. During the course of their review, the third party examines a sample of loans, including new loans, existing relationships over certain dollar amounts and classified assets. The Company's internal residential origination and underwriting staff originate residential loans and are responsible for compliance with residential lending regulations, consumer protection and internal policy guidelines. The Company's internal compliance department monitors the residential loan origination activity for regulatory compliance.

The Executive Committee of the Company's Board of Directors (the "Board") approves loan relationships exceeding certain prescribed dollar limits as outlined in the Company's lending policy.

At December 31, 2019, our general regulatory limit on loans to one borrower was \$34.2 million. Our largest lending exposure was a \$24.3 million commercial lending relationship, of which \$18.3 million was outstanding at December 31, 2019. The relationship is primarily secured by commercial real estate located in Springfield, Massachusetts. At December 31, 2019, this relationship was performing in accordance with its original terms.

Commercial Real Estate Loans and Commercial and Industrial Loans.

At December 31, 2019, commercial real estate loans totaled \$816.9 million, or 46.1% of total loans, compared to \$768.9 million, or 45.4% of total loans, at December 31, 2018.

The Company originates commercial real estate loans throughout its market area for the purpose of acquiring, developing, and refinancing commercial real estate where the property is the primary collateral securing the loan. These loans are typically secured by a variety of commercial and industrial property types, including one-to-four and multi-family apartment buildings, office, industrial, or mixed-use facilities, or other commercial properties, and are

generally guaranteed by the principals of the borrower. Commercial real estate loans generally have repayment periods of approximately fifteen to twenty years. Variable interest rate loans in the commercial real estate loan portfolio have a variety of adjustment terms and underlying interest rate indices, and are generally fixed for an initial period before periodic rate adjustments begin.

Commercial construction loans may include the development of residential housing and condominium projects, the development of commercial and industrial use property, and loans for the purchase and improvement of raw land. These loans are secured in whole or in part by underlying real estate collateral and are generally guaranteed by the principals of the borrowers. Construction lenders work to cultivate long-term relationships with established developers. The Company limits the amount of financing provided to any single developer for the construction of properties built on a speculative basis. Funds for construction projects are disbursed as pre-specified stages of construction are completed. Regular site inspections are performed, prior to advancing additional funds, at each construction phase, either by experienced construction lenders on staff or by independent outside inspection companies. Commercial construction loans generally are variable rate loans and lines with interest rates that are periodically adjusted and generally have terms of one to three years. At December 31, 2019 and December 31, 2018 there were \$103.3 million and \$102.0 million, respectively, in commercial construction loans included within commercial real estate loans.

At December 31, 2019, our commercial and industrial loan portfolio totaled \$248.9 million, or 14.0% of our total loans, compared to \$243.5 million, or 14.4% of total loans, at December 31, 2018. Commercial and industrial loans include seasonal revolving lines of credit, working capital loans, equipment financing and term loans. Commercial and industrial credits may be unsecured loans and lines to financially strong borrowers, loans secured in whole or in part by real estate unrelated to the principal purpose of the loan or secured by inventories, equipment, or receivables, and are generally guaranteed by the principals of the borrower. Variable rate loans and lines in this portfolio have interest rates that are periodically adjusted, with loans generally having fixed initial periods. Commercial and industrial loans have average repayment periods of one to seven years. Our commercial and industrial loan portfolio does not have any significant loan concentration by type of property or borrower.

The largest concentration of commercial loans to an industry was to hotels and accommodation, which comprised approximately 5.5% of the commercial loan portfolio inclusive of commercial and industrial owner-occupied real estate loans as of December 31, 2019. At December 31, 2019, our largest commercial and industrial loan relationship was \$24.3 million to a college. The loan relationship is secured by business assets and real estate. At December 31, 2019, this relationship was performing according to its original terms.

Letters of credit are conditional commitments issued by the Company to guarantee the financial obligation or performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. If the letter of credit is drawn upon, a loan is created for the customer, generally a commercial loan, with the same criteria associated with similar commercial loans.

The Company participates with other banks in the financing of certain commercial projects. Participating loans with other institutions provide banks the opportunity to retain customer relationships and reduce credit risk exposure among each participating bank, while providing customers with larger credit facilities than the individual bank might be willing or able to offer independently. In some cases, the Company may act as the lead lender, originating and servicing the loans, but participating out a portion of the funding to other banks. In other cases, the Company may participate in loans originated by other institutions. In each case, the participating bank funds a percentage of the loan commitment and takes on the related pro-rata risk. In each case in which the Company participates in a loan, the rights and obligations of each participating bank are divided proportionately among the participating banks in an amount equal to their share of ownership and with equal priority among all banks. The Company performs an independent credit analysis of each commitment and a review of the participating institution prior to participation in the loan, and an annual review of the borrower thereafter. Loans originated by other banks in which the Company is a participating institution are carried in the loan portfolio at the Company's pro-rata share of ownership. Loans originated by other banks in which the Company is a participating institution amounted to \$138.7 million at December 31, 2019 and \$117.8 million at December 31, 2018. The Company was servicing commercial loans originated by the Company and participated out to various other institutions totaling \$24.2 million and \$35.4 million at December 31, 2019 and December 31, 2018, respectively.

Residential Real Estate Loans.

At December 31, 2019 and December 31, 2018, the residential real estate loan portfolio totaled \$597.7 million, or 33.7% of total loans, and \$577.6 million, or 34.1%, of total loans, respectively. In 2019 and 2018, the Company did not purchase any residential real estate loans.

The Company originates and funds residential real estate loans secured by one-to-four family residential properties primarily located in western Massachusetts and northern Connecticut. The Company processes and underwrites all of its originations internally through its Residential Loan Center located in Westfield, MA.

These residential properties may serve as the borrower's primary residence, or as vacation homes or investment properties. Loans are originated in amounts up to 97% of the lesser of the appraised value or purchase price of the property. Private mortgage insurance is required on all loans with a loan-to-value ratios greater than 80%. In addition, financing is provided for the construction of owner-occupied primary and secondary residences. Residential mortgage loans may have terms of up to 30 years at either fixed or adjustable rates of interest. Fixed and adjustable rate residential mortgage loans are generally originated using secondary market underwriting and documentation standards.

Depending on the current interest rate environment, management may elect to sell those fixed and adjustable rate residential mortgage loans which are eligible for sale in the secondary market, or hold some or all of this residential loan production for the Company's portfolio. Mortgage loans are generally not pooled for sale, but instead sold on an individual basis. The Company may retain or sell the servicing when selling the loans. The Company is an approved seller and servicer with Fannie Mae, Freddie Mac and the FHLB, and an approved Mass Housing Lender. In order to reduce interest rate risk, at December 31, 2019 and December 31, 2018, the Company serviced \$48.2 million and \$56.6 million, respectively, in residential loans sold to the secondary market. The servicing rights will continue to be retained on all loans sold over the life of the loan. The largest owner-occupied residential real estate loan was \$1.4 million and was performing according to its original terms as of December 31, 2019.

Home Equity Loans.

At December 31, 2019 and December 31, 2018, home equity loans totaled \$102.5 million, or 5.8% of total loans, and \$97.2 million, or 5.8% of total loans, respectively. The Company originates home equity revolving loans and lines of credit for one-to-four family residential properties with maximum original loan-to-value ratios generally up to 85%. Home equity lines generally have interest rates that adjust monthly based on changes in the Wall Street Journal Prime Rate, although minimum rates may be applicable. Some home equity line rates may be fixed for a period of time and then adjusted monthly thereafter. The payment schedule for home equity lines require interest only payments for the first ten years of the lines. Generally at the end of ten years, the line may be frozen to future advances, and principal plus interest payments are collected over a fifteen-year amortization schedule or, for eligible borrowers meeting certain requirements, the line availability may be extended for an additional interest only period.

Consumer Loans.

At December 31, 2019, consumer loans totaled \$5.7 million, or 0.4%, of total loans and \$5.2 million, or 0.3%, of total loans, at December 31, 2018. Consumer loans are generally originated at higher interest rates than residential and commercial real estate loans, but they also generally tend to have a higher credit risk than residential real estate loans because they are usually unsecured or secured by rapidly depreciable assets. Management, however, believes that offering consumer loan products helps to expand and create stronger ties to our existing customer base by increasing the number of customer relationships and providing cross-marketing opportunities. We offer a variety of consumer loans to retail customers in the communities we serve. Examples of our consumer loans include automobile loans, spa and pool loans, collateral loans and personal lines of credit tied to deposit accounts to provide overdraft protection.

The following table presents the composition of our loan portfolio in dollar amounts and in percentages of the total portfolio at the dates indicated.

	At December 31,									
	2019		2018		2017		2016		2015	
	Amount	Percent of Total	Amount	Percent of Total	Amount (Dollars in thousands)	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
Real estate loans:										
Commercial	\$ 816,886	46.1 %	\$ 768,881	45.4 %	\$ 732,616	45.1 %	\$ 720,741	46.2 %	\$ 303,036	37.2 %
Residential	597,727	33.7	577,641	34.1	557,752	34.3	522,083	33.4	298,052	36.6
Home equity	102,517	5.8	97,238	5.8	92,599	5.7	92,083	5.9	43,512	5.3
Total real estate loans	1,517,130	85.6	1,443,760	85.3	1,382,967	85.1	1,334,907	85.5	644,600	79.2
Other loans										
Commercial and industrial	248,893	14.0	243,493	14.4	238,502	14.7	222,286	14.2	168,256	20.7
Consumer	5,747	0.4	5,203	0.3	4,478	0.3	4,424	0.3	1,534	0.2
Total other loans	254,640	14.4	248,696	14.7	242,980	14.9	226,710	14.5	169,790	20.9
Total loans	1,771,770	100.0	1,692,456	100.0	1,625,947	100.0	1,561,617	100.0	814,390	100.0
Premiums and deferred loan fees and costs, net	4,264		4,401		4,734		4,867		3,823	
Allowance for loan losses	(14,102)		(12,053)		(10,831)		(10,068)		(8,840)	
Total loans, net	\$ 1,761,932		\$ 1,684,804		\$ 1,619,850		\$ 1,556,416		\$ 809,373	

Loan Maturity and Repricing.

The following table shows the repricing dates or contractual maturity dates of our loans as of December 31, 2019. The table does not reflect prepayments or scheduled principal amortization. Demand loans, loans having no stated maturity, and overdrafts are shown as due in within one year.

	At December 31, 2019						Totals
	Commercial Real Estate	Residential	Home Equity	Commercial and Industrial	Consumer	Unallocated	
	(In thousands)						
Amount due:							
Within one year	\$ 123,486	\$ 34,531	\$ 66,512	\$ 136,267	\$ 504	\$ -	\$ 361,300
After one year:							
One to three years	185,222	45,396	630	34,226	1,026	-	266,500
Three to five years	223,813	48,017	2,922	38,936	2,789	-	316,477
Five to ten years	267,183	58,327	9,406	38,771	308	-	373,995
Ten to twenty years	12,831	56,893	23,047	13	313	-	93,097
Over twenty years	4,351	354,563	-	680	807	-	360,401
Total due after one year	693,400	563,196	36,005	112,626	5,243	-	1,410,470
Total amount due:	816,886	597,727	102,517	248,893	5,747	-	1,771,770
Net deferred loan origination fees and costs and premiums	(484)	3,322	662	726	38	-	4,264
Allowance for loan losses	(6,807)	(3,346)	(574)	(3,183)	(203)	11	(14,102)
Loans, net	<u>\$ 809,595</u>	<u>\$ 597,703</u>	<u>\$ 102,605</u>	<u>\$ 246,436</u>	<u>\$ 5,582</u>	<u>\$ 11</u>	<u>\$1,761,932</u>

The following table presents, as of December 31, 2019, the dollar amount of all loans contractually due or scheduled to reprice after December 31, 2020, and whether such loans have fixed interest rates or adjustable interest rates.

	Due After December 31, 2020		
	Fixed	Adjustable	Total
	(In thousands)		
Real estate loans:			
Residential	\$ 434,267	\$ 128,929	\$ 563,196
Home equity	36,005	-	36,005
Commercial real estate	212,457	480,943	693,400
Total real estate loans	682,729	609,872	1,292,601
Other loans:			
Commercial and industrial	102,327	10,299	112,626
Consumer	5,243	-	5,243
Total other loans	107,570	10,299	117,869
Total loans	<u>\$ 790,299</u>	<u>\$ 620,171</u>	<u>\$ 1,410,470</u>

The following table presents our loan originations, purchases and principal payments for the years indicated:

	For the Years Ended December 31,		
	2019	2018	2017
Loans:		(In thousands)	
Balance outstanding at beginning of year	\$ 1,692,456	\$ 1,625,947	\$ 1,561,617
Originations:			
Real estate loans:			
Residential	88,541	85,216	8,120
Home equity	40,768	40,551	28,109
Commercial	150,113	130,744	110,392
Total mortgage originations	279,422	256,511	146,621
Commercial and industrial loans	90,389	98,635	64,324
Consumer loans	2,898	2,509	2,100
Total originations	372,709	357,655	213,045
Purchase of one-to-four family mortgage loans	-	-	48,205
	372,709	357,665	261,250
Less:			
Principal repayments, unadvanced funds and other, net	292,769	290,468	196,168
Loan charge-offs (recoveries), net	626	678	597
Loans transferred to other real estate owned	-	-	155
Total deductions	293,395	291,146	196,920
Ending balance	\$ 1,771,770	\$ 1,692,456	\$ 1,625,947

Asset Quality.

Maintaining a high level of asset quality continues to be one of the Company's key objectives. Credit Administration reports directly to the Chief Credit Officer and is responsible for the completion of independent credit analyses for all loans above a specific threshold.

The Company's policy requires that management continuously monitor the status of the loan portfolio and report to the Board of Directors on a monthly basis. These reports include information on concentration levels, delinquent loans, non-accrual loans, criticized loans and foreclosed real estate, as well as our actions and plans to cure the non-accrual status of the loans and to dispose of the foreclosed property.

The Company contracts with an external loan review company to review the internal risk ratings assigned to loans in the commercial loan portfolio on a pre-determined schedule, based on the type, size, rating, and overall risk of the loan. During the course of their review, the third party examines a sample of loans, including new loans, existing relationships over certain dollar amounts and classified assets. The findings are reported to the Chief Credit Officer and the full report is then presented to the Audit Committee.

Potential Problem Loans.

The Company performs an internal analysis of the loan portfolio in order to identify and quantify loans with higher than normal risk. Loans having a higher risk profile are assigned a risk rating corresponding to the level of weakness identified in the loan.

All loans risk rated "Special Mention (5)", "Substandard (6)", "Doubtful (7)" and "Loss (8)" are listed on the Company's criticized report and are reviewed by management not less than on a quarterly basis to assess the level of risk and to ensure that appropriate actions are being taken to minimize potential loss exposure. Loans identified as

containing a loss are partially charged-off or fully charged off. In addition, the Company closely monitors the classified loans for signs of deterioration to mitigate the growth in nonaccrual loans, including performing additional due diligence, updating valuations and requiring additional financial reporting from the borrower. At December 31, 2019, criticized loans, inclusive of "adversely classified loans", totaled \$83.3 million, or 4.7% of total loans, compared to \$79.9 million, or 4.7% of total loans, at December 31, 2018.

The Company's adversely classified loans (defined as "Substandard (6)", "Doubtful (7)" or "Loss (8)") totaled \$57.3 million, or 3.2% of total loans, at December 31, 2019 and \$49.7 million, or 2.9%, of total loans, at December 31, 2018. Adversely classified loans that were performing but possessed potential weaknesses and, as a result, could ultimately become non-performing loans totaled \$47.5 million, or 2.7% of total loans, at December 31, 2019 and \$36.5 million, or 2.2% of total loans, at December 31, 2018. The remaining balance of adversely classified loans were non-accrual loans totaling \$9.9 million, or 0.56% of total loans, at December 31, 2019 and \$13.2 million, or 0.78% of total loans, at December 31, 2018.

Total impaired loans totaled \$19.5 million, or 1.1% of total loans, at December 31, 2019 and \$27.4 million, or 1.6% of total loans, at December 31, 2018. Total accruing impaired loans totaled \$9.6 million and \$13.9 million at December 31, 2019 and December 31, 2018, respectively, while non-accrual impaired loans totaled \$9.9 million and \$13.5 million as of December 31, 2019 and December 31, 2018, respectively.

In management's opinion, the majority of impaired loan balances at December 31, 2019 and 2018, were supported by expected future cash flows or, for those collateral dependent loans, the net realizable value of the underlying collateral. Based on management's assessment at December 31, 2019 and December 31, 2018, impaired loans totaling \$19.5 million and \$27.4 million, respectively, did not require a specific reserve. Management closely monitors these relationships for collateral or credit deterioration.

At December 31, 2019, 2018, 2017, non-accrual loans totaled \$9.9 million, or 0.56% of total loans, \$13.5 million, or 0.79% of total loans, and \$12.8 million, and 0.78% of total loans, respectively. In 2016, we acquired \$6.4 million of non-accrual loans from Chicopee. If all non-accrual loans had been performing in accordance with their terms, we would have earned additional interest income of \$651,000, \$900,000 and \$749,000 for the years ended December 31, 2019, 2018 and 2017, respectively.

At December 31, 2019 and 2018, the Company carried no OREO balances. At December 31, 2017, OREO balances were \$155,000.

The following table presents information regarding non-performing commercial real estate loans, commercial and industrial term loans, residential real estate loans, consumer loans, and foreclosed real estate as of the dates indicated. All loans where the payment is 90 days or more in arrears as of the closing date of each month are placed on non-accrual status unless the loan is well secured and in the process of collection.

	At December 31,				
	2019	2018	2017	2016	2015
	(Dollars in thousands)				
Non-accrual real estate loans:					
Residential	\$ 4,548	\$ 5,856	\$ 5,961	\$ 5,744	\$ 1,470
Home equity	445	391	696	120	-
Commercial real estate	3,843	4,701	2,959	4,452	3,237
Total non-accrual real estate loans	8,836	10,948	9,616	10,316	4,707
Other loans:					
Commercial and industrial	1,003	2,476	3,019	3,714	3,363
Consumer	42	60	120	27	10
Total non-accrual other loans	1,045	2,536	3,139	3,741	3,373
Total non-performing loans	9,881	13,484	12,755	14,057	8,080
Foreclosed real estate, net	-	-	155	298	-
Total non-performing assets ⁽¹⁾	\$ 9,881	\$ 13,484	\$ 12,910	\$ 14,355	\$ 8,080
Non-performing loans to total loans	0.56 %	0.79 %	0.78 %	0.90 %	0.99 %
Non-performing assets to total assets	0.45	0.64	0.63	0.69	0.60

⁽¹⁾ Troubled debt restructurings on accrual status not included above totaled \$1.5 million, \$2.4 million, \$1.8 million, \$2.1 million and \$495,000 at December 31, 2019, 2018, 2017, 2016 and 2015, respectively.

Allowance for Loan Losses.

The allowance for loan losses is an estimate of probable credit risk inherent in the loan portfolio as of the specified balance sheet dates. On a quarterly basis, management prepares an estimate of the allowance necessary to cover estimated probable credit losses. The Company maintains the allowance at a level that it deems adequate to absorb all reasonably anticipated probable losses from specifically known and other credit risks associated with the portfolio.

The Company maintains an allowance for loan losses to absorb losses inherent in the loan portfolio based on ongoing quarterly assessments of the estimated losses. Our methodology for assessing the appropriateness of the allowance consists of a review of the components, which includes a general allowance for non-impaired loans.

The specific valuation allowance incorporates the results of measuring impairment for specifically identified non-homogenous problem loans and, as applicable, troubled debt restructurings (“TDRs”). A loan is recognized as impaired when it is probable that principal and/or interest are not collectible in accordance with the loan’s contractual terms. Impairment is measured on a loan by loan basis for commercial real estate and commercial and industrial loans by either the present value of expected future cash flows discounted at the loan’s effective interest rate or the fair value of the collateral if the loan is collateral dependent. An allowance is established when the discounted cash flows (or collateral value) of the impaired loan is lower than the carrying value of that loan. Once an impairment has been determined, the Company recognizes the charge-off.

The general allowance is calculated by applying loss factors to outstanding loans by loan type, excluding loans determined to be impaired. As part of this analysis, each quarter we prepare an allowance for loan losses worksheet which categorizes the loan portfolio by risk characteristics such as loan type and loan grade. The general allowance is inherently subjective as it requires material estimates that may be susceptible to significant change. There are a number of factors that are considered when evaluating the appropriate level of the allowance. These factors include current economic and business conditions that affect our key lending areas, collateral values, loan volumes and concentrations, credit quality trends such as non-performing loans, delinquency and loan losses, and specific industry concentrations within the portfolio segments that may impact the collectability of the loan portfolio. For information on our methodology for assessing the appropriateness of the allowance for loan losses please see Footnote 1 – “*Summary of Significant Accounting Policies*” of our notes to consolidated financial statements.

The allowance for loan losses is established through a provision for loan losses, which is a direct charge to earnings. Loan losses are charged against the allowance when management believes that the collectability of the loan principal is unlikely. Recoveries on loans previously charged-off are credited to the allowance for loan losses.

In making its assessment on the adequacy of the allowance for loan losses, management considers several quantitative and qualitative factors that could have an effect on the credit quality of the portfolio. Management closely monitors the credit quality of individual delinquent and non-performing relationships, the levels of impaired and adversely classified loans, net charge-offs, the growth and composition of the loan portfolio, expansion in geographic market area, and any material changes in underwriting criteria, and the strength of the local and national economy, among other factors.

The level of delinquent and non-performing assets is largely a function of economic conditions and the overall banking environment and the individual business circumstances of borrowers. Despite prudent loan underwriting, adverse changes within the Company’s market area, or deterioration in local, regional or national economic conditions, could negatively impact management’s estimate of probable credit losses.

Management continues to closely monitor the necessary allowance levels, including specific reserves. The allowance for loan losses to total loans ratio was 0.79% at December 31, 2019 compared to 0.71% at December 31, 2018. The allowance for loan losses to total loans ratio, excluding loans acquired from Chicopee was 1.01% at December 31, 2019 and 0.98% at December 31, 2018.

Based on the foregoing, as well as management’s judgment as to the existing credit risks inherent in the loan portfolio, management believes that the Company’s allowance for loan losses is adequate to absorb probable losses from specifically known and other probable credit risks associated with the portfolio as of December 31, 2019.

The following table presents the activity in our allowance for loan losses and other ratios at or for the dates indicated.

	At or for Years Ended December 31,				
	2019	2018	2017	2016	2015
	(Dollars in thousands)				
Balance at beginning of year	\$ 12,053	\$ 10,831	\$ 10,068	\$ 8,840	\$ 7,948
Charge-offs:					
Residential	(283)	(608)	(124)	(115)	(24)
Commercial real estate	(669)	(35)	(292)	(170)	-
Home equity	(37)	(37)	(24)	(42)	(34)
Commercial and industrial	(514)	(299)	(289)	-	(345)
Consumer	(197)	(171)	(319)	(159)	(73)
Total charge-offs	(1,700)	(1,150)	(1,048)	(486)	(476)
Recoveries:					
Residential	65	25	122	9	4
Commercial real estate	873	369	142	1,065	-
Home equity	1	2	42	-	4
Commercial and industrial	74	20	81	25	51
Consumer	61	56	64	40	34
Total recoveries	1,074	472	451	1,139	93
Net (charge-offs) recoveries	(626)	(678)	(597)	653	(383)
Provision for loan losses	2,675	1,900	1,360	575	1,275
Balance at end of year	\$ 14,102	\$ 12,053	\$ 10,831	\$ 10,068	\$ 8,840
Total loans receivable (1)	\$ 1,771,770	\$ 1,692,456	\$ 1,625,947	\$ 1,561,617	\$ 814,390
Average loans outstanding	\$ 1,721,884	\$ 1,666,266	\$ 1,597,599	\$ 1,013,611	\$ 766,548
Allowance for loan losses as a percent of total loans receivable	0.79 %	0.71 %	0.67 %	0.64 %	1.09 %
Net loans charged-off as a percent of average loans outstanding	0.04	0.04	0.04	(0.06)	0.05

(1) Does not include premiums, deferred costs and fees, or the allowance for loan losses.

A summary of the components of the allowance for loan losses is as follows:

	December 31, 2019			December 31, 2018			December 31, 2017		
	Specific	General	Total	Specific	General	Total	Specific	General	Total
	(In thousands)								
Commercial real estate	\$ -	\$ 6,807	\$ 6,807	\$ -	\$ 5,260	\$ 5,260	\$ -	\$ 4,712	\$ 4,712
Residential real estate:									
Residential	-	3,346	3,346	-	3,044	3,044	-	2,839	2,839
Home equity	-	574	574	-	512	512	-	472	472
Commercial and industrial	-	3,183	3,183	-	3,114	3,114	-	2,733	2,733
Consumer	-	203	203	-	135	135	-	71	71
Unallocated	-	(11)	(11)	-	(12)	(12)	-	4	4
Total	<u>\$ -</u>	<u>\$ 14,102</u>	<u>\$ 14,102</u>	<u>\$ -</u>	<u>\$ 12,053</u>	<u>\$ 12,053</u>	<u>\$ -</u>	<u>\$ 10,831</u>	<u>\$ 10,831</u>

	December 31, 2016			December 31, 2015		
	Specific	General	Total	Specific	General	Total
	(In thousands)					
Commercial real estate	\$ -	\$ 4,083	\$ 4,083	\$ -	\$ 3,856	\$ 3,856
Residential real estate:						
Residential	-	2,433	2,433	-	2,122	2,122
Home equity	-	429	429	-	309	309
Commercial and industrial	-	3,085	3,085	-	2,485	2,485
Consumer	-	38	38	-	22	22
Unallocated	-	-	-	-	46	46
Total	<u>\$ -</u>	<u>\$ 10,068</u>	<u>\$ 10,068</u>	<u>\$ -</u>	<u>\$ 8,840</u>	<u>\$ 8,840</u>

For the years ended December 31, 2019 and December 31, 2018, the Company recorded a provision of \$2.7 million and \$1.9 million, respectively, to the allowance for loan losses based on our evaluation of the items discussed above. We believe that the allowance for loan losses adequately reflects the level of incurred losses in the current loan portfolio as of December 31, 2019.

Allocation of Allowance for Loan Losses.

The following tables set forth the allowance for loan losses allocated by loan category, the total loan balances by category, and the percent of loans in each category to total loans.

Loan Category	December 31, 2019			December 31, 2018			December 31, 2017		
	Amount of Allowance for Loan Losses	Loan Balances by Category	Percent of Loans in Each Category to Total Loans	Amount of Allowance for Loan Losses	Loan Balances by Category	Percent of Loans in Each Category to Total Loans	Amount of Allowance for Loan Losses	Loan Balances by Category	Percent of Loans in Each Category to Total Loans
					(In thousands)				
Commercial real estate	\$ 6,807	\$ 816,886	46.1 %	\$ 5,260	\$ 768,881	45.4 %	\$ 4,712	\$ 732,616	45.1 %
Real estate mortgage:									
Residential	3,346	597,727	33.7	3,044	577,641	34.1	2,839	557,752	34.3
Home equity	574	102,517	5.8	512	97,238	5.8	472	92,599	5.7
Commercial and industrial loans	3,183	248,893	14.0	3,114	243,493	14.4	2,733	238,502	14.7
Consumer loans	203	5,747	0.4	135	5,203	0.3	71	4,478	0.3
Unallocated	(11)	-	-	(12)	-	-	4	-	-
Total allowances for loan losses	<u>\$ 14,102</u>	<u>\$ 1,771,770</u>	<u>100.00 %</u>	<u>\$ 12,053</u>	<u>\$ 1,692,456</u>	<u>100.00 %</u>	<u>\$ 10,831</u>	<u>\$ 1,625,947</u>	<u>100.00 %</u>
Loan Category	December 31, 2016			December 31, 2015					
	Amount of Allowance for Loan Losses	Loan Balances by Category	Percent of Loans in Each Category to Total Loans	Amount of Allowance for Loan Losses	Loan Balances by Category	Percent of Loans in Each Category to Total Loans			
					(In thousands)				
Commercial real estate	\$ 4,083	\$ 720,741	46.2 %	\$ 3,856	\$ 303,036	37.2 %			
Real estate mortgage:									
Residential	2,433	522,083	33.4	2,122	298,052	36.6			
Home equity	429	92,083	5.9	309	43,512	5.3			
Commercial and industrial loans	3,085	222,286	14.2	2,485	168,256	20.7			
Consumer loans	38	4,424	0.3	22	1,534	0.2			
Unallocated	-	-	-	46	-	-			
Total allowances for loan losses	<u>\$ 10,068</u>	<u>\$ 1,561,617</u>	<u>100.00 %</u>	<u>\$ 8,840</u>	<u>\$ 814,390</u>	<u>100.00 %</u>			

Loans Acquired with Deteriorated Credit Quality.

Loans acquired in a transfer, including business combinations, where there is evidence of credit deterioration since origination and it is probable at the date of acquisition the Company will not collect all contractually required principal and interest payments, are accounted for under accounting guidance for purchased credit-impaired loans. This guidance provides that the excess of the cash flows initially expected to be collected over the fair value of the loans at the acquisition date (i.e., the accretable yield) is accreted into interest income over the estimated remaining life of the loans, provided that the timing and amount of future cash flows is reasonably estimated. The difference between the contractually required payments and the cash flows expected to be collected at acquisition is referred to as the non-accretable difference. Subsequent to acquisition, probable decreases in expected cash flows are recognized through a provision for loan losses, resulting in an increase to the allowance for loan losses. If the Company has probable and significant increases in cash flows expected to be collected, the Company will first reverse any previously established allowance for loan losses and then increase interest income as a prospective yield adjustment. At December 31, 2019 and 2018, the Company had \$11.8 million and \$15.0 million in purchase credit-impaired loans.

Investment Activities.

The Board of Directors reviews and approves our investment policy on an annual basis. The Chief Executive Officer and Chief Financial Officer, as authorized by the Board of Directors, implement this policy based on the established guidelines within the written policy. The Company's internal investment policy sets limits as a percentage of the total portfolio, identifies acceptable and unacceptable investment practices, and denotes approved security dealers. The effect of changes in interest rates, market values, timing of principal payments and credit risk are considered when purchasing securities.

The Company's investment portfolio activities are an integral part of the overall asset liability management program of the Company. The investment function provides readily available funds to support loan growth, as well as to meet withdrawals and maturities of deposits, and attempts to provide maximum return consistent with liquidity constraints and general prudence, including diversification and safety of investments.

The securities in which the Company may invest are limited by regulation. Federally-chartered savings banks have authority to invest in various types of assets, including U.S. Treasury obligations, securities of various government-sponsored enterprises, mortgage-backed securities, certain certificates of deposit of insured financial institutions, repurchase agreements, overnight and short-term loans to other banks, corporate debt instruments and marketable equity securities.

As of the balance sheet dates reflected in this annual report, all of the securities within the Company's investment portfolio were classified as available-for-sale and carried at fair value. Effective January 1, 2018, the Bank adopted Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2016-01, *Financial Instruments—Overall* (Subtopic 825-10): *Recognition and Measurement of Financial Assets and Financial Liabilities*. Consequently, marketable equity securities are measured at fair value with changes in fair value reported on the Company's income statement as a component of non-interest income, regardless of whether such gains and losses are realized.

On a quarterly basis, we review securities available-for-sale with a decline in fair value below the amortized cost of the investment to determine whether the decline in fair value is temporary or other-than-temporary ("OTTI"). In estimating OTTI losses for securities available-for-sale, impairment is required to be recognized if (1) we intend to sell the security; (2) it is "more likely than not" that we will be required to sell the security before recovery of its amortized cost basis; or (3) for debt securities, the present value of expected cash flows is not sufficient to recover the entire amortized cost basis. For all impaired debt securities that we intend to sell, or more likely than not will be required to sell, the full amount of the other-than-temporary impairment is recognized through earnings. For all other impaired debt securities, credit-related other-than-temporary impairment is recognized through earnings, while non-credit-related other-than-temporary impairment is recognized in other comprehensive income/loss, net of applicable taxes. Prior to January 1, 2018, marketable equity securities were evaluated for OTTI based upon the severity and duration of the impairment and, if deemed to be other than temporary, the declines in fair value were reflected in earnings as realized losses.

Management reports investment transactions, portfolio allocation, effective duration, market value at risk and projected cash flows to the Board on a periodic basis. The Board also approves the Company's ongoing investment strategy.

Restricted Equity Securities.

At December 31, 2019 and 2018, the Company held \$14.1 million and \$14.3 million, respectively, of FHLB stock. This stock is classified as a restricted investment and carried at cost which management believes approximates the fair value. The investment must be held as a condition of membership in the FHLB and as a condition for the Bank to borrow from the FHLB. The Company periodically evaluates its investment in FHLB stock for impairment based on, among other factors, the capital adequacy of the FHLB and its overall financial condition.

At both December 31, 2019 and 2018, the Company held \$423,000 of Atlantic Community Bankers Bank stock. The stock is restricted and carried in other assets at cost. The stock is evaluated for impairment based on an estimate of the ultimate recovery to the par value. No impairment losses have been recorded through December 31, 2019.

The following table sets forth the composition of our securities portfolio at the dates indicated.

	At December 31,					
	2019		2018		2017	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available-for-sale:						
Debt securities:						
Government-sponsored enterprise obligations	\$ 20,150	\$ 20,014	\$ 25,150	\$ 23,947	\$ 25,151	\$ 24,381
State and municipal bonds	2,718	2,813	2,976	2,944	3,222	3,239
Corporate bonds	7,800	7,866	49,819	48,168	56,084	56,144
Total debt securities	<u>30,668</u>	<u>30,693</u>	<u>77,945</u>	<u>75,059</u>	<u>84,457</u>	<u>83,764</u>
Mortgage-backed securities:						
Government-sponsored mortgage-backed securities	186,236	186,001	165,605	159,351	185,769	182,001
U.S. government guaranteed mortgage-backed securities	11,197	11,014	20,089	19,338	16,821	16,254
Total mortgage-backed securities	<u>197,433</u>	<u>197,015</u>	<u>185,694</u>	<u>178,689</u>	<u>202,590</u>	<u>198,255</u>
Marketable equity securities:						
Mutual funds (1)	-	-	-	-	6,727	6,397
Total available-for-sale securities	<u>\$ 228,101</u>	<u>\$ 227,708</u>	<u>\$ 263,639</u>	<u>\$ 253,748</u>	<u>\$ 293,774</u>	<u>\$ 288,416</u>

(1) Does not include investments in restricted stock consisting of \$14.5 million, \$14.7 million and \$15.6 million at December 31, 2019, 2018 and 2017, respectively.

Securities Portfolio Maturities.

The composition and maturities of the debt securities portfolio and the mortgage-backed securities portfolio at December 31, 2019 are summarized in the following table. Maturities are based on the final contractual payment dates, and do not reflect the impact of prepayments or redemptions that may occur.

	One Year or Less			More than One Year through Five Years			More than Five Years through Ten Years			More than Ten Years			Total Securities		
	Amortized Cost	Weighted Average Yield		Amortized Cost	Weighted Average Yield		Amortized Cost	Weighted Average Yield		Amortized Cost	Weighted Average Yield		Amortized Cost	Fair Value	Weighted Average Yield
(Dollars in thousands)															
Debt securities available-for-sale:															
Government-sponsored enterprise obligations	\$ -	- %	1.82 %	\$ 8,000	1.82 %	1.82 %	\$ 7,000	2.24 %	2.24 %	\$ 5,150	3.00 %	3.00 %	\$ 20,150	\$ 20,014	2.27 %
State and municipal bonds	-	-	3.28	811	3.28	3.28	324	5.11	5.11	1,583	2.72	2.72	2,718	2,813	3.17
Corporate bonds	-	-	3.14	7,800	3.14	3.14	-	-	-	-	-	-	7,800	7,866	3.14
Total debt securities available-for-sale	-	-	2.51	16,611	2.51	2.51	7,324	2.37	2.37	6,733	2.94	2.94	30,668	30,693	2.57
Mortgage-backed securities available-for-sale:															
Government-sponsored residential mortgage-backed	-	-	1.88	2,638	1.88	1.88	1,587	2.39	2.39	182,011	2.49	2.49	186,236	186,001	2.48
U.S. government guaranteed residential mortgage-backed	-	-	-	-	-	-	-	-	-	11,197	2.31	2.31	11,197	11,014	2.31
Total mortgage-backed securities available-for-sale	-	-	1.88	2,638	1.88	1.88	1,587	2.39	2.39	193,208	2.47	2.47	197,433	197,015	2.47
Total available-for-sale	\$ -	- %	2.42 %	\$ 19,249	2.42 %	2.42 %	\$ 8,911	2.37 %	2.37 %	\$ 199,941	2.49 %	2.49 %	\$ 228,101	\$ 227,708	2.48 %

Deposits.

Deposits have traditionally been the principal source of the Company's funds. The Company offers commercial checking, business and municipal savings accounts, term certificates of deposit ("CDs"), money market and business sweep accounts, and Interest on Lawyers Trust Accounts ("IOLTA's"). A broad selection of competitive retail deposit products are also offered, including personal checking accounts earning interest, savings accounts, money market accounts, individual retirement accounts ("IRA") and time deposits. Terms on time deposits are offered ranging from one month to sixty months. As a member of the FDIC, the Bank's depositors are provided deposit protection up to the maximum FDIC insurance coverage limits.

Management determines the interest rates offered on deposit accounts based on current and expected economic conditions, competition, liquidity needs, the volatility of existing deposits, the asset/liability position of the Company and the overall objectives of the Company regarding the growth and retention of relationships. The Company may also utilize brokered deposits, both term and overnight, from a number of available sources, as part of the Company's asset liability management strategy and as an alternative to borrowed funds to support asset growth in excess of internally generated deposits. Brokered deposits along with borrowed funds may be referred to as wholesale funding. At December 31, 2019 and 2018, brokered deposits were included within time deposits and totaled \$21.5 million and \$23.8 million, respectively.

Core deposits (defined as regular accounts, money market accounts, interest-bearing and noninterest-bearing demand accounts) represented 61.1% of total deposits on December 31, 2019 and 58.6% on December 31, 2018. At December 31, 2019 and December 31, 2018, time deposits with remaining terms to maturity of less than one year amounted to \$548.6 million and \$443.2 million, respectively. See *"Management's Discussion and Analysis of Financial Condition and Results of Operations — Net Interest and Dividend Income"* for information relating to the average balances and costs of our deposit accounts for the years ended December 31, 2019, 2018 and 2017.

Cash Management Services.

In addition to the deposit products discussed above, commercial banking and municipal customers may take advantage of cash management services including remote deposit capture, Automated Clearing House ("ACH") credit and debit origination, check payment fraud prevention, international and domestic wire transfers and corporate credit cards.

Deposit Distribution and Weighted Average Rates.

The following table sets forth the distribution of our deposit accounts, by account type, at the dates indicated.

	At December 31,								
	2019			2018			2017		
	Amount	Percent	Weighted Average Rates	Amount	Percent	Weighted Average Rates	Amount	Percent	Weighted Average Rates
	(Dollars in thousands)								
Demand deposits	\$ 393,303	23.4 %	- %	\$ 355,389	22.3 %	- %	\$ 311,851	20.7 %	- %
Interest-bearing checking accounts	70,182	4.2	0.49	63,620	4.0	0.46	87,394	5.8	0.39
Regular accounts	126,352	7.5	0.11	118,542	7.4	0.11	140,081	9.3	0.12
Money market accounts	435,396	26.0	0.66	398,396	25.0	0.58	410,223	27.2	0.40
Total core deposit accounts	1,025,233	61.1	0.33	935,947	58.6	0.29	949,549	63.0	0.23
Time deposits:									
Due within the year	548,559	32.7	2.17	443,186	27.7	1.74	300,531	20.0	1.15
Over 1 year through 3 years	91,776	5.5	1.94	190,655	12.0	2.26	213,780	14.2	1.58
Over 3 years	12,296	0.7	1.98	26,205	1.6	1.91	42,222	2.8	1.59
Total time deposit accounts	652,631	38.9	2.13	660,046	41.4	1.90	556,533	37.0	1.35
Total	\$ 1,677,864	100.0 %	1.03 %	\$ 1,595,993	100.0 %	0.96 %	\$ 1,506,082	100.00 %	0.65 %

Time Deposit Maturities.

A summary of time deposits totaling \$250,000 or more by maturity is as follows:

	December 31, 2019				December 31, 2018			
	Amount		Weighted Average Rate		Amount		Weighted Average Rate	
	(In thousands)							
3 months or less	\$	16,574	2.32	%	\$	39,272	1.78	%
Over 3 months through 6 months		52,577	2.45			27,254	1.83	
Over 6 months through 12 months		94,558	2.26			68,413	2.18	
Over 12 months		20,366	2.15			45,342	2.53	
Total:	\$	184,075	2.31	%	\$	180,281	2.13	%

Time Deposit Balances by Rates.

A summary of time deposits by maturity is as follows:

At December 31, 2019						
Period to Maturity						
	Less than One Year	One to Two Years	Two to Three Years	More than Three Years	Total	Percent of Total
1.00% and under	\$ 30,843	\$ 19,817	\$ 4,137	\$ 3,793	\$ 58,590	9.0 %
1.01% to 2.00%	161,320	13,730	13,815	1,870	190,735	29.2
2.01% to 3.00%	339,782	31,482	430	6,633	378,327	58.0
3.01% to 4.00%	16,614	8,365	-	-	24,979	3.8
Total	<u>\$ 548,559</u>	<u>\$ 73,394</u>	<u>\$ 18,382</u>	<u>\$ 12,296</u>	<u>\$ 652,631</u>	<u>100.0 %</u>

Other Sources of Funds.

As discussed above, deposit gathering has been the Company's principal source of funds. Asset growth in excess of deposits may be funded through cash flows from our loan and investment portfolios, or the following sources:

Borrowings.

Total borrowing capacity includes borrowing arrangements at the FHLB and borrowing arrangements with correspondent banks.

The Company is a member of the FHLB and uses borrowings as an additional source of funding to finance the Company's lending and investing activities and to provide liquidity for daily operations. FHLB advances also provide more pricing and option alternatives for particular asset/liability needs. The FHLB provides a central credit facility primarily for member institutions. As an FHLB member, the Company is required to own capital stock of the FHLB, calculated periodically based primarily on its level of borrowings from the FHLB. FHLB borrowings are secured by a blanket lien on certain qualifying assets, principally the Company's residential mortgage loans. Advances are made under several different credit programs with different lending standards, interest rates and range of maturities. This relationship is an integral component of the Company's asset-liability management program.

The Company has an overnight Ideal Way line of credit with the FHLB for \$9.5 million for the years ended December 31, 2019 and 2018. Interest on this line of credit is payable at a rate determined and reset by the FHLB on a daily basis. The outstanding principal is due daily but the portion not repaid will be automatically renewed. There were no advances outstanding under this line at December 31, 2019 and 2018, respectively.

The Company also has pre-established, non-collateralized overnight borrowing arrangements with large national and regional correspondent banks to provide additional overnight and short-term borrowing capacity for the Company. The Company has a \$15.0 million line of credit with a correspondent bank and a \$50.0 million line of credit with another correspondent bank, both at an interest rate determined and reset on a daily basis. At December 31, 2019 and 2018, we had no advances outstanding under these lines.

Financial Services.

Westfield Bank also provides access to insurance and investment products through Westfield Investment Services. In conjunction with our acquisition of Chicopee in October of 2016, the Company retained a partnership with LPL Financial (“LPL”), a third-party registered broker-dealer, while discontinuing our strategic alliance with the previous service provider, Charter Oak, a division of MassMutual. Westfield Investment Services is in the business of helping clients meet all of their financial needs. Westfield Investment Services representatives provide a broad range of wealth management, investment, insurance and financial planning services and strategic asset management services.

Securities and advisory services are offered through LPL, a registered investment advisor and broker-dealer (member FINRA/SIPC). Insurance products are offered through LPL or its licensed affiliates. Westfield Bank and Westfield Investment Services are not registered as a broker-dealer or investment advisor. Registered representatives of LPL offer products and services using Westfield Investment Services, and may also be employees of Westfield Bank. These products and services are being offered through LPL or its affiliates, which are separate entities from, and not affiliates of, Westfield Bank or Westfield Investment Services. Securities and insurance offered through LPL or its affiliates are:

Not Insured by FDIC or Any Other Government Agency	Not Bank Guaranteed
Not Bank Deposits or Obligations	May Lose Value

Supervision and Regulation.

The Company and the Bank are subject to extensive regulation under federal and state laws. The regulatory framework applicable to savings and loan holding companies and their insured depository institution subsidiaries is intended to protect depositors, the federal deposit insurance fund (the “DIF”), consumers and the U.S. banking system, rather than investors.

Set forth below is a summary of the significant laws and regulations applicable to Western New England Bancorp and its subsidiaries. The summary description that follows is qualified in its entirety by reference to the full text of the statutes, regulations, and policies that are described. Such statutes, regulations, and policies are subject to ongoing review by Congress and state legislatures and federal and state regulatory agencies. A change in any of the statutes, regulations, or regulatory policies applicable to Western New England Bancorp and its subsidiaries could have a material effect on the results of the Company.

Overview.

Western New England Bancorp is a separate and distinct legal entity from the Bank. The Company is a Massachusetts-chartered stock holding company as a registered savings and loan holding company under the Home Owners’ Loan Act (the “HOLA”), as amended, and is subject to the supervision of and regular examination by the Board of Governors of the Federal Reserve System (the “FRB,” the “Federal Reserve Board” or the “Federal Reserve”) as its primary federal regulator. In addition, the Federal Reserve Board has enforcement authority over Western New England Bancorp and its non-savings association subsidiaries. Western New England Bancorp is also subject to the jurisdiction of the SEC and is subject to the disclosure and other regulatory requirements of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, as administered by the SEC. Western New England Bancorp is traded on the NASDAQ under the ticker symbol, “WNEB,” and is subject to the NASDAQ stock market rules.

Westfield Bank is organized as a federal savings association under the HOLA. The Bank is subject to the supervision of, and to regular examination by, the Office of the Comptroller of the Currency (the “OCC”) as its chartering authority and primary federal regulator. To a limited extent, the Bank is also subject to the supervision and regulation of the FDIC as its deposit insurer. Financial products and services offered by Western New England

Bancorp and the Bank are subject to federal consumer protection laws and implementing regulations promulgated by the Consumer Financial Protection Bureau (the “CFPB”). Western New England Bancorp and the Bank are also subject to oversight by state attorneys general for compliance with state consumer protection laws. The Bank's deposits are insured by the FDIC up to the applicable deposit insurance limits in accordance with FDIC laws and regulations. The Bank is a member of the FHLB, and is subject to the rules and requirements of the FHLB. The subsidiaries of Western New England Bancorp and the Bank are subject to federal and state laws and regulations, including regulations of the FRB and the OCC, respectively.

Set forth below is a description of the significant elements of the laws and regulations applicable to Western New England Bancorp and its subsidiaries. Statutes, regulations and policies are subject to ongoing review by Congress, state legislatures and federal and state agencies. A change in any statute, regulation or policy applicable to Western New England Bancorp may have a material effect on the results of Western New England Bancorp and its subsidiaries.

Federal Savings and Loan Holding Company Regulation.

Western New England Bancorp is a savings and loan holding company as defined by the HOLA. In general, the HOLA restricts the business activities of savings and loan holding companies to those permitted for financial holding companies under the Bank Holding Company Act of 1956 as amended (the “BHC Act”). Permissible businesses activities include banking, managing or controlling banks and other activities that the FRB has determined to be so closely related to banking “as to be a proper incident thereto,” as well as any activity that is either (i) financial in nature or incidental to such financial activity (as determined by the FRB in consultation with the Secretary of the Treasury) or (ii) complementary to a financial activity, and that does not pose a substantial risk to the safety and soundness of depository institutions or the financial system generally (as determined solely by the FRB). Activities that are financial in nature include, among others, securities underwriting and dealing, insurance underwriting and making merchant banking investments.

Mergers and Acquisitions.

The HOLA, the federal Bank Merger Act and other federal and state statutes regulate direct and indirect acquisitions of savings associations by savings and loan holding companies or other savings associations. The HOLA requires the prior approval of the FRB for the direct or indirect acquisition of more than 5% of the voting shares of a savings association or its parent holding company and for a company, other than a savings and loan holding company, to acquire 25% or more of any class of voting securities of a savings association or a savings and loan holding company. Under the Change in Bank Control Act, no person, including a company, may acquire, directly or indirectly, control of an insured depository institution without providing 60 days’ prior notice and receiving a non-objection from the appropriate federal banking agency.

Under the Bank Merger Act, the prior approval of the OCC is required for a federal savings association to merge with another insured depository institution, where the resulting institution is a federal savings association, or to purchase the assets or assume the deposits of another insured depository institution. In reviewing applications seeking approval of merger and acquisition transactions, the federal bank regulatory agencies must consider, among other things, the competitive effect and public benefits of the transactions, the capital position of the combined organization, performance records under the Community Reinvestment Act of 1977 (see the section captioned “Community Reinvestment Act of 1977” included elsewhere in this section) and the effectiveness of the subject organizations in combating money laundering.

Source of Strength Doctrine.

FRB policy requires savings and loan holding companies to act as a source of financial and managerial strength to their subsidiary savings associations. Section 616 of the Dodd-Frank Act codified the requirement that holding companies act as a source of financial strength to their insured depository institution subsidiaries. As a result, Western New England Bancorp is expected to commit resources to support the Bank, including at times when Western New England Bancorp may not be in a financial position to provide such resources. Any capital loans by a savings and loan holding company to any of its subsidiary savings associations are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary savings associations. In the event of a savings and loan holding company’s bankruptcy, any commitment by the savings and loan holding company to a federal banking

agency to maintain the capital of a subsidiary insured depository institution will be assumed by the bankruptcy trustee and entitled to priority of payment.

Dividends.

The principal source of Western New England Bancorp's liquidity is dividends from the Bank. The OCC imposes various restrictions and requirements on the Bank's ability to make capital distributions, including cash dividends. The OCC's prior approval is required if the total of all distributions, including the proposed distribution, declared by a federal savings association in any calendar year would exceed an amount equal to the Bank's net income for the year-to-date plus the Bank's retained net income for the previous two years, or that would cause the Bank to be less than well capitalized. In addition, section 10(f) of the HOLA requires a subsidiary savings association of a savings and loan holding company, such as the Bank, to file a notice with the Federal Reserve prior to declaring certain types of dividends.

Western New England Bancorp and the Bank are also subject to other regulatory policies and requirements relating to the payment of dividends, including requirements to maintain adequate capital above regulatory minimums. The appropriate federal banking agency is authorized to determine, under certain circumstances relating to the financial condition of a savings and loan holding company or a savings association, that the payment of dividends would be an unsafe or unsound practice and to prohibit payment thereof. The federal banking agencies have indicated that paying dividends that deplete an insured depository institution's capital base to an inadequate level would be an unsafe and unsound banking practice and that banking organizations should generally pay dividends only out of current operating earnings.

Capital Adequacy.

In July 2013, the FRB, the OCC and the FDIC approved final rules (the "Capital Rules") that established a new capital framework for U.S. banking organizations. The Capital Rules generally implement the Basel Committee on Banking Supervision's (the "Basel Committee") December 2010 final capital framework referred to as "Basel III" for strengthening international capital standards. In addition, the Capital Rules implement certain provisions of the Dodd-Frank Act. Pursuant to the Dodd-Frank Act, Western New England Bancorp, as a savings and loan holding company, is subject to the Capital Rules.

The Capital Rules substantially revised the risk-based capital requirements applicable to holding companies and their depository institution subsidiaries as compared to prior U.S. general risk-based capital rules. The Capital Rules revised the definitions and the components of regulatory capital and impacted the calculation of the numerator in banking institutions' regulatory capital ratios. The Capital Rules became effective on January 1, 2015, subject to phase-in periods for certain components and other provisions.

The Capital Rules: (i) require a capital measure called "Common Equity Tier 1" ("CET1") and related regulatory capital ratio of CET1 to risk-weighted assets; (ii) specify that Tier 1 capital consists of CET1 and "Additional Tier 1 capital" instruments meeting certain revised requirements; (iii) mandate that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital; and (iv) expand the scope of the deductions from and adjustments to capital as compared to existing regulations. Under the Capital Rules, for most banking organizations, including Western New England Bancorp, the most common form of Additional Tier 1 capital is non-cumulative perpetual preferred stock and the most common forms of Tier 2 capital are subordinated notes and a portion of the allocation for loan and lease losses, in each case, subject to the Capital Rules' specific requirements.

Pursuant to the Capital Rules, the minimum capital ratios as of January 1, 2015 are:

- 4.5% CET1 to risk-weighted assets;
- 6.0% Tier 1 capital (that is, CET1 plus Additional Tier 1 capital) to risk-weighted assets;
- 8.0% Total capital (that is, Tier 1 capital plus Tier 2 capital) to risk-weighted assets; and
- 4.0% Tier 1 capital to average consolidated assets as reported on consolidated financial statements (known as the "leverage ratio").

The Capital Rules also require a “capital conservation buffer,” composed entirely of CET1, on top of these minimum risk-weighted asset ratios. The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum but below the capital conservation buffer will face constraints on dividends, equity and other capital instrument repurchases and compensation based on the amount of the shortfall. The capital conservation buffer became fully phased-in on January 1, 2019 and requires an additional capital conservation buffer of 2.5% of CET1, effectively resulting in minimum ratios inclusive of the capital conservation buffer of (i) CET1 to risk-weighted assets of at least 7%, (ii) Tier 1 capital to risk-weighted assets of at least 8.5%, and (iii) Total capital to risk-weighted assets of at least 10.5%. The implementation of the capital conservation buffer began on January 1, 2016 at the 0.625% level and increased by 0.625% on each subsequent January 1, until reaching 2.5% on January 1, 2019.

The Capital Rules provide for a number of deductions from and adjustments to CET1. These include, for example, the requirement that mortgage servicing rights, deferred tax assets arising from temporary differences that could not be realized through net operating loss carrybacks and significant investments in non-consolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such items, in the aggregate, exceed 15% of CET1. In November 2017, the FRB finalized a rule pausing the phase-in of these deductions and adjustments for non-advanced approaches institutions. In July 2019, the OCC, FRB and FDIC adopted a final rule intended to simplify the Capital Rules described above for non-advanced approaches institutions. Institutions may implement the provisions of the simplification rule beginning on January 1, 2020 and must implement them by April 1, 2020. The transition provisions to the Capital Rules issued by these agencies in November 2017 will cease to apply to an institution in the quarter in which it adopts the simplification rule.

In addition, under the current general risk-based capital rules, the effects of accumulated other comprehensive income or loss (“AOCI”) items included in shareholders’ equity (for example, marks-to-market of securities held in the available-for-sale portfolio) under generally accepted accounting principles in the United States of America (“GAAP”) are reversed for the purposes of determining regulatory capital ratios. Under the Capital Rules, the effects of certain AOCI items are not excluded; however, banking organizations not using advanced approaches, were permitted to make a one-time permanent election to continue to exclude these items in January 2015. The Company and the Bank made this election.

The risk-weighting categories in the Capital Rules are standardized and include a risk-sensitive number of categories, depending on the nature of the assets, generally ranging from 0% for U.S. government and agency securities, to 600% for certain equity exposures, and resulting in higher risk weights for a variety of assets. The implementation of the Capital Rules did not have a material impact on the Company’s or the Bank’s consolidated capital levels.

The Company is in compliance with the targeted capital ratios under the Capital Rules at December 31, 2019. The Bank is subject to the Capital Rules as well. We believe that Western New England Bancorp and the Bank are in compliance with the targeted capital ratios.

In September 2019, the Office of the Comptroller of the Currency, the Federal Reserve Board and the FDIC adopted a final rule that is intended to further simplify the Capital Rules for depository institutions and their holding companies that have less than \$10 billion in total consolidated assets, such as us, if such institutions meet certain qualifying criteria. This final rule became effective on January 1, 2020. Under this final rule, if we meet the qualifying criteria, including having a leverage ratio (equal to tier 1 capital divided by average total consolidated assets) of greater than 9 percent, we will be eligible to opt into the community bank leverage ratio framework. If we opt into this framework, we will be considered to have satisfied the generally applicable risk-based and leverage capital requirements in the Capital Rules (as modified pursuant to the simplification rule) and will be considered to have met the well-capitalized ratio requirements for PCA (as defined below) purposes. The Company and the Bank are currently evaluating the simplified Capital Rules to determine our adoption status for the applicable filings periods beginning in 2020.

Prompt Corrective Action.

Pursuant to Section 38 of the Federal Deposit Insurance Act (“FDIA”), federal banking agencies are required to take “prompt corrective action” (“PCA”) should an insured depository institutions fail to meet certain capital adequacy standards. At each successive lower capital category, an insured depository institution is subject to more restrictions

and prohibitions, including restrictions on growth, restrictions on interest rates paid on deposits, restrictions or prohibitions on payment of dividends and restrictions on the acceptance of brokered deposits. Furthermore, if an insured depository institution is classified in one of the undercapitalized categories, it is required to submit a capital restoration plan to the appropriate federal banking agency, and the holding company must guarantee the performance of that plan. Based upon its capital levels, a bank that is classified as well-capitalized, adequately capitalized, or undercapitalized may be treated as though it were in the next lower capital category if the appropriate federal banking agency, after notice and opportunity for hearing, determines that an unsafe or unsound condition, or an unsafe or unsound practice, warrants such treatment.

For purposes of PCA, to be: (i) well-capitalized, an insured depository institution must have a total risk based capital ratio of at least 10%, a Tier 1 risk based capital ratio of at least 8%, a CET1 risk based capital ratio of at least 6.5%, and a Tier 1 leverage ratio of at least 5%; (ii) adequately capitalized, an insured depository institution must have a total risk based capital ratio of at least 8%, a Tier 1 risk based capital ratio of at least 6%, a CET1 risk based capital ratio of at least 4.5%, and a Tier 1 leverage ratio of at least 4%; (iii) undercapitalized, an insured depository institution would have a total risk based capital ratio of less than 8%, a Tier 1 risk based capital ratio of less than 6%, a CET1 risk based capital ratio of less than 4.5%, and a Tier 1 leverage ratio of less than 4%; (iv) significantly undercapitalized, an insured depository institution would have a total risk based capital ratio of less than 6%, a Tier 1 risk based capital ratio of less than 4%, a CET1 risk based capital ratio of less than 3%, and a Tier 1 leverage ratio of less than 3%; (v) critically undercapitalized, an insured depository institution would have a ratio of tangible equity to total assets that is less than or equal to 2%. As set forth above, if the Company opts into the community bank leverage ratio framework, it will be considered to have met the well-capitalized ratio requirements for PCA purposes if it meets qualifying criteria. As of December 31, 2019, the most recent notification from the OCC categorized the Bank as “well-capitalized” under the PCA framework.

Volcker Rule.

Section 619 of the Dodd-Frank Act, commonly known as the Volcker Rule, restricts the ability of banking entities, such as Western New England Bancorp, to: (i) engage in “proprietary trading” and (ii) invest in or sponsor certain types of funds (“Covered Funds”), subject to certain limited exceptions. The implementing regulation defines a Covered Fund to include certain investments such as collateralized loan obligation (“CLO”) and collateralized debt obligation securities. The regulation also provides, among other exemptions, an exemption for CLOs meeting certain requirements. As of December 31, 2019, Western New England Bancorp is compliant with the Volcker Rule.

Business Activities.

The Bank derives its lending and investment powers from the HOLA and its implementing regulations promulgated by the OCC. Those laws and regulations limit the Bank’s authority to invest in certain types of assets and to make certain types of loans. Permissible investments include, but are not limited to, mortgage loans secured by residential and commercial real estate, commercial and consumer loans, certain types of debt securities, and certain other assets. The Bank may also establish service corporations that may engage in activities not otherwise permissible for the Bank, including certain real estate equity investments and securities and insurance brokerage.

Loans to One Borrower.

Generally, a federal savings bank may not make a loan or extend credit to a single borrower or related group of borrowers in excess of 15% of unimpaired capital and surplus. An additional amount may be loaned, equal to 10% of unimpaired capital and surplus, if the loan is secured by readily marketable collateral, which generally does not include real estate. As of December 31, 2019, we were in compliance with these limitations on loans to one borrower.

Concentrated Commercial Real Estate Lending Regulations.

The federal banking agencies, including the OCC, have promulgated guidance governing financial institutions with concentrations in commercial real estate lending. The guidance provides that a bank has a concentration in commercial real estate lending if (i) total reported loans for construction, land development, and other land represent 100% or more of total capital or (ii) total reported loans secured by multifamily and nonfarm nonresidential properties (excluding loans secured by owner-occupied properties) and loans for construction, land development, and other land represent 300% or more of total capital and the bank's commercial real estate loan portfolio has increased 50% or more during the prior 36 months.

If a concentration is present, management must employ heightened risk management practices that address the following key elements: including board and management oversight and strategic planning, portfolio management, development of underwriting standards, risk assessment and monitoring through market analysis and stress testing, and maintenance of increased capital levels as needed to support the level of commercial real estate lending. On December 18, 2015, the federal banking agencies jointly issued a "Statement on Prudent Risk Management for Commercial Real Estate Lending" reminding banks of the need to engage in risk management practices for commercial real estate lending.

Qualified Thrift Lender Test.

Under federal law, as a federal savings association, the Bank must comply with the qualified thrift lender, or "QTL" test. Under the QTL test, the Bank is required to maintain at least 65% of its "portfolio assets" in certain "qualified thrift investments" in at least nine months of the most recent twelve-month period. "Portfolio assets" means, in general, the Bank's total assets less the sum of:

- specified liquid assets up to 20% of total assets;
- goodwill and other intangible assets; and
- value of property used to conduct the Bank's business.

"Qualified thrift investments" include certain assets that are includable without limit, such as residential and manufactured housing loans, home equity loans, education loans, small business loans, credit card loans, mortgage backed securities, Federal Home Loan Bank stock and certain U.S. government obligations. In addition, certain assets are includable as "qualified thrift investments" in an amount up to 20% of portfolio assets, including certain consumer loans and loans in "credit-needy" areas.

The Bank may also satisfy the QTL test by qualifying as a "domestic building and loan association" as defined in the Internal Revenue Code. Failure by the Bank to maintain its status as a QTL would result in restrictions on activities, including restrictions on branching and the payment of dividends. If the Bank were unable to correct that failure within a specified period of time, it must either continue to operate under those restrictions on its activities or convert to a national bank charter. The Bank met the QTL test in each of the prior 12 months and, therefore, is a "qualified thrift lender."

The Community Reinvestment Act.

The Community Reinvestment Act of 1977 (the "CRA") and the regulations issued thereunder are intended to encourage banks to help meet the credit needs of their entire assessment area, including low and moderate income neighborhoods, consistent with the safe and sound operations of such banks. The CRA requires the OCC to evaluate the record of each financial institution in meeting such credit needs. The CRA evaluation is also considered by the bank regulatory agencies in evaluating approvals for mergers, acquisitions, and applications to open, relocate or close a branch or facility. Failure to adequately meet the criteria within CRA guidelines could impose additional requirements and limitations on the Bank. Additionally, the Bank must publicly disclose the ability to request the Bank's CRA Performance Evaluation and other various related documents. The Bank received a rating of "Outstanding" on its most recent Community Reinvestment Act examination.

Consumer Protection and CFPB Supervision.

The Dodd-Frank Act centralized responsibility for consumer financial protection by creating the CFPB, an independent federal agency responsible for implementing, enforcing, and examining compliance with federal consumer financial laws. As Western New England Bancorp has less than \$10 billion in total consolidated assets, the OCC continues to exercise primary examination authority over the Bank with regard to compliance with federal consumer financial laws and regulations. Under the Dodd-Frank Act, state attorneys general are empowered to enforce rules issued by the CFPB.

The Company and the Bank are subject to a number of federal and state laws designed to protect borrowers and promote fair lending. These laws include, among others, the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Truth in Lending Act, the Home Mortgage Disclosure Act, the Real Estate Settlement Procedures Act, various state law counterparts, and the Consumer Financial Protection Act of 2010.

Transactions with Affiliates and Loans to Insiders.

Under federal law, transactions between insured depository institutions and their affiliates are governed by Sections 23A and 23B of the Federal Reserve Act (“FRA”), and the FRB’s implementing Regulation W. In a holding company context, at a minimum, the parent holding company of a bank or savings association, and any companies which are controlled by such parent holding company, are “affiliates” of the bank or savings association. Generally, sections 23A and 23B are intended to protect insured depository institutions from losses arising from transactions with non-insured affiliates, by limiting the extent to which a depository institution or its subsidiaries may engage in covered transactions with any one affiliate and with all affiliates of the depository institution in the aggregate, and by requiring that such transactions be on terms that are consistent with safe and sound banking practices.

Section 22(h) of the FRA restricts loans to directors, executive officers, and principal stockholders (“insiders”). Under Section 22(h), loans to insiders and their related interests may not exceed, together with all other outstanding loans to such persons and affiliated entities, the insured depository institution’s total capital and surplus. Loans to insiders above specified amounts must receive the prior approval of the board of directors. Further, under Section 22(h), 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 bank’s employees and does not give preference to the insider over the employees. Section 22(g) of the FRA places additional limitations on loans to executive officers.

Enforcement.

The OCC has primary enforcement responsibility over federal savings associations, including the Bank. This enforcement authority includes, among other things, the ability to assess civil money penalties, to issue cease and desist orders and to remove directors and officers. In general, these enforcement actions may be initiated in response to unsafe or unsound practices, and any violation of laws and regulations.

Standards for Safety and Soundness.

The Bank is subject to certain standards designed to maintain the safety and soundness of individual insured depository institutions and the banking system. The OCC has prescribed safety and soundness guidelines relating to (i) internal controls, information systems and internal audit systems; (ii) loan documentation; (iii) credit underwriting; (iv) interest rate exposure; (v) asset growth, concentration, and quality; (vi) earnings; and (vii) compensation and benefit standards for officers, directors, employees and principal shareholders. A savings association not meeting one or more of the safety and soundness guidelines may be required to file a compliance plan with the OCC.

Under the FDIA, the FDIC may terminate deposit insurance upon a finding that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC. Management is not aware of any practice, condition or violation that might lead to the termination of the Bank’s deposit insurance.

Federal Deposit Insurance.

The FDIC's deposit insurance limit is \$250,000 per depositor, per insured bank, for each account ownership category. The deposits of the Bank are insured up to applicable limits by the DIF of the FDIC. The Bank is subject to deposit insurance assessments to maintain the DIF. The FDIC uses a risk-based assessment system that imposes insurance premiums based upon a risk matrix that takes into account an insured depository institution's capital level and supervisory rating, commonly known as the "CAMELS" rating. The risk matrix utilizes different risk categories which are distinguished by capital levels and supervisory ratings. As a result of the Dodd-Frank Act, the base for insurance assessments is now consolidated average assets less average tangible equity. Assessment rates are calculated using formulas that take into account the risk of the institution being assessed.

Depositor Preference.

The FDIA provides that, in the event of the "liquidation or other resolution" of an insured depository institution, the claims of depositors of the institution, including the claims of the FDIC as subrogee of insured depositors, and certain claims for administrative expenses of the FDIC as a receiver, will have priority over other general unsecured claims against the institution. If an insured depository institution fails, insured and uninsured depositors, along with the FDIC, will have priority in payment ahead of unsecured, non-deposit creditors, including the parent bank holding company, with respect to any extensions of credit they have made to such insured depository institution.

Federal Home Loan Bank System.

The Bank is a member of the FHLB, which is one of the regional Federal Home Loan Banks comprising the Federal Home Loan Bank System. Each Federal Home Loan Bank serves as a central credit facility primarily for its member institutions. The Bank, as a member of the FHLB, is required to acquire and hold shares of capital stock in the FHLB. Required percentages of stock ownership are subject to change by the FHLB, and the Bank was in compliance with this requirement with an investment in FHLB capital stock at December 31, 2019. If there are any developments that cause the value of our stock investment in the FHLB to become impaired, we would be required to write down the value of our investment, which could affect our net income and shareholders' equity.

Reserve Requirements.

FRB regulations require insured depository institutions to maintain non-interest earning reserves against their transaction accounts (primary interest-bearing and regular checking accounts). The Bank's required reserves can be in the form of vault cash. If vault cash does not fully satisfy the required reserves, they may be satisfied in the form of a balance maintained with the Federal Reserve Bank of Boston.

Financial Privacy and Data Security.

Western New England Bancorp is subject to federal laws, including the Gramm-Leach Bliley Act, and certain state laws containing consumer privacy protection provisions. These provisions limit the ability of banks and other financial institutions to disclose non-public information about consumers to affiliated and non-affiliated third parties and limit the reuse of certain consumer information received from non-affiliated institutions. These provision require notice of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to affiliates or non-affiliated third parties by means of "opt out" or "opt in" authorizations.

The Gramm-Leach Bliley Act requires that financial institutions implement comprehensive written information security programs that include administrative, technical, and physical safeguards to protect consumer information. Further, pursuant to interpretive guidance issued under the Gramm-Leach Bliley Act and certain state laws, financial institutions are required to notify customers of security breaches that result in unauthorized access to their nonpublic personal information.

Preventing Suspicious Activity.

Under Title III of the USA PATRIOT Act ("Patriot Act"), all financial institutions are required to take certain measures to identify their customers, prevent money laundering, monitor customer transactions and report suspicious activity to U.S. law enforcement agencies. Financial institutions also are required to respond to requests for information from federal banking agencies and law enforcement agencies. Information sharing among financial institutions for the above purposes is encouraged by an exemption granted to complying financial institutions from the privacy provisions of Gramm-Leach Bliley Act and other privacy laws. Financial institutions are required to have anti-money laundering programs in place, which include, among other things, performing risk assessments and customer due diligence. The primary federal banking agencies and the Secretary of the Treasury have adopted regulations to implement several of these provisions. As of May 11, 2018, the Bank must comply with the new Customer Due Diligence Rule, which clarifies and strengthens the existing obligations for identifying new and existing customers and explicitly include risk-based procedures for conducting ongoing customer due diligence. Financial institutions also are required to establish internal anti-money laundering programs. The effectiveness of institutions in combating money laundering activities is a factor to be considered in any application submitted by an insured depository institution under the Bank Merger Act. Western New England Bancorp and the Bank have in place a Bank Secrecy Act and Patriot Act compliance program and engage in limited transactions with foreign financial institutions or foreign persons.

The Fair Credit Reporting Act's ("FCRA") Red Flags Rule requires financial institutions with covered accounts (e.g. consumer bank accounts and loans) to develop, implement, and administer an identity theft prevention program. This program must include reasonable policies and procedures to detect suspicious patterns or practices that indicate the possibility of identity theft, such as inconsistencies in personal information or changes in account activity.

Office of Foreign Assets Control Regulation.

The U.S. has imposed economic sanctions that affect transactions with designated foreign countries, nationals and others. These are typically known as the "OFAC" rules based on their administration by the Office of Foreign Assets Control, which is an office within the U.S. Department of Treasury (the "OFAC"). The OFAC-administered sanctions targeting countries take many different forms. Generally, the sanctions contain one or more of the following elements: (i) restrictions on trade with or investment in a sanctioned country, including prohibitions against direct or indirect imports from and exports to a sanctioned country and prohibitions on "U.S. persons" engaging in financial transactions relating to making investments in, or providing investment-related advice or assistance to, a sanctioned country; and (ii) a blocking of assets in which the government or specially designated nationals of the sanctioned country have an interest, by prohibiting transfers of property subject to U.S. jurisdiction (including property in the possession or control of U.S. persons). Blocked assets (e.g., property and bank deposits) cannot be paid out, withdrawn, set off or transferred in any manner without an OFAC license. Failure to comply with these sanctions could have legal and reputational consequences.

Home Mortgage Disclosure Act ("HMDA").

On October 15, 2015, pursuant to section 1094 of the Dodd-Frank Act, the CFPB issued amended rules in regards to the collection, reporting and disclosure of certain residential mortgage transactions under the Home Mortgage Disclosure Act (the "HMDA Rules"). The Dodd-Frank Act mandated additional loan data collection points in addition to authorizing the CFPB to require other data collection points under implementing Regulation C. Most of the provisions of the HMDA Rule went into effect on January 1, 2018 and apply to data collected in 2018 and reporting in 2019 and later years. The HMDA Rule adopts a uniform loan volume threshold for all financial institutions, modifies the types of transactions that are subject to collection and reporting, expands the loan data information being collected and reported, and modifies procedures for annual submission and annual public disclosures.

UDAP and UDAP.

Banking regulatory agencies have increasingly used a general consumer protection statute to address "unethical" or otherwise "bad" business practices that may not necessarily fall directly under the purview of a specific banking or consumer finance law. The law of choice for enforcement against such business practices has been Section 5 of the Federal Trade Commission Act, referred to as the FTC Act, which is the primary federal law that prohibits unfair or

deceptive acts or practices, referred to as UDAP, and unfair methods of competition in or affecting commerce. "Unjustified consumer injury" is the principal focus of the FTC Act. Prior to the Dodd-Frank Act, there was little formal guidance to provide insight to the parameters for compliance with UDAP laws and regulations. However, UDAP laws and regulations have been expanded under the Dodd-Frank Act to apply to "unfair, deceptive or abusive acts or practices," referred to as UDAAP, which have been delegated to the CFPB for rule-making. The federal banking agencies have the authority to enforce such rules and regulations.

Incentive Compensation.

The Dodd-Frank Act requires publicly traded companies to give stockholders a non-binding vote on executive compensation at their first annual meeting taking place six months after the date of enactment and at least every three years thereafter and on "golden parachute" payments in connection with approvals of mergers and acquisitions. The legislation also authorized the SEC to promulgate rules that would allow stockholders to nominate their own candidates using a company's proxy materials. The Dodd-Frank Act requires the federal banking agencies and the SEC to establish joint regulations or guidelines prohibiting incentive-based payment arrangements at specified regulated entities with at least \$1 billion in total consolidated assets that encourage inappropriate risks by providing an executive officer, employee, director or principal shareholder with excessive compensation, fees, or benefits that could lead to material financial loss to the entity. The federal banking agencies and the SEC most recently proposed such regulations in 2016, but the regulations have not yet been finalized. If the regulations are adopted in the form initially proposed, they will restrict the manner in which executive compensation is structured.

The Dodd-Frank Act also gives the SEC authority to prohibit broker discretionary voting on elections of directors, executive compensation matters and any other significant matter. At the 2012 and 2017 Annual Meeting of Shareholders, Western New England Bancorp's shareholders voted on a non-binding, advisory basis to hold a non-binding, advisory vote on the compensation of named executive officers of Western New England Bancorp annually. In light of the results, the Western New England Bancorp Board of Directors determined to hold the vote annually.

Future Legislative and Regulatory Initiatives.

Various legislative and regulatory initiatives are introduced by Congress, state legislatures and different financial regulatory agencies. Such initiatives may include proposals to expand or contract the powers of bank holding companies, savings and loan holding companies and/or depository institutions. Proposed legislation and regulatory initiatives could change banking statutes and the operating environment of Western New England Bancorp in substantial and unpredictable ways. If enacted, such legislation could increase or decrease the cost of doing business, limit or expand permissible activities or affect the competitive balance among banks, savings associations, credit unions, and other financial institutions. Western New England Bancorp cannot predict whether any such legislation will be enacted, and, if enacted, the effect that it or any implementing regulations would have on the financial condition or results of operations of Western New England Bancorp. Other legislation may be introduced in Congress, which would further regulate, deregulate or restructure the financial services industry, including proposals to substantially reform the financial regulatory framework. It is not possible to predict whether any such proposals will be enacted into law or, if enacted, the effect which they may have on our business and earnings.

Available Information.

We maintain a website at www.westfieldbank.com. The website contains information about us and our operations. Through a link to the Investor Relations section of our website, copies of each of our filings with the SEC, including our Annual Report on Form 10-K, Quarterly Reports Form 10-Q and Current Reports on Form 8-K and all amendments to those reports, can be viewed and downloaded free of charge as soon as reasonably practicable after the reports and amendments are electronically filed with or furnished to the SEC. The SEC maintains a website at www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers that file or furnish such information electronically with the SEC. The information found on our website or the website of the SEC is not incorporated by reference into this Annual Report on Form 10-K or any other report we file with or furnish to the SEC.

ITEM 1A. RISK FACTORS

An investment in the Company's common stock is subject to a variety of risks and uncertainties including, without limitation, those set forth below, any of which could cause the Company's actual results to vary materially from recent results, or from the other forward looking statements that the Company may make from time to time in news releases, annual reports and other written or oral communications. The material risks and uncertainties that management believes may affect the Company are described below. These risks and uncertainties are not listed in any particular order of priority and are not necessarily the only ones facing the Company. Additional risks and uncertainties that management is not aware of or focused on or that management currently deems immaterial may also impair the Company's business, financial condition and results of operations.

This annual report on Form 10-K is qualified in its entirety by these risk factors. If any of the following risks actually occur, the Company's business, financial condition and results of operations could be materially and adversely affected. If this were to happen, the value of the Company's common stock could decline significantly, and stockholders could lose some or all of their investment.

The Possibility of the Economy's Return to Recessionary Conditions and the Possibility of Further Turmoil or Volatility in the Financial Markets Would Likely Have an Adverse Effect on the Company's Business, Financial Position and Results of Operations. The Company continues to face risks resulting from the aftermath of the severe recession generally and the moderate pace of the current recovery. A slowing or failure of the economic recovery would likely aggravate the adverse effects of these difficult economic and market conditions on the Company and on others in the financial services industry. In particular, the Company may face the following risks in connection with the economic or market environment:

- The Company's and the Bank's ability to borrow from other financial institutions or to access the debt or equity capital markets on favorable terms or at all could be adversely affected by further disruptions in the capital markets or other events, including actions by rating agencies and deteriorating investor expectations.
- The Company faces increased regulation of the banking and financial services industry. Compliance with such regulation may increase its costs and limit its ability to pursue business opportunities.
- Market developments may affect customer confidence levels and may cause increases in loan delinquencies and default rates, which management expects would adversely impact the Bank's charge-offs and provision for loan losses.
- Market developments may adversely affect the Bank's securities portfolio by causing other-than-temporary-impairments, prompting write-downs and securities losses.
- Competition in banking and financial services industry could intensify as a result of the consolidation of financial services companies in connection with current market conditions.

Our Loan Portfolio Includes Loans with a Higher Risk of Loss. The Company originates commercial and industrial loans, commercial real estate loans, consumer loans, and residential mortgage loans primarily within its market area. The lending strategy focuses on residential real estate lending as well as servicing commercial customers, including increased emphasis on commercial and industrial lending and commercial deposit relationships. Commercial and industrial loans, commercial real estate loans, and consumer loans may expose a lender to greater credit risk than loans secured by residential real estate because the collateral securing these loans may not be sold as easily as residential real estate. In addition, commercial real estate and commercial and industrial loans may also involve relatively large loan balances to individual borrowers or groups of borrowers.

These loans also have greater credit risk than residential real estate for the following reasons:

- ***Commercial Real Estate Loans.*** Repayment is dependent on income being generated in amounts sufficient to cover operating expenses and debt service.
- ***Commercial and Industrial Loans.*** Repayment is generally dependent upon the successful operation of the borrower's business.
- ***Consumer Loans.*** Consumer loans are collateralized, if at all, with assets that may not provide an adequate source of payment of the loan due to depreciation, damage or loss.

Any downturn in the real estate market or local economy could adversely affect the value of the properties securing the loans or revenues from the borrowers' businesses thereby increasing the risk of non-performing loans.

The Company's Allowance for Loan Losses May Not be Adequate to Cover Loan Losses, Which Could Have a Material Adverse Effect on the Company's Business, Financial Condition and Results of Operations. A significant source of risk for the Company arises from the possibility that losses will be sustained because borrowers, guarantors and related parties may fail to perform in accordance with the terms of their loan agreements. Most loans originated by the Bank are secured, but some loans are unsecured based upon management's evaluation of the creditworthiness of the borrowers. With respect to secured loans, the collateral securing the repayment of these loans principally includes a wide variety of real estate, and to a lesser extent personal property, either of which may be insufficient to cover the obligations owed under such loans.

Collateral values and the financial performance of borrowers may be adversely affected by changes in prevailing economic, environmental and other conditions, including declines in the value of real estate, changes in interest rates and debt service levels, changes in oil and gas prices, changes in monetary and fiscal policies of the federal government, widespread disease, terrorist activity, environmental contamination and other external events, which are beyond the control of the Company. In addition, collateral appraisals that are out of date or that do not meet industry recognized standards might create the impression that a loan is adequately collateralized when in fact it is not. Although the Company may acquire any real estate or other assets that secure defaulted loans through foreclosures or other similar remedies, the amounts owed under the defaulted loans may exceed the value of the assets acquired.

The Company maintains an allowance for loan losses, which is established through a provision for loan losses charged to earnings, that represents management's estimate of probable losses inherent within the existing portfolio of loans. The determination of the appropriate level of the allowance for loan losses inherently involves a high degree of subjectivity and requires the Company to make significant estimates of current credit risks and trends, all of which may undergo material changes. In addition, bank regulatory agencies periodically review the Company's allowance for loan losses and may require an increase in the provision for loan losses or the recognition of further loan charge-offs, based on judgments that differ from those of the Company's management. While the Company strives to carefully monitor credit quality and to identify loans that may become non-performing, it may not be able to identify deteriorating loans before they become non-performing assets, or be able to limit losses on those loans that have been identified to be non-performing. The FASB has announced changes to accounting standards that will impact the way banking organizations estimate their allowance for loan losses beginning in January 2020. These changes or any others to accounting rules governing credit impairment estimates and recognition may increase the level of the allowance for loan losses. Any increases in the allowance for loan losses will result in a decrease in net income and, depending upon the magnitude of the changes, could have a material adverse effect on the Company's financial condition and results of operations.

Increases in the Company's Non-performing Assets Could Adversely Affect the Company's Results of Operations and Financial Condition in the Future. Non-performing assets adversely affect net income in various ways. While the Company pays interest expense to fund non-performing assets, no interest income is recorded on non-accrual loans or other real estate owned, thereby adversely affecting income and returns on assets and equity. In addition, loan administration and workout costs increase, resulting in additional reductions of earnings. When taking collateral in foreclosures and similar proceedings, the Company is required to carry the property or loan at its then-estimated fair market value less estimated cost to sell, which, when compared to the carrying value of the loan, may result in a loss. These non-performing loans and other real estate owned also increase the Company's risk profile and the capital that regulators believe is appropriate in light of such risks, and have an impact on the Company's FDIC risk based deposit insurance premium rate. The resolution of non-performing assets requires significant time commitments from management and staff. The Company may experience further increases in non-performing loans in the future, and non-performing assets may result in further costs and losses in the future, either of which could have a material adverse effect on the Company's financial condition and results of operations.

The Company's Use of Appraisals in Deciding Whether to Make a Loan Does Not Ensure the Value of the Collateral. In considering whether to make a loan secured by real property or other business assets, the Company generally requires an internal evaluation or independent appraisal of the asset. However, these assessment methods are only an estimate of the value of the collateral at the time the assessment is made, and involve a large degree of estimates and assumptions and an error in fact or judgment could adversely affect the reliability of the valuation.

Changes in those estimates resulting from continuing change in the economic environment and events occurring after the initial assessment may cause the value of the assets to decrease in future periods. As future events and their effects cannot be determined with precision, actual values could differ significantly from these estimates. As a result of any of these factors, the value of collateral backing a loan may be less than estimated at the time of assessment, and if a default occurs the Company may not recover the outstanding balance of the loan.

The Company is Subject to Environmental Risks Associated with Real Estate Held as Collateral or Occupied.

When a borrower defaults on a loan secured by real property, the Company may purchase the property in foreclosure or accept a deed to the property surrendered by the borrower. The Company may also take over the management of commercial properties whose owners have defaulted on loans. The Company also occupies owned and leased premises where branches and other bank facilities are located. While the Company's lending, foreclosure and facilities policies and guidelines are intended to exclude properties with an unreasonable risk of contamination, hazardous substances could exist on some of the properties that the Company may own, acquire, manage or occupy. Environmental laws could force the Company to clean up the properties at the Company's expense. The Company may also be held liable to a governmental entity or to third parties for property damage, personal injury, investigation and clean-up costs incurred by these parties in connection with environmental contamination, or may be required to investigate or clean up hazardous or toxic substances, or chemical releases at a property. The cost associated with investigation or remediation activities could be substantial and could increase the Company's operating expenses. It may cost much more to clean a property than the property is worth and it may be difficult or impossible to sell contaminated properties. The Company could also be liable for pollution generated by a borrower's operations if the Company takes a role in managing those operations after a default. In addition, as the owner or former owner of a contaminated site, we may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from the property.

Concentration in Commercial Real Estate Lending is Subject to Heightened Risk Management and Regulatory Review.

If a concentration in commercial real estate lending is present, as measured under government banking regulations, management must employ heightened risk management practices that address the following key elements: board and management oversight and strategic planning, portfolio management, development of underwriting standards, risk assessment and monitoring through market analysis and stress testing, and maintenance of increased capital levels as needed to support the level of commercial real estate lending. If a concentration is determined to exist, the Company may incur additional operating expenses in order to comply with additional risk management practices and increased capital requirements which could have a material adverse effect on the Company's financial condition and results of operations.

The Company's Investment Securities Portfolio is Subject to Credit Risk and Liquidity Risk and Declines in Value in its Investment Securities Portfolio May Require the Company to Record Other-Than-Temporary Impairment ("OTTI") Charges That Could Have a Material Adverse Effect on the Company's Results of Operations and Financial Condition.

There are inherent risks associated with the Company's investment activities, many of which are beyond the Company's control. These risks include the impact from changes in interest rates, weakness in real estate, municipalities, government sponsored enterprises, or other industries, the impact of changes in income tax rates on the value of tax exempt securities, adverse changes in regional or national economic conditions, and general turbulence in domestic and foreign financial markets, among other things. These conditions could adversely impact the fair market value and/or the ultimate collectability of the Company's investments. In addition to fair market value impairment, carrying values may be adversely impacted due to a fundamental deterioration of the individual municipality, government agency, or corporation whose debt obligations the Company owns or of the individual company or fund in which the Company has invested.

If an investment's value is deemed other than temporarily impaired, then the Company is required to write down the carrying value of the investment which may involve a charge to earnings. The determination of the level of OTTI involves a high degree of judgment and requires the Company to make significant estimates of current market risks and future trends, all of which may undergo material changes. Any OTTI charges, depending upon the magnitude of the charges, could have a material adverse effect on the Company's financial condition and results of operations.

If Dividends Are Not Paid on Our Investment in the FHLB, or if Our Investment is Classified as Other-Than-Temporarily Impaired, Our Earnings and/or Shareholders' Equity Could Decrease.

As a member of the FHLB, the Company is required to own a minimum required amount of FHLB capital stock, calculated periodically based primarily on its level of borrowings from the FHLB. This stock is classified as a restricted investment and carried at

cost, which management believes approximates fair value of the FHLB stock. If negative events or deterioration in the FHLB financial condition or capital levels occurs, the Company's investment in FHLB capital stock may become other-than-temporarily impaired to some degree. There can be no assurance that FHLB stock dividends will be declared in the future. If either of these were to occur, the Company's results of operations and financial condition may be adversely affected.

Interest Rate Volatility Could Adversely Affect our Results of Operations and Financial Condition. The Company's earnings and cash flows are largely dependent upon its net interest income, meaning the difference between interest income earned on interest-earning assets and interest expense paid on interest-bearing liabilities. The re-pricing frequency and magnitude of the Company's assets and liabilities are not identical, and therefore subject the Company to the risk of adverse changes in interest rates. Interest rates are highly sensitive to many factors that are beyond the Company's control, including monetary policy of the federal government, inflation and deflation, volatility of domestic and global financial markets, volatility of credit markets, and competition. If the interest rates paid on interest-bearing deposits and other liabilities increase at a faster rate or magnitude than the interest rates received on loans and other investments, the Company's net interest income, and therefore earnings, could be adversely affected. Earnings could also be adversely affected if the interest rates received on loans and other investments fall more quickly or steeply than falling interest rates paid on interest-bearing liabilities.

Replacement of the LIBOR Benchmark Interest Rate Could Adversely Affect Our Business, Financial Condition, and Results of Operations. In July 2017, the United Kingdom regulator that regulates the London Interbank Offered Rate ("LIBOR") announced its intention to phase out LIBOR rates by the end of 2021. In April 2018, the New York Federal Reserve commenced publishing an alternative reference rate to LIBOR as calculated for the U.S. dollar ("USD-LIBOR"), the Secured Overnight Financing Rate ("SOFR"), proposed by a group of major market participants (the Alternative Reference Rates Committee ("ARRC")), convened by the U.S. Federal Reserve with participation by SEC Staff and other regulators. SOFR is based on transactions in the more robust U.S. Treasury repurchase market and has been proposed as the alternative to USD-LIBOR for use in derivatives and other financial contracts that currently rely on USD-LIBOR as a reference rate. ARRC has proposed a paced market transition plan to SOFR from LIBOR and organizations are currently working on industry-wide and company-specific transition plans as it relates to derivatives and cash markets exposed to LIBOR. At this time, no consensus exists as to what rate or rates may become accepted alternatives to LIBOR, and it is impossible to predict whether and to what extent banks will continue to provide LIBOR submissions to the administrator of LIBOR, whether LIBOR rates will cease to be published or supported before or after 2021 or whether additional reforms to LIBOR may be enacted.

Such developments and any other legal or regulatory changes in the method by which LIBOR is determined or the transition from LIBOR to a successor benchmark may result in, among other things, a sudden or prolonged increase or decrease in LIBOR, a delay in the publication of LIBOR, and changes in the rules or methodologies of LIBOR, which may discourage market participants from continuing to administer or to participate in LIBOR's determination and, in certain situations, could result in LIBOR no longer being determined and published.

We have a significant number of loans, derivative contracts, borrowings and other financial instruments with attributes that are either directly or indirectly dependent on LIBOR. The transition from LIBOR, or any changes or reforms to the determination or supervision of LIBOR, could have an adverse impact on the market for or value of any LIBOR-linked securities, loans, and other financial obligations or extensions of credit held by or due to us, could create considerable costs and additional risk and could have an adverse impact on our overall financial condition or results of operations. Since proposed alternative rates are calculated differently, payments under contracts referencing new rates will differ from those referencing LIBOR. The transition will change our market risk profiles, requiring changes to risk and pricing models, valuation tools, product design and hedging strategies. Furthermore, failure to adequately manage this transition process with our customers could adversely impact our reputation. Although we are currently unable to assess what the ultimate impact of the transition from LIBOR will be, failure to adequately manage the transition could have a material adverse effect on our business, financial condition and results of operations.

Changes in the Local Economy May Affect our Future Growth Possibilities. The Company's success depends principally on the general economic conditions of the primary market areas in which the Company operates. The local economic conditions in these regions have a significant impact on the demand for the Company's products and services, as well as the ability of the Company's customers to repay loans, the value of the collateral securing loans and the stability of the Company's deposit funding sources. The Company's market area is principally located in

Hampden and Hampshire Counties, Massachusetts and Hartford and Tolland Counties in northern Connecticut. The local economy may affect future growth possibilities. The Company's future growth opportunities depend on the growth and stability of our regional economy and the ability to expand in our market area.

Natural Disasters, Acts of Terrorism, Public Health Issues and Other External Events Could Harm Our Business. Natural disasters can disrupt our operations, result in damage to our properties, reduce or destroy the value of the collateral for our loans and negatively affect the economies in which we operate, which could have a material adverse effect on our results of operations and financial condition. The emergence of widespread health emergencies or pandemics, such as the potential spread of the coronavirus ("COVID-19"), could lead to regional quarantines, business shutdowns, labor shortages, disruptions to supply chains, and overall economic instability. Events such as these may become more common in the future and could cause significant damage such as disruptions to power and communication services, impacting the stability of our facilities and result in additional expenses, impairing the ability of our borrowers to repay outstanding loans or reducing the value of collateral securing the repayment of our loans, which could result in the loss of revenue and/or cause us to incur additional expenses. A significant natural disaster, such as a tornado, hurricane, earthquake, fire or flood, could have a material adverse impact on our ability to conduct business, and our insurance coverage may be insufficient to compensate for losses that may occur. Acts of terrorism, war, civil unrest, violence or human error could cause disruptions to our business or the economy as a whole. While we have established and regularly test disaster recovery procedures, the occurrence of any such event could have a material adverse effect on our business, operations and financial condition.

The Company May Not be Able to Attract, Retain or Develop Key Personnel. The Company's success depends, in large part, on its ability to attract, retain and develop key personnel. Competition for the best people in most activities engaged in by the Company can be intense, and the Company may not be able to hire or retain the key personnel that it depends upon for success. The unexpected loss of key personnel or the inability to identify and develop individuals for planned succession to key senior positions within management, or on the board of directors, could have a material adverse impact on the Company's business because of the loss of their skills, knowledge of the Company's market, years of industry or business experience and the difficulty of promptly finding qualified replacements.

Competition in Our Primary Market Area May Reduce Our Ability to Attract and Retain Deposits and Originate Loans. We operate in a competitive market for both attracting deposits, which is our primary source of funds, and originating loans. Historically, our most direct competition for deposits has come from savings and commercial banks. Our competition for loans comes principally from commercial banks, savings institutions, mortgage banking firms, credit unions, finance companies, mutual funds, insurance companies and brokerage and investment banking firms. We also face additional competition from internet-based institutions, brokerage firms and insurance companies. Competition for loan originations and deposits may limit our future growth and earnings prospects.

Deposit Outflows May Increase Reliance on Borrowings and Brokered Deposits as Sources of Funds. The Company has traditionally funded asset growth principally through deposits and borrowings. As a general matter, deposits are typically a lower cost source of funds than external wholesale funding (brokered deposits and borrowed funds), because interest rates paid for deposits are typically less than interest rates charged for wholesale funding. If, as a result of competitive pressures, market interest rates, alternative investment opportunities that present more attractive returns to customers, general economic conditions or other events, the balance of the Company's deposits decreases relative to the Company's overall banking operations, the Company may have to rely more heavily on wholesale or other sources of external funding, or may have to increase deposit rates to maintain deposit levels in the future. Any such increased reliance on wholesale funding, or increases in funding rates in general could have a negative impact on the Company's net interest income and, consequently, on its results of operations and financial condition.

Sources of External Funding Could Become Restricted and Impact the Company's Liquidity. The Company's external wholesale funding sources include borrowing capacity at the FHLB, capacity in the brokered deposit markets, other borrowing arrangements with correspondent banks, as well as accessing the public markets through offerings of the Company's stock or issuance of debt. If, as a result of general economic conditions or other events, these sources of external funding become restricted or are eliminated, the Company may not be able to raise adequate funds or may incur substantially higher funding costs or operating restrictions in order to raise the

necessary funds to support the Company's operations and growth. Any such increase in funding costs or restrictions could have a negative impact on the Company's net interest income and, consequently, on its results of operations and financial condition.

We Operate In a Highly-Regulated Environment That is Subject to Extensive Government Supervision and Regulation, Which May Interfere With Our Ability to Conduct Business and May Adversely Impact the Results of our Operations. Banking regulations are primarily intended to protect depositors' funds, federal deposit insurance funds and the banking system as a whole, not the interests of stockholders. These regulations affect the Company's lending practices, capital structure, investment practices, dividend policy and growth, among other things. The Company is subject to extensive federal and state supervision and regulation that govern nearly all aspects of our operations and can have a material impact on our business. Federal banking agencies have significant discretion regarding the supervision, regulation and enforcement of banking laws and regulations.

Financial laws, regulations and policies are subject to amendment by Congress, state legislatures and federal and state regulatory agencies. Changes to statutes, regulations or policies, including changes in the interpretation of regulations or policies, could materially impact our business. These changes could also impose additional costs on us and limit the types of products and services that we may offer our customers. Compliance with laws and regulations can be difficult and costly, and the failure to comply with any law, regulation or policy could result in sanctions by financial regulatory agencies, including civil monetary penalties, private lawsuits, or reputational damage, any of which could adversely affect our business, financial condition, or results of operations. While we have policies and procedures designed to prevent such violations, there can be no assurance that violations will not occur. See the section titled, "Supervision and Regulation" in ITEM 1. Business.

Since the 2008 global financial crisis, financial institutions have been subject to increased scrutiny from Congress, state legislatures and federal and state financial regulatory agencies. Changes to the legal and regulatory framework have significantly altered the laws and regulations under which we operate. Compliance with these changes and any additional or amended laws, regulations and regulatory policies may reduce our ability to effectively compete in attracting and retaining customers. The passage and continued implementation of the Dodd-Frank Act, among other laws and regulations, has increased our costs of doing business and resulted in decreased revenues and net income. We cannot provide assurance that future changes in laws, regulations and policies will not adversely affect our business.

State and Federal Regulatory Agencies Periodically Conduct Examinations of Our Business, Including for Compliance With Laws and Regulations, and Our Failure to Comply With Any Supervisory Actions to Which We Are or Become Subject as a Result of Such Examinations May Adversely Affect Our Business. Federal and state regulatory agencies periodically conduct examinations of our business, including our compliance with laws and regulations. If, as a result of an examination, an agency were to determine that the financial, capital resources, asset quality, earnings prospects, management, liquidity, or other aspects of any of our operations had become unsatisfactory, or violates any law or regulation, such agency may take certain remedial or enforcement actions it deems appropriate to correct any deficiency. Remedial or enforcement actions include the power to enjoin "unsafe or unsound" practices, to require affirmative actions to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced against a bank, to direct an increase in the bank's capital, to restrict the bank's growth, to assess civil monetary penalties against a bank's officers or directors, and to remove officers and directors. In the event that the FDIC concludes that, among other things, our financial conditions cannot be corrected or that there is an imminent risk of loss to our depositors, it may terminate our deposit insurance. The OCC, as the supervisory and regulatory authority for federal savings associations, has similar enforcement powers with respect to our business. The CFPB also has authority to take enforcement actions, including cease-and-desist orders or civil monetary penalties, if it finds that we offer consumer financial products and services in violation of federal consumer financial protection laws.

If we were unable to comply with future regulatory directives, or if we were unable to comply with the terms of any future supervisory requirements to which we may become subject, then we could become subject to a variety of supervisory actions and orders, including cease and desist orders, prompt corrective actions, memoranda of understanding, and other regulatory enforcement actions. Such supervisory actions could, among other things, impose greater restrictions on our business, as well as our ability to develop any new business. We could also be required to raise additional capital, or dispose of certain assets and liabilities within a prescribed time period, or both. Failure to implement remedial measures as required by financial regulatory agencies could result in additional

orders or penalties from federal and state regulators, which could trigger one or more of the remedial actions described above. The terms of any supervisory action and associated consequences with any failure to comply with any supervisory action could have a material negative effect on our business, operating flexibility and overall financial condition.

The Company's Capital Levels Could Fall Below Regulatory Minimums. The Company and the Bank are subject to the capital adequacy guidelines of the FRB and the OCC, respectively. Failure to meet applicable minimum capital ratio requirements (including the capital conservation "buffer" imposed by Basel III) may subject the Company and/or the Bank to various enforcement actions and restrictions. If the Company's capital levels decline, or if regulatory requirements increase, and the Company is unable to raise additional capital to offset that decline or meet the increased requirements, then its capital ratios may fall below regulatory capital adequacy levels. The Company's capital ratios could decline due to it experiencing rapid asset growth, or due to other factors, such as, by way of example only, possible future net operating losses, impairment charges against tangible or intangible assets, or adjustments to retained earnings due to changes in accounting rules.

The Company's failure to remain "adequately-capitalized" for bank regulatory purposes could affect customer confidence, restrict the Company's ability to grow (both assets and branching activity), increase the Company's costs of funds and FDIC insurance costs, prohibit the Company's ability to pay dividends on common shares, and its ability to make acquisitions, and have a negative impact on the Company's business, results of operation and financial conditions, generally. If the Bank ceases to be a "well-capitalized" institution for bank regulatory purposes, its ability to accept brokered deposits and the interest rates that it pays may be restricted.

The Carrying Value of the Company's Goodwill Could Become Impaired. In accordance with GAAP, the Company does not amortize goodwill and instead, at least annually, evaluates whether the carrying value of goodwill has become impaired. Impairment of goodwill may occur when the estimated fair value of the Company is less than its recorded book value (i.e., the net book value of its recorded assets and liabilities). This may occur, for example, when the estimated fair value of the Company declines due to changes in the assumptions and inputs used in management's estimate of fair value. A determination that goodwill has become impaired results in an immediate write-down of goodwill to its determined value with a resulting charge to operations. Any write down of goodwill will result in a decrease in net income and, depending upon the magnitude of the charge, could have a material adverse effect on the Company's financial condition and results of operations.

The Company, as Part of its Strategic Plans, Periodically Considers Potential Acquisitions. The Risks Presented by Acquisitions Could Adversely Affect Our Financial Condition and Results of Operations. Any acquisitions will be accompanied by the risks commonly encountered in acquisitions including, among other things: our ability to realize anticipated cost savings and avoid unanticipated costs relating to the merger, the difficulty of integrating operations and personnel, the potential disruption of our or the acquired company's ongoing business, the inability of our management to maximize our financial and strategic position, the inability to maintain uniform standards, controls, procedures and policies, and the impairment of relationships with the acquired company's employees and customers as a result of changes in ownership and management. These risks may prevent us from fully realizing the anticipated benefits of an acquisition or cause the realization of such benefits to take longer than expected.

We Face Cybersecurity Risks and Risks Associated With Security Breaches Which Have the Potential to Disrupt Our Operations, Cause Material Harm to Our Financial Condition, Result in Misappropriation of Assets, Compromise Confidential Information and/or Damage Our Business Relationships and Can Provide No Assurance That the Steps We and Our Service Providers Take in Response to These Risks Will Be Effective. We depend upon data processing, communication and information exchange on a variety of computing platforms and networks and over the internet. In addition, we rely on the services of a variety of vendors to meet our data processing and communication needs. We face cybersecurity risks and risks associated with security breaches or disruptions such as those through cyber-attacks or cyber intrusions over the internet, malware, computer viruses, attachments to emails, social engineering and phishing schemes or persons inside our organization. The risk of a security breach or disruption, particularly through cyber-attacks or cyber intrusions, including by computer hackers, nation-state affiliated actors, and cyber terrorists, has generally increased as the number, intensity and sophistication of attempted attacks and intrusions from around the world have increased. These incidents may result in disruption of our operations, material harm to our financial condition, cash flows and the market price of our common stock, misappropriation of assets, compromise or corruption of confidential information collected in the course of conducting our business, liability for stolen information or assets, increased cybersecurity protection and insurance

costs, regulatory enforcement, litigation and damage to our stakeholder relationships. These risks require continuous and likely increasing attention and other resources from us to, among other actions, identify and quantify these risks, upgrade and expand our technologies, systems and processes to adequately address them and provide periodic training for our employees to assist them in detecting phishing, malware and other schemes. Such attention diverts time and other resources from other activities and there is no assurance that our efforts will be effective.

In the normal course of business, we collect and retain certain personal information provided by our customers, employees and vendors. We also rely extensively on computer systems to process transactions and manage our business. We can provide no assurance that the data security measures designed to protect confidential information on our systems established by us will be able to prevent unauthorized access to this personal information. There can be no assurance that our efforts to maintain the security and integrity of the information we and our service providers collect and our and their computer systems will be effective or that attempted security breaches or disruptions would not be successful or damaging. Even the most well protected information, networks, systems and facilities remain potentially vulnerable because the techniques used in such attempted security breaches evolve and generally are not recognized until launched against a target, and in some cases are designed not to be detected and, in fact, may not be detected. Accordingly, we may be unable to anticipate these techniques or to implement adequate security barriers or other preventative measures, and thus it is impossible for us to entirely mitigate this risk.

We Continually Encounter Technological Change and The Failure to Understand and Adapt to These Changes Could Hurt Our Business. The financial services industry is undergoing rapid technological change with frequent introductions of new technology-driven products and services and technological advances are likely to intensify competition. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. Our future success depends, in part, upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in our operations. Many of our competitors have substantially greater resources to invest in technological improvements. We may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to customers. Failure to successfully keep pace with technological changes affecting the financial services industry could have a material adverse impact on our business and, in turn, our financial condition and results of operations.

Controls and Procedures Could Fail, or Be Circumvented by Theft, Fraud or Robbery. Management regularly reviews and updates the Company's internal controls over financial reporting, corporate governance policies, compensation policies, Code of Business Conduct and Ethics and security controls to prevent and detect theft, fraud or robbery from both internal and external sources. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of the Company's internal controls and procedures, or failure to comply with regulations related to controls and procedures, or a physical theft or robbery, whether by employees, management, directors, or external elements, or any illegal activity conducted by a Bank customer, could result in loss of assets, regulatory actions against the Company, financial loss, damage the Company's reputation, cause a loss of customer business, and expose the Company to civil litigation and possible financial liability, any of which could have a material adverse effect on the Company's business, results of operations and financial condition.

The Company Relies on Third-Party Service Providers. The Company relies on independent firms to provide critical services necessary to conducting its business. These services include, but are not limited to: electronic funds delivery networks; check clearing houses; electronic banking services; investment advisory, management and custodial services; correspondent banking services; information security assessments and technology support services; and loan underwriting and review services. The occurrence of any failures or interruptions of the independent firms' systems or in their delivery of services, or failure to perform in accordance with contracted service level agreements, for any number of reasons could also impact the Company's ability to conduct business and process transactions and result in loss of customer business and damage to the Company's reputation, any of which may have a material adverse effect on the Company's business, financial condition and results of operation.

Damage to the Company's Reputation Could Affect the Company's Profitability and Shareholders' Value. The Company is dependent on its reputation within its market area, as a trusted and responsible financial company, for all aspects of its business with customers, employees, vendors, third-party service providers, and others, with whom the Company conducts business or potential future business. Any negative publicity or public complaints, whether real or perceived, disseminated by word of mouth, by the general media, by electronic or social networking means,

or by other methods, regarding, among other things, the Company's current or potential business practices or activities, cyber-security issues, regulatory compliance, an inability to meet obligations, employees, management or directors' ethical standards or actions, or about the banking industry in general, could harm the Company's reputation. Any damage to the Company's reputation could affect its ability to retain and develop the business relationships necessary to conduct business which in turn could negatively impact the Company's profitability and shareholders' value.

The Company is Exposed to Legal Claims and Litigation. The Company is subject to legal challenges under a variety of circumstances in the course of its normal business practices in regards to laws and regulations, duties, customer expectations of service levels, in addition to potentially illegal activity (at a federal or state level) conducted by any of our customers, use of technology and patents, operational practices and those of contracted third-party service providers and vendors, and stockholder matters, among others. Regardless of the scope or the merits of any claims by potential or actual litigants, the Company may have to engage in litigation that could be expensive, time-consuming, disruptive to the Company's operations, and distracting to management. Whether claims or legal action are founded or unfounded, if such claims and legal actions are not resolved in a manner favorable to the Company, they may result in significant financial liability, damage the Company's reputation, subject the Company to additional regulatory scrutiny and restrictions, and/or adversely affect the market perception of our products and services, as well as impact customer demand for those products and services. Any financial liability or reputation damage could have a material adverse effect on the Company's business, which in turn, could have a material adverse effect on the Company's financial condition and results of operations.

The Company's Insurance Coverage May Not be Adequate to Prevent Additional Liabilities or Expenses. The Company maintains insurance policies that provide coverage for various risks at levels the Company deems adequate to provide reasonable coverage for losses. The coverage applies to incidents and events which may impact such areas as: loss of bank facilities; accidental injury or death of employees; injuries sustained on bank premises; cyber and technology attacks or breaches; loss of customer nonpublic personal information; processing of fraudulent transactions; robberies, embezzlement and theft; improper processing of negotiable items or electronic transactions; improper loan underwriting and perfection of collateral, among others. These policies will provide varying degrees of coverage for losses under specific circumstances, and in most cases after related deductible amounts are paid by the Company. However, there is no guarantee that the circumstance of an incident will meet the criteria for insurance coverage under a specific policy, and despite the insurance policies in place the Company may experience a loss incident or event which could have a material adverse effect on the Company's business, reputation, financial condition and results of operations.

The Trading Volume in the Company's Common Stock is Less Than That of Larger Companies. Although the Company's common stock is listed for trading on the NASDAQ, the trading volume in the Company's common stock is substantially less than that of larger companies. Given the lower trading volume of the Company's common stock, significant purchases or sales of the Company's common stock, or the expectation of such purchases or sales, could cause significant volatility in the price for the Company's common stock.

The Market Price of the Company's Common Stock May Fluctuate Significantly, and This May Make it Difficult for You to Resell Shares of Common Stock Owned by You at Times or at Prices You Find Attractive. The price of the Company's common stock on the NASDAQ constantly changes. The Company expects that the market price of its common stock will continue to fluctuate, and the Company cannot give you any assurances regarding any trends in the market prices for its common stock.

The Company's stock price may fluctuate as a result of a variety of factors, many of which are beyond its control. These factors include the Company's:

- past and future dividend practice;
- financial condition, performance, creditworthiness and prospects;
- quarterly variations in the Corporation's operating results or the quality of the Corporation's assets;
- operating results that vary from the expectations of management, securities analysts and investors;
- changes in expectations as to the Corporation's future financial performance;
- announcements of innovations, new products, strategic developments, significant contracts, acquisitions and other material events by the Corporation or its competitors;

- the operating and securities price performance of other companies that investors believe are comparable to the Corporation;
- future sales of the Corporation's equity or equity-related securities;
- the credit, mortgage and housing markets, the markets for securities relating to mortgages or housing, and developments with respect to financial institutions generally; and
- instability in global financial markets and global economies and general market conditions, such as interest or foreign exchange rates, stock, commodity or real estate valuations or volatility, budget deficits or sovereign debt level concerns and other geopolitical, regulatory or judicial events.

In addition, the banking industry may be more affected than other industries by certain economic, credit, regulatory or information security issues. Although the Company itself may or may not be directly impacted by such issues, the Company's stock price may vary due to the influence, both real and perceived, of these issues, among others, on the banking industry in general. Investment in the Company's stock is not insured against loss by the FDIC, or any other public or private entity. As a result, and for the other reasons described in this "Risk Factors" section and elsewhere in this report, if you acquire our common stock, you may lose some or all of your investment.

Shareholder Dilution Could Occur if Additional Stock is Issued in the Future. If the Company's Board of Directors should determine in the future that there is a need to obtain additional capital through the issuance of additional shares of the Company's common stock or securities convertible into shares of common stock, such issuances could result in dilution to existing stockholders' ownership interest. Similarly, if the Board of Directors decides to grant additional stock awards or options for the purchase of shares of common stock, the issuance of such additional stock awards and/or the issuance of additional shares upon the exercise of such options would expose stockholders to dilution.

Changes in Accounting Standards Could Materially Impact the Company's Financial Condition and Results of Operations. From time to time, the FASB changes the accounting and reporting standards that govern the recording of financial transactions and preparation of financial statements. Future changes may be difficult to implement and may materially impact how the Company records and reports its financial transactions, financial condition, and results of operations and could impact the Company's business activities and strategy.

Changes in Tax Policies at Both the Federal and State Levels Could Impact the Company's Financial Condition and Results of Operations. The Company's financial performance is impacted by federal and state tax laws. Enactment of new legislation, or changes in the interpretation of existing law, may have a material effect on the Company's financial condition and results of operations. A deferred tax asset is created by the tax effect of the differences between an asset's book value and its tax basis. The deferred tax asset is measured using enacted tax rates expected to apply to taxable income in the years in which the temporary differences are expected to be recovered or settled. Accordingly, a reduction in enacted tax rates may result in a decrease in current tax expense and a decrease to the Company's deferred tax asset, with an offsetting charge to current tax expense. The alternative would occur with an increase to enacted tax rates. In addition, certain tax strategies taken in the past derive their tax benefit from the current enacted tax rates. Accordingly, a change in enacted tax rates may result in a decrease/increase to anticipated benefit of the Company's previous transactions which in turn, could have a material effect on the Company's financial condition and results of operations.

The Company's Financial Condition and Results of Operation Rely in Part on Management Estimates and Assumptions. In preparing the financial statements in conformity with GAAP, management is required to exercise judgment in determining many of the methodologies, estimates and assumptions to be utilized. These estimates and assumptions affect the reported values of assets and liabilities at the balance sheet date and income and expenses for the years then ended. Changes in those estimates resulting from continuing change in the economic environment and other factors will be reflected in the financial statements and results of operations in future periods. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates and be adversely affected should the assumptions and estimates used be incorrect, or change over time due to changes in circumstances.

The Company Relies on Dividends from the Bank for Substantially All of its Revenue. The Company is a separate and distinct legal entity from the Bank. It receives substantially all of its revenue from dividends paid by the Bank. These dividends are the principal source of funds used to pay dividends on the Company's common stock and interest and principal on the Company's subordinated debt. Various federal and state laws and regulations limit the amount of dividends that the Bank may pay to the Company. If the Bank, due to its capital position, inadequate net income levels, or otherwise, is unable to pay dividends to the Company, then the Company will be unable to service debt, pay obligations or pay dividends on the Company's common stock. The OCC also has the authority to use its enforcement powers to prohibit the Bank from paying dividends if, in its opinion, the payment of dividends would constitute an unsafe or unsound practice. The Bank's inability to pay dividends could have a material adverse effect on the Company's business, financial condition, results of operations and the market price of the Company's common stock.

**BUSINESS, FINANCIAL CONDITION, RESULTS OF OPERATIONS AND THE MARKET PRICE OF THE
COMPANY'S COMMON STOCK.**

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

The Company currently conducts business through our 22 banking offices⁽¹⁾, 25 off-site ATMs and 23 seasonal/traveling ATMs. The following table sets forth certain information regarding our properties as of December 31, 2019. As of this date, the premises and equipment, net of depreciation, owned by us had an aggregate net book value of \$23.8 million. We believe that our existing facilities are sufficient for our current needs.

Location	Ownership	Year Opened	Year of Lease or License Expiration
Main Office:			
141 Elm Street Westfield, MA	Owned	1964	N/A
Technology Center:			
9-13 Chapel Street Westfield, MA	Leased	2015	2023
Retail Lending:			
136 Elm Street Westfield, MA	Owned	2011	N/A
Commercial Lending & Middle Market:			
1500 Main Street Springfield, MA	Leased	2014	2024
Commercial Lending/Credit Admin and Training Center:			
219/229 Exchange Street Chicopee, MA	Owned	2009/1998	N/A
Branch Offices:			
206 Park Street West Springfield, MA	Owned	1957	N/A
655 Main Street Agawam, MA	Owned	1968	N/A
26 Arnold Street Westfield, MA	Owned	1976	N/A
300 Southampton Road Westfield, MA	Owned	1987	N/A
462 College Highway Southwick, MA	Owned	1990	N/A
382 North Main Street East Longmeadow, MA	Leased	1997	2022
1500 Main Street Springfield, MA	Leased	2006	2023
1650 Northampton Street Holyoke, MA	Owned	2001	N/A
560 East Main Street Westfield, MA	Owned	2007	N/A

Location	Ownership	Year Opened	Year of Lease or License Expiration
237 South Westfield Street Feeding Hills, MA	Leased	2009	2023
10 Hartford Avenue Granby, CT	Leased	2013	2021
47 Palomba Drive Enfield, CT	Leased	2014	2024
39 Morgan Road West Springfield, MA	Owned	2005	N/A
70 Center Street Chicopee, MA	Owned	1973	N/A
569 East Street Chicopee, MA	Owned	1976	N/A
599 Memorial Drive Chicopee, MA	Leased	1977	2027
435 Burnett Road Chicopee, MA	Owned	1990	N/A
477A Center Street Ludlow, MA	Leased	2002	2022
350 Palmer Road Ware, MA	Leased	2009	2027
32 Willamansett Street ⁽²⁾ South Hadley, MA	Leased	2008	2027
1342 Liberty Street Springfield, MA.	Owned	2008	NA

Location	Ownership	Year Opened	Year of Lease or License Expiration
ATMs:			
516 Carew Street Springfield, MA	Tenant at will	2002	NA
1000 State Street Springfield, MA	Tenant at will	2003	NA
788 Memorial Avenue West Springfield, MA	Leased	2006	2020
2620 Westfield Street West Springfield, MA	Leased	2006	2020
98 Southwick Road Westfield, MA	Leased	2006	2026
115 West Silver Street Westfield, MA	Tenant at will	2005	NA
98 Lower Westfield Road Holyoke, MA	Leased	2010	2020
Westfield State University 577 Western Avenue Westfield, MA			
Ely Hall	Leased	2010	2020
Wilson Hall	Leased	2010	2020
Woodward, Center	Leased	2010	2020
214 College Highway Southwick, MA	Leased	2010	2025
110 Cherry Street Holyoke, MA	Tenant at will	2018	NA
291 Springfield Street Chicopee, MA	Owned	2015	NA
Springfield Visitors Center 1319 Main Street Springfield, MA	Leased	2018	2023
Union Station 55 Frank B. Murray Street Springfield, MA	Leased	2018	2023

Location	Ownership	Year Opened	Year of Lease or License Expiration
Big E ATMs: 1305 Memorial Avenue West Springfield, MA			
Better Living Center	Tenant at will	2011	N/A
Better Living Center	Tenant at will	2011	N/A
Better Living Center (Door 6)	Tenant at will	2011	N/A
Better Living Center (Dunkin Donuts)	Tenant at will	2019	N/A
Big E Coliseum	Tenant at will	2015	N/A
Big E Young Building	Tenant at will	2011	N/A
Big E Mallary Complex	Tenant at will	2011	N/A
701 Center Street Chicopee, MA	Tenant at will	2015	N/A
627 Randall Road Ludlow, MA	Tenant at will	2015	N/A
229 Exchange Street ⁽³⁾ Chicopee, MA	Owned	2015	N/A

- (1) The Bank has announced plans to open three new locations in 2020: a branch in Huntington, Massachusetts, which was purchased from Peoples United and opened on February 25, 2020, and two full-service branches in Bloomfield, Connecticut and West Hartford, Connecticut, which are currently undergoing construction and are anticipated to open in 2020. The West Hartford branch will be a Financial Solution Center and is expected to serve as our Connecticut hub, housing Commercial Lending, Cash Management and a MLO.
- (2) This lease is for the land only, the building is owned by Westfield Bank.
- (3) The Exchange Street ATM will be closed in March of 2020.

ITEM 3. LEGAL PROCEEDINGS.

There are no material pending legal proceedings to which the Company or its subsidiaries are a party or to which any of its property is subject, other than routine legal proceedings occurring in the ordinary course of business. Management does not believe resolution of any present litigation will have a material adverse effect on the business, consolidated financial condition or results of operations of the Company.

ITEM 4. MINE SAFETY DISCLOSURES.

Not Applicable.

PART II

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

Market Information.

The Company's common stock is currently listed on NASDAQ under the trading symbol "WNEB." As of December 31, 2019, there were 26,557,981 shares of the Company's common stock outstanding by approximately 2,117 shareholders, as obtained through our transfer agent. Such number of shareholders does not reflect the number of persons or entities holding stock in nominee name through banks, brokerage firms and other nominees.

Dividend Policy.

The Company maintains a dividend reinvestment and direct stock purchase plan (the "DRSPP"). The DRSPP enables stockholders, at their discretion, to continue to elect to reinvest cash dividends paid on their shares of the Company's common stock by purchasing additional shares of common stock from the Company at a purchase price equal to fair market value. Under the DRSPP, stockholders and new investors also have the opportunity to purchase shares of the Company's common stock without brokerage fees, subject to monthly minimums and maximums.

Although the Company has historically paid quarterly dividends on its common stock, the Company's ability to pay such dividends depends on a number of factors, including restrictions under federal laws and regulations on the Company's ability to pay dividends, and as a result, there can be no assurance that dividends will be paid in the future.

Recent Sales of Unregistered Securities.

There were no sales by the Company of unregistered securities during the year ended December 31, 2019.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers.

The following table sets forth information with respect to purchases made by the Company during the three months ended December 31, 2019.

Period	Total Number of Shares Purchased	Average Price Paid per Share (\$)	Total Number of Shares Purchased as Part of Publicly Announced Programs	Maximum Number of Shares that May Yet Be Purchased Under the Program (1)(2)
October 1 - 31, 2019	-	-	-	1,126,866
November 1 - 30, 2019	-	-	-	1,126,866
December 1 - 31, 2019	11,072	9.63	-	1,126,866
Total	11,072	9.63	-	1,126,866

- (1) On January 29, 2019, the Board of Directors authorized an additional stock repurchase program under which the Company may purchase up to 2,814,200 shares, or 10%, of its outstanding common stock (the "2019 Plan"). The 2019 Plan began upon the completion of the 2017 Plan which occurred on March 1, 2019. As of December 31, 2019, the Company has repurchased 1,687,334 shares under the 2019 Plan.
- (2) Repurchase of 11,072 shares related to tax obligations for shares of restricted stock that vested on December 31, 2019 under our 2014 Omnibus Incentive Plan. These repurchases were reported by each reporting person on January 3, 2020.

Subsequent Events.

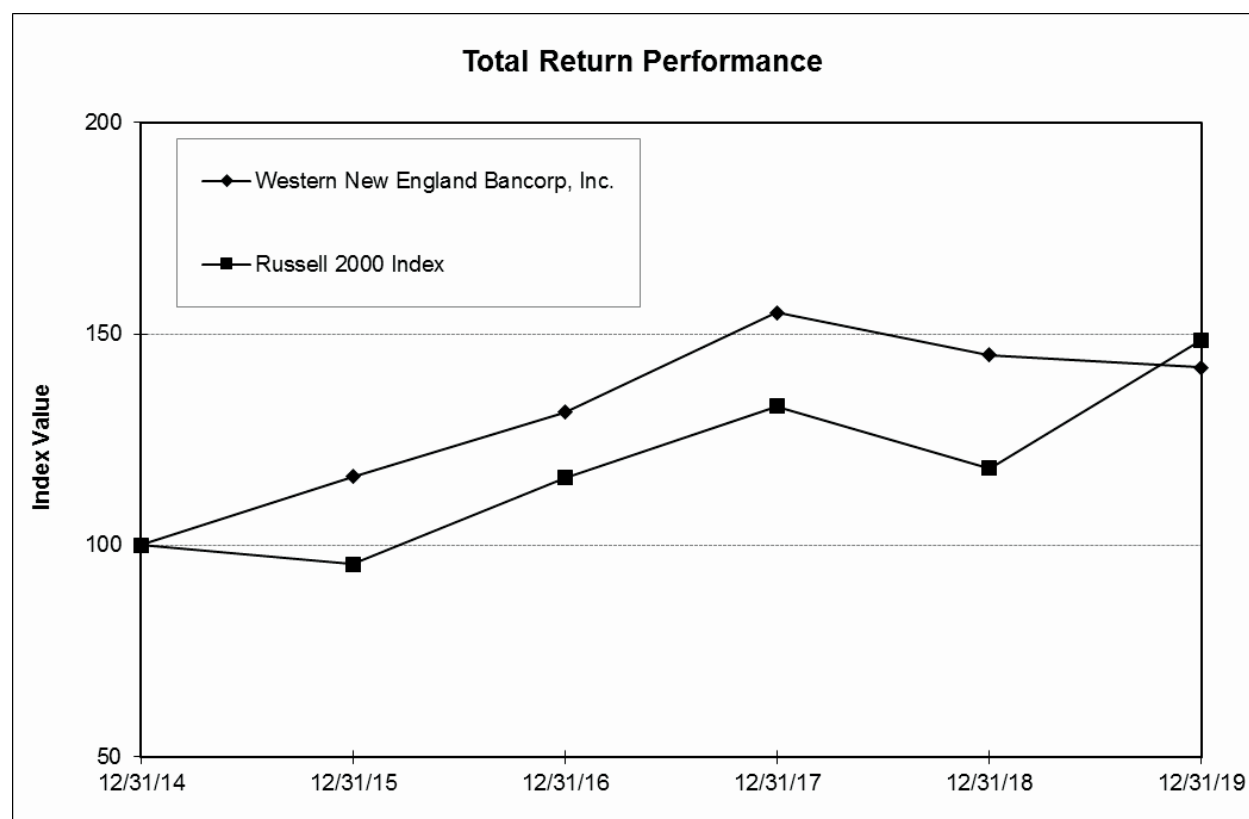
Subsequent Events represent events or transactions occurring after the balance sheet date but before the financial statements are issued. Financial statements are considered “issued” when they are widely distributed to shareholders and others for general use and reliance in a form and format that complies with GAAP.

The Company is an SEC filer and management has evaluated subsequent events through the date that the financial statements were issued. From the period January 1, 2020 through March 11, 2020, the Company has repurchased 953,243 shares of its common stock under the 2019 Plan at an average price of \$8.01, which resulted in a decrease to shareholders’ equity of \$7.6 million.

Stock Performance Graph.

The following graph compares our total cumulative shareholder return (which assumes the reinvestment of all dividends) by an investor who invested \$100.00 on December 31, 2014 to December 31, 2019, to the total return by an investor who invested \$100.00 in the Russell 2000 Index for the same period.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN
Among Western New England Bancorp, Inc. and the Russell 2000 Index



Index	Period Ending					
	12/31/14	12/31/15	12/31/16	12/31/17	12/31/18	12/31/19
Western New England Bancorp, Inc.	100.00	116.27	131.43	155.06	145.04	142.10
Russell 2000 Index	100.00	95.59	115.95	132.94	118.30	148.49

ITEM 6. SELECTED FINANCIAL DATA.

Not Applicable.

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

The following discussion should be read in conjunction with the Company's Consolidated Financial Statements and notes thereto, each appearing elsewhere in this Annual Report on Form 10-K.

Overview.

We strive to remain a leader in meeting the financial service needs of the local community and to provide quality service to the individuals and businesses in the market areas that we have served since 1853. Historically, we have been a community-oriented provider of traditional banking products and services to business organizations and individuals, including products such as residential and commercial real estate loans, consumer loans and a variety of deposit products. We meet the needs of our local community through a community-based and service-oriented approach to banking.

We have adopted a growth-oriented strategy that continues to focus on increasing commercial lending and residential lending. Our strategy also calls for increasing deposit relationships, specifically core deposits, and broadening our product lines and services. We believe that this business strategy is best for our long-term success and viability, and complements our existing commitment to high quality customer service.

In connection with our overall growth strategy, we seek to:

- Grow the Company's commercial loan portfolio and related commercial deposits by targeting businesses in our primary market area of Hampden County and Hampshire County in western Massachusetts and Hartford and Tolland Counties in northern Connecticut to increase the net interest margin and loan income;
- Supplement the commercial portfolio by growing the residential real estate portfolio to diversify the loan portfolio and deepen customer relationships;
- Focus on expanding our retail banking deposit franchise and increase the number of households served within our designated market area;
- Invest in people, systems and technology to grow revenue, improve efficiency and enhance the overall customer experience;
- Grow revenues, increase tangible book value, continue to pay competitive dividends to shareholders and utilize the Company's stock repurchase plan to leverage our capital and enhance franchise value; and
- Consider growth through acquisitions. We may pursue expansion opportunities in existing or adjacent strategic locations with companies that add complementary products to our existing business and at terms that add value to our existing shareholders.

You should read the following financial results for the year ended December 31, 2019 in the context of this strategy.

For the year ended December 31, 2019, net income was \$13.3 million, or \$0.51 per diluted share, compared to \$16.4 million, or \$0.57 per diluted share, for the same period in 2018. The results for the year ended December 31, 2019 showed increases in interest and dividend income and non-interest income, which were both offset by an increase in interest expense, non-interest expense and an increase in the provision for loan losses. The provision for loan losses was \$2.7 million for the year ended December 31, 2019, compared to \$1.9 million for the year ended December 31, 2018. The allowance for loan losses was \$14.1 million, or 0.79% of total loans, at December 31, 2019 and \$12.1

million, or 0.71%, at December 31, 2018. At December 31, 2019, the allowance for loan losses as a percentage of non-performing loans was 142.7%, compared to 89.4% at December 31, 2018. The allowance for loan losses as a percentage of total loans, excluding loans acquired from Chicopee, which were recorded at fair value with no related allowance for loan losses, was 1.01% at December 31, 2019 and 0.98% at December 31, 2018.

Interest and dividend income increased \$3.1 million, or 4.0%, to \$82.1 million for the year ended December 31, 2019, compared to \$79.0 million for the year ended December 31, 2018. The increase in interest and dividend income was offset by an increase in interest expense of \$5.2 million, or 27.2%, to \$24.1 million for the year ended December 31, 2019, from \$19.0 million for the year ended December 31, 2018. Net interest and dividend income decreased \$2.0 million, or 3.4%, to \$58.0 million for the year ended December 31, 2019, from \$60.0 million for the year ended December 31, 2018. Non-interest income increased \$472,000, or 5.1%, to \$9.7 million for the year ended December 31, 2019, compared to \$9.2 million for the same period in 2018 primarily driven by an increase in service charges and fee income and other income, driven mainly by swap fee income recognized for the year ended December 31, 2019. Non-interest expense increased \$1.6 million, or 3.4%, to \$47.8 million at December 31, 2019, compared to \$46.2 million at December 31, 2018.

General.

Our consolidated results of operations depend primarily on net interest and dividend income. Net interest and dividend income is the difference between the interest income earned on interest-earning assets and the interest paid on interest-bearing liabilities. Interest-earning assets consist primarily of commercial real estate loans, commercial and industrial loans, residential real estate loans and securities. Interest-bearing liabilities consist primarily of certificates of deposit and money market accounts, demand deposit accounts and savings account deposits and borrowings from the FHLB. The consolidated results of operations also depend on the provision for loan losses, non-interest income, and non-interest expense. Non-interest income includes service fees and charges, income on bank-owned life insurance, and gains (losses) on securities. Non-interest expense includes salaries and employee benefits, occupancy expenses, data processing, advertising expense, FDIC insurance assessment, professional fees and other general and administrative expenses.

Critical Accounting Policies.

Our accounting policies are disclosed in Note 1 to our consolidated financial statements. Given our current business strategy and asset/liability structure, the more critical policies are the allowance for loan losses and provision for loan losses, accounting for non-performing loans and the ability to realize on our net deferred tax assets. In addition to the informational disclosure in the notes to the consolidated financial statements, our policy on each of these accounting policies is described in detail in the applicable sections of *"Management's Discussion and Analysis of Financial Condition and Results of Operations."* Senior management has discussed the development and selection of these accounting policies and the related disclosures with the Audit Committee of our Board of Directors.

The process of evaluating the loan portfolio, classifying loans and determining the allowance and provision is described in detail in Part I under *"Business – Lending Activities - Allowance for Loan Losses."* This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant change. Our methodology for assessing the allocation of the allowance consists of two key components, which are a specific allowance for impaired loans and a general allowance for the remainder of the portfolio. Measurement of impairment can be based on present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price or the fair value of the collateral, if the loan is collateral dependent. The allocation of the allowance is also reviewed by management based upon our evaluation of then-existing economic and business conditions affecting our key lending areas and other conditions, such as new loan products, credit quality trends (including trends in non-performing loans expected to result from existing conditions), collateral values, loan volumes and concentrations, specific industry conditions within portfolio segments that existed as of the balance sheet date and the impact that such conditions were believed to have had on the collectability of the loan portfolio. Although management believes it has established and maintained the allowance for loan losses at adequate levels, if management's assumptions and judgments prove to be incorrect due to continued deterioration in economic, real estate and other conditions, and the allowance for loan losses is not adequate to absorb inherent losses, our earnings and capital could be significantly and adversely affected.

Our general policy regarding recognition of interest on loans is to discontinue the accrual of interest when principal or interest payments are delinquent 90 days or more, or earlier if collection of principal or interest is doubtful. Any unpaid amounts previously accrued on these loans are reversed from income. Subsequent cash receipts are applied to the outstanding principal balance or to interest income if, in the judgment of management, collection of the principal balance is not in question. Loans are returned to accrual status when they become current as to both principal and interest and when subsequent performance reduces the concern as to the collectability of principal and interest. Loan fees and certain direct loan origination costs are deferred, and the net fee or cost is recognized as an adjustment to interest income over the estimated average lives of the related loans.

We must make certain estimates in determining income tax expense for financial statement purposes. These estimates occur in the calculation of the deferred tax assets and liabilities, which arise from the temporary differences between the tax basis and financial statement basis of our assets and liabilities. The carrying value of our net deferred tax asset is based on our historic taxable income as well as our belief that it is more likely than not that we will generate sufficient future taxable income to realize these deferred tax assets. Judgments regarding future taxable income may change due to changes in market conditions, changes in tax laws or other factors which could result in a change in the assessment of the realization of the net deferred tax asset.

Analysis of Net Interest Income.

The Company's earnings are largely dependent on its net interest income, which is the difference between interest earned on loans and investments and the cost of funding (primarily deposits and borrowings). Net interest income expressed as a percentage of average interest-earning assets is referred to as net interest margin. The Company reports net interest margin on a tax-equivalent basis ("margin") throughout this entire annual report.

Average Balance Sheet.

The following table sets forth information relating to the Company for the years ended December 31, 2019, 2018 and 2017. The average yields and costs are derived by dividing interest income or interest expense by the average balance of interest-earning assets or interest-bearing liabilities, respectively, for the periods shown. Average balances are derived from average daily balances. The yields include fees which are considered adjustments to yields. Loan interest and yield data does not include any accrued interest from non-accruing loans.

	For the Years Ended December 31,			
	2019		2018	
	Average Balance	Interest Average Yield/ Cost	Average Balance	Interest Average Yield/ Cost
(Dollars in thousands)				
ASSETS:				
Interest-earning assets				
Loans(1)(2)	\$ 1,721,884	\$ 75,354 4.38 %	\$ 1,666,266	\$ 71,283 4.28 %
Securities(2)	245,417	6,236 2.54	268,614	7,181 2.67
Other investments - at cost	16,061	833 5.19	17,453	863 4.94
Short-term investments(3)	13,459	230 1.71	10,213	175 1.71
Total interest-earning assets	1,996,821	82,653 4.14	1,962,546	79,502 4.05
Total non-interest-earning assets	137,000		134,174	
Total assets	\$ 2,133,821		\$ 2,096,720	
LIABILITIES AND EQUITY:				
Interest-bearing liabilities				
Interest-bearing checking accounts	\$ 72,690	377 0.52	\$ 87,072	340 0.39
Savings accounts	126,506	146 0.12	136,428	162 0.12
Money market accounts	405,785	2,532 0.62	414,686	1,911 0.46
Time deposits	668,521	14,152 2.12	596,182	9,270 1.55
Total interest-bearing deposits	1,273,502	17,207 1.35	1,234,368	11,683 0.95
Short-term borrowings and long-term debt	240,416	6,930 2.88	277,151	7,295 2.63
Interest-bearing liabilities	1,513,918	24,137 1.59	1,511,519	18,978 1.26
Non-interest-bearing deposits	366,211		327,868	
Other non-interest-bearing liabilities	23,098		16,653	
Total non-interest-bearing liabilities	389,309		344,521	
Total liabilities	1,903,227		1,856,040	
Total equity	230,594		240,680	
Total liabilities and equity	\$ 2,133,821		\$ 2,096,720	
Less: Tax-equivalent adjustment(2)	(537)		(512)	
Net interest and dividend income	\$ 57,979		\$ 60,012	
Net interest rate spread		2.52 %		2.77 %
Net interest rate spread, on a tax-equivalent basis (4)		2.55 %		2.79 %
Net interest margin		2.90 %		3.06 %
Net interest margin, on a tax-equivalent basis (5)		2.93 %		3.08 %
Ratio of average interest-earning assets to average interest-bearing liabilities		131.90 %		129.84 %
				128.64 %

- (1) Loans, including non-accrual loans, are net of deferred loan origination costs, and unadvanced funds and allowance for loan losses.
- (2) Securities income, loan income and net interest income are presented on a tax-equivalent basis using a tax rate of 21% for 2019 and 2018 and 35% for 2017. The tax-equivalent adjustment is deducted from tax-equivalent net interest and dividend income to agree to the amount reported in the consolidated statements of net income.
- (3) Short-term investments include federal funds sold.
- (4) Net interest rate spread, on a tax-equivalent basis, represents the difference between the weighted average yield on interest-earning assets and the weighted average cost of interest-bearing liabilities. See "Explanation of Use of Non-GAAP Financial Measurements".
- (5) Net interest margin, on a tax-equivalent basis, represents tax-equivalent net interest and dividend income as a percentage of average interest-earning assets. See "Explanation of Use of Non-GAAP Financial Measurements".

Rate/Volume Analysis.

The following table shows how changes in interest rates and changes in the volume of interest-earning assets and interest-bearing liabilities have affected our interest and dividend income and interest expense during the periods indicated. Information is provided in each category with respect to: (1) interest income changes attributable to changes in volume (changes in volume multiplied by prior rate); (2) interest income changes attributable to changes in rate (changes in rate multiplied by prior volume); and (3) the net change.

The changes attributable to the combined impact of volume and rate have been allocated proportionately to the changes due to volume and the changes due to rate.

	Year Ended December 31, 2019 Compared to Year Ended December 31, 2018			Year Ended December 31, 2018 Compared to Year Ended December 31, 2017		
	Increase (Decrease) Due to			Increase (Decrease) Due to		
	Volume	Rate	Net	Volume	Rate	Net
<u>Interest-earning assets</u>		(In thousands)			(In thousands)	
Loans (1)	\$ 2,379	\$ 1,692	\$ 4,071	\$ 2,863	\$ 1,801	\$ 4,664
Investment securities (1)	(620)	(325)	(945)	(850)	395	(455)
Other investments - at cost	(69)	39	(30)	(10)	195	185
Short-term investments	56	(1)	55	(56)	111	55
Total interest-earning assets	1,746	1,405	3,151	1,947	2,502	4,449
<u>Interest-bearing liabilities</u>						
Interest-bearing checking accounts	(56)	93	37	4	6	10
Savings accounts	(12)	(4)	(16)	(16)	(1)	(17)
Money market accounts	(41)	662	621	50	296	346
Time deposits	1,125	3,757	4,882	327	2,569	2,896
Short-term borrowing and long-term debt	(967)	602	(365)	(490)	1,588	1,098
Total interest-bearing liabilities	49	5,110	5,159	(125)	4,458	4,333
Change in net interest and dividend income	\$ 1,697	\$ (3,705)	\$ (2,008)	\$ 2,072	\$ (1,956)	\$ 116

(1) Securities and loan income and net interest income are presented on a tax-equivalent basis using a tax rate of 21% for 2019 and 2018 and 35% for 2017. The tax-equivalent adjustment is deducted from tax-equivalent net interest income to agree to the amount reported in the consolidated statements of net income.

Explanation of Use of Non-GAAP Financial Measurements.

We believe that it is common practice in the banking industry to present interest income and related yield information on tax-exempt loans and securities on a tax-equivalent basis and that such information is useful to investors because it facilitates comparisons among financial institutions. However, the adjustment of interest income and yields on tax-exempt loans and securities to a tax-equivalent amount is considered a non-GAAP financial measure. A reconciliation from GAAP to non-GAAP is provided below.

	Twelve Months Ended December 31,					
	2019		2018		2017	
	(Dollars in thousands)					
	Interest	Average Yield	Interest	Average Yield	Interest	Average Yield
Loans (no tax adjustment)	\$ 74,837	4.35%	\$ 70,795	4.25%	\$ 65,664	4.11%
Tax-equivalent adjustment ⁽¹⁾	517		488		955	
Loans (tax-equivalent basis)	<u>\$ 75,354</u>	4.38%	<u>\$ 71,283</u>	4.28%	<u>\$ 66,619</u>	4.17%
Securities (no tax adjustment)	\$ 6,216	2.53%	\$ 7,157	2.66%	\$ 7,577	2.51%
Tax-equivalent adjustment ⁽¹⁾	20		24		59	
Securities (tax-equivalent basis)	<u>\$ 6,236</u>	2.54%	<u>\$ 7,181</u>	2.67%	<u>\$ 7,636</u>	2.53%
Net interest income (no tax adjustment)	\$ 57,979		\$ 60,012		\$ 59,394	
Tax-equivalent adjustment ⁽¹⁾	537		512		1,014	
Net interest income (tax-equivalent basis)	<u>\$ 58,516</u>		<u>\$ 60,524</u>		<u>\$ 60,408</u>	
Interest rate spread (no tax adjustment)		2.52%		2.77%		2.85%
Net interest margin (no tax adjustment)		2.90%		3.06%		3.07%

(1) The tax equivalent adjustment is based upon a 21% tax rate for 2019 and 2018 and 35% for 2017.

Comparison of Financial Condition at December 31, 2019 and December 31, 2018.

At December 31, 2019, total assets of \$2.2 billion increased \$62.7 million, or 3.0%, from December 31, 2018. The balance sheet composition and changes since December 31, 2018 are discussed below.

Cash and Cash Equivalents.

Cash and cash equivalents is comprised of cash on hand and amounts due from banks, interest-earning deposits in other financial institutions and federal funds ("fed funds") sold. Cash and cash equivalents totaled \$24.7 million, or 1.1% of total assets, at December 31, 2019 and \$26.8 million, or 1.3% of total assets, at December 31, 2018. Balances in cash and cash equivalents will fluctuate due primarily to the timing of net deposit flows, borrowing and loan inflows and outflows, investment purchases and maturities, calls and sales proceeds, and the immediate liquidity needs of the Company.

Investments.

At December 31, 2019, the investment portfolio of \$234.4 million, or 10.7% of total assets, decreased \$25.7 million, or 9.9%, compared to \$260.2 million, or 12.3% of total assets, at December 31, 2018. Available-for-sale securities comprised the majority of the fair value of the portfolio and represented 97.1% and 97.5% of total investments at December 31, 2019 and 2018, respectively. The marketable equity securities portfolio totaled \$6.7 million and \$6.4 million at December 31, 2019 and 2018. At December 31, 2019, all securities were carried at fair market value. Effective January 1, 2018, the Bank adopted FASB ASU 2016-01, *Financial Instruments —Overall* (Subtopic 825-

10): *Recognition and Measurement of Financial Assets and Financial Liabilities*. Consequently, marketable equity securities are measured at fair value with changes in fair value reported on the Company's income statement as a component of non-interest income, regardless of whether such gains and losses are realized.

The Bank is required to purchase FHLB stock at par value in association with advances from the FHLB. The stock is classified as a restricted investment and carried at cost which management believes approximates fair value. The Company's investment in FHLB capital stock amounted to \$14.1 million and \$14.3 million at December 31, 2019 and December 31, 2018, respectively.

At December 31, 2019 and 2018, the Company held \$423,000 of Atlantic Community Bankers Bank stock. The stock is restricted and carried in other assets at cost. The stock is evaluated for impairment based on an estimate of the ultimate recovery to the par value.

Loans.

Total loans of \$1.8 billion represented 81.2%, of total assets, at December 31, 2019, compared to 79.9% of total assets, at December 31, 2018. Total loans increased \$79.2 million, or 4.7%, due to an increase in commercial real estate loans of \$48.0 million, or 2.8%, an increase in residential real estate loans, including home equity, of \$25.4 million, or 1.5%, and an increase in commercial and industrial loans of \$5.4 million, or 0.3%. The mix of loans within the loan portfolio remained relatively unchanged with commercial loans and commercial real estate loans combined, representing 60.2% of total loans at December 31, 2019. In order to reduce interest rate risk, the Company currently services \$48.2 million in residential loans sold to the secondary market.

Bank-Owned Life Insurance ("BOLI").

The Company indirectly utilizes the earnings on BOLI to offset the cost of the Company's benefit plans. The cash surrender value of BOLI was \$71.1 million and \$69.3 million at December 31, 2019 and 2018, respectively.

Deposits.

At December 31, 2019, total deposits were \$1.7 billion, an increase of \$81.9 million, or 5.1%, from December 31, 2018. Core deposits, which the Company defines as all deposits except time deposits, increased \$89.3 million, or 9.5%, from \$935.9 million, or 58.6% of total deposits, at December 31, 2018, to \$1.0 billion, or 61.1% of total deposits, at December 31, 2019. Non-interest-bearing deposits increased \$37.9 million, or 10.7%, to \$393.3 million, money market accounts increased \$37.0 million, or 9.3%, to \$435.4 million, regular savings accounts increased \$7.9 million, or 6.7%, to \$126.4 million, and interest-bearing checking accounts increased \$6.6 million, or 10.4%, to \$70.2 million. Time deposits decreased \$7.4 million, or 1.1%, to \$652.6 million at December 31, 2019, from \$660.0 million at December 31, 2018. Brokered deposits, which are included within time deposits, totaled \$21.5 million and \$23.8 million at December 31, 2019 and 2018, respectively.

Borrowed Funds.

FHLB borrowings decreased \$26.8 million, or 10.0%, from \$267.3 million at December 31, 2018 to \$240.5 million at December 31, 2019.

Shareholder's Equity.

At December 31, 2019, shareholders' equity was \$232.0 million, or 10.6% of total assets, compared to \$237.0 million, or 11.2% of total assets at December 31, 2018. The decrease in shareholders' equity during the twelve months ended December 31, 2019 reflects \$19.2 million for the repurchase of the Company's shares during the year, the payment of regular cash dividends of \$5.3 million offset by net income of \$13.3 million and a decrease of \$4.4 million in accumulated other comprehensive loss.

The Company's book value per share increased \$0.39, or 4.7%, to \$8.74 at December 31, 2019 from \$8.35 at December 31, 2018. The Company's tangible book value per share increased \$0.36, or 4.6%, to \$8.14 at December 31, 2019 from \$7.78 at December 31, 2018. The Company's and the Bank's regulatory capital ratios continued to exceed the levels required to be considered "well-capitalized" under federal banking regulations.

Assets under Management.

Total assets under management includes loans serviced for others and investment assets under management. Loans serviced for others and investment assets under management are not carried as assets on the Company's consolidated balance sheet, and as such, total assets under management is not a financial measurement recognized under GAAP, however, management believes its disclosure provides information useful in understanding the trends in total assets under management.

The Company provides a wide range of investment advisory and wealth management services. Investment assets under management of \$149.8 million, increased \$29.3 million, or 24.3%, for the year ended December 31, 2019, from \$120.5 million for the year ended December 31, 2018.

Comparison of Operating Results for Years Ended December 31, 2019 and 2018.

General.

For the twelve months ended December 31, 2019, the Company reported net income of \$13.3 million, or \$0.51 per diluted share, compared to \$16.4 million, or \$0.57 per diluted share, for the twelve months ended December 31, 2018. During the twelve months ended December 31, 2018, the Company reported \$1.1 million in favorable purchase accounting adjustments, compared to \$16,000 in 2019. In addition, the Company received \$715,000 in bank-owned life insurance ("BOLI") death benefits in excess of cash surrender value in 2018.

Net Interest Income and Net Interest Margin.

Net interest income decreased \$2.0 million, or 3.4%, from \$60.0 million for the twelve months ended December 31, 2018 to \$58.0 million for the twelve months ended December 31, 2019. The decrease in net interest income was primarily due to a decrease in purchase accounting adjustments of \$1.1 million, or 98.6%. Interest and dividend income increased \$3.1 million, or 4.0%, and was offset by an increase in interest expense of \$5.2 million, or 27.2%. The increase in interest expense was due to an increase in interest expense on deposits of \$5.5 million, or 47.3%, partially offset by a decrease in interest expense on borrowings of \$365,000, or 5.0%, for the twelve months ended December 31, 2019. Excluding favorable purchase accounting adjustments of \$16,000 and prepayment penalties of \$496,000 recognized during the twelve months ended December 31, 2019 and \$1.1 million in favorable purchase accounting adjustments and \$328,000 in prepayment penalties recognized during the twelve months ended December 31, 2018, net interest income decreased \$1.1 million, or 1.8%.

The tax-equivalent net interest margin decreased 15 basis points from 3.08% for the twelve months ended December 31, 2018 to 2.93% for the twelve months ended December 31, 2019. Excluding purchase accounting adjustments and prepayment penalties, the adjusted tax-equivalent net interest margin for the twelve months ended December 31, 2019 was 2.91% compared to 3.01% for the twelve months ended December 31, 2018.

The average asset yield increased nine basis points from 4.05% for the twelve months ended December 31, 2018 to 4.14% for the twelve months ended December 31, 2019. The average cost of funds increased 33 basis points from 1.26% for the twelve months ended December 31, 2018 to 1.59% for the twelve months ended December 31, 2019. The average cost of time deposits increased 57 basis points from 1.55% for the twelve months ended December 31, 2018 to 2.12% for the twelve months ended December 31, 2019. The average cost of FHLB borrowings increased 25 basis points from 2.63% for the twelve months ended December 31, 2018 to 2.88% for the twelve months ended December 31, 2019.

Average interest-earning assets increased \$34.3 million, or 1.7%, to \$2.0 billion for the twelve months ended December 31, 2019. The increase in average interest-earning assets was due to an increase in average loans of \$55.6 million, or 3.3%, and an increase in average short-term investments of \$3.3 million, or 32.4%, partially offset by a decrease in average investments of \$23.2 million, or 8.6%. Average FHLB borrowings decreased \$36.8 million, or 13.3%, from \$277.2 million for the twelve months ended December 31, 2018 to \$240.4 million for the twelve months ended December 31, 2019.

Provision for Loan Losses.

The provision for loan losses is reviewed by management based upon our evaluation of then-existing economic and business conditions affecting our key lending areas and other conditions, such as new loan products, credit quality trends (including trends in non-performing loans expected to result from existing conditions), collateral values, loan volumes and concentrations, specific industry conditions within portfolio segments that existed as of the balance sheet date and the impact that such conditions were believed to have had on the collectability of the loan portfolio.

The provision for loan losses of \$2.7 million increased \$775,000, or 40.8%, for the twelve months ended December 31, 2019 compared to \$1.9 million for the twelve months ended December 31, 2018. The Company recorded net charge-offs of \$626,000 for the twelve months ended December 31, 2019, as compared to net charge-offs of \$678,000 for the twelve months ended December 31, 2018. Contributing to the increase in the general reserves was an increase in commercial real estate loans of \$48.0 million, or 6.2%, from \$768.9 million at December 31, 2018 to \$816.9 million at December 31, 2019.

The allowance for loan losses as a percentage of total loans was 0.79% at December 31, 2019, compared to 0.71% at December 31, 2018. At December 31, 2019, the allowance for loan losses as a percentage of non-performing loans was 142.7%, compared to 89.4% at December 31, 2018. The allowance for loan losses as a percentage of total loans, excluding loans acquired from Chicopee, which were recorded at fair value with no related allowance for loan losses, was 1.01% at December 31, 2019 and 0.98% at December 31, 2018.

Although management believes it has established and maintained the allowance for loan losses at appropriate levels, future adjustments may be necessary if economic, real estate and other conditions differ substantially from the current operating environment.

Non-Interest Income.

For the twelve months ended December 31, 2019, non-interest income of \$9.7 million increased \$472,000, or 5.1%, compared to \$9.2 million for the twelve months ended December 31, 2018. During the twelve months ended December 31, 2018, non-interest income included the recognition of \$715,000 in BOLI death benefits in excess of cash surrender value. Excluding the BOLI income, non-interest income increased \$1.2 million, or 13.9%, from the twelve months ended December 31, 2018 to the twelve months ended December 31, 2019. The increase was primarily due to an increase in service charges and fees of \$427,000, or 6.2%, and an increase in other income, due to swap fees on commercial real estate loans of \$343,000 and \$165,000 in unrealized gains on the Company's marketable equity securities portfolio, partially offset by \$97,000 in realized losses on the securities portfolio and a decrease in income from BOLI of \$26,000, or 1.4%. During the twelve months ended December 31, 2018, the Company reported nonrecurring gains on the disposal of OREO of \$48,000.

Non-Interest Expense.

For the twelve months ended December 31, 2019, non-interest expense increased \$1.6 million, or 3.4%, to \$47.8 million, or 2.24% of average assets, compared to \$46.2 million, or 2.21% of average assets for the twelve months ended December 31, 2018. The increase in non-interest expense was primarily due to an increase of \$1.7 million, or 6.4%, in salaries and benefits, an increase in occupancy expense of \$200,000, or 5.0%, an increase in data processing of \$142,000, or 5.4%, an increase in furniture and fixtures of \$112,000, or 7.2%, and an increase in other non-interest expense of \$52,000, or 0.7%. These expenses were partially offset by a decrease in professional fees of \$371,000, or 13.2%, a decrease in FDIC insurance expense of \$173,000, or 28.7%, and a decrease in advertising expense of \$63,000, or 4.5%. During the twelve months ended December 31, 2018, there were approximately \$309,000 in legal fees associated with a previously charged-off loan from 2010. The Company recovered \$835,000 of the charge-off during the twelve months ended December 31, 2019. The decrease in FDIC insurance expense of \$173,000, or 28.7%, was due to the receipt of FDIC small bank assessment credits applied to the Company's FDIC assessment in the third and fourth quarters of 2019. FDIC small bank assessment credits will automatically be applied each quarter that the reserve ratio is at least 1.38%, up to the full amount of a small bank's credit or assessment, whichever is less. For the twelve months ended December 31, 2019, the efficiency ratio was 70.7%, compared to 67.1% for the twelve months ended December 31, 2018.

Income Taxes.

The effective tax rate for the twelve months ended December 31, 2019 and December 31, 2018 was 22.4% and 22.3%, respectively.

Liquidity and Capital Resources.

The term “liquidity” refers to our ability to generate adequate amounts of cash to fund loan originations, loan purchases, deposit withdrawals and operating expenses. Our primary sources of liquidity are deposits, scheduled amortization and prepayments of loan principal and mortgage-backed securities, maturities and calls of investment securities and funds provided by our operations. We also can borrow funds from the FHLB based on eligible collateral of loans and securities.

At December 31, 2019 and December 31, 2018, outstanding borrowings from the FHLB were \$240.5 million and \$267.3 million, respectively. At December 31, 2019, we had \$236.8 million in available borrowing capacity with the FHLB. We have the ability to increase our borrowing capacity with the FHLB by pledging investment securities or additional loans.

In addition, we have available lines of credit of \$15.0 million and \$50.0 million with other correspondent banks. Interest rates on these lines are determined and reset on a daily basis by each respective bank. At December 31, 2019 and 2018, we did not have an outstanding balance under either of these lines of credit. In addition, we may enter into reverse repurchase agreements with approved broker-dealers. Reverse repurchase agreements are agreements that allow us to borrow money using our securities as collateral.

We also have outstanding at any time, a significant number of commitments to extend credit and provide financial guarantees to third parties. These arrangements are subject to strict credit control assessments. Guarantees specify limits to our obligations. Because many commitments and almost all guarantees expire without being funded in whole or in part, the contract amounts are not estimates of future cash flows. We are also obligated under agreements with the FHLB to repay borrowed funds and are obligated under leases for certain of our branches and equipment.

A summary of lease obligations, borrowings and credit commitments at December 31, 2019 follows:

	<u>Within 1 Year</u>	<u>After 1 Year But Within 3 Years</u>	<u>After 3 Year But Within 5 Years</u>	<u>After 5 Years</u>	<u>Total</u>
	(In thousands)				
Lease Obligations					
Operating lease obligations	\$ 1,160	\$ 2,076	\$ 1,470	\$ 3,632	\$ 8,338
Borrowings and Debt					
Federal Home Loan Bank	162,983	74,680	2,852	-	240,515
Credit Commitments					
Available lines of credit	183,385	-	-	80,839	264,224
Other loan commitments	84,215	19,117	2,791	47	106,170
Letters of credit	9,834	520	301	693	11,348
Total credit commitments	<u>277,434</u>	<u>19,637</u>	<u>3,092</u>	<u>81,579</u>	<u>381,742</u>
Other Obligations					
Vendor Contracts	3,656	7,268	7,229	584	18,737
Total Obligations	<u>\$ 445,233</u>	<u>\$ 103,661</u>	<u>\$ 14,643</u>	<u>\$ 85,795</u>	<u>\$ 649,332</u>

Maturing investment securities are a relatively predictable source of funds. However, deposit flows, calls of securities and prepayments of loans and mortgage-backed securities are strongly influenced by interest rates, general and local economic conditions and competition in the marketplace. These factors reduce the predictability of the timing of these sources of funds.

The Company's primary activities are the origination of commercial real estate loans, commercial and industrial loans and residential real estate loans, as well as and the purchase of mortgage-backed and other investment securities. During the year ended December 31, 2019, we originated \$372.7 million in loans, compared to \$357.7 million in 2018. We purchased securities totaling \$74.5 million for the year ended December 31, 2019, compared to purchases of \$16.9 million for the year ended December 31, 2018. At December 31, 2019, the Company had approximately \$118.7 million in loan commitments and letters of credit to borrowers and approximately \$263.0 million in available home equity and other unadvanced lines of credit.

Deposit in flows and out flows are affected by the level of interest rates, the products and interest rates offered by competitors and by other factors. At December 31, 2019, time deposit accounts scheduled to mature within one year totaled \$548.6 million. Based on the Company's deposit retention experience and current pricing strategy, we anticipate that a significant portion of these time deposits will remain on deposit. We monitor our liquidity position frequently and anticipate that it will have sufficient funds to meet our current funding commitments.

At December 31, 2019, the Company and the Bank exceeded each of the applicable regulatory capital requirements (See Note 12, *Regulatory Capital*, to our consolidated financial statements for further information on our regulatory requirements).

We do not anticipate any material capital expenditures during the calendar year 2020, except in pursuance of the Company's strategic initiatives. The Company does not have any balloon or other payments due on any long-term obligations or any off-balance sheet items other than the commitments and unused lines of credit noted above.

Off-Balance Sheet Arrangements.

The Company does not have any off-balance sheet arrangements, other than noted above and in Note 16, *Commitments and Contingencies*, to our consolidated financial statements, that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Management of Market Risk.

As a financial institution, our primary market risk is interest rate risk since substantially all transactions are denominated in U.S. dollars with no direct foreign exchange or changes in commodity price exposure. Fluctuations in interest rates will affect both our level of income and expense on a large portion of our assets and liabilities. Fluctuations in interest rates will also affect the market value of all interest-earning assets and interest-bearing liabilities.

The Company's interest rate management strategy is to limit fluctuations in net interest income as interest rates vary up or down and control variations in the market value of assets, liabilities and net worth as interest rates vary. We seek to coordinate asset and liability decisions so that, under changing interest rate scenarios, net interest income will remain within an acceptable range.

In order to achieve the Company's objectives of managing interest rate risk, the Asset and Liability Management Committee ("ALCO") meets periodically to discuss and monitor the market interest rate environment relative to interest rates that are offered on our products. ALCO presents quarterly reports to the Board of Directors which includes the Company's interest rate risk position and liquidity position.

The Company's primary source of funds are deposits, consisting primarily of time deposits, money market accounts, savings accounts, demand accounts and interest-bearing checking accounts, which have shorter terms to maturity than the loan portfolio. Several strategies have been employed to manage the interest rate risk inherent in the asset/liability mix, including but not limited to:

- maintaining the diversity of our existing loan portfolio through residential real estate loans, commercial and industrial loans and commercial real estate loans;
- emphasizing investments with an expected average duration of five years or less; and
- when appropriate, using interest rate swaps to manage the interest rate position of the balance sheet.

In 2019, cash flows from investment securities were used to pay down high cost FHLB borrowings and fund loan growth. The Company continues its emphasis on growing commercial loans which typically have variable interest rates and shorter maturities than residential loans.

The actual amount of time before loans are repaid can be significantly affected by changes in market interest rates. Prepayment rates will also vary due to a number of other factors, including the regional economy in the area where the loans were originated, seasonal factors, demographic variables and the assumability of the loans. However, the major factors affecting prepayment rates are prevailing interest rates, related financing opportunities and competition. We monitor interest rate sensitivity so that we can adjust our asset and liability mix in a timely manner and minimize the negative effects of changing rates.

The Company's liquidity sources are vulnerable to various uncertainties beyond our control. Loan amortization and investment cash flows are a relatively stable source of funds, while loan and investment prepayments and calls, as well as deposit flows vary widely in reaction to market conditions, primarily prevailing interest rates. Asset sales are influenced by pledging activities, general market interest rates and unforeseen market conditions. Our financial condition is affected by our ability to borrow at attractive rates, retain deposits at market rates and other market conditions. We consider our sources of liquidity to be adequate to meet expected funding needs and also to be responsive to changing interest rate markets.

Interest Rate Risk.

Interest rate risk represents the sensitivity of earnings to changes in market interest rates. As interest rates change, the interest income and expense streams associated with our financial instruments also change, thereby impacting net interest income, the primary component of our earnings. ALCO utilizes the results of a detailed and dynamic simulation model to quantify the estimated exposure of net interest income to sustained interest rate changes. While ALCO routinely monitors simulated net interest income sensitivity over a rolling two-year horizon, they also utilize additional tools to monitor potential longer-term interest rate risk.

The simulation model captures the impact of changing interest rates on the interest income received and interest expense paid on all interest-earning assets and interest-bearing liabilities reflected on our consolidated balance sheet, as well as for derivative financial instruments. This sensitivity analysis is compared to ALCO policy limits, which specify a maximum tolerance level for net interest income exposure over a one and two-year horizon, assuming no balance sheet growth.

The repricing and/or new rates of assets and liabilities moved in tandem with market rates. However, in certain deposit products, the use of data from a historical analysis indicated that the rates on these products would move only a fraction of the rate change amount. Pertinent data from each loan account, deposit account and investment security was used to calculate future cash flows. The data included such items as maturity date, payment amount, next repricing date, repricing frequency, repricing index, repricing spread, caps and floors. Prepayment speed assumptions were based upon the difference between the account rate and the current market rate. We also evaluate changes in interest rate sensitivity under various scenarios including but not limited to nonparallel shifts in the yield curve, variances in prepayment speeds and variances to correlations of instrument rates to market indexes.

The table below shows our net interest income sensitivity analysis reflecting the following changes to net interest income for the first and second years of the simulation model. The analysis assumes no balance sheet growth, a parallel shift in interest rates, and all rate changes were “ramped” over the first 12-month period and then maintained at those levels over the remainder of the simulation horizon.

Changes in Interest Rates	Estimated Changes in Net Interest Income	
	At December 31, 2019	At December 31, 2018
1 – 12 Months		
+200 basis points	-3.0%	-3.5%
-100 basis points	0.0%	0.1%
13 – 24 Months		
+200 basis points	-5.8%	-7.7%
-100 basis points	2.6%	1.4%

The preceding sensitivity analysis does not represent a forecast of net interest income, nor do the calculations represent any actions that management may undertake in response to changes in interest rates. They should not be relied upon as being indicative of expected operating results. These hypothetical estimates are based upon numerous assumptions including, among others, the nature and timing of interest rate levels, yield curve shape, prepayments on loans and securities, deposit decay rates, pricing decisions on loans and deposits and reinvestment/replacement of asset and liability cash flows. While assumptions are developed based upon current economic and local market conditions, we cannot make any assurances as to the predictive nature of these assumptions, including how customer preferences or competitor influences might change.

Periodically, if deemed appropriate, we may use interest rate swaps, floors and caps, which are common derivative financial instruments, to hedge our interest rate exposure to interest rate movements. The Board of Directors has approved hedging policy statements governing the use of these instruments. These interest rate swaps are designated as cash flow hedges and involve the receipt of variable rate amounts from a counterparty in exchange for our making fixed payments. As of December 31, 2019, we had interest rate swap agreements designated as cash flow hedges with a total notional of \$35.0 million.

Recent Accounting Pronouncements.

Refer to Note 1 to our consolidated financial statements for a summary of the recent accounting pronouncements.

Impact of Inflation and Changing Prices.

The Company’s consolidated financial statements and accompanying notes have been prepared in accordance with GAAP. GAAP generally requires the measurement of financial position and operating results in terms of historical dollars without consideration for changes in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased cost of our operations. Unlike industrial companies, our assets and liabilities are primarily monetary in nature. As a result, changes in market interest rates have a greater impact on performance than do the effects of inflation.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

See Item 7, “*Management’s Discussion and Analysis of Financial Condition and Results of Operations-Management of Market Risk*,” for a discussion of quantitative and qualitative disclosures about market risk.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Our consolidated financial statements and the accompanying notes may be found on pages F-1 through F-52 of this report.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

Management, including our President and Chief Executive Officer and Executive Vice President and Chief Financial Officer has evaluated the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this report. Based upon that evaluation, our Chief Executive Officer and Executive Vice President and Chief Financial Officer concluded that the disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports we file and submit under the Exchange Act (i) is recorded, processed, summarized and reported as and when required and (ii) accumulated and communicated to our management including the Chief Executive Officer and Executive Vice President and Chief Financial Officer, as appropriate to allow timely discussion regarding required disclosure.

Management's Annual Report on Internal Control over Financial Reporting

The management of Western New England Bancorp, Inc. and Subsidiaries (collectively, the "Company"), including our President and Chief Executive Officer and Executive Vice President and Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) of the Exchange Act. Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2019 based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control-Integrated Framework* (2013). Based on this assessment, management concluded that our internal control over financial reporting was effective as of December 31, 2019.

There have been no changes in our internal control over financial reporting identified in connection with the evaluation that occurred during our last fiscal quarter that has materially affected, or that is reasonably likely to materially affect, our internal control over financial reporting.



Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting

To the Shareholders and Board of Directors
of Western New England Bancorp, Inc.

Opinion on Internal Control over Financial Reporting

We have audited Western New England Bancorp, Inc. and subsidiary (the "Company") internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Consolidated Financial Statements of the Company and our report dated March 11, 2020 expressed an unqualified opinion.

Basis for Opinion

The Company's management is responsible 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 Annual Report on Internal Control over Financial Reporting*. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the 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 audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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.



Boston, Massachusetts

March 11, 2020

ITEM 9B. OTHER INFORMATION.

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

The following information included in the Proxy Statement is incorporated herein by reference: “Information About Our Board of Directors,” “Information about Our Executive Officers,” “Information About the Board of Directors and Corporate Governance,” and “Section 16(a) Beneficial Ownership Reporting Compliance.”

ITEM 11. EXECUTIVE COMPENSATION.

The following information included in the Proxy Statement is incorporated herein by reference: “Compensation Committee Interlocks,” “Compensation Discussion and Analysis,” “Compensation Committee Report,” and “Executive and Director Compensation Tables.”

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

The following information included in the Proxy Statement is incorporated herein by reference: “Security Ownership of Certain Beneficial Owners and Management” and “Securities Authorized For Issuance Under Equity Compensation Plans.”

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

The following information included in the Proxy Statement is incorporated herein by reference: “Transactions with Related Persons” and “Board of Directors Independence.”

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

The following information included in the Proxy Statement is incorporated herein by reference: “Independent Registered Public Accounting Firm Fees and Services.”

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a)(1) Financial Statements

Reference is made to our consolidated financial statements and accompanying notes included in Item 8 of Part II hereof.

(a)(2) Financial Statement Schedules

Consolidated financial statement schedules have been omitted because the required information is not present, or not present in amounts sufficient to require submission of the schedules, or because the required information is provided in the consolidated financial statements or notes thereto.

(a)(3) Exhibits

EXHIBIT INDEX

- 3.1 Restated Articles of Organization of Western New England Bancorp, Inc. (incorporated by reference to Exhibit 3.1 of the Form 8-K filed with the SEC on October 26, 2016).
- 3.3 Amended and Restated Bylaws of Western New England Bancorp, Inc. (incorporated by reference to Exhibit 3.1 of the Form 8-K filed with the SEC on February 2, 2017).
- 4.1 Form of Stock Certificate of Western New England Bancorp, Inc. (f/k/a Westfield Financial, Inc.) (incorporated by reference to Exhibit 4.1 of the Registration Statement on Form S-1 (No. 333-137024) filed with the SEC on August 31, 2006).
- 4.2 Description of Securities Registered Under Section 12 of the Securities Exchange Act of 1934. (filed with the SEC on the Form 10-K on March 11, 2020).
- 10.1* Form of Employee Stock Ownership Plan of Western New England Bancorp, Inc. (f/k/a Westfield Financial, Inc.) (incorporated by reference to Exhibit 10.1 of the Form 10-Q filed with the SEC on November 8, 2011).
- 10.2* Form of Director's Deferred Compensation Plan (incorporated by reference to Exhibit 10.7 of the Form 8-K filed with the SEC on December 22, 2005).
- 10.3* The 401(k) Plan adopted by Westfield Bank (incorporated herein by reference to Exhibit 4.1 of the Post-Effective Amendment No. 1 to the Registration Statement on Form S-8 (No. 333-73132) filed with the SEC on April 28, 2006).
- 10.4* Amendment to the 401(k) Plan adopted by Westfield Bank (incorporated by reference to Exhibit 10.11 of the Form 8-K filed with the SEC on July 13, 2006).
- 10.5* Amended and Restated Benefit Restoration Plan of Western New England Bancorp, Inc. (f/k/a Westfield Financial, Inc.) (incorporated by reference to Exhibit 10.5 of the Form 8-K filed with the SEC on October 29, 2007).
- 10.6* Form of Amended and Restated Deferred Compensation Agreement with Donald A. Williams (incorporated by reference to Exhibit 10.10 of the Form 8-K filed with the SEC on December 22, 2005).
- 10.7* Amended and Restated Employment Agreement between James C. Hagan and Westfield Bank (incorporated by reference to Exhibit 10.9 of the Form 8-K filed with the SEC on January 5, 2009).
- 10.8* Amended and Restated Employment Agreement between James C. Hagan and Western New England Bancorp, Inc. (f/k/a Westfield Financial, Inc.) (incorporated by reference to Exhibit 10.12 of the Form 8-K filed with the SEC on January 5, 2009).
- 10.9 Agreement between Westfield Bank and Village Mortgage Company (incorporated by reference to Exhibit 10.17 of Amendment No. 1 of the Registration Statement No. 333-137024 on Form S-1 filed with the SEC on August 31, 2006).
- 10.10* Employment Agreement between Leo R. Sagan, Jr. and Westfield Bank (incorporated by reference to Exhibit 10.15 of the Form 8-K filed with the SEC on January 5, 2009).
- 10.11* Employment Agreement between Leo R. Sagan, Jr. and Western New England Bancorp, Inc. (f/k/a Westfield Financial, Inc.) (incorporated by reference to Exhibit 10.16 of the Form 8-K filed with the SEC on January 5, 2009).
- 10.12* Employment Agreement between Gerald P. Ciejka and Westfield Bank (incorporated by reference to Exhibit 10.17 of the Form 8-K filed with the SEC on January 5, 2009).
- 10.13* Employment Agreement between Gerald P. Ciejka and Western New England Bancorp, Inc. (f/k/a Westfield Financial, Inc.) (incorporated by reference to Exhibit 10.18 of the Form 8-K filed with the SEC on January 5, 2009).
- 10.14* Employment Agreement between Allen J. Miles, III and Westfield Bank (incorporated by reference to Exhibit 10.19 of the Form 8-K filed with the SEC on January 5, 2009).
- 10.15* Employment Agreement between Allen J. Miles, III and Western New England Bancorp, Inc. (f/k/a Westfield Financial, Inc.) (incorporated by reference to Exhibit 10.20 of the Form 8-K filed with the SEC on January 5, 2009).
- 10.16* Employment Agreement between William J. Wagner and Western New England Bancorp, Inc. (f/k/a Westfield Financial, Inc.) (incorporated by reference to Exhibit 10.2 of the Registration Statement on Form S-4 (No. 333-212221) filed with the SEC on June 24, 2016).
- 10.17* Employment Agreement between William J. Wagner and Westfield Bank (incorporated by reference

- to Exhibit 10.3 of the Registration Statement on Form S-4 (No. 333-212221) filed with the SEC on June 24, 2016).
- 10.18* Employment Agreement between Guida R. Sajdak and Western New England Bancorp (incorporated by reference to Exhibit 10.1 of the Form 8-K filed with the SEC on February 8, 2018).
- 10.19* Employment Agreement between Guida R. Sajdak and Westfield Bank (incorporated by reference to Exhibit 10.2 of the Form 8-K filed with the SEC on February 8, 2018).
- 10.20* Employment Agreement between Louis Gorman, III and Western New England Bancorp (incorporated by reference to Exhibit 10.1 of the Form 8-K filed with the SEC on March 23, 2018).
- 10.21* Employment Agreement between Louis Gorman, III and Westfield Bank (incorporated by reference to Exhibit 10.2 of the Form 8-K filed with the SEC on March 23, 2018).
- 10.22* 2002 Stock Option Plan (incorporated by reference to Appendix B of the Schedule 14A filed with the SEC on May 24, 2002).
- 10.23* Amendment to the 2002 Stock Option Plan (incorporated by reference to Appendix A of the Schedule 14A filed with the SEC on April 25, 2003).
- 10.24* 2002 Recognition and Retention Plan (incorporated by reference to Appendix C of the Schedule 14A filed with the SEC on May 24, 2002).
- 10.25* Amendment to the 2002 Recognition and Retention Plan (incorporated by reference to Appendix B of the Schedule 14A filed with the SEC on April 25, 2003).
- 10.26* 2007 Stock Option Plan (incorporated by reference to Appendix A of the Schedule 14A filed with the SEC on June 18, 2007).
- 10.27* Amendment to the 2007 Stock Option Plan (incorporated by reference to Appendix B of the Schedule 14A filed with the SEC on April 14, 2008).
- 10.28* 2007 Recognition and Retention Plan (incorporated by reference to Appendix B of the Schedule 14A filed with the SEC on June 18, 2007).
- 10.29* Amendment to the 2007 Recognition and Retention Plan (incorporated by reference to Appendix C of the Schedule 14A filed with the SEC on April 14, 2008).
- 10.30* 2014 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.1 to the Form 8-K filed with the SEC on May 19, 2014).
- 10.31* Chicopee Bancorp, Inc. 2007 Equity Incentive Plan (incorporated by reference to Exhibit 10.1 to the Registration Statement on Form S-8 (No. 333-214261) filed with the SEC on October 26, 2016).
- 10.32* Amendment to the Employment Agreement dated as of October 22, 2019, between William J. Wagner and Westfield Bank (incorporated by reference to Exhibit 10.1 to the Form 8-K filed with the SEC on October 25, 2019).
- 21.1 Subsidiaries of Western New England Bancorp, Inc.
- 23.1† Consent of Wolf & Company, P.C.
- 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** Financial statements from the annual report on Form 10-K of Western New England Bancorp, Inc. for the year ended December 31, 2019, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Net 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) Notes to Consolidated Financial Statements.

* Management contract or compensatory plan or arrangement.

** Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

ITEM 16. FORM 10-K SUMMARY.

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on March 11, 2020.

WESTERN NEW ENGLAND BANCORP, INC.

By: /s/ James C. Hagan

James C. Hagan

Chief Executive Officer and President
(Principal Executive Officer)

By: /s/ Guida R. Sajdak

Guida R. Sajdak

Chief Financial Officer and Executive Vice
President (Principal Financial Officer and
Principal Accounting Officer)

POWER OF ATTORNEY

Each person whose individual signature appears below hereby authorizes and appoints James C. Hagan and Guida R. Sajdak, and each of them, with full power of substitution and resubstitution and full power to act without the other, as his or her true and lawful attorney-in-fact and agent to act in his or her name, place and stead and to execute in the name and on behalf of each person, individually and in each capacity stated below, and to file any and all amendments to this report on Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing, ratifying and confirming all that said attorneys-in-fact and agents or any of them or their or his substitute or substitutes may lawfully do or cause to be done by virtue thereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this Annual Report on Form 10-K has been signed by the following persons on behalf of the registrant and in the capacities indicated on March 11, 2020.

<u>Name</u>	<u>Title</u>
<u>/s/ James C. Hagan</u> James C. Hagan	Chief Executive Officer, President and Director (Principal Executive Officer)
<u>/s/ Guida R. Sajdak</u> Guida R. Sajdak	Chief Financial Officer and Executive Vice President (Principal Financial Officer and Principal Accounting Officer)
<u>/s/ William J. Wagner</u> William J. Wagner	Vice-Chairman of the Board
<u>/s/ Laura Benoit</u> Laura Benoit	Director
<u>/s/ Donna J. Damon</u> Donna J. Damon	Director
<u>/s/ Gary G. Fitzgerald</u> Gary G. Fitzgerald	Director
<u>/s/ William D. Masse</u> William D. Masse	Director
<u>/s/ Lisa G. McMahon</u> Lisa G. McMahon	Director
<u>/s/ Gregg F. Orlen</u> Gregg F. Orlen	Director

Name	Title
<u>/s/ Paul C. Picknelly</u> Paul C. Picknelly	Director
<u>/s/ Steven G. Richter</u> Steven G. Richter	Director
<u>/s/ Philip R. Smith</u> Philip R. Smith	Director

SUBSIDIARIES OF THE REGISTRANT

Western New England Bancorp, Inc. Subsidiaries:

<u>Name</u>	<u>Jurisdiction of Incorporation</u>
Westfield Bank	United States (federally chartered savings bank)
WFD Securities, Inc.	Massachusetts

Westfield Bank Subsidiaries:

<u>Name</u>	<u>Jurisdiction of Incorporation</u>
Elm Street Securities Corporation	Massachusetts
WB Real Estate Holdings, LLC	Massachusetts
CSB Colts, Inc.	Massachusetts

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in Registration Statement Nos. 333-73132, 333-98903, 333-145857, 333-197928 and 333-214261 of our reports dated March 11, 2020, relating to our audits of the consolidated financial statements and internal control over financial reporting of Western New England Bancorp, Inc. and subsidiaries, which reports appear in this Annual Report on Form 10-K of Western New England Bancorp, Inc. for the year ended December 31, 2019.

Wolfe & Company, P.C.

Boston, Massachusetts

March 11, 2020

**CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, James C. Hagan, certify that:

1. I have reviewed this annual report on Form 10-K of Western New England Bancorp, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 11, 2020

/s/ James C. Hagan
James C. Hagan
Chief Executive Officer and President
(Principal Executive Officer)

**CERTIFICATION OF THE CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Guida R. Sajdak, certify that:

1. I have reviewed this annual report on Form 10-K of Western New England Bancorp, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (Western New England Bancorp's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 11, 2020

/s/ Guida R. Sajdak
Guida R. Sajdak
Chief Financial Officer and Executive Vice
President (Principal Financial and
Accounting Officer)

**STATEMENT FURNISHED PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002, 18 U.S.C. SECTION 1350**

The undersigned, James C. Hagan, is the Chief Executive Officer and President of Western New England Bancorp, Inc. ("Western New England Bancorp").

This statement is being furnished in connection with the filing by Western New England Bancorp of Western New England Bancorp's Annual Report on Form 10-K for the period ended December 31, 2019 (the "Report").

By execution of this statement, I certify that:

- A) the Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, and
- B) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Western New England Bancorp as of the dates and for the periods covered by the Report.

This statement is authorized to be attached as an exhibit to the Report so that this statement will accompany the Report at such time as the Report is filed with the Securities and Exchange Commission, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350. It is not intended that this statement be deemed to be filed for purposes of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by Section 906 has been provided to Western New England Bancorp, Inc. and will be retained by Western New England Bancorp, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

March 11, 2020
Dated

/s/ James C. Hagan
James C. Hagan
Chief Executive Officer and President
(Principal Executive Officer)

**STATEMENT FURNISHED PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002, 18 U.S.C. SECTION 1350**

The undersigned, Guida R. Sajdak, Chief Financial Officer and Executive Vice President of Western New England Bancorp, Inc. ("Western New England Bancorp").

This statement is being furnished in connection with the filing by Western New England Bancorp, Inc. of Western New England Bancorp, Inc.'s Annual Report on Form 10-K for the period ended December 31, 2019 (the "Report").

By execution of this statement, I certify that:

- A) the Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, and
- B) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Western New England Bancorp as of the dates and for the periods covered by the Report.

This statement is authorized to be attached as an exhibit to the Report so that this statement will accompany the Report at such time as the Report is filed with the Securities and Exchange Commission, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350. It is not intended that this statement be deemed to be filed for purposes of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by Section 906 has been provided to Western New England Bancorp, Inc. and will be retained by Western New England Bancorp, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

March 11, 2020
Dated

/s/ Guida R. Sajdak
Guida R. Sajdak
Chief Financial Officer and Executive Vice
President (Principal Financial and
Accounting Officer)



Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of
Western New England Bancorp, Inc.

Opinion on the Consolidated Financial Statements

We have audited the accompanying Consolidated Balance Sheets of Western New England Bancorp, Inc. and subsidiary (the "Company") as of December 31, 2019 and 2018, the related Consolidated Statements of Net Income, Comprehensive Income, Changes in Shareholders' Equity and Cash Flows for each of the three years in the period ended December 31, 2019, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") and our report dated March 11, 2020 expressed an unqualified opinion.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

We have served as the Company's auditor since 2004.

W&L Company, P.C.

Boston, Massachusetts

March 11, 2020

WESTERN NEW ENGLAND BANCORP, INC., AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except share data)

	December 31, 2019	December 31, 2018
ASSETS		
Cash and due from banks	\$ 16,640	\$ 20,616
Federal Funds Sold	1,635	1,246
Interest-bearing deposits and other short-term investments	6,466	4,927
Cash and cash equivalents	<u>24,741</u>	<u>26,789</u>
Securities available-for-sale, at fair value	227,708	253,748
Marketable equity securities, at fair value	6,737	6,408
Federal Home Loan Bank stock and other restricted stock , at cost	14,477	14,695
Loans, net of allowance for loan losses of \$14,102 and \$12,053 at December 31, 2019 and 2018, respectively	1,761,932	1,684,804
Premises and equipment, net	23,763	24,624
Accrued interest receivable	5,313	5,652
Bank-owned life insurance	71,051	69,252
Deferred tax asset, net	9,161	9,872
Goodwill	12,487	12,487
Core deposit intangible	3,312	3,688
Other assets	20,794	6,803
Total Assets	<u><u>\$ 2,181,476</u></u>	<u><u>\$ 2,118,822</u></u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES:		
Deposits:		
Non-interest-bearing	\$ 393,303	\$ 355,389
Interest-bearing	1,284,561	1,240,604
Total deposits	<u>1,677,864</u>	<u>1,595,993</u>
Short-term borrowings	35,000	59,250
Long-term debt	205,515	208,018
Securities pending settlement	-	221
Other liabilities	31,073	18,311
Total liabilities	<u>1,949,452</u>	<u>1,881,793</u>
COMMITMENTS AND CONTINGENCIES (see Note 16)		
SHAREHOLDERS' EQUITY:		
Preferred stock - \$0.01 par value, 5,000,000 shares authorized, none outstanding at December 31, 2019 and December 31, 2018	-	-
Common stock - \$0.01 par value, 75,000,000 shares authorized, 26,557,981 shares issued and outstanding at December 31, 2019; 28,393,348 shares issued and outstanding at December 31, 2018	266	284
Additional paid-in capital	164,248	182,096
Unearned compensation - ESOP	(4,574)	(5,171)
Unearned compensation - Equity Incentive Plan	(1,124)	(872)
Retained earnings	82,176	74,108
Accumulated other comprehensive loss	(8,968)	(13,416)
TOTAL SHAREHOLDERS' EQUITY	<u>232,024</u>	<u>237,029</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u><u>\$ 2,181,476</u></u>	<u><u>\$ 2,118,822</u></u>

See accompanying notes to consolidated financial statements.

WESTERN NEW ENGLAND BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF NET INCOME

(Dollars in thousands, except per share data)

	Years Ended December 31,		
	2019	2018	2017
Interest and dividend income:			
Residential and commercial real estate loans	\$ 62,240	\$ 57,647	\$ 53,733
Commercial and industrial loans	12,254	12,801	11,587
Consumer loans	343	347	344
Debt securities, taxable	5,981	6,920	7,333
Debt securities, tax-exempt	72	85	104
Equity securities	163	152	140
Other investments	833	863	678
Short-term investments	230	175	120
Total interest and dividend income	82,116	78,990	74,039
Interest expense:			
Deposits	17,207	11,683	8,448
Long-term debt	4,361	4,380	2,261
Short-term borrowings	2,569	2,915	3,936
Total interest expense	24,137	18,978	14,645
Net interest and dividend income	57,979	60,012	59,394
Provision for loan losses	2,675	1,900	1,360
Net interest and dividend income after provision for loan losses	55,304	58,112	58,034
Non-interest income (loss):			
Service charges and fees	7,364	6,937	6,389
Income from BOLI	1,799	1,825	1,824
Gain on bank-owned life insurance death benefit	-	715	-
(Loss) gain on available-for-sale securities, net	(97)	(281)	52
Gain on sale of OREO	-	48	9
Unrealized gains (losses) on marketable equity securities, net	165	(142)	-
Other income	474	131	227
Total non-interest income	9,705	9,233	8,501
Non-interest expense:			
Salaries and employees benefits	27,654	25,982	25,431
Occupancy	4,174	3,974	3,774
Furniture and equipment	1,673	1,561	1,533
Data processing	2,780	2,638	2,372
Professional fees	2,439	2,810	2,559
FDIC insurance assessment	430	603	620
Merger related expenses	-	-	526
Advertising	1,332	1,395	1,296
Other expenses	7,326	7,274	6,676
Total non-interest expense	47,808	46,237	44,787
Income before income taxes	17,201	21,108	21,748
Income tax provision	3,852	4,700	9,428
Net income	\$ 13,349	\$ 16,408	\$ 12,320
Earnings per common share:			
Basic earnings per share	\$ 0.51	\$ 0.57	\$ 0.41
Weighted average shares outstanding	26,185,336	28,886,904	29,858,984
Diluted earnings per share	\$ 0.51	\$ 0.57	\$ 0.41
Weighted average diluted shares outstanding	26,303,140	29,029,394	30,026,638

See accompanying notes to consolidated financial statements.

WESTERN NEW ENGLAND BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in thousands)

	Years Ended December 31,		
	2019	2018	2017
Net income	<u>\$ 13,349</u>	<u>\$ 16,408</u>	<u>\$ 12,320</u>
Other comprehensive income (loss):			
Unrealized gains (losses) on available-for-sale securities:			
Unrealized holding gains (losses)	9,394	(4,814)	557
Reclassification adjustment for net losses (gains) realized in income ⁽¹⁾	97	281	(52)
Unrealized gains (losses)	9,491	(4,533)	505
Tax effect	(2,420)	938	(22)
Net-of-tax amount	<u>7,071</u>	<u>(3,595)</u>	<u>483</u>
Cash flow hedges:			
Change in fair value of derivatives used for cash flow hedges	(900)	442	31
Reclassification adjustment for loss realized in interest expense ⁽²⁾	387	452	970
Reclassification adjustment for termination fee realized in interest expense ⁽³⁾	1,068	1,068	1,068
Unrealized gains on cash flow hedges	555	1,962	2,069
Tax effect	(156)	(551)	(305)
Net-of-tax amount	<u>399</u>	<u>1,411</u>	<u>1,764</u>
Defined benefit pension plan:			
(Losses) gains arising during the period	(4,349)	1,328	(663)
Amortization of defined benefit plans actuarial loss ⁽⁴⁾	137	177	124
Unrecognized actuarial (losses) gains defined benefit plan	(4,212)	1,505	(539)
Tax effect	1,183	(422)	527
Net-of-tax amount	<u>(3,029)</u>	<u>1,083</u>	<u>(12)</u>
Other comprehensive income (loss)	<u>4,441</u>	<u>(1,101)</u>	<u>2,235</u>
Comprehensive income	<u>\$ 17,790</u>	<u>\$ 15,307</u>	<u>\$ 14,555</u>

(1) Realized gains and losses on available-for-sale securities are recognized as a component of non-interest income in the consolidated statements of net income. The tax effects associated with the reclassification adjustments were \$(37,000), \$(79,000) and \$21,000 for the years ended December 31, 2019, 2018 and 2017, respectively.

(2) Loss realized in interest expense on derivative instruments is recognized as a component of interest expense on short-term debt in the consolidated statements of net income. Income tax effects associated with the reclassification adjustments were \$109,000, \$127,000 and \$396,000 for the years ended December 31, 2019, 2018 and 2017, respectively.

(3) Amortization of termination fees realized in interest expense on derivative instruments is recognized as a component of interest expense on short-term debt in the consolidated statements of net income. Income tax effects associated with the reclassification adjustments were \$300,000, \$300,000 and \$436,000 for the years ended December 31, 2019, 2018 and 2017, respectively.

(4) Amounts represent the reclassification of defined benefit plan amortization and have been recognized as a component of non-interest expense in the consolidated statements of net income. Income tax effects associated with the reclassification adjustments were \$38,000, \$50,000 and \$51,000 for the years ended December 31, 2019, 2018 and 2017, respectively.

See accompanying notes to consolidated financial statements.

WESTERN NEW ENGLAND BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017

	Common Stock		Additional Paid-in Capital	Unearned Compensation- ESOP	Unearned Compensation- Equity Incentive Plan	Retained Earnings	Accumulated Other Comprehensive Loss	Total
	Shares	Par Value						
BALANCE AT DECEMBER 31, 2016	30,380,231	\$ 304	\$ 205,996	\$ (6,418)	\$ (536)	\$ 51,711	\$ (12,661)	\$ 238,396
Adoption of ASU 2018-02 (see Note 13)	-	-	-	-	-	2,126	(2,126)	-
Comprehensive income	-	-	-	-	-	12,320	2,235	14,555
Common stock held by ESOP committed to be released (93,679 shares)	-	-	326	-	-	-	-	958
Share-based compensation - equity incentive plan	-	-	-	632	649	-	-	649
Common stock repurchased	(903,813)	(9)	(9,154)	-	-	-	-	(9,163)
Issuance of common stock in connection with stock option exercises	921,849	9	5,456	-	-	-	-	5,465
Issuance of common stock in connection with equity incentive plan	89,042	1	903	-	(904)	-	-	-
Cash dividends declared and paid (\$0.12 per share)	-	-	-	-	-	(3,579)	-	(3,579)
BALANCE AT DECEMBER 31, 2017	30,487,309	\$ 305	\$ 203,527	\$ (5,786)	\$ (791)	\$ 62,578	\$ (12,552)	\$ 247,281
Comprehensive income (loss)	-	-	-	-	-	16,408	(1,101)	15,307
Cumulative-effect adjustment due to change in accounting principle (ASU 2016-01)	-	-	-	-	-	(237)	237	-
Common stock held by ESOP committed to be released (90,978 shares)	-	-	345	615	-	-	-	960
Common stock repurchased	(2,198,376)	(22)	(22,815)	-	-	-	-	(22,837)
Share-based compensation - equity incentive plan	-	-	-	-	845	-	-	845
Issuance of common stock in connection with stock option exercises	18,975	-	114	-	-	-	-	114
Issuance of common stock in connection with equity incentive plan	85,440	1	925	-	(926)	-	-	-
Cash dividends declared and paid (\$0.16 per share)	-	-	-	-	-	(4,641)	-	(4,641)
BALANCE AT DECEMBER 31, 2018	28,393,348	\$ 284	\$ 182,096	\$ (5,171)	\$ (872)	\$ 74,108	\$ (13,416)	\$ 237,029
Comprehensive income	-	-	-	-	-	13,349	4,441	17,790
Cumulative-effect adjustment due to change in accounting principle (ASU 2017-08)	-	-	-	-	-	(7)	7	-
Common stock held by ESOP committed to be released (88,117 shares)	-	-	237	597	-	-	-	834
Common stock repurchased	(1,958,111)	(19)	(19,215)	-	-	-	-	(19,234)
Share-based compensation - equity incentive plan	-	-	(45)	-	818	-	-	773
Issuance of common stock in connection with stock option exercises	19,861	-	106	-	-	-	-	106
Issuance of common stock in connection with equity incentive plan	102,883	1	1,069	-	(1,070)	-	-	-
Cash dividends declared and paid (\$0.20 per share)	-	-	-	-	-	(5,274)	-	(5,274)
BALANCE AT DECEMBER 31, 2019	26,557,981	\$ 266	\$ 164,248	\$ (4,574)	\$ (1,124)	\$ 82,176	\$ (8,968)	\$ 232,024

See accompanying notes to consolidated financial statements.

WESTERN NEW ENGLAND BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Years Ended December 31,		
	2019	2018	2017
OPERATING ACTIVITIES:			
Net income	\$ 13,349	\$ 16,408	\$ 12,320
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	2,675	1,900	1,360
Depreciation and amortization of premises and equipment	2,079	2,055	1,965
Amortization (accretion) of purchase accounting adjustments, net	24	(1,094)	(2,373)
Amortization of core deposit intangible	376	375	375
Net amortization of premiums and discounts on securities and mortgage loans	2,371	2,417	3,181
Share-based compensation expense	773	845	649
ESOP expense	834	960	958
Change in unrealized (gain) loss on marketable equity securities	(165)	142	-
Net loss (gain) on sales of available-for-sale securities	97	281	(52)
Net gain on sales of other real estate owned	-	(48)	(9)
Deferred income tax (benefit) expense	(680)	(796)	7,342
Income from bank-owned life insurance	(1,799)	(1,825)	(1,824)
Gain on bank-owned life insurance death benefit	-	(715)	-
Net change in:			
Accrued interest receivable	339	294	(164)
Other assets	(7,204)	1,628	(3,549)
Other liabilities	2,310	1,811	(1,318)
Net cash provided by operating activities	15,379	24,638	18,861
INVESTING ACTIVITIES:			
Securities, available-for-sale:			
Purchases	(74,508)	(16,896)	(67,246)
Proceeds from sales and redemptions	72,156	12,470	22,453
Proceeds from calls, maturities, and principal collections	35,386	25,060	53,915
Purchase of residential mortgages	-	-	(48,205)
Loan originations and principal payments, net	(80,074)	(66,263)	(15,658)
Redemption of Federal Home Loan Bank of Boston stock, net	218	858	571
Proceeds from sale of other real estate owned	-	203	410
Purchases of premises and equipment	(1,285)	(3,327)	(2,212)
Proceeds from sale of premises and equipment	27	100	-
Proceeds from payout on bank-owned life insurance	-	2,050	-
Net cash used in investing activities	(48,080)	(45,745)	(55,972)
FINANCING ACTIVITIES:			
Net increase (decrease) in deposits	81,946	90,189	(11,097)
Net change in short-term borrowings	(24,250)	(85,400)	(27,701)
Repayment of long-term debt	(84,763)	(69,578)	(21,185)
Proceeds from long-term debt	82,343	113,000	61,420
Cash dividends paid	(5,274)	(4,641)	(3,579)
Common stock repurchased	(19,455)	(22,920)	(9,314)
Issuance of common stock in connection with stock option exercises	106	114	5,465
Net cash provided by (used in) financing activities	30,653	20,764	(5,991)
NET CHANGE IN CASH AND CASH EQUIVALENTS:	(2,048)	(343)	(43,102)
Beginning of year	26,789	27,132	70,234
End of year	<u>\$ 24,741</u>	<u>\$ 26,789</u>	<u>\$ 27,132</u>
Supplemental cash flow information:			
Net change in due to broker for common stock repurchased	\$ (221)	\$ (83)	\$ (151)
Loans transferred to other real estate owned	-	-	258

See the accompanying notes to consolidated financial statements

WESTERN NEW ENGLAND BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Basis of Presentation. Western New England Bancorp, Inc. (“Western New England Bancorp,” “WNEB,” “Company,” “we,” or “us”) is a Massachusetts-chartered stock holding company for Westfield Bank, a federally-chartered savings bank (“Bank”).

The Bank’s deposits are insured up to the maximum Federal Deposit Insurance Corporation (“FDIC”) coverage limits. The Bank operates 22 banking offices in western Massachusetts and northern Connecticut, and its primary sources of revenue is interest income from loans as well as interest income from investment securities. In addition, we have announced plans to open three new locations in 2020: a branch in Huntington, Massachusetts, which was purchased from Peoples United and opened on February 25, 2020, and two full-service branches in Bloomfield, Connecticut and West Hartford, Connecticut, which are currently undergoing construction and are anticipated to open in 2020. The West Hartford branch will be a Financial Solution Center and is expected to serve as our Connecticut hub, housing Commercial Lending, Cash Management and a Mortgage Loan Officer (“MLO”).

Wholly-owned Subsidiaries of the Bank. Elm Street Securities Corporation, WFD Securities, Inc. and CSB Colts, Inc., are Massachusetts chartered securities corporations, formed for the primary purpose of holding qualified securities. WB Real Estate Holdings, LLC, is a Massachusetts-chartered limited liability company that holds real property acquired as security for debts previously contracted by the Bank.

Principles of Consolidation. The consolidated financial statements include the accounts of Western New England Bancorp, the Bank, CSB Colts, Inc., Elm Street Securities Corporation, WB Real Estate Holdings, LLC and WFD Securities, Inc. All material intercompany balances and transactions have been eliminated in consolidation.

Estimates. The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expenses for each. Actual results could differ from those estimates. Estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for loan losses, accounting for non-performing loans and the realizability of deferred tax assets.

Reclassifications. Amounts in the prior year financial statements are reclassified when necessary to conform to the current year presentation.

Significant Group Concentrations of Credit Risk. Most of the Company’s lending activities are with customers located within the New England region of the country. The Company does not have any significant concentrations to any one industry or customer.

Cash and Cash Equivalents. We define cash on hand, cash due from banks, federal funds sold and interest-bearing deposits having an original maturity of 90 days or less as cash and cash equivalents.

Securities and Mortgage-Backed Securities. Debt securities, including mortgage-backed securities, which have been identified as assets for which there is not a positive intent to hold to maturity are classified as available-for-sale and are carried at fair value with unrealized gains and losses, net of income taxes, reported as a separate component of comprehensive income (loss). Marketable equity securities are measured at fair value with changes in fair value reported on the Company’s income statement as a component of non-interest income, regardless of whether such gains and losses are realized. We do not acquire securities and mortgage-backed securities for purposes of engaging in trading activities.

Realized gains and losses on sales of securities and mortgage-backed securities are computed using the specific identification method and are included in non-interest income on the trade date. The amortization of premiums and accretion of discounts is determined by using the level yield method to the maturity date. On January 1, 2019, the Company adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) 2017-08, *Receivables – Nonrefundable Fees and Other Costs* (Subtopic 310-20): *Premiums on Purchased Callable Debt Securities*, which shortened the amortization period for callable debt securities to the earliest call date and resulted in a cumulative-effect adjustment directly to retained earnings, net of tax, of \$7,000.

Derivatives. We enter into interest rate swap agreements as part of our interest-rate risk management strategy for certain assets and liabilities and not for speculative purposes. Based on our intended use for interest rate swaps, these are hedging instruments subject to hedge accounting provisions. Cash flow hedges are recorded at fair value in other assets or other liabilities within our balance sheets. Changes in the fair value of these cash flow hedges are initially recorded in accumulated other comprehensive income (loss) and subsequently reclassified into earnings when the forecasted transaction affects earnings. Any hedge ineffectiveness assessed as part of our quarterly analysis is recorded directly to earnings. We would discontinue hedge accounting if the derivative was not expected to be, or ceased to be, highly effective as a hedge, and record changes in fair value of the derivative in earnings.

Other-than-Temporary Impairment of Securities. On a quarterly basis, we review securities available-for-sale with a decline in fair value below the amortized cost of the investment to determine whether the decline in fair value is temporary or other-than-temporary (“OTTI”). In estimating OTTI losses for securities available-for-sale, impairment is required to be recognized if (1) we intend to sell the security; (2) it is “more likely than not” that we will be required to sell the security before recovery of its amortized cost basis; or (3) for debt securities, the present value of expected cash flows is not sufficient to recover the entire amortized cost basis. For all impaired debt securities that we intend to sell, or more likely than not will be required to sell, the full amount of the other-than-temporary impairment is recognized through earnings. For all other impaired debt securities, credit-related other-than-temporary impairment is recognized through earnings, while non-credit related other-than-temporary impairment is recognized in other comprehensive income/loss, net of applicable taxes. Prior to January 1, 2018, marketable equity securities were evaluated for OTTI based upon the severity and duration of the impairment and, if deemed to be other than temporary, the declines in fair value were reflected in earnings as realized losses.

Fair Value Hierarchy. We group our assets and liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1: Valuation is based on quoted prices in active markets for identical assets. Level 1 assets generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets.

Level 2: Valuation is based on observable inputs other than Level 1 prices, such as quoted prices for similar assets and liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets and liabilities.

Level 3: Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. Level 3 assets include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Transfers between levels are recognized at the end of a reporting period, if applicable.

Federal Home Loan Bank of Boston Stock. The Bank, as a member of the Federal Home Loan Bank of Boston (“FHLB”) system, is required to maintain an investment in capital stock of the FHLB. Based on the redemption provisions of the FHLB, the stock has no quoted market value and is carried at cost. At its discretion, the FHLB may declare dividends on the stock. Management reviews for impairment based on the ultimate recoverability of the cost basis in the FHLB stock. As of December 31, 2019, no impairment has been recognized.

Loans Held for Sale. Loans originated and intended for sale in the secondary market are carried at the lower of amortized cost or fair value, as determined by aggregate outstanding commitments from investors or current investor yield requirements. Net unrealized losses, if any, are recognized through a valuation allowance by charges to non-interest income. Gains or losses on sales of mortgage loans are recognized based on the difference between the selling price and the carrying value of the related mortgage loans sold on the trade date and reported within non-interest income on the accompanying consolidated statements of net income.

Loans Receivable. Loans are recorded at the principal amount outstanding, adjusted for charge-offs, the allowance for loan losses, unearned premiums, discounts and deferred loan fees and costs. Interest on loans is calculated using the effective yield method on daily balances of the principal amount outstanding and is credited to income on the accrual basis to the extent it is deemed collectible. Our general policy is to discontinue the accrual of interest when principal or interest payments are delinquent 90 days or more based on the contractual terms of the loan, or earlier if the loan is considered impaired. Any unpaid amounts previously accrued on these loans are reversed from current period interest income. Subsequent cash receipts are applied to the outstanding principal balance or to interest income if, in the judgment of management, collection of the principal balance is not in question. Loans are returned to accrual status when they become current as to both principal and interest and when subsequent performance reduces the concern as to the collectability of principal and interest. Loan fees, discounts and premiums on purchased loans, and certain direct loan origination costs are deferred and the net fee or cost is recognized as an adjustment to interest income over the estimated average lives of the related loans.

Allowance for Loan Losses. The allowance for loan losses is established through provisions for loan losses charged to expense. Loans are charged-off against the allowance when management believes that the collectability of the principal is unlikely. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. The allowance consists of general, allocated and unallocated components, as further described below.

General component

The general component of the allowance for loan losses is based on historical loss experience adjusted for qualitative factors stratified by the following loan segments: residential real estate, commercial real estate, commercial and industrial, and consumer. Residential real estate loans include classes for residential and home equity. Management uses a rolling average of historical losses based on a time frame appropriate to capture relevant loss data for each loan segment. This historical loss factor is adjusted for the following qualitative factors: trends in delinquencies and non-performing loans; trends in volume and terms of loans; internal credit ratings; effects of changes in risk selection; underwriting standards and other changes in lending policies, procedures and practices; and national and local economic trends and industry conditions. In 2019, there were no changes to the Company's policies or methodology pertaining to the general component of the allowance for loan losses.

The qualitative factors are determined based on the various risk characteristics of each loan segment. Risk characteristics relevant to each loan portfolio segment are as follows:

Commercial real estate loans. Loans in this segment are primarily income-producing investment properties and owner-occupied commercial properties throughout New England. The underlying cash flows generated by the properties or operations can be adversely impacted by a downturn in the economy due to increased vacancy rates or diminished cash flows, which in turn, would have an effect on the credit quality in this segment. Management obtains financial information annually and continually monitors the cash flows of these loans.

Residential real estate loans. Loans in this segment are collateralized by owner-occupied residential real estate and repayment is dependent on the credit quality of the individual borrower. The overall health of the economy, including unemployment rates and housing prices, will have an effect on the credit quality in this segment. We require private mortgage insurance for all loans originated with a loan-to-value ratio greater than 80% and do not grant subprime loans.

Commercial and industrial loans. Loans in this segment are made to businesses and are generally secured by assets of the business. Repayment is expected from the cash flows of the business. A weakened economy, decreased consumer spending, changes in technology and government spending are examples of what will have an effect on the credit quality in this segment.

Consumer loans. Loans in this segment are both secured and unsecured and repayment is dependent on the credit quality of the individual borrower.

Allocated component

The allocated component relates to loans that are classified as impaired. Impaired loans are identified by analysis of loan performance, internal credit ratings and watch list loans that management believes are subject to a higher risk of loss. Impairment is measured on a loan by loan basis for commercial real estate and commercial and industrial loans by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent. An allowance is established when the discounted cash flows (or collateral value) of the impaired loan is lower than the carrying value of that loan. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, we do not separately identify individual consumer and residential real estate loans for impairment disclosures, unless such loans are non-performing or subject to a troubled debt restructuring agreement.

A loan is considered impaired when, based on current information and events, it is probable that we will be unable to collect all of the principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. We determine the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

We may periodically agree to modify the contractual terms of loans. When a loan is modified and a concession is made to a borrower experiencing financial difficulty, the modification is considered a troubled debt restructuring ("TDR"). All TDRs are classified as impaired.

While we use our best judgment and information available, the ultimate appropriateness of the allowance is dependent upon a variety of factors beyond our control, including the performance of our loan portfolio, the economy, changes in interest rates and the view of the regulatory authorities toward loan classifications.

Unallocated component

An unallocated component may be maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating allocated and general reserves in the portfolio.

Loans Acquired with Deteriorated Credit Quality. Loans acquired in a transfer, including business combinations, where there is evidence of credit deterioration since origination and it is probable at the date of acquisition the Company will not collect all contractually required principal and interest payments, are accounted for under accounting guidance for purchased credit-impaired loans. This guidance provides that the excess of the cash flows initially expected to be collected over the fair value of the loans at the acquisition date (i.e., the accretable yield) is accreted into interest income over the estimated remaining life of the loans, provided that the timing and amount of future cash flows is reasonably estimated. The difference between the contractually required payments and the cash flows expected to be collected at acquisition is referred to as the nonaccretable difference. Subsequent to acquisition, probable decreases in expected cash flows are recognized through a provision for loan losses, resulting in an increase to the allowance for loan losses. If the Company has probable and significant increases in cash flows expected to be collected, the Company will first reverse any previously established allowance for loan losses and then increase interest income as a prospective yield adjustment.

Bank-owned Life Insurance. Bank-owned life insurance policies are reflected on the consolidated balance sheets at cash surrender value. Changes in the net cash surrender value of the policies, as well as insurance proceeds received in excess of carrying value, are reflected in non-interest income on the consolidated statements of net income and are not subject to income taxes.

Transfers and Servicing of Financial Assets. Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from us, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) we do not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Premises and Equipment. Land is carried at cost. Buildings, furniture and equipment are stated at cost, less accumulated depreciation and amortization, computed on the straight-line method over the estimated useful lives of the assets, or the expected lease term, if shorter. Expected terms include lease option periods to the extent that the exercise of such options is reasonably assured. The estimated useful lives of the assets are as follows:

	<u>Years</u>
Buildings	39
Leasehold Improvements	5-20
Furniture and Equipment	3-7

The cost of maintenance and repairs is charged to expense when incurred. Major expenditures for betterments are capitalized and depreciated.

Other Real Estate Owned. Other real estate owned (“OREO”) represents property acquired through foreclosure or deeded to us in lieu of foreclosure. OREO is initially recorded at the estimated fair value of the real estate acquired, net of estimated selling costs, establishing a new cost basis. Initial write-downs are charged to the allowance for loan losses at the time the loan is transferred to OREO. Subsequent valuations are periodically performed by management and the carrying value is adjusted by a charge to expense to reflect any subsequent declines in the estimated fair value. Operating costs associated with OREO are expensed as incurred.

Servicing. The Company services mortgage loans for others. Mortgage servicing assets are recognized as separate assets at fair value when rights are acquired through purchase or retained through the sale of financial assets. Fair value is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. Capitalized servicing rights are reported in other assets and are amortized into service charges and fee income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets. Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to the amortized cost. Impairment is determined by stratifying rights by predominant risk characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual stratum, to the extent that the fair value is less than the capitalized amount for the stratum. Changes in the valuation allowance are reported in service charges and fee income.

Servicing fee income is recorded for fees earned for servicing loans, which is included in service charges and fee income. The fees are based on a contractual percentage of the outstanding principal or a fixed amount per loan and are recorded as income when earned.

Impairment of Long-lived Assets. Long-lived assets, including premises and equipment and certain identifiable intangible assets that are held and used by the Company, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the asset is determined to be impaired, it is written down to its estimated fair value through a charge to earnings.

Goodwill is measured as the excess of the cost of a business combination over the sum of the amounts assigned to identifiable intangible assets acquired less liabilities assumed. Goodwill is not amortized but rather assessed for impairment annually or more frequently if circumstances warrant.

Management has the option of first assessing qualitative factors, such as events and circumstances, to determine whether it is more likely than not, meaning a likelihood of more than 50%, the value of a reporting unit is less than its carrying amount. If, after considering all relevant events and circumstances, management determines it is not more likely than not the fair value of a reporting unit is less than its carrying amount, then performing an impairment test is unnecessary. For the year ended December 31, 2019, management determined that it was not more likely than not the fair value of the reporting unit (the consolidated Company, in our case) was less than its carrying amount. If management had determined otherwise, a fair value analysis would have been completed to determine the impairment and necessary write-down of goodwill.

Retirement Plans and Employee Benefits. We provide a defined benefit pension plan for eligible employees in conjunction with a third-party provider. The compensation cost of an employee's pension benefit is recognized on the projected unit credit method over the employee's approximate service period. The aggregate cost method is utilized for funding purposes. Employees are also eligible to participate in a 401(k) plan through a third-party provider. We make matching contributions to this plan at 50% of up to 6% of the employees' eligible compensation.

Share-based Compensation Plans. We measure and recognize compensation cost relating to share-based payment transactions based on the grant-date fair value of the equity instruments issued. Share-based compensation is recognized over the period the employee is required to provide services for the award. Reductions in compensation expense associated with forfeited options are estimated at the date of grant, and this estimated forfeiture rate is adjusted based on actual forfeiture experience. We use a binomial option-pricing model to determine the fair value of the stock options granted.

Employee Stock Ownership Plan. Compensation expense for the Employee Stock Ownership Plan ("ESOP") is recorded at an amount equal to the shares allocated by the ESOP multiplied by the average fair market value of the shares during the period. We recognize compensation expense ratably over the year based upon our estimate of the number of shares expected to be allocated by the ESOP. Unearned compensation applicable to the ESOP is reflected as a reduction of shareholders' equity in the consolidated balance sheets. The difference between the average fair market value and the cost of the shares allocated by the ESOP is recorded as an adjustment to additional paid-in capital.

Leases. The Company determines if an arrangement is a lease at inception. Operating leases are included within other assets and other liabilities in our consolidated balance sheets. Right-of-use ("ROU") assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. Our lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

Advertising Costs. Advertising costs are accounted for using the accrual basis of accounting.

Income Taxes. We use the asset and liability method for income tax accounting, whereby, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance related to deferred tax assets is established when, in the judgment of management, it is more likely than not that all or a portion of such deferred tax assets will not be realized based on the available evidence including historical and projected taxable income. We do not have any uncertain tax positions at December 31, 2019 which require accrual or disclosure. We record interest and penalties as part of income tax expense. No interest or penalties were recorded during the years ended December 31, 2019, 2018, or 2017.

Earnings per Share. Basic earnings per share represents income available to common shareholders divided by the weighted-average number of common shares outstanding during the period. If rights to dividends on unvested awards are non-forfeitable, these unvested awards are considered outstanding in the computation of basic earnings per share. Diluted earnings per share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by us relate to stock options and certain performance-based restricted stock awards and are determined using the treasury stock method. Unallocated ESOP shares are not deemed outstanding for earnings per share calculations. There were no anti-dilutive shares outstanding during the years ended December 31, 2019, 2018 and 2017.

Earnings per common share have been computed based on the following:

	Years Ended December 31,		
	2019	2018	2017
	(In thousands, except per share data)		
Net income applicable to common stock	<u>\$ 13,349</u>	<u>\$ 16,408</u>	<u>\$ 12,320</u>
Average number of common shares issued	26,959	29,734	30,755
Less: Average unallocated ESOP Shares	(667)	(757)	(849)
Less: Average unvested equity incentive plan shares	<u>(107)</u>	<u>(90)</u>	<u>(47)</u>
Average number of common shares outstanding used to calculate basic earnings per common share	26,185	28,887	29,859
Effect of dilutive equity incentive plan	45	46	17
Effect of dilutive stock options	<u>73</u>	<u>96</u>	<u>151</u>
Average number of common shares outstanding used to calculate diluted earnings per common share	<u>26,303</u>	<u>29,029</u>	<u>30,027</u>
Basic earnings per share	\$ 0.51	\$ 0.57	\$ 0.41
Diluted earnings per share	\$ 0.51	\$ 0.57	\$ 0.41

Comprehensive Income (Loss)

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income (loss).

The components of accumulated other comprehensive loss, included in shareholders' equity, are as follows:

	December 31, 2019	December 31, 2018
	(In thousands)	
Net unrealized losses on securities available-for-sale	\$ (393)	\$ (9,891)
Tax effect	71	2,491
Net-of-tax amount	(322)	(7,400)
Fair value of derivatives used for cash flow hedges	(1,773)	(1,259)
Termination fee on cancelled cash flow hedges	(1,526)	(2,595)
Total derivatives	(3,299)	(3,854)
Tax effect	928	1,084
Net-of-tax amount	(2,371)	(2,770)
Unrecognized actuarial loss on the defined benefit plan	(8,728)	(4,516)
Tax effect	2,453	1,270
Net-of-tax amount	(6,275)	(3,246)
Accumulated other comprehensive loss	\$ (8,968)	\$ (13,416)

The following table presents changes in accumulated other comprehensive loss for the years ended December 31, 2019 and 2018 by component:

	Securities	Derivatives	Defined Benefit Pension Plan	Accumulated Other Comprehensive Loss
		(In thousands)		
Balance at December 31, 2017	\$ (4,042)	\$ (4,181)	\$ (4,329)	\$ (12,552)
Cumulative-effect adjustment due to change in accounting principle (ASU 2016-01)	237	-	-	237
Current-period other comprehensive (loss) income	(3,595)	1,411	1,083	(1,101)
Balance at December 31, 2018	\$ (7,400)	\$ (2,770)	\$ (3,246)	\$ (13,416)
Balance at December 31, 2018	\$ (7,400)	\$ (2,770)	\$ (3,246)	\$ (13,416)
Cumulative-effect adjustment due to change in accounting principle (ASU 2017-08)	7	-	-	7
Current-period other comprehensive income (loss)	7,071	399	(3,029)	4,441
Balance at December 31, 2019	\$ (322)	\$ (2,371)	\$ (6,275)	\$ (8,968)

With regard to the defined benefit plan, an actuarial loss of \$394,000 is expected to be recognized as a component of net periodic pension cost during the year ending December 31, 2020.

Recent Accounting Pronouncements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses* (Topic 326), which requires entities 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. The ASU also requires enhanced disclosures to help financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an entity's portfolio. These disclosures include qualitative and quantitative requirements that provide additional information about the amounts recorded in the financial statements. This ASU, as amended, is effective for the Company in fiscal years after December 15, 2022. The Company is in the process of implementing the standard. We have put together a project team that has begun to identify appropriate loan segments along with related historical losses for each segment and potential models that would be most appropriate for each individual segment. We have not quantified the effects of any models, but do expect the standard to significantly change the approach to calculating our allowance for loan losses.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement* (Topic 820): *Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. This ASU removes and modifies the previously required disclosures relating to fair value measurements. Specifically, the ASU removes the required disclosure of amounts and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, the policy for timing of transfers between levels, the valuation process for Level 3 fair value measurements and the changes in unrealized gains and losses for the period included in earnings for recurring Level 3 fair value measurements held at the end of a reporting period. It also modifies the required roll forward of Level 3 fair value measurements to a disclosure of any transfers into and out of Level 3, increases disclosure for investments in entities that calculate net asset value, and clarifies the measurement of uncertainty disclosure. The ASU is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. As this standard relates to disclosures, Management does not expect adoption to have a material impact on our consolidated financial statements.

2. INVESTMENT SECURITIES

The amortized cost and fair values of available-for-sale investment securities at December 31, 2019 and 2018 are summarized as follows:

December 31, 2019				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(In thousands)				
Available-for-sale securities:				
Debt securities:				
Government-sponsored enterprise obligations	\$ 20,150	\$ -	\$ (136)	\$ 20,014
State and municipal bonds	2,718	95	-	2,813
Corporate bonds	7,800	88	(22)	7,866
Total debt securities	30,668	183	(158)	30,693
Mortgage-backed securities:				
Government-sponsored mortgage-backed securities	186,236	780	(1,015)	186,001
U.S. government guaranteed mortgage-backed securities	11,197	33	(216)	11,014
Total mortgage-backed securities	197,433	813	(1,231)	197,015
Total available-for-sale	\$ 228,101	\$ 996	\$ (1,389)	\$ 227,708

December 31, 2018				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(In thousands)				
Available-for-sale securities:				
Debt securities:				
Government-sponsored enterprise obligations	\$ 25,150	\$ -	\$ (1,203)	\$ 23,947
State and municipal bonds	2,976	33	(65)	2,944
Corporate bonds	49,819	-	(1,651)	48,168
Total debt securities	77,945	33	(2,919)	75,059
Mortgage-backed securities:				
Government-sponsored mortgage-backed securities	165,605	1	(6,255)	159,351
U.S. government guaranteed mortgage-backed securities	20,089	1	(752)	19,338
Total mortgage-backed securities	185,694	2	(7,007)	178,689
Total available-for-sale	\$ 263,639	\$ 35	\$ (9,926)	\$ 253,748

At December 31, 2019, government-sponsored enterprise obligations with a fair value of \$7.0 million and mortgage-backed securities with a fair value \$49.2 million were pledged to secure public deposits and for other purposes as required or permitted by law. The securities collateralizing public deposits are subject to fluctuations in fair value. We monitor the fair value of the collateral on a periodic basis, and would pledge additional collateral if necessary based on changes in fair value of collateral or the balances of such deposits.

In 2018, the Company adopted FASB ASU 2016-01, *Financial Instruments —Overall* (Subtopic 825-10): *Recognition and Measurement of Financial Assets and Financial Liabilities*, which affects current U.S. GAAP primarily as it relates to the accounting for equity investments. ASU 2016-01 also supersedes the guidance that requires (1) classification of equity securities with readily determinable fair values into different categories (i.e., trading or available-for-sale), and (2) recognition of changes in fair value of available-for-sale securities in other comprehensive income.

The main significant effect resulting from the adoption of this ASU is that marketable equity securities previously reported within securities available-for-sale are now shown as a single line item (“marketable equity securities”) in the Company’s balance sheets and the recognition in net income of the changes in fair value of marketable equity securities. The cumulative-effect adjustment resulting from the adoption of this ASU was a decrease to retained earnings and accumulated other comprehensive loss as of January 1, 2018 of \$237,000.

The amortized cost and fair value of available-for-sale debt securities at December 31, 2019, by final maturity, are shown below. Actual maturities may differ from contractual maturities because certain issuers have the right to call or prepay obligations. Also, because mortgage-backed securities require periodic principal pay downs, they are not included in the maturity categories in the following summary.

	December 31, 2019	
	Amortized Cost	Fair Value
	(In thousands)	
Available-for-sale securities:		
Debt securities:		
Due after one year through five years	\$ 16,611	\$ 16,653
Due after five years through ten years	7,324	7,331
Due after ten years	6,733	6,709
Total debt securities	30,668	30,693
Mortgage-backed securities	197,433	197,015
Total available-for-sale securities	\$ 228,101	\$ 227,708

Gross realized gains and losses on sales of securities available-for-sale for the years ended December 31, 2019, 2018 and 2017 are as follows:

		Years Ended December 31,		
		2019	2018	2017
		(In thousands)		
Gross gains realized	\$	160	\$ -	\$ 117
Gross losses realized		(257)	(281)	(65)
Net gain realized	\$	(97)	\$ (281)	\$ 52

Proceeds from the sale and redemption of securities available-for-sale totaled \$72.2 million, \$12.5 million and \$22.5 million for the years ended December 31, 2019, 2018 and 2017, respectively.

The Company did not hold any held-to-maturity securities at December 31, 2019 and December 31, 2018.

The following tables summarize investments having temporary impairment due to the fair market values having declined below the amortized costs of the individual investments, and the period that the investments have been temporarily impaired at December 31, 2019 and 2018:

December 31, 2019				
	Less Than 12 Months		Over 12 Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
(In thousands)				
Available-for-sale:				
Government-sponsored mortgage-backed securities	\$ 122	\$ 42,834	\$ 893	\$ 70,581
U.S. government guaranteed mortgage-backed securities	13	2,783	203	4,688
Corporate bonds	16	1,623	6	3,046
Government-sponsored enterprise obligations	126	14,524	10	1,490
Total available-for-sale	\$ 277	\$ 61,764	\$ 1,112	\$ 79,805

December 31, 2018				
	Less Than 12 Months		Over 12 Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
(In thousands)				
Available-for-sale:				
Government-sponsored mortgage-backed securities	\$ 74	\$ 7,354	\$ 6,181	\$ 148,762
U.S. government guaranteed mortgage-backed securities	15	2,829	737	14,669
Corporate bonds	110	9,995	1,541	38,173
State and municipal bonds	-	-	65	1,532
Government-sponsored enterprise obligations	-	-	1,203	23,947
Total available-for-sale	\$ 199	\$ 20,178	\$ 9,727	\$ 227,083

During the years ended December 31, 2019 and 2018, the Company did not record any other-than-temporary impairment ("OTTI") charges on its investments. Management regularly reviews the portfolio for securities with unrealized losses. At December 31, 2019, management attributes the unrealized losses to increases in current market yields compared to the yields at the time the investments were purchased by the Company and not due to credit quality.

The process for assessing investments for OTTI may vary depending on the type of security. In assessing the Company's investments in government-sponsored and U.S. government guaranteed mortgage-backed securities and government-sponsored enterprise obligations, the contractual cash flows of these investments are guaranteed by the respective government-sponsored enterprise; Federal Home Loan Mortgage Corporation ("FHLMC"), Federal National Mortgage Association ("FNMA"), Federal Farm Credit Bank ("FFCB"), or Federal Home Loan Bank ("FHLB"). Accordingly, it is expected that the securities would not be settled at a price less than the par value of the Company's investments. Management's assessment of other debt securities within the portfolio includes reviews of market pricing, ongoing credit quality evaluations, assessment of the investments' materiality, and duration of the investments' unrealized loss position.

At December 31, 2019, the Company's corporate and municipal bond portfolios did not contain any securities below investment grade, as reported by major credit rating agencies.

Information pertaining to securities with gross unrealized losses at December 31, 2019 and December 31, 2018, aggregated by investment category and length of time that individual securities have been in a continuous loss position are as follows:

December 31, 2019									
Less Than Twelve Months					Over Twelve Months				
Number of Securities	Fair Value	Gross Unrealized Loss	Depreciation from Amortized Cost Basis (%)		Number of Securities	Fair Value	Gross Unrealized Loss	Depreciation from Amortized Cost Basis (%)	
(Dollars in thousands)									
Government-sponsored mortgage-backed securities	17	\$ 42,834	\$ 122	0.3 %	43	\$ 70,581	\$ 893	1.2 %	
U.S. government guaranteed mortgage-backed securities	2	2,783	13	0.5	4	4,688	203	4.2	
Corporate bonds	1	1,623	16	1.0	1	3,046	6	0.2	
Government-sponsored enterprise obligations	5	14,524	126	0.9	1	1,490	10	0.7	
		<u>\$ 61,764</u>	<u>\$ 277</u>			<u>\$ 79,805</u>	<u>\$ 1,112</u>		

December 31, 2018									
Less Than Twelve Months					Over Twelve Months				
Number of Securities	Fair Value	Gross Unrealized Loss	Depreciation from Amortized Cost Basis (%)		Number of Securities	Fair Value	Gross Unrealized Loss	Depreciation from Amortized Cost Basis (%)	
(Dollars in thousands)									
Government-sponsored mortgage-backed securities	4	\$ 7,354	\$ 74	1.0 %	72	\$ 148,762	\$ 6,181	4.0 %	
U.S. government guaranteed mortgage-backed securities	2	2,829	15	0.5	7	14,669	737	4.8	
Corporate bonds	3	9,995	110	1.1	12	38,173	1,541	3.9	
Government-sponsored enterprise obligations	0	-	-	-	9	23,947	1,203	4.8	
State and municipal bonds	0	-	-	-	3	1,532	65	4.1	
		<u>\$ 20,178</u>	<u>\$ 199</u>			<u>\$ 227,083</u>	<u>\$ 9,727</u>		

3. LOANS

Major classifications of loans at the periods indicated were as follows:

	December 31,	
	2019	2018
	(In thousands)	
Commercial real estate	\$ 816,886	\$ 768,881
Residential real estate:		
Residential 1-4 family	597,727	577,641
Home equity	102,517	97,238
Commercial and industrial	248,893	243,493
Consumer	5,747	5,203
Total gross loans	1,771,770	1,692,456
Premiums and deferred loan fees and costs, net	4,264	4,401
Allowance for loan losses	(14,102)	(12,053)
Net loans	<u>\$ 1,761,932</u>	<u>\$ 1,684,804</u>

There were no residential real estate loan purchases in 2019 or 2018.

Loans Serviced for Others.

The Company has transferred a portion of its originated commercial loans to participating lenders. The amounts transferred have been accounted for as sales and are therefore not included in our accompanying consolidated balance sheets. We continue to service the loans on behalf of the participating lenders. We share, on a pro-rated basis, with participating lenders any gains or losses that may result from a borrower's lack of compliance with contractual terms of the loan. At December 31, 2019 and December 31, 2018, the Company was servicing commercial loans participated out to various other institutions totaling \$24.2 million and \$35.4 million, respectively.

Residential real estate mortgages are originated by the Bank both for its portfolio and for sale into the secondary market. The Bank may sell its loans to institutional investors such as the FHLMC. Under loan sale and servicing agreements with the investor, the Bank generally continues to service the residential real estate mortgages. The Bank pays the investor an agreed upon rate on the loan, which is less than the interest rate received from the borrower. The Bank retains the difference as a fee for servicing the residential real estate mortgages. The Bank capitalizes mortgage servicing rights at their fair value upon sale of the related loans, amortizes the asset over the estimated life of the serviced loan, and periodically assesses the asset for impairment. The significant assumptions used by a third party to estimate the fair value of capitalized servicing rights at December 31, 2019, include weighted average prepayment speed for the portfolio using the Public Securities Association Standard Prepayment Model (169 PSA), weighted average internal rate of return (12.05%), weighted average servicing fee (0.25%), and net cost to service loans (\$83.80 per loan). The estimated fair value of capitalized servicing rights may vary significantly in subsequent periods primarily due to changing market interest rates, and their effect on prepayment speeds and discount rates.

At December 31, 2019 and 2018, the Company was servicing residential mortgage loans owned by investors totaling \$48.2 million and \$56.6 million, respectively. Net service fee income of \$67,000, \$89,000 and \$63,000 was recorded for the years ended December 31, 2019, 2018 and 2017, respectively, and is included in service charges and fees on the consolidated statements of net income.

A summary of the activity in the balances of mortgage servicing rights follows:

	Years Ended December 31,	
	2019	2018
	(In thousands)	
Balance at the beginning of year:	\$ 286	\$ 352
Capitalized mortgage servicing rights	-	-
Amortization	(67)	(66)
Balance at the end of year	<u>\$ 219</u>	<u>\$ 286</u>
Fair value at the end of year	<u>\$ 345</u>	<u>\$ 455</u>

Allowance for Loan Losses.

An analysis of changes in the allowance for loan losses by segment for the years ended December 31, 2019, 2018 and 2017 is as follows:

	Commercial Real Estate	Residential Real Estate	Commercial and Industrial	Consumer	Unallocated	Total
	(In thousands)					
Balance at December 31, 2016	\$ 4,083	\$ 2,862	\$ 3,085	\$ 38	\$ -	\$ 10,068
Provision (credit)	779	433	(144)	288	4	1,360
Charge-offs	(292)	(148)	(289)	(319)	-	(1,048)
Recoveries	142	164	81	64	-	451
Balance at December 31, 2017	\$ 4,712	\$ 3,311	\$ 2,733	\$ 71	\$ 4	\$ 10,831
Provision (credit)	214	863	660	179	(16)	1,900
Charge-offs	(35)	(645)	(299)	(171)	-	(1,150)
Recoveries	369	27	20	56	-	472
Balance at December 31, 2018	\$ 5,260	\$ 3,556	\$ 3,114	\$ 135	\$ (12)	\$ 12,053
Provision (credit)	1,343	618	509	204	1	2,675
Charge-offs	(669)	(320)	(514)	(197)	-	(1,700)
Recoveries	873	66	74	61	-	1,074
Balance at December 31, 2019	<u>\$ 6,807</u>	<u>\$ 3,920</u>	<u>\$ 3,183</u>	<u>\$ 203</u>	<u>\$ (11)</u>	<u>\$ 14,102</u>

The following table presents information pertaining to the allowance for loan losses by segment for the dates indicated:

	Commercial Real Estate	Residential Real Estate	Commercial and Industrial	Consumer	Unallocated	Total
	(In thousands)					
December 31, 2019						
Amount of allowance for impaired loans	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Amount of allowance for non-impaired loans	6,807	3,920	3,183	203	(11)	14,102
Total allowance for loan losses	\$ 6,807	\$ 3,920	\$ 3,183	\$ 203	\$ (11)	\$ 14,102
Impaired loans	\$ 3,457	\$ 3,575	\$ 588	\$ 42	\$ -	\$ 7,662
Non-impaired loans	805,007	694,080	247,499	5,705	-	1,752,291
Impaired loans acquired with deteriorated credit quality	8,422	2,589	806	-	-	11,817
Total loans	\$ 816,886	\$ 700,244	\$ 248,893	\$ 5,747	\$ -	\$ 1,771,770

	Commercial Real Estate	Residential Real Estate	Commercial and Industrial	Consumer	Unallocated	Total
			(In thousands)			
December 31, 2018						
Amount of allowance for impaired loans	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Amount of allowance for non-impaired loans	5,260	3,556	3,114	135	(12)	12,053
Total allowance for loan losses	\$ 5,260	\$ 3,556	\$ 3,114	\$ 135	\$ (12)	\$ 12,053
Impaired loans	\$ 5,237	\$ 4,754	\$ 2,345	\$ 60	\$ -	\$ 12,396
Non-impaired loans	752,770	666,883	240,235	5,143	-	1,665,031
Impaired loans acquired with deteriorated credit quality	10,874	3,242	913	-	-	15,029
Total loans	\$ 768,881	\$ 674,879	\$ 243,493	\$ 5,203	\$ -	\$ 1,692,456

Past Due and Non-accrual loans.

The following tables present an age analysis of past due loans as of the dates indicated:

Balance at December 31, 2019							
	30 – 59 Days Past Due	60 – 89 Days Past Due	90 Days or More Past Due	Total Past Due Loans	Total Current Loans	Total Loans	Non- Accrual Loans
	(In thousands)						
Commercial real estate	\$ 2,784	\$ 1,234	\$ 2,637	\$ 6,655	\$ 810,231	\$ 816,886	\$ 3,843
Residential real estate:							
Residential	2,574	683	1,433	4,690	593,037	597,727	4,548
Home equity	80	38	149	267	102,250	102,517	445
Commercial and industrial	1,356	645	148	2,149	246,744	248,893	1,003
Consumer	24	-	17	41	5,706	5,747	42
Total loans	\$ 6,818	\$ 2,600	\$ 4,384	\$ 13,802	\$1,757,968	\$1,771,770	\$ 9,881

Balance at December 31, 2018							
	30 – 59 Days Past Due	60 – 89 Days Past Due	90 Days or More Past Due	Total Past Due Loans	Total Current Loans	Total Loans	Non- Accrual Loans
	(In thousands)						
Commercial real estate	\$ 1,857	\$ -	\$ 2,865	\$ 4,722	\$ 764,159	\$ 768,881	\$ 4,701
Residential real estate:							
Residential	1,798	572	1,879	4,249	573,392	577,641	5,856
Home equity	600	5	242	847	96,391	97,238	391
Commercial and industrial	794	1,463	305	2,562	240,931	243,493	2,476
Consumer	93	1	21	115	5,088	5,203	60
Total loans	\$ 5,142	\$ 2,041	\$ 5,312	\$ 12,495	\$1,679,961	\$1,692,456	\$ 13,484

At December 31, 2019 and December 31, 2018, all loans past due 90 days or more were carried as non-accrual. The ratio of non-accrual loans to total loans was 0.56% and 0.80% at December 31, 2019 and December 31, 2018, respectively.

Impaired Loans.

The following is a summary of impaired loans by class:

	At December 31, 2019			Year Ended December 31, 2019	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
	(In thousands)				
Impaired Loans ⁽¹⁾					
Commercial real estate	\$ 11,879	\$ 13,914	\$ -	\$ 15,678	\$ 595
Residential real estate	5,695	6,383	-	6,550	104
Home equity	469	539	-	415	-
Commercial and industrial	1,394	4,192	-	3,359	131
Consumer	42	56	-	48	-
Total impaired loans	\$ 19,479	\$ 25,084	\$ -	\$ 26,050	\$ 830

	At December 31, 2018			Year Ended December 31, 2018	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
	(In thousands)				
Impaired Loans: ⁽¹⁾					
Commercial real estate	\$ 16,111	\$ 19,081	\$ -	\$ 14,830	\$ 772
Residential real estate	7,558	8,614	-	7,033	51
Home equity	438	468	-	636	4
Commercial and industrial	3,258	7,788	-	4,119	147
Consumer	60	70	-	85	-
Total impaired loans	\$ 27,425	\$ 36,021	\$ -	\$ 26,703	\$ 974

(1) Includes loans acquired with deteriorated credit quality and performing troubled debt restructurings.

The majority of impaired loans are included within the non-accrual balances; however, not every loan on non-accrual status has been designated as impaired. Impaired loans include loans that have been modified in a TDR.

Impaired loans are individually evaluated and exclude large groups of smaller-balance homogeneous loans, such as residential mortgage loans and consumer loans, which are collectively evaluated for impairment, and loans that are measured at fair value, unless the loan is amended in a TDR.

All payments received on impaired loans in non-accrual status are applied to principal. There was no interest income recognized on nonaccrual impaired loans during the years ended December 31, 2019 and December 31, 2018. The Company's obligation to fulfill the additional funding commitments on impaired loans is generally contingent on the borrower's compliance with the terms of the credit agreement. If the borrower is not in compliance, additional funding commitments may or may not be made at the Company's discretion. As of December 31, 2019, we have not committed to lend any additional funds for loans that are classified as impaired. Payments received on impaired loans in accrual status are recorded in accordance with the contractual terms of the loan.

Troubled Debt Restructurings.

Loans are designated as a TDR when, as part of an agreement to modify the original contractual terms of the loan as a result of financial difficulties of the borrower, the Bank grants the borrower a concession on the terms, that would not otherwise be considered. Typically, such concessions may consist of a reduction in interest rate to a below market rate, taking into account the credit quality of the note, extension of additional credit based on receipt of adequate collateral, or a deferment or reduction of payments (principal or interest) which materially alters the Bank's position or significantly extends the note's maturity date, such that the present value of cash flows to be received is materially less than those contractually established at the loan's origination. All loans that are modified are reviewed by the Company to identify if a TDR has occurred. All TDR loans are classified as impaired.

When we modify loans in a TDR, we measure impairment similar to other impaired loans based on the present value of expected future cash flows, discounted at the contractual interest rate of the original loan agreement, or use the current fair value of the collateral, less selling costs for collateral dependent loans. If we determine that the value of the modified loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount), impairment is recognized through a specific allowance or a charge-off to the allowance. Non-performing TDRs are included in non-performing loans.

Non-performing TDRs are shown as non-performing assets. Two substandard impaired loan relationships in the aggregate amount of \$2.4 million were designated as TDRs during the twelve months ended December 31, 2019. One loan relationship consisting of a commercial real estate loan and a commercial and industrial loan totaling \$2.2 million was designated as a TDR during the twelve months ended December 31, 2019 as the Bank entered into a forbearance agreement with the customer that allows for interest-only payments for a specified term. Both loans to the customer were in nonaccrual status as of December 31, 2019, however; the loan relationship is considered to be adequately secured by real estate. The Bank will continue to monitor the loan relationship for ongoing impairment on a quarterly basis. In addition, a second loan relationship consisting of a commercial real estate loan and a commercial and industrial loan totaling \$166,000 was designated as a TDR during the twelve months ended December 31, 2019 to allow for interest-only payments for a specified term. Both loans were in non-performing status as of December 31, 2019, however; the second loan relationship is also considered to be adequately secured by real estate. The Bank will continue to be monitor the second loan relationship for ongoing impairment on a quarterly basis. In addition, one home equity loan for \$64,000 was designated a TDR during the fourth quarter of 2019. There were no TDR loans modified during the year ended December 31, 2018. During the years ended December 31, 2019 and 2018, no TDRs defaulted (defined as 30 days or more past due) within 12 months of restructuring.

There were \$715,000 in charge-offs on TDRs during the year ended December 31, 2019. There were no charge-offs on TDRs during the year ended December 31, 2018.

Loans Acquired with Deteriorated Credit Quality.

The following is a summary of loans acquired with evidence of credit deterioration from Chicopee Savings Bank (“Chicopee”) as of December 31, 2019.

	Contractual Required Payments Receivable	Cash Expected To Be Collected	Non- Accretable Discount	Accretable Yield	Loans Receivable
			(In thousands)		
Balance at December 31, 2018	\$ 24,793	\$ 19,883	\$ 4,910	\$ 4,854	\$ 15,029
Collections	(3,861)	(3,731)	(130)	(562)	(3,169)
Dispositions	(243)	(243)	-	(200)	(43)
Balance at December 31, 2019	<u>\$ 20,689</u>	<u>\$ 15,909</u>	<u>\$ 4,780</u>	<u>\$ 4,092</u>	<u>\$ 11,817</u>

Credit Quality Information.

The Company utilizes an eight-grade internal loan rating system for commercial real estate and commercial and industrial loans. Performing residential real estate, home equity and consumer loans are grouped with “Pass” rated loans. Non-performing residential real estate, home equity and consumer loans are monitored individually for impairment and risk rated as “Substandard.”

Loans rated 1 – 4: Loans rated 1-4 represent groups of loans that are not subject to adverse criticism as defined in regulatory guidance. Loans in these groups exhibit characteristics that represent acceptable risk.

Loans rated 5: Loans rated 5 are considered “Special Mention” that may exhibit potential credit weaknesses or downward trends and are being monitored by management. Loans in this category are currently protected based on collateral and repayment capacity and do not constitute undesirable credit risk, but have potential weakness that may result in deterioration of the repayment process at some future date. This classification is used if a negative trend is evident in the obligor’s financial situation. Special mention loans do not sufficiently expose the Company to warrant adverse classification.

Loans rated 6: Loans rated 6 are considered “Substandard.” Loans are classified as substandard if the borrower exhibits a well-defined weakness and may be inadequately protected by the current net worth and cash flow capacity to pay the current debt.

Loans rated 7: Loans rated 7 are considered “Doubtful.” Loans classified as doubtful have all the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses make collection or liquidation of the loan highly questionable and improbable. The possibility of some loss is extremely high, but because of specific pending factors that may work to the advantage and strengthening of the asset, its classification as an estimated loss is deferred until its more exact status may be determined.

Loans rated 8: Loans rated 8 are considered uncollectible. The loss classification does not mean that the asset has absolutely no recovery or salvage value, but rather that it is not practical or desirable to defer writing off the asset because recovery and collection time may be affected in the future.

On an annual basis, or more often if needed, we formally review the ratings on all commercial real estate and commercial and industrial loans. In addition, management utilizes delinquency reports, the criticized report and other loan reports to monitor credit quality. In addition, at least on an annual basis, the Company contracts with an external loan review company to review the internal credit ratings assigned to loans in the commercial loan portfolio on a pre-determined schedule, based on the type, size, rating, and overall risk of the loan. During the course of their review, the third party examines a sample of loans, including new loans, existing relationships over certain dollar amounts and classified assets.

The following table presents our loans by risk rating for the periods indicated:

	Commercial Real Estate	Residential 1-4 family	Home Equity	Commercial and Industrial	Consumer	Total
	(In thousands)					
December 31, 2019						
Pass (Rated 1 – 4)	\$ 766,124	\$ 591,911	\$ 101,908	\$ 222,847	\$ 5,705	\$1,688,495
Special Mention (Rated 5)	23,138	-	-	2,796	-	25,934
Substandard (Rated 6)	27,624	5,816	609	23,250	42	57,341
Total	\$ 816,886	\$ 597,727	\$ 102,517	\$ 248,893	\$ 5,747	\$1,771,770
	Commercial Real Estate	Residential 1-4 family	Home Equity	Commercial and Industrial	Consumer	Total
	(In thousands)					
December 31, 2018						
Pass (Rated 1 – 4)	\$ 732,729	\$ 570,428	\$ 96,643	\$ 207,663	\$ 5,143	\$1,612,606
Special Mention (Rated 5)	17,929	-	-	12,248	-	30,177
Substandard (Rated 6)	18,223	7,213	595	23,582	60	49,673
Total	\$ 768,881	\$ 577,641	\$ 97,238	\$ 243,493	\$ 5,203	\$1,692,456

4. PREMISES AND EQUIPMENT

Premises and equipment are summarized as follows:

	December 31,	
	2019	2018
	(In thousands)	
Land	\$ 5,651	\$ 5,651
Buildings	24,454	24,144
Leasehold improvements	2,424	2,372
Furniture and equipment	17,720	16,824
Total	50,249	48,991
Less: accumulated depreciation and amortization	(26,486)	(24,367)
Premises and equipment, net	\$ 23,763	\$ 24,624

Depreciation and amortization expense for the years ended December 31, 2019, 2018 and 2017 amounted to \$2.1 million, \$2.1 million and \$2.0 million, respectively.

5. GOODWILL AND OTHER INTANGIBLES

At December 31, 2019 and December 31, 2018, the Company's goodwill was related to the acquisition of Chicopee in October 2016. There was no goodwill impairment recorded during the years ended December 31, 2019 and 2018. Annually, or more frequently if events or changes in circumstances warrant such evaluation, the Company evaluates its goodwill for impairment.

Core Deposit Intangibles

In connection with the acquisition of Chicopee, the Bank recorded a core deposit intangible of \$4.5 million, which is amortized over twelve years using the straight-line method. Amortization expense was \$376,000, \$375,000 and \$375,000 for the years ended December 31, 2019, 2018 and 2017, respectively. At December 31, 2019, future amortization of the core deposit intangible totaled \$375,000 for each of the next five years and \$1.4 million thereafter.

6. DEPOSITS

Deposit accounts, by type, are summarized as follows for the periods indicated:

	At December 31,	
	2019	2018
	(In thousands)	
Demand and interest-bearing checking:		
Interest-bearing checking accounts	\$ 70,182	\$ 63,620
Demand deposits	393,303	355,389
Savings:		
Regular accounts	126,352	118,542
Money market accounts	435,396	398,396
Time deposits	<u>652,631</u>	<u>660,046</u>
Total deposits	<u>\$ 1,677,864</u>	<u>\$ 1,595,993</u>

Brokered deposits, which are included within time deposits, totaled \$21.5 million and \$23.8 million at December 31, 2019 and 2018, respectively,

Time deposits of \$250,000 or more totaled \$184.1 million at December 31, 2019. Interest expense on time deposits of \$250,000 or more totaled \$3.5 million and \$2.5 million for the years ended December 31, 2019 and 2018, respectively.

The scheduled maturities of time deposits for the periods indicated are as follows:

	Years Ended December 31,	
	2019	2018
	(In thousands)	
2019	\$ -	\$ 443,187
2020	548,559	152,346
2021	73,394	38,328
2022	18,382	18,787
2023	10,996	7,398
2024	<u>1,300</u>	<u>-</u>
Total time deposits	<u>\$ 652,631</u>	<u>\$ 660,046</u>

Interest expense on deposits for the years ended December 31, 2019, 2018 and 2017 is summarized as follows:

	Years Ended December 31,		
	2019	2018	2017
	(In thousands)		
Regular accounts	\$ 146	\$ 162	\$ 179
Money market accounts	2,532	1,911	1,565
Time deposits	14,152	9,270	6,374
Interest-bearing checking accounts	377	340	330
Total	\$ 17,207	\$ 11,683	\$ 8,448

Cash paid for interest on deposits totaled \$17.2 million, \$11.7 million and \$8.4 million for years ended December 31, 2019, 2018 and 2017, respectively.

7. SHORT-TERM BORROWINGS

As a member of the FHLB, the Bank has the potential capacity to borrow an amount up to the value of its discounted qualified collateral. Borrowings from the FHLB are secured by certain securities from the Company's investment portfolio not otherwise pledged and certain residential and commercial real estate loans.

FHLB advances with an original maturity of less than one year totaled \$35.0 million and \$59.3 million at December 31, 2019 and 2018, respectively, with a weighted average rate of 1.86% and 3.28%, respectively. At December 31, 2019, based on qualifying collateral less outstanding advances, the Bank had the capacity to borrow an additional \$236.8 million from the FHLB.

In addition, at December 31, 2019 and December 31, 2018, the Company had an available ideal way line of credit with the FHLB for up to \$9.5 million. Interest on this line of credit is payable at a rate determined and reset by the FHLB on a daily basis. The outstanding principal is due daily and the portion not repaid will be automatically renewed. At December 31, 2019 and December 31, 2018, there were no advances outstanding under this line.

The Bank had a \$15.0 million line of credit with a correspondent bank at an interest rate determined and reset on a daily basis. There were no advances outstanding under this line at December 31, 2019 and 2018. We also had a \$50.0 million line of credit with another correspondent bank at an interest rate determined and reset on a daily basis. There were no advances outstanding under the line at December 31, 2019 and 2018.

8. LONG-TERM DEBT

FHLB Advances. The following advances are collateralized by a blanket lien on our residential real estate loans and certain eligible commercial real estate loans.

	Amount		Weighted Average Rate	
	2019	2018	2019	2018
	(In thousands)			
Fixed-rate advances maturing:				
2019	\$ -	\$ 81,891	- %	2.3 %
2020	127,983	84,269	2.1	2.2
2021	51,084	31,766	2.3	2.6
2022	23,596	9,461	1.9	2.2
2023	628	-	0.2	-
2024	2,224	631	0.9	2.6
Total long-term advances	\$ 205,515	\$ 208,018	2.1 %	2.3 %

Cash paid for interest on long-term debt totaled \$4.4 million, \$4.2 million, and \$2.3 million for the years ended December 31, 2019, 2018, and 2017, respectively.

9. STOCK PLANS AND EMPLOYEE STOCK OWNERSHIP PLAN

Stock Options. A summary of the status of our stock options at December 31, 2019 is presented below:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2018	238,075	\$ 6.33	3.44	\$ 877
Exercised	(19,861)	5.37	0.91	90
Outstanding at December 31, 2019	218,214	\$ 6.42	2.62	\$ 695
Exercisable at December 31, 2019	218,214	\$ 6.42	2.62	\$ 695

Cash received for options exercised during the years ended December 31, 2019, 2018 and 2017 was \$106,000, \$114,000 and \$5.5 million, respectively.

Restricted Stock Awards.

In May 2014, the Company's shareholders approved a stock-based compensation plan (the "RSA Plan"). Under the RSA Plan, up to 516,000 shares of the Company's common stock were reserved for grants of stock awards, including stock options and restricted stock, which may be granted to any officer, key employee or non-employee director of WNEB. Any shares that are not issued because vesting requirements are not met will be available for future issuance under the RSA Plan.

In January 2015, there were 48,560 shares granted under the RSA Plan. These shares vest ratably over five years. The fair market value of shares awarded are based on the market price at the grant date and recorded as unearned compensation. The shares are amortized over the applicable vesting period.

In 2016, the Compensation Committee approved a long-term incentive program (the “2016 LTI Plan”). The 2016 LTI Plan provides a periodic award that is both performance and time-based and is designed to recognize the executive’s responsibilities, reward performance and leadership and as a retention tool. The objective of the 2016 LTI Plan is to align compensation for the named executive officers and directors over a multi-year period directly with the interests of our shareholders by motivating and rewarding creation and preservation of long-term financial strength, shareholder value and relative shareholder return.

The 2016 LTI Plan includes eligible participants of the Company that are nominated by the Chief Executive Officer and approved by the Compensation Committee. The 2016 LTI Plan is triggered by the Company’s achievement of satisfactory safety and soundness results from its most recent regulatory examination and additional Company performance metrics. Stock grants made under the 2016 LTI Plan consist of 50% time-based stock and 50% performance-based stock.

In May 2016, there were 62,740 shares granted under the 2016 LTI Plan. Of the 62,740 shares granted, 36,543 shares were time-based stock, with 10,352 vesting in one year and 26,191 vesting ratably over a three-year period. The remaining 26,197 shares granted were performance-based and are subject to the achievement of the 2016 LTI performance metrics. Under the 2016 LTI Plan, the primary performance metric was return on equity.

As a result of the Tax Cuts and Jobs Act of 2017, the return on equity performance metrics were adjusted to incorporate the impact and benefits of the corporate tax rate reductions thereunder. The original and adjusted threshold and target metrics under the 2016 LTI Plan are as follows:

	Return on Equity Metrics	
	Threshold	Target
Original metrics	5.85%	6.32%
Adjusted metrics	6.38%	6.79%

As of December 31, 2018, the three-year performance period for the 2016 LTI Plan performance-based share grant expired. Performance-based shares were earned based on the Company achieving the 2016 LTI Plan threshold and target metrics at the end of the three-year performance period. The Company’s return on equity for the year ended December 31, 2018 was 6.82%, which resulted in the achievement of the target return on equity metric for the 2016 LTI Plan grant. In February 2019, 26,197 performance-based shares vested and were granted to eligible recipients under the Plan.

In May 2017, there were 89,042 shares granted under the 2017 LTI Plan. Of the 89,042 shares, 55,159 shares are time-based, with 21,276 vesting in one year and 33,883 vesting ratably over a three-year period. The remaining 33,883 shares granted were performance-based and are subject to the achievement of the 2017 LTI performance metric. Vesting is realized after a three-year period. Under the 2017 LTI Plan, the primary performance metric was return on equity. Performance-based shares will be earned based upon how the Company performs relative to threshold, target and maximum absolute goals (i.e. Company-specific, not relative to a peer index) on an annual performance period, but will be distributed at the end of the three-year period. Eligible participants will be able to earn between 50% (“threshold” performance), 100% (“target” performance) and 150% (“maximum” performance).

As a result of the Tax Cuts and Jobs Act of 2017, the return on equity performance metrics were adjusted to incorporate the impact and benefits of the corporate tax rate reductions thereunder. The original and adjusted threshold, target and maximum metrics for 2019 under the 2017 LTI Plan are as follows:

Performance Period Ending	Return on Equity Metrics					
	Original Threshold	Adjusted Threshold	Original Target	Adjusted Target	Original Maximum	Adjusted Maximum
December 31, 2019	6.50%	7.09%	7.20%	7.85%	7.90%	8.61%

In January 2018, there were 83,812 shares granted under the 2018 LTI Plan. Of the 83,812 shares, 50,852 shares were time-based, with 17,908 vesting in one year and 32,944 vesting ratably over a three-year period. The remaining

32,960 shares granted are performance-based and are subject to the achievement of the 2018 long-term incentive performance metric. Under the 2018 LTI Plan, the primary performance metric was return on equity. Performance shares will be earned based upon how the Company performs relative to threshold, target and maximum absolute goals (i.e. Company-specific, not relative to a peer index) on an annual performance period, but will be distributed at the end of the three-year period. The threshold, target and stretch metrics under the 2018 LTI Plan are as follows:

Performance Period Ending	Return on Equity Metrics		
	Threshold	Target	Stretch
December 31, 2019	6.85%	7.35%	7.75%
December 31, 2020	7.40%	7.90%	8.30%

Eligible participants will be able to earn between 50% (“threshold” performance), 100% (“target” performance) and 150% (“maximum” performance).

The fair market value of shares awarded is based on the market price at the grant date, recorded as unearned compensation and amortized over the applicable vesting period. Performance-based metrics are monitored on a quarterly basis in order to compare actual results to the performance metric, with any necessary adjustments being recognized through share-based compensation expense and unearned compensation.

In February 2019, there were 108,718 shares granted under the 2019 LTI Plan. Of the 108,718 shares, 64,496 shares were time-based, with 20,262 vesting in one year and 44,234 vesting ratably over a three-year period. The remaining 44,222 shares granted are performance-based and are subject to the achievement of the 2019 long-term incentive performance metric. Under the 2019 LTI Plan, the primary performance metric was return on equity. Performance shares will be earned based upon how the Company performs relative to threshold, target and maximum absolute goals (i.e. Company-specific, not relative to a peer index) on an annual performance period, but will be distributed at the end of the three-year period. The threshold, target and stretch metrics under the 2019 LTI Plan are as follows:

Performance Period Ending	Return on Equity Metrics		
	Threshold	Target	Stretch
December 31, 2019	5.75%	6.13%	7.00%
December 31, 2020	6.00%	6.75%	7.75%
December 31, 2021	6.25%	7.00%	8.00%

Eligible participants will be able to earn between 50% (“threshold” performance), 100% (“target” performance) and 150% (“maximum” performance).

The fair market value of shares awarded is based on the market price at the grant date, recorded as unearned compensation and amortized over the applicable vesting period. Performance-based metrics are monitored on a quarterly basis in order to compare actual results to the performance metric, with any necessary adjustments being recognized through share-based compensation expense and unearned compensation. At December 31, 2019, there were an additional 129,177 shares available for future grants under the RSA Plan.

A summary of the status of restricted stock awards at December 31, 2019 is presented below:

	Shares	Weighted Average Grant Date Fair Value
Balance at December 31, 2018	155,712	\$ 9.87
Shares granted	108,718	9.77
Shares vested	(89,722)	9.36
Shares forfeited	(1,842)	9.77
Balance at December 31, 2019	172,866	\$ 10.07

The aggregate fair value of restricted stock vested during 2019 was \$853,000. We recorded total expense for restricted stock awards of \$773,000, \$845,000 and \$649,000 for the years ended December 31, 2019, 2018, and

2017, respectively. Tax benefits related to equity incentive plan expense were \$21,000, \$24,000 and \$42,000 for the years ended December 31, 2019, 2018 and 2017, respectively. Unrecognized compensation cost for stock awards was \$839,000 at December 31, 2019 with a remaining term of 1.7 years.

Employee Stock Ownership Plan (“ESOP”). We established an ESOP for the benefit of each employee that has reached the age of 21 and has completed at least 1,000 hours of service in the previous 12-month period. In January 2002, as part of the initial stock conversion, we provided a loan to the ESOP Trust which was used to purchase 8%, or 1,305,359 shares, of the common stock sold in the initial public offering.

In January 2007, as part of the second-step stock conversion, we provided an additional loan to the ESOP Trust which was used to purchase 4.0%, or 736,000 shares, of the 18,400,000 shares of common stock sold in the offering. The 2002 and 2007 loans bear an interest rate of 8.0% and provide for annual payments of interest and principal.

At December 31, 2019, the remaining principal balances are payable as follows:

<u>Years Ending</u> <u>December 31,</u>	<u>Amount</u>
(In thousands)	
2020	\$ 447
2021	447
2022	447
2023	447
2024	447
Thereafter	3,482
Total	<u><u>\$ 5,717</u></u>

We have committed to make contributions to the ESOP sufficient to support the debt service of the loans. The loans are secured by the shares purchased, which are held in a suspense account for allocation among the participants as the loans are paid. Total compensation expense applicable to the ESOP amounted to \$834,000, \$960,000 and \$958,000 for the years ended December 31, 2019, 2018 and 2017, respectively.

Shares held by the ESOP include the following at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Allocated	989,258	936,522
Committed to be allocated	88,117	90,978
Unallocated	612,007	700,124
Total	<u><u>1,689,382</u></u>	<u><u>1,727,624</u></u>

Cash dividends declared and received on allocated shares are allocated to participants and charged to retained earnings. Cash dividends declared and received on unallocated shares are held in suspense and are applied to repay the outstanding debt of the ESOP. The fair value of unallocated shares was \$5.9 million and \$7.0 million at December 31, 2019 and 2018, respectively. ESOP shares are considered outstanding for earnings per share calculations when they are committed to be allocated. Unallocated ESOP shares are excluded from earnings per share calculations. The cost of unearned shares to be allocated to ESOP participants for future services not yet performed is reflected as a reduction of shareholders’ equity.

10. RETIREMENT PLANS AND EMPLOYEE BENEFITS

Pension Plan. We provide a defined benefit pension plan for eligible employees (the “Plan”). Employees must work a minimum of 1,000 hours per year to be eligible for the Plan. Eligible employees become vested in the Plan after five years of service. The Plan assets are currently invested in various pooled separate investment accounts offered by Principal Life Insurance Company, a division of Principal Financial Group, who is the Custodian of the Plan (the “Custodian”). The Plan is administered by an officer of Westfield Bank (the “Plan Administrator”). On September 30, 2016, we effected a soft freeze on the Plan and therefore no new participants will be included in the Plan after such effective date.

The following table provides information for the Plan at or for the years ended December 31:

	Years Ended December 31,		
	2019	2018	2017
		(In thousands)	
Change in benefit obligation:			
Benefit obligation at beginning of year	\$ 27,309	\$ 29,345	\$ 25,819
Service cost	1,095	1,269	1,139
Interest	1,134	1,012	1,002
Actuarial loss (gain)	7,074	(3,887)	1,987
Benefits paid	(454)	(430)	(602)
Benefit obligation at end of year	<u>36,158</u>	<u>27,309</u>	<u>29,345</u>
Change in plan assets:			
Fair value of plan assets at beginning of year	18,393	19,215	16,498
Actual return (loss) on plan assets	3,923	(1,192)	2,519
Employer contribution	925	800	800
Benefits paid	(454)	(430)	(602)
Fair value of plan assets at end of year	<u>22,787</u>	<u>18,393</u>	<u>19,215</u>
Funded status and accrued benefit at end of year	<u>\$ (13,371)</u>	<u>\$ (8,916)</u>	<u>\$ (10,130)</u>
Accumulated benefit obligation at end of year	<u>\$ 27,634</u>	<u>\$ 21,449</u>	<u>\$ 21,930</u>

The following actuarial assumptions were used in determining the pension benefit obligation:

	December 31,	
	2019	2018
Discount rate	3.25 %	4.25 %
Rate of compensation increase	4.00	4.00

Net pension cost includes the following components for the years ended December 31:

	2019	2018	2017
		(In thousands)	
Service cost	\$ 1,095	\$ 1,269	\$ 1,139
Interest cost	1,134	1,012	1,002
Expected return on assets	(1,233)	(1,387)	(1,194)
Amortization of actuarial loss	<u>133</u>	<u>170</u>	<u>124</u>
Net periodic pension cost	<u>\$ 1,129</u>	<u>\$ 1,064</u>	<u>\$ 1,071</u>

The following actuarial assumptions were used in determining the net periodic pension cost for the years ended December 31:

	2019	2018	2017
Discount rate	4.25 %	3.60 %	4.15 %
Expected return on plan assets	7.00	7.50	7.50
Rate of compensation increase	4.00	4.00	4.00

The following is a summary of the Plan's investments for the years ended December 31:

	2019	2018
	(In thousands)	
Pooled separate investment accounts:		
Fixed income	\$ 11,033	\$ 10,559
Large U.S. equity	5,458	4,365
International equity	3,528	2,368
Small/mid U.S. equity	975	734
Balanced/asset allocation	457	367
Other	1,336	-
Total	\$ 22,787	\$ 18,393

Pooled separate accounts are valued at the Net Asset Value ("NAV") of units held by the Plan at year end. The NAV is used as a practical expedient to estimate fair value. This practical expedient would not be used if it was determined to be probable that the funds will sell the underlying investments for an amount different from the reported NAV. Participant transactions (purchases and sales) may occur daily. The preceding method described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Plan administrators believes the valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table summarizes the investments for which fair value is measured using NAV per share as a practical expedient for the years ended December 31, 2019 and 2018. There are no pertinent redemption restrictions for these investments; the redemption notice period is applicable only to the Plan.

	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
	(In thousands)			
December 31, 2019	\$ 22,787	n/a	Daily	1 day
December 31, 2018	\$ 18,393	n/a	Daily	1 day

The defined benefit plan offers a mixture of fixed income, equity and real assets as the underlying investment structure for its retirement structure for the pension plan. The target allocation mix for the pension plan for 2019 was an equity-based investment deployment of 50% of total portfolio assets based on advice received from an external advisory firm with confirmation by the Bank's Investment Committee. The remainder of the portfolio is allocated to fixed income at 50% of total assets. The investment objective is to diversify investments across a spectrum of investment types to limit risks from large market swings and to provide anticipated stabilized investment returns. Trustees of the Plan select investment managers for the portfolio and a second investment advisory firm is retained to provide allocation analysis. The overall investment objective is to diversify equity investments across a spectrum of types, small cap, large cap and international, along with investment styles such as growth and value.

We estimate that the benefits to be paid from the pension plan for years ended December 31 are as follows:

<u>Year</u>	<u>Benefit Payments to Participants</u>
	(In thousands)
2020	\$ 1,226
2021	1,360
2022	1,789
2023	1,732
2024	2,084
In aggregate for 2025 – 2029	17,141

We have not yet determined the amount of the contribution we expect to make to the plan during the fiscal year ending December 31, 2020.

401(k) Defined Contribution Plan.

The Company has a 401(k) defined contribution employee benefit plan. The 401(k) plan allows eligible employees to contribute a percentage of their earnings to the plan. A portion of the employee contribution, as determined by the Compensation Committee of the Board of Directors, is matched by the Company. In 2019, 2018 and 2017, the Company's percentage match was 50% up to the first 6% contributed by the employee.

The Company's expense for the 401(k) plan match was \$423,000, \$398,000 and \$370,000 for the years ended December 31, 2019, 2018 and 2017, respectively.

11. DERIVATIVES AND HEDGING ACTIVITIES

Risk Management Objective of Using Derivatives.

The Company is exposed to certain risks arising from both our business operations and economic conditions. We principally manage our exposures to a wide variety of business and operational risks through management of our core business activities. We manage economic risks, including interest rate, liquidity, and credit risk, primarily by managing the amount, sources, and duration of our assets and liabilities and the use of derivative financial instruments. Specifically, we entered into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. Our derivative financial instruments are used to manage differences in the amount, timing, and duration of our known or expected cash receipts and our known or expected cash payments principally related to certain variable rate loan assets and variable rate borrowings.

The following table presents information about interest rate swaps at December 31, 2019 and December 31, 2018:

<u>December 31, 2019</u>	<u>Notional Amount</u> (In thousands)	<u>Weighted Average Maturity</u> (In years)	<u>Weighted Average Rate</u>		<u>Estimated Fair Value</u> (In thousands)
			<u>Receive</u>	<u>Pay</u>	
Cash flow hedges:					
Interest rate swaps on FHLB borrowings	\$ 35,000	2.7	1.89%	3.54%	\$ (1,798)
Non-hedging derivatives:					
Loan-level swaps – dealer	6,484	13.2	3.45%	3.79%	(149)
Loan-level swaps – borrower	6,484	13.2	3.79%	3.45%	149
Total	<u>\$ 47,968</u>				<u>\$ (1,798)</u>

<u>December 31, 2018</u>	Notional Amount (In thousands)	Weighted Average Maturity (In years)	Weighted Average Rate		Estimated Fair Value (In thousands)
			Receive	Pay	
Cash flow hedges:					
Interest rate swaps on FHLB borrowings	\$ 35,000	3.7	2.79%	3.54%	\$ (1,259)

At December 31, 2019, the Company had \$35.0 million in derivatives designated as hedging instruments and \$13.0 million in derivatives designated as non-hedging instruments. At December 31, 2018, all derivatives were designated as hedging instruments.

Cash Flow Hedges of Interest Rate Risk.

The Company's objectives in using interest rate derivatives are to add stability to interest income and expense and to manage its exposure to interest rate movements. To accomplish this objective, we entered into interest rate swaps as part of our interest rate risk management strategy. These interest rate swaps are designated as cash flow hedges and involve the receipt of variable rate amounts from a counterparty in exchange for our making fixed payments.

For derivatives designated as cash flow hedges, the changes in the fair value of the derivative is initially reported in other comprehensive income (outside of earnings), net of tax, and subsequently reclassified to earnings when the hedged transaction affects earnings. We are hedging our exposure to the variability in future cash flows for forecasted transactions over a maximum period of six years (excluding forecasted payment of variable interest on existing financial instruments).

Non-hedging Derivatives.

Derivatives not designated as hedges are not speculative but rather result from a service the Company provides to certain customers. The Company executes loan level derivative products such as interest-rate swap agreements with commercial banking customers to aid them in managing their interest-rate risk by converting floating-rate loan payments to fixed-rate loan payments. The Company concurrently enters into offsetting swaps with a third party financial institution, effectively minimizing its net risk exposure resulting from such transactions. The third-party financial institution exchanges the customer's fixed-rate loan payments for floating-rate loan payments. As the interest-rate swap agreements associated with this program do not meet hedge accounting requirements, changes in the fair value are recognized directly in earnings.

Fair Values of Derivative Instruments on the Balance Sheet.

The table below presents the fair value of our derivative financial instruments designated as hedging instruments as well as our classification on the balance sheet as of December 31, 2019 and December 31, 2018.

<u>December 31, 2019</u>	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
		(In thousands)		
Derivatives designated as hedging instruments:				
Interest rate swaps – cash flow hedge	Other Assets	\$ -	Other Liabilities	\$ 1,798
Total derivatives designated as hedging instruments		\$ -		\$ 1,798
Derivatives not designated as hedging instruments:				
Interest rate swap – with customers	Other Assets	\$ 149		\$ -
Interest rate swap – with counterparties		-	Other Liabilities	149
Total derivatives not designated as hedging instruments		\$ 149		\$ 149

December 31, 2018

	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
(In thousands)				
Derivatives designated as hedging instruments:				
Interest rate swaps	Other Assets	\$ -	Other Liabilities	\$ 1,259

Effect of Derivative Instruments in the Consolidated Statements of Net Income and Changes in Shareholders' Equity.

The table below presents the pre-tax net gains (losses) of our cash flow hedges for the periods indicated:

	Amount of Gain (Loss) Recognized in OCI on Derivative		
	Twelve Months Ended December 31,		
	2019	2018	2017
(In thousands)			
Interest rate swaps	\$ (900)	\$ 442	\$ 31

Amounts reported in accumulated other comprehensive loss related to these derivatives are reclassified to interest expense as interest payments are made on our designated rate sensitive liabilities. The table below presents the amount reclassified from accumulated other comprehensive income into net income for interest rate swaps and termination fees:

	Amount of Gain (Loss) Reclassified from OCI into Expense (Effective Portion)		
	Twelve Months Ended December 31,		
	2019	2018	2017
(In thousands)			
Interest rate swaps	\$ 1,455	\$ 1,520	\$ 2,038

During the next 12 months, we estimate that \$1.5 million will be reclassified as an increase in interest expense.

Credit-risk-related Contingent Features

By using derivative financial instruments, we expose ourselves to credit risk. Credit risk is the risk of failure by the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes us, which creates credit risk for us. When the fair value of a derivative is negative, we owe the counterparty and, therefore, it does not possess credit risk. The credit risk in derivative instruments is mitigated by entering into transactions with highly-rated counterparties that we believe to be creditworthy and by limiting the amount of exposure to each counterparty.

We have agreements with our derivative counterparties that contain a provision where if we default on any of our indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then we could also be declared in default on our derivative obligations. We also have agreements with certain of our derivative counterparties that contain a provision where if we fail to maintain our status as well capitalized, then the counterparty could terminate the derivative positions and we would be required to settle our obligations under the agreements. Certain of our agreements with our derivative counterparties contain provisions where if a formal administrative action by a federal or state regulatory agency occurs that materially changes our creditworthiness in an adverse manner, we may be required to fully collateralize our obligations under the derivative instrument.

At December 31, 2019 and December 31, 2018, we had a net liability position of \$1.8 million and \$1.3 million with our counterparties, respectively. As of December 31, 2019, we had minimum collateral posting thresholds with

certain of our derivative counterparties and had mortgage-backed securities with a fair value of \$1.9 million and \$300,000 in cash posted as collateral against our obligations under these agreements. If we had breached any of these provisions at December 31, 2019, we could have been required to settle our obligations under the agreements at the termination value.

12. LEASES

The Company determines if an arrangement is a lease at inception. Effective in 2019, operating leases are included within other assets and other liabilities in our consolidated balance sheets. Right-of-use (“ROU”) assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As our leases do not provide an implicit rate, therefore we use our incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. Our lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

The Company has lease agreements with lease and non-lease components, which are generally accounted for separately. The Company has not elected the practical expedient to account for lease and non-lease components as one lease component. Additionally, the Company has elected the practical expedient whereby expired leases, existing operating lease classifications and initial direct costs will not be reassessed at inception. The Company has operating leases for certain of our banking offices and ATMs. The Company’s leases have remaining lease terms of less than one year to 19 years, some of which include options to extend the leases for additional five-year terms up to 15 years.

The components of lease expense were as follows:

	Twelve Months Ended
	December 31, 2019
	(In thousands)
Amortization of ROU assets	\$ 972
Interest on lease liabilities	244
Operating lease cost	\$ 1,216

Supplemental cash flow information related to leases was as follows:

	Twelve Months Ended
	December 31, 2019
	(In thousands)
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	\$ 1,172
ROU assets obtained in exchange for lease obligations:	
Operating leases	600

Supplemental balance sheet information related to leases was as follows:

	December 31, 2019	
	(In thousands)	
Operating lease right-of-use assets	\$	6,795
Operating lease liabilities	\$	6,840

The weighted average remaining lease term for our operating leases was 10.3 years with a weighted average discount rate of 3.44% at December 31, 2019.

Maturities of the Company's operating lease liabilities were as follows (in thousands):

Years Ending December 31,		
2020	\$	1,160
2021		1,056
2022		1,020
2023		770
2024		700
Thereafter		3,632
Total lease payments		8,338
Less imputed interest		(1,498)
Total	\$	6,840

13. REGULATORY CAPITAL

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on our consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to savings and loan holding companies.

Federal banking regulations require the Company and the Bank to maintain minimum amounts and ratios of total, common equity Tier 1, Tier 1 and total capital to risk-weighted assets and Tier 1 capital to average assets, as set forth in the table below. Additionally, community banking institutions must maintain a capital conservation buffer of common equity Tier 1 capital in an amount greater than 2.5% of total risk-weighted assets to avoid being subject to limitations on capital distributions and discretionary bonuses.

At December 31, 2019, we exceeded each of the applicable regulatory capital requirements including the capital conservation buffer. As of December 31, 2019, the most recent notification from the Office of Comptroller of the Currency categorized the Bank as "well-capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well-capitalized," the Bank must maintain minimum total risk-based, Tier 1 risk-based, Common Equity Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the following table. There are no conditions or events since that notification that management believes would change our category.

Our actual capital ratios of December 31, 2019 and December 31, 2018 are also presented in the following table.

Our actual capital ratios of December 31, 2019 and December 31, 2018 are also presented in the following table:									
				<u>Minimum For Capital Adequacy Purpose</u>			<u>Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions</u>		
				<u>Amount</u>	<u>Ratio</u>		<u>Amount</u>	<u>Ratio</u>	
				(Dollars in thousands)					
<u>December 31, 2019</u>									
Total Capital (to Risk Weighted Assets):									
Consolidated	\$	240,226	13.93	%	\$	137,934	8.00	%	N/A
Bank		227,678	13.22			137,773	8.00		\$ 172,217 10.00 %
Tier 1 Capital (to Risk Weighted Assets):									
Consolidated		226,124	13.11			103,451	6.00		N/A N/A
Bank		213,576	12.40			103,330	6.00		137,773 8.00
Common Equity Tier 1 Capital (to Risk Weighted Assets):									
Consolidated		226,124	13.11			77,588	4.50		N/A N/A
Bank		213,576	12.40			77,498	4.50		111,941 6.50
Tier 1 Leverage Ratio (to Adjusted Average Assets):									
Consolidated		226,124	10.45			86,593	4.00		N/A N/A
Bank		213,576	9.88			86,500	4.00		108,125 5.00
<u>December 31, 2018</u>									
Total Capital (to Risk Weighted Assets):									
Consolidated	\$	247,361	14.87	%	\$	133,089	8.00	%	N/A N/A
Bank		235,569	14.18			132,892	8.00		\$ 166,115 10.00 %
Tier 1 Capital (to Risk Weighted Assets):									
Consolidated		235,308	14.14			99,817	6.00		N/A N/A
Bank		223,516	13.46			99,669	6.00		132,892 8.00
Common Equity Tier 1 Capital (to Risk Weighted Assets):									
Consolidated		235,308	14.14			74,862	4.50		N/A N/A
Bank		223,516	13.46			74,752	4.50		107,974 6.50
Tier 1 Leverage Ratio (to Adjusted Average Assets):									
Consolidated		235,308	11.14			84,497	4.00		N/A N/A
Bank		223,516	10.59			84,465	4.00		105,581 5.00

The following is a reconciliation of our GAAP capital to regulatory Tier 1, Common Equity Tier 1 and total capital:

	December 31,	
	2019	2018
	(In thousands)	
Consolidated GAAP capital	\$ 232,024	\$ 237,029
Net unrealized losses on available-for-sale securities, net of tax	322	7,400
Unrealized loss on defined benefit pension plan, net of tax	6,275	3,246
Accumulated net loss on cash flow hedges, net of tax	2,371	2,770
Goodwill	(12,487)	(12,487)
Intangible assets, net of associated deferred tax liabilities	(2,381)	(2,650)
Tier 1 and Common Equity Tier 1 capital	226,124	235,308
Allowance for loan losses	14,102	12,053
Total regulatory capital	\$ 240,226	\$ 247,361

On January 31, 2017, the Board of Directors authorized a stock repurchase program (the “2017 Plan”) under which the Company may purchase up to 3,047,000 shares, or 10%, of its outstanding common stock, to be affected via a combination of Rule 10b5-1 plans and discretionary share repurchases. On March 1, 2019, the Company announced the completion of the 2017 Plan.

On January 29, 2019, the Board of Directors authorized an additional stock repurchase program (the “2019 Plan”) under which the Company may purchase up to 2,814,200 shares, or 10%, of its outstanding common stock following the completion of the 2017 Plan, to be affected via a combination of Rule 10b5-1 plans and discretionary share repurchases. As of December 31, 2019, the Company had 1,126,866 shares available to repurchase under the 2019 Plan.

We are subject to dividend restrictions imposed by various regulators, including a limitation on the total of all dividends that the Bank may pay to the Company in any calendar year, to an amount that shall not exceed the Bank's net income for the current year, plus its net income retained for the two previous years, without regulatory approval. At December 31, 2019 and 2018, the Bank had no retained earnings available for payment of dividends without prior regulatory approval. In addition, the Bank may not declare or pay dividends on, and we may not repurchase, any of our shares of common stock if the effect thereof would cause shareholders' equity to be reduced below applicable regulatory capital maintenance requirements or if such declaration, payment or repurchase would otherwise violate regulatory requirements. The Bank will be prohibited from paying cash dividends to the Company to the extent that any such payment would reduce the Bank's capital below required capital levels. Accordingly, \$137.8 million and \$132.9 million of our equity in the net assets of the Bank was restricted at December 31, 2019 and 2018, respectively.

14. INCOME TAXES

Income taxes consist of the following:

	Years Ended December 31,		
	2019	2018	2017
	(In thousands)		
Current tax provision:			
Federal	\$ 3,082	\$ 3,910	\$ 1,505
State	1,450	1,586	581
Total	<u>4,532</u>	<u>5,496</u>	<u>2,086</u>
Deferred tax (benefit) provision:			
Federal	(348)	(542)	7,613
State	(332)	(254)	702
Change in valuation reserve	-	-	(973)
Total	<u>(680)</u>	<u>(796)</u>	<u>7,342</u>
Total	<u>\$ 3,852</u>	<u>\$ 4,700</u>	<u>\$ 9,428</u>

The differences between the statutory federal income tax and the effective tax are summarized below:

	Years Ended December 31,		
	2019	2018	2017
	(In thousands)		
Statutory federal income tax	\$ 3,612	\$ 4,433	\$ 7,612
Increase (decrease) resulting from:			
State taxes, net of federal tax benefit	883	1,052	702
Tax exempt income	(388)	(370)	(601)
Bank-owned life insurance (BOLI)	(378)	(533)	(639)
Nondeductible merger expenses	-	-	28
Change in valuation reserve	-	-	(973)
Option exercise tax benefit	(16)	(11)	(704)
Effect of tax rate change	-	-	4,000
Other, net	139	129	3
Effective tax	<u>\$ 3,852</u>	<u>\$ 4,700</u>	<u>\$ 9,428</u>

Cash paid for income taxes for the years ended December 31, 2019, 2018 and 2017 was \$4.2 million, \$3.7 million and \$5.6 million, respectively.

The tax effects of each item that gives rise to deferred taxes are as follows:

	December 31,	
	2019	2018
	(In thousands)	
Deferred tax assets:		
Allowance for loan losses	\$ 3,964	\$ 3,388
Net unrealized loss on derivative and hedging activity	928	1,084
Employee benefit and share-based compensation plans	2,223	2,233
Defined benefit plan	2,453	1,270
Net unrealized loss on securities available for sale	71	2,491
Lease liability	1,923	-
Purchased mortgage servicing rights	242	293
Nonaccrual interest	348	674
Other	776	777
Gross deferred tax assets	12,928	12,210
Deferred tax liabilities:		
Lease right-of-use asset	(1,910)	-
Deferred loan fees	(1,105)	(1,122)
Hedge termination payments	-	(729)
Fixed asset depreciation	(447)	(32)
Purchase accounting adjustments, net	(283)	(416)
Other	(22)	(39)
Gross deferred tax liabilities	(3,767)	(2,338)
Net deferred tax asset	\$ 9,161	\$ 9,872

The federal income tax reserve for loan losses at the Bank's base year is \$9.4 million. If any portion of the reserve is used for purposes other than to absorb loan losses, approximately 150% of the amount actually used, limited to the amount of the reserve, would be subject to taxation in the fiscal year in which used. As the Bank intends to use the reserve solely to absorb loan losses, a deferred tax liability of \$2.6 million has not been provided.

We do not have any uncertain tax positions at December 31, 2019 or 2018 which require accrual or disclosure. We record interest and penalties as part of income tax expense. No interest was recorded for the years ended December 31, 2019 and 2018, and no penalties were recorded for the years ended December 31, 2019, 2018 and 2017.

Our income tax returns are subject to review and examination by federal and state tax authorities. We are currently open to audit under the applicable statutes of limitations by the Internal Revenue Service for the years ended December 31, 2016 through 2019. The years open to examination by state taxing authorities vary by jurisdiction; however, no years prior to 2016 are open.

15. TRANSACTIONS WITH DIRECTORS AND EXECUTIVE OFFICERS

We have had, and expect to have in the future, loans with our directors and executive officers including their affiliates. Such loans, in our opinion, do not include more than the normal risk of collectability or other unfavorable features. Following is a summary of activity for such loans:

	Years Ended December 31,	
	2019	2018
	(In thousands)	
Balance at beginning of year	\$ 955	\$ 1,631
Principal distributions	481	837
Repayments of principal	(620)	(1,513)
Change in related party status	(296)	-
Balance at end of year	\$ 520	\$ 955

16. COMMITMENTS AND CONTINGENCIES

In the normal course of business, various commitments and contingent liabilities are outstanding, such as standby letters of credit and commitments to extend credit with off-balance-sheet risk that are not reflected in the consolidated financial statements. Financial instruments with off-balance-sheet risk involve elements of credit, interest rate, liquidity and market risk.

We do not anticipate any significant losses as a result of these transactions. The following summarizes these financial instruments and other commitments and contingent liabilities at their contract amounts:

	December 31,	
	2019	2018
	(In thousands)	
Commitments to extend credit:		
Unused lines of credit	\$ 264,224	\$ 259,009
Loan commitments	74,133	53,199
Existing construction loan agreements	32,037	45,339
Standby letters of credit	11,348	11,370

We use the same credit policies in making commitments and conditional obligations as for on balance sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some commitments expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. We evaluate each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by us upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, and income-producing commercial properties.

Standby letters of credit are written conditional commitments issued by us that guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

At December 31, 2019, outstanding commitments to extend credit totaled \$381.7 million, with \$48.3 million in fixed rate commitments with interest rates ranging from 2.45% to 18.00% and \$333.4 million in variable rate commitments. At December 31, 2018, outstanding commitments to extend credit totaled \$368.9 million, with \$45.3 million in fixed rate commitments with interest rates ranging from 1.49% to 18.00% and \$323.6 million in variable rate commitments.

We also have risk participation agreements (“RPAs”) with another financial institution. The RPAs are a guarantee to share credit risk associated with an interest rate swap on participation loans in the event of counterparty default. As such, we accept a portion of the credit risk in order to participate in the loans and we receive a one-time fee. The interest rate swap is collateralized (generally by real estate or business assets) by us and the third party, which limits the credit risk associated with the RPAs. Per the terms of the RPAs, we must pledge collateral equal to our exposure for the interest rate swap. We monitor overall collateral as part of our off-balance sheet liability analysis, and at December 31, 2019, believe sufficient collateral is available to cover potential swap losses. At December 31, 2019, we had one RPA with a fair value exposure of \$105,000. The remaining term of this RPA, which corresponds to the term of the underlying swap, is six years. Under this agreement we guarantee a percentage of the amount in the event of a default. The maximum potential future payment guaranteed by us cannot be readily estimated, but is dependent upon the fair value of the interest rate swap and the probability of a default event. If an event of default on this contract had occurred at December 31, 2019, we would have been required to make a payment of approximately \$47,000.

In the ordinary course of business, we are party to various legal proceedings, none of which, in our opinion, will have a material effect on our consolidated financial position or results of operations.

Investment Commitments.

The Bank is a limited partner in a Small Business Investment Company (“SBIC”) and committed to contribute capital of \$3.0 million to the partnership. At December 31, 2019, the SBIC currently has a book value of \$1.9 million and is included in other assets. The unfunded commitment to the partnership was \$1.1 million at December 31, 2019.

Employment and change of control agreements.

We have entered into employment and change of control agreements with certain senior officers. The initial term of the employment agreements is for three years subject to separate one-year extensions as approved by the Board of Directors at the end of each applicable fiscal year. Each employment agreement provides for minimum annual salaries, discretionary cash bonuses and other fringe benefits as well as severance benefits upon certain terminations of employment that are not for cause. The change of control agreements expire one year following a notice of non-extension and only provide for severance benefits upon certain terminations of employment that are not for cause and that are related to a change of control of the Company or the Bank.

17. FAIR VALUE OF ASSETS AND LIABILITIES

Determination of Fair Value.

We use fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for our various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

Methods and assumptions for valuing our financial instruments are set forth below. Estimated fair values are calculated based on the value without regard to any premium or discount that may result from concentrations of ownership of a financial instrument, possible tax ramifications or estimated transaction cost.

Securities. The securities measured at fair value in Level 1 are based on quoted market prices in an active exchange market. These securities include marketable equity securities. All other securities are measured at fair value in Level 2 and are based on pricing models that consider standard input factors such as observable market data, benchmark yields, interest rate volatilities, broker/dealer quotes, credit spreads and new issue data. These securities include government-sponsored enterprise obligations, state and municipal obligations, residential mortgage-backed securities guaranteed and sponsored by the U.S. government or an agency thereof. Fair value measurements are obtained from a third-party pricing service and are not adjusted by management.

Interest rate swaps. The valuation of our interest rate swaps is obtained from a third-party pricing service and is determined using a discounted cash flow analysis on the expected cash flows of each derivative. The pricing analysis is based on observable inputs for the contractual terms of the derivatives, including the period to maturity and interest rate curves. We have determined that the majority of the inputs used to value our interest rate derivatives fall within Level 2 of the fair value hierarchy.

Assets and Liabilities Measured at Fair Value on a Recurring Basis.

Assets and liabilities measured at fair value on a recurring basis are summarized below:

December 31, 2019				
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Assets:				
Securities available-for-sale	\$ -	\$ 227,708	\$ -	\$ 227,708
Marketable equity securities	6,737	-	-	6,737
Interest rate swaps	-	149	-	149
Total assets	\$ 6,737	\$ 227,857	\$ -	\$ 234,594
Liabilities:				
Interest rate swaps	\$ -	\$ 1,947	\$ -	\$ 1,947
December 31, 2018				
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Assets:				
Securities available-for-sale	\$ -	\$ 253,748	\$ -	\$ 253,748
Marketable equity securities	6,408	-	-	6,408
Total assets	\$ 6,408	\$ 253,748	\$ -	\$ 260,156
Liabilities:				
Interest rate swaps	\$ -	\$ 1,259	\$ -	\$ 1,259

There were no transfers to or from Level 1 and 2 for assets measured at fair value on a recurring basis during the years ended December 31, 2019 and 2018.

Assets Measured at Fair Value on a Non-recurring Basis.

We may also be required, from time to time, to measure certain other financial assets at fair value on a nonrecurring basis in accordance with generally accepted accounting principles. These adjustments to fair value usually result from application of lower-of-cost-or-market accounting or write-downs of individual assets. The following table summarizes the fair value hierarchy used to determine the carrying values of the related assets as of December 31, 2019 and 2018.

	At December 31, 2019			Year Ended December 31, 2019
	Level 1	Level 2	Level 3	Total Losses
	(In thousands)			(In thousands)
Impaired Loans	\$ -	\$ -	\$ 1,836	\$ 1,327

	At December 31, 2018			Year Ended December 31, 2018
	Level 1	Level 2	Level 3	Total Losses
	(In thousands)			(In thousands)
Impaired Loans	\$ -	\$ -	\$ 1,676	\$ 612

The amount of impaired loans represents the carrying value, and net of the related write-down or valuation allowance of impaired loans for which adjustments are based on the estimated fair value of the underlying collateral. The fair value of impaired loans with specific allocations of the allowance for loan losses is generally based on real estate appraisals performed by independent licensed or certified appraisers. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Management will discount appraisals as deemed necessary based on the date of the appraisal and new information deemed relevant to the valuation. Such adjustments are typically significant and result in a Level 3 classification of the inputs for determining fair value. The resulting losses were recognized in earnings through the provision for loan losses.

There were no liabilities measured at fair value on a non-recurring basis at December 31, 2019 and 2018.

Summary of Fair Values of Financial Instruments.

The estimated fair values of our financial instruments are as follows:

December 31, 2019						
	Carrying Value	Fair Value				
		Level 1	Level 2	Level 3	Total	
			(In thousands)			
Assets:						
Cash and cash equivalents	\$ 24,741	\$ 24,741	\$ -	\$ -	\$ 24,741	
Securities available-for-sale	227,708	-	227,708	-	227,708	
Marketable equity securities	6,737	6,737	-	-	6,737	
Federal Home Loan Bank of Boston and other restricted stock	14,477	-	-	14,477	14,477	
Loans - net	1,761,932	-	-	1,729,150	1,729,150	
Accrued interest receivable	5,313	-	-	5,313	5,313	
Mortgage servicing rights	219	-	345	-	345	
Derivative asset	149	-	149	-	149	
Liabilities:						
Deposits	1,677,864	-	-	1,679,851	1,679,851	
Short-term borrowings	35,000	-	35,004	-	35,004	
Long-term debt	205,515	-	205,850	-	205,850	
Accrued interest payable	525	-	-	525	525	
Derivative liabilities	1,947	-	1,947	-	1,947	

December 31, 2018						
	Carrying Value	Fair Value				
		Level 1	Level 2	Level 3	Total	
			(In thousands)			
Assets:						
Cash and cash equivalents	\$ 26,789	\$ 26,789	\$ -	\$ -	\$ 26,789	
Securities available-for-sale	253,748	-	253,748	-	253,748	
Marketable equity securities	6,408	6,408	-	-	6,408	
Federal Home Loan Bank of Boston and other restricted stock	14,695	-	-	14,695	14,695	
Loans - net	1,684,804	-	-	1,631,558	1,631,558	
Accrued interest receivable	5,652	-	-	5,652	5,652	
Mortgage servicing rights	286	-	456	-	456	
Liabilities:						
Deposits	1,595,993	-	-	1,592,521	1,592,521	
Short-term borrowings	59,250	-	59,247	-	59,247	
Long-term debt	208,018	-	206,789	-	206,789	
Accrued interest payable	530	-	-	530	530	
Derivative liabilities	1,259	-	1,259	-	1,259	

Limitations. Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time our entire holdings of a particular financial instrument. Where quoted market prices are not available, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment. Changes in assumptions could significantly affect the estimates.

18. SEGMENT

The Company, through its bank subsidiary, provides a broad range of financial services to individuals and companies primarily in western Massachusetts and northern Connecticut. These services include commercial lending, residential lending and consumer lending, checking, savings and time deposits, cash management, and wealth management. Substantially all of the Company's revenues, profits, and assets are derived by the Bank from banking products and services. The Company did not have any reportable segments for the years ended December 31, 2019, 2018 or 2017.

19. CONDENSED PARENT COMPANY FINANCIAL STATEMENTS

The condensed balance sheets of the parent company are as follows:

	December 31,	
	2019	2018
	(In thousands)	
ASSETS:		
Cash equivalents	\$ 158	\$ 74
Investment in subsidiaries	219,476	225,238
ESOP loan receivable	5,717	6,419
Other assets	12,650	12,164
TOTAL ASSETS	238,001	243,895
LIABILITIES:		
ESOP loan payable	5,717	6,419
Other liabilities	260	447
EQUITY	232,024	237,029
TOTAL LIABILITIES AND EQUITY	\$ 238,001	\$ 243,895

The condensed statements of net income for the parent company are as follows:

	Years Ended December 31,		
	2019	2018	2017
	(In thousands)		
INCOME:			
Dividends from subsidiaries	\$ 25,063	\$ 28,712	\$ 8,561
ESOP loan interest income	514	571	629
Other income	1	1	4
Total income	25,578	29,284	9,194
OPERATING EXPENSE:			
Salaries and employee benefits	1,647	1,837	1,646
ESOP interest	514	571	629
Other expenses	352	286	298
Total operating expense	2,513	2,694	2,573
Income before equity in undistributed income of subsidiaries and income taxes	23,065	26,590	6,621
Equity in undistributed (loss) income of subsidiaries	(10,203)	(10,717)	4,188
Net income before taxes	12,862	15,873	10,809
Income tax benefit	(487)	(535)	(1,511)
Net income	\$ 13,349	\$ 16,408	\$ 12,320

The condensed statements of cash flows of the parent company are as follows:

	Years Ended December 31,		
	2019	2018	2017
	(In thousands)		
OPERATING ACTIVITIES:			
Net income	\$ 13,349	\$ 16,408	\$ 12,320
Equity in undistributed loss (income) of subsidiaries	10,203	10,717	(4,188)
Change in other liabilities	(668)	(610)	(833)
Change in other assets	216	(919)	(2,330)
Other, net	1,607	1,805	1,607
Net cash provided by operating activities	24,707	27,401	6,576
INVESTING ACTIVITIES:			
Purchase of securities	(140)	(127)	(106)
Sales of securities	140	127	106
Net cash provided by investing activities	-	-	-
FINANCING ACTIVITIES:			
Cash dividends paid	(5,274)	(4,641)	(3,579)
Common stock repurchased	(19,455)	(22,920)	(9,314)
Issuance of common stock in connection with stock option exercises	106	114	5,465
Net cash used in financing activities	(24,623)	(27,447)	(7,428)
NET CHANGE IN CASH AND CASH EQUIVALENTS	84	(46)	(852)
CASH AND CASH EQUIVALENTS			
Beginning of year	74	120	972
End of year	\$ 158	\$ 74	\$ 120
Supplemental cash flow information:			
Net change in due to broker for common stock repurchased	\$ (221)	\$ (83)	\$ (151)

20. SUMMARY OF QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

The following tables present a summary of our quarterly financial information for the periods indicated. The year-to-date totals may differ slightly due to rounding. All unaudited interim financial statements furnished shall reflect all adjustments which are, in the opinion of management, necessary to a fair statement of the results for interim periods presented and are of a normal and recurring nature, unless otherwise noted.

2019				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(Dollars in thousands, except per share amounts)			
Interest and dividend income	\$ 20,060	\$ 20,215	\$ 20,804	\$ 21,037
Interest expense	5,734	6,014	6,276	6,113
Net interest and dividend income	14,326	14,201	14,528	14,924
Provision for loan losses	50	350	1,275	1,000
Gain (loss) on available-for-sale securities, net	35	(96)	49	(85)
Unrealized gains (losses) on marketable equity securities, net	70	79	45	(29)
Swap fee income	8	206	55	205
Other non-interest income	2,058	2,328	2,462	2,315
Non-interest income	2,171	2,517	2,611	2,406
Non-interest expense	12,023	12,140	11,740	11,905
Income before income taxes	4,424	4,228	4,124	4,425
Income tax provision	994	971	899	988
Net income	\$ 3,430	\$ 3,257	\$ 3,225	\$ 3,437
Basic earnings per share	\$ 0.13	\$ 0.13	\$ 0.12	\$ 0.13
Diluted earnings per share	\$ 0.13	\$ 0.12	\$ 0.12	\$ 0.13
2018				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(Dollars in thousands, except per share amounts)			
Interest and dividend income	\$ 18,732	\$ 20,464	\$ 19,605	\$ 20,189
Interest expense	4,010	4,599	5,000	5,369
Net interest and dividend income	14,722	15,865	14,605	14,820
Provision for loan losses	500	750	350	300
Gain on disposal of other real estate owned	48	-	-	-
Loss on available-for-sale securities, net	(201)	(49)	-	(31)
Unrealized (losses) gains on marketable equity securities, net	(106)	(41)	(43)	48
Swap fee income	-	131	-	-
Bank-owned life insurance death benefit	-	715	-	-
Other non-interest income	2,025	2,177	2,339	2,221
Non-interest income	1,766	2,933	2,296	2,238
Non-interest expense	11,426	11,546	11,572	11,693
Income before income taxes	4,562	6,502	4,979	5,065
Income tax provision	1,043	1,364	1,070	1,223
Net income	\$ 3,519	\$ 5,138	\$ 3,909	\$ 3,842
Basic earnings per share	\$ 0.12	\$ 0.18	\$ 0.14	\$ 0.14
Diluted earnings per share	\$ 0.12	\$ 0.18	\$ 0.14	\$ 0.14

21. SUBSEQUENT EVENTS

Subsequent events represent events or transactions occurring after the balance sheet date but before the financial statements are issued. Financial statements are considered “issued” when they are widely distributed to shareholders and others for general use and reliance in a form and format that complies with GAAP.

The Company is an SEC filer and management has evaluated subsequent events through the date that the financial statements were issued. From the period January 1, 2020 through March 11, 2020, the Company has repurchased 953,243 shares of its common stock under the 2019 Plan at an average price of \$8.01, which resulted in a decrease to shareholders’ equity of \$7.6 million.



2019 Board of Directors

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Bay State Fuel Oil, Inc.
President, Buddy Realty, LLC*

Donna J. Damon
*President and Owner
New England Concrete Cutting, Inc.*

Gary G. Fitzgerald
*A Managing Principal
Downey, Pieciak, Fitzgerald & Co., P.C.*

James C. Hagan
President and Chief Executive Officer

William D. Masse
*President
Granfield, Bugbee & Masse
Insurance Agency*

Lisa G. McMahon
*Director of Institutional
Advancement & Stewardship
Westfield State University*

Gregg F. Orlen
*Owner/Operator
Gregg Orlen Custom Homebuilders*

Paul C. Picknelly
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Monarch Enterprises, LLC*

Steven G. Richter
*Manager
Richco Laboratories, LLC*

Philip R. Smith, Esq.
*Partner
Bacon Wilson, P.C.*

Christos A. Tapases
*Principal
Corbin and Tapases, P.C.
Chairman of the Board*

William J. Wagner
*Vice Chairman and Employee Advisor
to the Executive Committee*





2019 Officers

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President
Chief Executive Officer

Gerald P. Ciejk
Senior Vice President
General Counsel/
HR Director

Allen J. Miles
Executive Vice President
Senior Lender

Kevin C. O'Connor
Executive Vice President
Chief Banking Officer

Guida Sajdak
Executive Vice President
Chief Financial Officer

Commercial Lending

William J. Wagner
Employee Advisor to
Executive Committee

Thomas Cebula
Senior Vice President
Small Business Lending
Team Manager

Richard Hanchett
Senior Vice President
Commercial Lending
Team Leader

Filipe Goncalves
Senior Vice President
Commercial Lending
Team Leader

Michael Harrington
Senior Vice President
Commercial Lending
Team Leader

Todd Navin
Senior Vice President
Commercial Lending
Team Leader

Clifford Bordeaux
Vice President
Commercial Lending

Sharon Czarnecki
Vice President
Commercial Loan Division
CRA Officer

Nicholas Devanski
Vice President
Commercial Lending

Bernard Donnelly
Vice President
Commercial Lending

Christopher Fager
Vice President
Commercial Lending

Brittney Kelleher
Vice President
Commercial Lending

John Pember
Vice President
Commercial Lending

Kevin Rolfe
Vice President
Commercial Lending

Wayne Webster
Vice President
Commercial Lending

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Senior Vice President
Chief Risk Officer

Nadia Baral
Vice President
Director of Compliance

Linda Swartz
Vice President
Director of Corporate
Security

Credit Administration

Louis O. Gorman III
Senior Vice President
Chief Credit Officer

Elizabeth Maroney
Senior Vice President
Loan Administration

Mark W. Baran
Vice President
Credit Administration

William Judd
Vice President
Credit Administration

Sarah Medeiros
Vice President
Credit Administration

Diane C. Miemieci
Vice President
Credit Administration

Edward Modzelewski
Vice President
Collections Manager

Donna Bertolasio
Assistant Vice President
Loan Servicing

Erika Cartagena
Assistant Vice President
Loan Servicing

Karen Hayes
Assistant Vice President
Collections

Jennifer Nelson
Assistant Vice President
Loan Administration

Financial Division

Meghan Hibner
Vice President
Controller &
Investor Relations

Bryan Cowan
Vice President
Finance

Jessica Bray
Assistant Vice President
Assistant Controller

Carole Hinkley
Assistant Vice President
Investment Officer

Human Resources & Legal

Susan Aldrich
Vice President
Human Resource Manager

Katrina Popielarczyk
Assistant Vice President
Staff Attorney



Retail Banking, Wealth Management & Cash Management

Cidalia Inacio
*Senior Vice President
Retail Banking
Wealth Management*

Denise Begley
*Vice President
Retail Banking Operations*

Matthew Cuddy
*Vice President
Branch Area Manager*

Laurie Davison
*Vice President
Regional Manager*

Maria Desmarais
*Vice President
Investment Advisor
Representative*

Lauri Lavell
*Vice President
Business & Government
Deposit Services*

Stephanie Morales
*Vice President
Branch Manager*

Kelly Pignatara
*Vice President
Regional Manager*

Jaime Smith
*Vice President
Branch Manager*

Judith St. Pierre
*Vice President
Retirement Services
Manager*

Catherine Turowsky
*Vice President
Business & Government
Deposit Services*

Michael Vogel
*Vice President
Business & Government
Deposit Services*

Gloria Faria
*Assistant Vice President
Branch Manager*

Anne Faunce
*Assistant Vice President
Branch Manager*

Sheryl Fleming
*Assistant Vice President
Branch Manager*

Adam Glass
*Assistant Vice President
Branch Manager*

Madeline Lopez
*Assistant Vice President
Branch Manager*

Mary Anne Ludtke
*Assistant Vice President
Branch Manager*

Roberta Lussier
*Assistant Vice President
Branch Manager*

Sales Administration & Marketing

Daniel Marini
*Vice President
Sales Administration
& Marketing*

Catherine Jocelyn
*Vice President
Marketing Manager*

Andrew Feldman, Jr.
*Assistant Vice President
Sales Administration*

Retail Lending

Marline Claremont
*First Vice President
Retail Lending
Operations Manager*

Lisa Kraus
*Vice President
Retail Lending
Underwriting & Processing
Mortgage Manager*

Matthew Manganelli
*Vice President
Retail Lending
Sales Manager*

Richard Zabielski
*Vice President
Processing & Underwriting
Manager*

Irene Alves
*Assistant Vice President
Processor & Closing
Supervisor*

Kristin Gravanis
*Assistant Vice President
Retail Lending*

Michael Laga
*Assistant Vice President
Retail Lending*

Operations & Information Systems

Darlene Libiszewski
*Senior Vice President
Chief Information Officer*

Deborah J. McCarthy
*Senior Vice President
Deposit Operations*

Rebecca Rooke
*Vice President
Deposit Operations*

Jennifer St. Sauveur
*Assistant Vice President
Call Center*

Secretary of the Corporation

Theresa Szlosek
*Assistant Vice President
Corporate Secretary*





Corporate Information

Executive Offices

Western New England Bancorp, Inc.
141 Elm Street, Westfield, MA 01085
413.568.1911
westfieldbank.com

Annual Meeting

The annual meeting will take place on Tuesday, May 12, 2020, at 10:00 a.m. at the Sheraton Springfield Monarch Place Hotel, One Monarch Place, Springfield, MA 01144.

Independent Auditors

Wolf & Company, P.C.
1500 Main Street, Springfield, MA 01115

Counsel

Hogan Lovells US LLP
Columbia Square
555 Thirteenth Street, NW, Washington, DC 20004
202.637.5600

Transfer Agent and Registrar

Computershare Shareholder Services
P.O. Box 505000, Louisville, KY 40233

Shareholder Relations

Western New England Bancorp, Inc. shareholders and the public are encouraged to contact us with any questions or comments. Questions pertaining to the material presented in this report and requests for a copy of the Annual Report on Form 10-K filed with the Securities and Exchange Commission should be directed to:

Meghan Hibner
Investor Relations Officer
Western New England Bancorp, Inc.
141 Elm Street, Westfield, MA 01085
413.568.1911

Common Stock Listing

Western New England Bancorp, Inc. common stock is listed on the NASDAQ Stock Exchange and is traded under the symbol "WNEB."



Western
New England
Bancorp