Northwest Bancshares, Inc.
Form 10-Q
May 09, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended March 31, 2014

or

o **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the transition period from to

Commission File Number 001-34582

NORTHWEST BANCSHARES, INC.

(Exact name of registrant as specified in its charter)

Maryland	**27-0950358**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
100 Liberty Street, Warren, Pennsylvania	**16365**
(Address of principal executive offices)	(Zip Code)

(814) 726-2140

(Registrant s telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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 x No o

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

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

Large Accelerated Filer x	Accelerated Filer o
Non-Accelerated Filer o	Smaller reporting company o

Indicate by check mark whether the registrant is a Shell Company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date:

Common Stock ($0.01 par value) 94,648,394 shares outstanding as of May 1, 2014

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NORTHWEST BANCSHARES, INC.

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ITEM 1. FINANCIAL STATEMENTS

NORTHWEST BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(in thousands, except share data)

		(Unaudited) March 31, 2014	December 31, 2013
Assets			
Cash and due from banks	$	81,927	98,122
Interest-earning deposits in other financial institutions		379,765	293,149
Federal funds sold and other short-term investments		634	634
Marketable securities available-for-sale (amortized cost of $1,008,975 and $1,022,078)		1,009,717	1,016,767
Marketable securities held-to-maturity (fair value of $120,933 and $124,061)		117,724	121,366
Total cash and investments		1,589,767	1,530,038
Personal Banking:			
Loans held for sale			221
Residential mortgage loans		2,485,688	2,482,783
Home equity loans		1,065,988	1,083,939
Other consumer loans		223,045	228,348
Total Personal Banking		3,774,721	3,795,291
Business Banking:			
Commercial real estate loans		1,664,255	1,608,399
Commercial loans		412,098	402,601
Total Business Banking		2,076,353	2,011,000
Total loans		5,851,074	5,806,291
Allowance for loan losses		(76,234)	(71,348)
Total loans, net		5,774,840	5,734,943
Federal Home Loan Bank stock, at cost		43,714	43,715
Accrued interest receivable		22,188	21,821
Real estate owned, net		16,692	18,203
Premises and equipment, net		146,880	146,139
Bank owned life insurance		141,173	140,172
Goodwill		175,988	174,463
Other intangible assets		4,025	2,319
Other assets		59,693	69,663
Total assets	$	7,974,960	7,881,476
Liabilities and Shareholders equity			
Liabilities:			
Noninterest-bearing checking deposits	$	844,743	789,135
Interest-bearing checking deposits		890,788	852,809
Money market deposit accounts		1,176,462	1,167,954
Savings deposits		1,236,130	1,191,584
Time deposits		1,626,740	1,667,397
Total deposits		5,774,863	5,668,879

Borrowed funds		865,621	881,645
Junior subordinated deferrable interest debentures held by trusts that issued guaranteed capital debt securities		103,094	103,094
Advances by borrowers for taxes and insurance		31,074	26,669
Accrued interest payable		860	888
Other liabilities		41,892	43,499
Total liabilities		6,817,404	6,724,674
Shareholders equity:			
Preferred stock, $0.01 par value: 50,000,000 authorized, no shares issued			
Common stock, $0.01 par value: 500,000,000 shares authorized, 94,464,430 and 94,243,713 shares issued, respectively		945	943
Paid-in capital		622,758	619,678
Retained earnings		564,580	571,164
Unallocated common stock of Employee Stock Ownership Plan		(22,632)	(23,083)
Accumulated other comprehensive loss		(8,095)	(11,900)
Total shareholders equity		1,157,556	1,156,802
Total liabilities and shareholders equity	$	7,974,960	7,881,476

See accompanying notes to unaudited consolidated financial statements

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NORTHWEST BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

(in thousands, except per share data)

	Three months ended March 31, 2014	Three months ended March 31, 2013
Interest income:		
Loans receivable	$ 69,373	72,973
Mortgage-backed securities	2,793	3,441
Taxable investment securities	1,080	905
Tax-free investment securities	1,655	2,063
Interest-earning deposits	200	251
Total interest income	75,101	79,633
Interest expense:		
Deposits	6,490	7,814
Borrowed funds	7,714	7,831
Total interest expense	14,204	15,645
Net interest income	60,897	63,988
Provision for loan losses	7,485	7,158
Net interest income after provision for loan losses	53,412	56,830
Noninterest income:		
Gain on sale of investments, net	3,348	101
Service charges and fees	8,408	8,691
Trust and other financial services income	3,047	2,204
Insurance commission income	2,564	2,295
Loss on real estate owned, net	(135)	(130)
Income from bank owned life insurance	1,001	1,085
Mortgage banking income	249	956
Other operating income	1,175	1,176
Total noninterest income	19,657	16,378
Noninterest expense:		
Compensation and employee benefits	27,972	27,930
Premises and occupancy costs	6,557	6,153
Office operations	3,757	3,268
Processing expenses	6,589	5,853
Marketing expenses	1,637	1,900
Federal deposit insurance premiums	1,297	1,438
Professional services	2,062	1,693
Amortization of intangible assets	331	348
Real estate owned expense	639	599
Other expenses	2,322	2,289
Total noninterest expense	53,163	51,471
Income before income taxes	19,906	21,737
Federal and state income taxes	5,266	6,439

Net income	$	14,640	15,298
Basic earnings per share	$	0.16	0.17
Diluted earnings per share	$	0.16	0.17

See accompanying notes to unaudited consolidated financial statements

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NORTHWEST BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

(in thousands)

		Three months ended March 31, 2014	2013
Net Income	$	14,640	15,298
Other comprehensive income net of tax:			
Net unrealized holding gains on marketable securities:			
Unrealized holding gains net of tax of $(3,579) and $(436), respectively		5,596	670
Reclassification adjustment for gains included in net income, net of tax of $1,218 and $43, respectively		(1,904)	(66)
Net unrealized holding gains on marketable securities		3,692	604
Change in fair value of interest rate swaps, net of tax of $(135) and $(367), respectively		251	680
Defined benefit plan:			
Reclassification adjustment for prior period service costs included in net income, net of tax of $75 and $(123), respectively		(138)	229
Other comprehensive income		3,805	1,513
Total comprehensive income	$	18,445	16,811

See accompanying notes to unaudited consolidated financial statements

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NORTHWEST BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY (Unaudited)

(dollars in thousands, except share data)

Three months ended March 31, 2013

	Common Stock Shares	Common Stock Amount		Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income/ (loss)	Unallocated common stock of ESOP	Total Shareholders Equity
Beginning balance at December 31, 2012	93,652,960	$	937	613,249	550,296	(11,488)	(24,525)	1,128,469
Comprehensive income:								
Net income					15,298			15,298
Other comprehensive income, net of tax of $(883)						1,513		1,513
Total comprehensive income					15,298	1,513		16,811
Exercise of stock options	149,375		1	1,217				1,218
Stock compensation expense				694			388	1,082
Dividends paid								
Ending balance at March 31, 2013	93,802,335	$	938	615,160	565,594	(9,975)	(24,137)	1,147,580

Three months ended March 31, 2014

	Common Stock Shares	Common Stock Amount		Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income/ (loss)	Unallocated common stock of ESOP	Total Shareholders Equity
Beginning balance at December 31, 2013	94,243,713	$	943	619,678	571,164	(11,900)	(23,083)	1,156,802
Comprehensive income:								
Net income					14,640			14,640
						3,805		3,805

Other comprehensive income, net of tax of $(2,421)							
Total comprehensive income				14,640	3,805		18,445
Exercise of stock options	220,717	2	2,292				2,294
Stock compensation expense			788			451	1,239
Dividends paid ($0.23 per share)				(21,224)			(21,224)
Ending balance at March 31, 2014	94,464,430	$ 945	622,758	564,580	(8,095)	(22,632)	1,157,556

See accompanying notes to unaudited consolidated financial statements

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NORTHWEST BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(in thousands)

	Three months ended March 31, 2014	2013
OPERATING ACTIVITIES:		
Net Income	$ 14,640	15,298
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	7,485	7,158
Net (gain)/ loss on sale of assets	(3,602)	(727)
Net depreciation, amortization and accretion	2,845	3,056
Decrease in other assets	10,003	8,754
Decrease in other liabilities	(6,534)	(5,022)
Net amortization on marketable securities	105	57
Noncash write-down of real estate owned	648	446
Origination of loans held for sale	(660)	(32,883)
Proceeds from sale of loans held for sale	907	45,010
Noncash compensation expense related to stock benefit plans	1,239	1,082
Net cash provided by operating activities	27,076	42,229
INVESTING ACTIVITIES:		
Purchase of marketable securities available-for-sale	(22,805)	(108,326)
Proceeds from maturities and principal reductions of marketable securities held-to-maturity	3,643	11,856
Proceeds from maturities and principal reductions of marketable securities available-for-sale	33,414	76,309
Proceeds from sale of marketable securities available-for-sale	5,735	
Loan originations	(447,423)	(407,122)
Proceeds from loan maturities and principal reductions	398,726	477,091
(Purchase of)/ proceeds from sale of Federal Home Loan Bank stock	1	(498)
Proceeds from sale of real estate owned	2,866	4,700
Sale of real estate owned for investment, net	152	114
Purchase of premises and equipment	(3,607)	(3,284)
Acquistions, net of cash received	(2,792)	
Net cash provided by/ (used in) investing activities	(32,090)	50,840

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NORTHWEST BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited) (continued)

(in thousands)

		Three months ended March 31, 2014	2013
FINANCING ACTIVITIES:			
Increase in deposits, net	$	105,984	35,551
Proceeds from long-term borrowings			20,000
Repayments of long-term borrowings		(15)	(17)
Net decrease in short-term borrowings		(16,009)	(20,170)
Increase in advances by borrowers for taxes and insurance		4,405	3,835
Cash dividends paid		(21,224)	
Proceeds from stock options exercised		2,294	1,218
Net cash provided by financing activities		75,435	40,417
Net increase in cash and cash equivalents	$	70,421	133,486
Cash and cash equivalents at beginning of period	$	391,905	451,704
Net increase in cash and cash equivalents		70,421	133,486
Cash and cash equivalents at end of period	$	462,326	585,190
Cash and cash equivalents:			
Cash and due from banks	$	81,927	71,607
Interest-earning deposits in other financial institutions		379,765	512,949
Federal funds sold and other short-term investments		634	634
Total cash and cash equivalents	$	462,326	585,190
Cash paid during the period for:			
Interest on deposits and borrowings (including interest credited to deposit accounts of $5,819 and $7,031, respectively)	$	14,232	15,353
Income taxes	$	5,016	3,587
Business acquistions:			
Fair value of assets acquired	$	2,798	
Cash paid		(2,792)	
Liabilities assumed	$	6	
Non-cash activities:			
Loan foreclosures and repossessions	$	1,839	2,985
Sale of real estate owned financed by the Company	$	88	269

See accompanying notes to unaudited consolidated financial statements

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Unaudited

(1) Basis of Presentation and Informational Disclosures

Northwest Bancshares, Inc. (the Company) or (NWBI), a Maryland corporation headquartered in Warren, Pennsylvania, is a savings and loan holding company regulated by the Board of Governors of the Federal Reserve System. The Company was incorporated to be the successor to Northwest Bancorp, Inc. upon the completion of the mutual-to-stock conversion of Northwest Bancorp, MHC in December 2009. The primary activity of the Company is the ownership of all of the issued and outstanding common stock of Northwest Savings Bank, a Pennsylvania-chartered savings bank (Northwest). Northwest is regulated by the FDIC and the Pennsylvania Department of Banking. At March 31, 2014, Northwest operated 165 community-banking offices throughout Pennsylvania, western New York, eastern Ohio and Maryland.

The accompanying unaudited consolidated financial statements include the accounts of the Company and its subsidiary, Northwest, and Northwest s subsidiaries Northwest Settlement Agency, LLC, Northwest Consumer Discount Company, Northwest Financial Services, Inc., Northwest Advisors, Inc., Northwest Capital Group, Inc., Northwest Retirement Services, Allegheny Services, Inc., Great Northwest Corporation, Northwest Insurance Services and Evans Capital Management, Inc. The unaudited consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles for interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information or footnotes required for complete annual financial statements. In the opinion of management, all adjustments necessary for the fair presentation of the Company s financial position and results of operations have been included. The consolidated statements have been prepared using the accounting policies described in the financial statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2013 updated, as required, for any new pronouncements or changes.

The results of operations for the quarter ended March 31, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014, or any other period.

Stock-Based Compensation

Stock-based compensation expense of $1.2 million and $1.1 million for the quarters ended March 31, 2014 and 2013, respectively, was recognized in compensation expense relating to our stock benefit plans. At March 31, 2014 there was compensation expense of $4.9 million to be recognized for awarded but unvested stock options and $14.6 million for unvested common shares.

Income Taxes- Uncertain Tax Positions

Accounting standards prescribe a comprehensive model for how a company should recognize, measure, present and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return. A tax benefit from an uncertain position may be recognized only if it is more likely than not that the position is sustainable, based on its technical merits. The tax benefit of a qualifying position is the largest amount of tax benefit that is greater than 50% likely of being realized upon ultimate settlement with a taxing authority having full knowledge of all relevant information. As of March 31, 2014 we had no liability for unrecognized tax benefits.

We recognize interest accrued related to: (1) unrecognized tax benefits in federal and state income taxes and (2) refund claims in other operating income. We recognize penalties (if any) in federal and state income taxes. There is no amount accrued for the payment of interest or penalties at March 31, 2014. We are subject to audit by the Internal Revenue Service and any state in which we conduct business for the tax periods ended December 31, 2012, 2011 and 2010.

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Recent Accounting Pronouncements

In January 2014, the FASB issued ASU No. 2014-01, *Accounting for Investments in Qualified Affordable Housing Projects.* This guidance permits reporting entities to make an accounting policy election to account for investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. The proportional amortization method permits the amortization of the initial cost of the investment in proportion to the tax credits and other tax benefits received, and recognizes the net investment performance in the income statement as a component of income tax expense. This guidance is effective retrospectively for fiscal years and interim periods within those years, beginning after December 15, 2014, and early adoption is permitted. We do not expect that this standard will have a material impact on our results of operations or financial position.

In January 2014, the FASB issued ASU No. 2014-04, *Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure*. This guidance clarifies that an in substance repossession or foreclosure has occurred, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure. Interim and annual disclosure is required of both the amount of foreclosed residential real estate property held by the creditor and the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure. This guidance is effective using either the modified retrospective transition method or a prospective transition method for fiscal years and interim periods within those years, beginning after December 15, 2014, and early adoption is permitted. We do not expect that this standard will have a material impact on our results of operations or financial position.

(2) Business Segments

We operate in two reportable business segments: Community Banking and Consumer Finance. The Community Banking segment provides services traditionally offered by full-service community banks, including business and personal deposit accounts and business and personal loans, as well as insurance, brokerage and investment management and trust services. The Consumer Finance segment, which is comprised of Northwest Consumer Discount Company, a subsidiary of Northwest, operates 50 offices in Pennsylvania and offers personal installment loans for a variety of consumer and real estate products. This activity is funded primarily through an intercompany borrowing relationship with Allegheny Services, Inc., a subsidiary of Northwest. Net income is the primary measure used by management to measure segment performance. The following tables provide financial information for these reportable segments. The All Other column represents the parent company and elimination entries necessary to reconcile to the consolidated amounts presented in the financial statements.

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At or for the quarter ended:

March 31, 2014 ($ in 000 s)		**Community Banking**	**Consumer Finance**	**All other (1)**	**Consolidated**
External interest income	$	70,119	4,659	323	75,101
Intersegment interest income		606		(606)	
Interest expense		13,169	606	429	14,204
Provision for loan losses		6,850	635		7,485
Noninterest income		17,033	288	2,336	19,657
Noninterest expense		49,862	2,921	380	53,163
Income tax expense (benefit)		4,535	326	405	5,266
Net income		13,342	459	839	14,640
Total assets	$	7,851,453	103,677	19,830	7,974,960

March 31, 2013 ($ in 000 s)		**Community Banking**	**Consumer Finance**	**All other (1)**	**Consolidated**
External interest income	$	74,094	5,201	338	79,633
Intersegment interest income		700		(700)	
Interest expense		14,394	700	551	15,645
Provision for loan losses		6,306	852		7,158
Noninterest income		16,024	319	35	16,378
Noninterest expense		48,112	3,144	215	51,471
Income tax expense (benefit)		6,511	342	(414)	6,439
Net income		15,495	482	(679)	15,298
Total assets	$	7,841,301	110,775	42,414	7,994,490

(1) Eliminations consist of intercompany loans, interest income and interest expense.

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(3) Investment securities and impairment of investment securities

The following table shows the portfolio of investment securities available-for-sale at March 31, 2014 (in thousands):

	Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
Debt issued by the U.S. government and agencies:				
Due in one year or less	$ 30			30
Debt issued by government sponsored enterprises:				
Due in one year - five years	236,971	210	(3,088)	234,093
Due in five years - ten years	94,222	1	(2,035)	92,188
Equity securities	2,897	1,788		4,685
Municipal securities:				
Due in one year or less	710	6		716
Due in one year - five years	8,702	134		8,836
Due in five years - ten years	11,214	271		11,485
Due after ten years	67,354	1,977	(34)	69,297
Corporate debt issues:				
Due after ten years	20,684	1,454	(495)	21,643
Residential mortgage-backed securities:				
Fixed rate pass-through	83,660	3,051	(683)	86,028
Variable rate pass-through	75,706	3,449	(19)	79,136
Fixed rate non-agency CMOs	3,717	187		3,904
Fixed rate agency CMOs	264,939	1,145	(7,294)	258,790
Variable rate agency CMOs	138,169	778	(61)	138,886
Total residential mortgage-backed securities	566,191	8,610	(8,057)	566,744
Total marketable securities available-for-sale	$ 1,008,975	14,451	(13,709)	1,009,717

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The following table shows the portfolio of investment securities available-for-sale at December 31, 2013 (in thousands):

		Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
Debt issued by the U.S. government and agencies:					
Due in one year or less	$	32			32
Debt issued by government sponsored enterprises:					
Due in one year - five years		227,945	166	(4,041)	224,070
Due in five years - ten years		94,777	72	(2,862)	91,987
Equity securities		5,298	4,622	(70)	9,850
Municipal securities:					
Due in one year or less		710	10		720
Due in one year - five years		8,443	119		8,562
Due in five years - ten years		11,228	275		11,503
Due after ten years		71,068	1,111	(386)	71,793
Corporate debt issues:					
Due after ten years		21,150	475	(449)	21,176
Residential mortgage-backed securities:					
Fixed rate pass-through		85,306	3,041	(1,075)	87,272
Variable rate pass-through		78,890	3,525	(16)	82,399
Fixed rate non-agency CMOs		3,894	107	(3)	3,998
Fixed rate agency CMOs		265,769	1,060	(11,436)	255,393
Variable rate non-agency CMOs		660		(9)	651
Variable rate agency CMOs		146,908	674	(221)	147,361
Total residential mortgage-backed securities		581,427	8,407	(12,760)	577,074
Total marketable securities available-for-sale	$	1,022,078	15,257	(20,568)	1,016,767

The following table shows the portfolio of investment securities held-to-maturity at March 31, 2014 (in thousands):

		Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
Municipal securities:					
Due in five years - ten years	$	8,004	185		8,189
Due after ten years		61,318	1,488		62,806
Residential mortgage-backed securities:					
Fixed rate pass-through		10,448	538		10,986
Variable rate pass-through		4,903	63		4,966
Fixed rate agency CMOs		31,771	916		32,687
Variable rate agency CMOs		1,280	19		1,299
Total residential mortgage-backed securities		48,402	1,536		49,938

Total marketable securities held-to-maturity	$	117,724	3,209	120,933

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The following table shows the portfolio of investment securities held-to-maturity at December 31, 2013 (in thousands):

		Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
Municipal securities:					
Due in five years - ten years	$	8,002	172		8,174
Due after ten years		61,314	1,178	(27)	62,465
Residential mortgage-backed securities:					
Fixed rate pass-through		11,101	544		11,645
Variable rate pass-through		5,172	71		5,243
Fixed rate agency CMOs		34,425	780	(33)	35,172
Variable rate agency CMOs		1,352	10		1,362
Total residential mortgage-backed securities		52,050	1,405	(33)	53,422
Total marketable securities held-to-maturity	$	121,366	2,755	(60)	124,061

We review our investment portfolio on a quarterly basis for indications of impairment. This review includes analyzing the length of time and the extent to which amortized costs have exceeded fair values, the financial condition and near-term prospects of the issuer, including any specific events which may influence the operations of the issuer, and the intent to hold the investments for a period of time sufficient to allow for a recovery in value. Certain investments are evaluated using our best estimate of future cash flows. If the estimate of cash flows indicates that an adverse change has occurred, other-than-temporary impairment is recognized for the amount of the unrealized loss that was deemed credit related.

The following table shows the fair value of and gross unrealized losses on investment securities, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position at March 31, 2014 (in thousands):

		Less than 12 months		12 months or more		Total	
		Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
U.S. government and agencies	$	159,906	(2,818)	115,252	(2,305)	275,158	(5,123)
Municipal securities		747	(34)			747	(34)
Corporate issues		54	(50)	1,975	(445)	2,029	(495)
Residential mortgage-backed securities - agency		212,945	(6,139)	55,297	(1,918)	268,242	(8,057)
Total temporarily impaired securities	$	373,652	(9,041)	172,524	(4,668)	546,176	(13,709)

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The following table shows the fair value of and gross unrealized losses on investment securities, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position at December 31, 2013 (in thousands):

	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
U.S. government and agencies	$ 213,915	(4,797)	64,635	(2,106)	278,550	(6,903)
Municipal securities	12,666	(413)			12,666	(413)
Corporate debt issues			1,970	(449)	1,970	(449)
Equity securities	552	(70)			552	(70)
Residential mortgage-backed securities - non-agency	1,210	(12)			1,210	(12)
Residential mortgage-backed securities - agency	224,125	(10,398)	109,301	(2,383)	333,426	(12,781)
Total temporarily impaired securities	$ 452,468	(15,690)	175,906	(4,938)	628,374	(20,628)

Municipal Securities

We review our portfolio of municipal securities quarterly for impairment. We initially evaluate municipal securities for other-than-temporary impairment by comparing the fair value, provided to us by a third party pricing source using quoted prices for similar assets that are actively traded, to the carrying value. When an investment s fair value is below 80% of the amortized cost we then assess the stated interest rate and compare the stated interest rate to current market interest rates to determine if the decline in fair value is considered to be attributable primarily to interest rates. If the stated interest rate approximates current interest rates for similar securities, we determine if the investment is rated and if so, if the rating has changed during the current period. If the rating has not changed during the current period, we review publicly available information to determine if there has been any negative change in the underlying municipality. As of March 31, 2014, none of the investments in our municipal securities portfolio had an amortized cost that exceeded the fair value for more than twelve months.

Credit related other-than-temporary impairment on all debt securities is recognized in earnings while noncredit related other-than-temporary impairment on available-for-sale debt securities, not expected to be sold, is recognized in other comprehensive income.

The table below shows a cumulative roll forward of credit losses recognized in earnings for debt securities held and not intended to be sold for the quarter ended (in thousands):

	2014	2013
Beginning balance at January 1, (1)	$ 10,342	9,811
Credit losses on debt securities for which other-than-temporary impairment was not previously recognized		

Reduction for losses realized during the quarter		(8)	(67)
Additional credit losses on debt securities for which other-than-temporary impairment was previously recognized			
Ending balance at March 31,	$	10,334	9,744

(1) The beginning balance represents credit losses included in other-than-temporary impairment charges recognized on debt securities in prior periods.

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(4) **Loans receivable**

The following table shows a summary of our loans receivable at March 31, 2014 and December 31, 2013 (in thousands):

		March 31, 2014	December 31, 2013
Personal Banking:			
Loans held for sale	$		221
Residential mortgage loans		2,493,684	2,491,917
Home equity loans		1,065,988	1,083,939
Other consumer loans		223,045	228,348
Total Personal Banking		3,782,717	3,804,425
Business Banking:			
Commercial real estate		1,740,973	1,665,274
Commercial loans		446,175	437,559
Total Business Banking		2,187,148	2,102,833
Total loans receivable, gross		5,969,865	5,907,258
Deferred loan costs		2,846	2,461
Allowance for loan losses		(76,234)	(71,348)
Undisbursed loan proceeds:			
Residential mortgage loans		(10,842)	(11,595)
Commercial real estate		(76,718)	(56,875)
Commercial loans		(34,077)	(34,958)
Total loans receivable, net	$	5,774,840	5,734,943

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The following table provides information related to the allowance for loan losses by portfolio segment and by class of financing receivable for the quarter ended March 31, 2014 (in thousands):

	Balance March 31, 2014	Current period provision	Charge-offs	Recoveries	Balance December 31, 2013
Personal Banking:					
Residental mortgage loans	$ 7,467	35	(459)	16	7,875
Home equity loans	6,958	37	(372)	48	7,245
Other consumer loans	5,280	1,184	(1,716)	325	5,487
Total Personal Banking	19,705	1,256	(2,547)	389	20,607
Business Banking:					
Commercial real estate loans	36,209	1,551	(932)	621	34,969
Commercial loans	16,169	5,189	(770)	640	11,110
Total Business Banking	52,378	6,740	(1,702)	1,261	46,079
Unallocated	4,151	(511)			4,662
Total	$ 76,234	7,485	(4,249)	1,650	71,348

The following table provides information related to the allowance for loan losses by portfolio segment and by class of financing receivable for the quarter ended March 31, 2013 (in thousands):

	Balance March 31, 2013	Current period provision	Charge-offs	Recoveries	Balance December 31, 2012
Personal Banking:					
Residental mortgage loans	$ 7,878	452	(679)	103	8,002
Home equity loans	8,211	224	(370)	63	8,294
Other consumer loans	4,860	796	(1,404)	312	5,156
Total Personal Banking	20,949	1,472	(2,453)	478	21,452
Business Banking:					
Commercial real estate loans	35,560	4,857	(3,990)	194	34,499
Commercial loans	11,473	828	(2,680)	83	13,242
Total Business Banking	47,033	5,685	(6,670)	277	47,741
Unallocated	4,027	1			4,026
Total	$ 72,009	7,158	(9,123)	755	73,219

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The following table provides information related to the loan portfolio by portfolio segment and by class of financing receivable at March 31, 2014 (in thousands):

		Recorded investment in loans receivable	Allowance for loan losses	Recorded investment in loans on nonaccrual (1)	Recorded investment in loans past due 90 days or more and still accruing	TDRs	Allowance related to TDRs	Additional commitments to customers with loans classified as TDRs
Personal Banking:								
Residental mortgage loans	$	2,485,688	7,467	24,283	1	5,210	972	
Home equity loans		1,065,988	6,958	10,831		2,214	392	
Other consumer loans		223,045	5,280	2,089	686			
Total Personal Banking		3,774,721	19,705	37,203	687	7,424	1,364	
Business Banking:								
Commercial real estate loans		1,664,255	36,209	47,682		45,932	7,412	615
Commercial loans		412,098	16,169	24,197	22	21,155	5,333	455
Total Business Banking		2,076,353	52,378	71,879	22	67,087	12,745	1,070
Total	$	5,851,074	72,083	109,082	709	74,511	14,109	1,070

(1) Includes $34.3 million of nonaccrual TDRs.

The following table provides information related to the loan portfolio by portfolio segment and by class of financing receivable at December 31, 2013 (in thousands):

		Recorded investment in loans receivable	Allowance for loan losses	Recorded investment in loans on nonaccrual (1)	Recorded investment in loans past due 90 days or more and still accruing	TDRs	Allowance related to TDRs	Additional commitments to customers with loans classified as TDRs
Personal Banking:								
Residental mortgage loans	$	2,483,004	7,875	27,277		4,004	863	
Home equity loans		1,083,939	7,245	9,863	1	2,240	371	
Other consumer loans		228,348	5,487	2,257	666			
Total Personal Banking		3,795,291	20,607	39,397	667	6,244	1,234	
Business Banking:								
Commercial real estate loans		1,608,399	34,969	41,803		48,829	4,503	301
Commercial loans		402,601	11,110	26,021	23	24,093	2,778	454
Total Business Banking		2,011,000	46,079	67,824	23	72,922	7,281	755
Total	$	5,806,291	66,686	107,221	690	79,166	8,515	755

(1) Includes $28.9 million of nonaccrual TDRS.

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The following table provides geographical and delinquency information related to the loan portfolio by portfolio segment and class of financing receivable at March 31, 2014 (in thousands):

	Pennsylvania	New York	Ohio	Maryland	Other	Total
Recorded investment in loans receivable:						
Personal Banking:						
Residential mortgage loans	$ 2,114,607	160,813	18,636	137,119	54,513	2,485,688
Home equity loans	908,780	114,567	9,872	26,832	5,937	1,065,988
Other consumer loans	205,977	9,977	2,995	1,209	2,887	223,045
Total Personal Banking	3,229,364	285,357	31,503	165,160	63,337	3,774,721
Business Banking:						
Commercial real estate loans	913,257	525,951	25,180	137,987	61,880	1,664,255
Commercial loans	277,043	79,542	16,386	27,904	11,223	412,098
Total Business Banking	1,190,300	605,493	41,566	165,891	73,103	2,076,353
Total	$ 4,419,664	890,850	73,069	331,051	136,440	5,851,074
Percentage of total loans receivable	75.6%	15.2%	1.2%	5.7%	2.3%	100.0%

	Pennsylvania	New York	Ohio	Maryland	Other	Total
Loans 90 or more days delinquent:						
Personal Banking:						
Residential mortgage loans	$ 13,863	1,280	294	2,640	2,487	20,564
Home equity loans	5,784	1,194	139	1,144	159	8,420
Other consumer loans	1,726	67	1	11	13	1,818
Total Personal Banking	21,373	2,541	434	3,795	2,659	30,802
Business Banking:						
Commercial real estate loans	13,699	1,827	41	417	114	16,098
Commercial loans	2,973	1,071		157	293	4,494
Total Business Banking	16,672	2,898	41	574	407	20,592
Total	$ 38,045	5,439	475	4,369	3,066	51,394
Percentage of total loans 90 or more days denliquent	74.0%	10.6%	0.9%	8.5%	6.0%	100.0%

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The following table provides geographical and delinquency information related to the loan portfolio by portfolio segment and class of financing receivable at December 31, 2013 (in thousands):

	Pennsylvania	New York	Ohio	Maryland	Other	Total
Recorded investment in loans receivable:						
Personal Banking:						
Residential mortgage loans	$ 2,108,018	160,931	19,468	140,087	54,500	2,483,004
Home equity loans	923,365	117,081	10,152	27,400	5,941	1,083,939
Other consumer loans	207,243	9,890	3,007	1,256	6,952	228,348
Total Personal Banking	3,238,626	287,902	32,627	168,743	67,393	3,795,291
Business Banking:						
Commercial real estate loans	876,359	484,071	27,136	123,279	97,554	1,608,399
Commercial loans	276,469	63,689	14,645	27,496	20,302	402,601
Total Business Banking	1,152,828	547,760	41,781	150,775	117,856	2,011,000
Total	$ 4,391,454	835,662	74,408	319,518	185,249	5,806,291
Percentage of total loans receivable	75.6%	14.4%	1.3%	5.5%	3.2%	100.0%

	Pennsylvania	New York	Ohio	Maryland	Other	Total
Loans 90 or more days delinquent:						
Personal Banking:						
Residential mortgage loans	$ 15,995	1,184	229	3,891	3,326	24,625
Home equity loans	5,279	1,783	116	1,095	71	8,344
Other consumer loans	2,006	35	3		13	2,057
Total Personal Banking	23,280	3,002	348	4,986	3,410	35,026
Business Banking:						
Commercial real estate loans	15,581	1,669	962	108	113	18,433
Commercial loans	3,045	645		314	294	4,298
Total Business Banking	18,626	2,314	962	422	407	22,731
Total	$ 41,906	5,316	1,310	5,408	3,817	57,757
Percentage of total loans 90 or more days delinquent	72.5%	9.2%	2.3%	9.4%	6.6%	100.0%

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The following table provides information related to the composition of impaired loans by portfolio segment and by class of financing receivable at and for the quarter ended March 31, 2014 (in thousands):

	Nonaccrual loans 90 or more days delinquent	Nonaccrual loans less than 90 days delinquent	Loans less than 90 days delinquent reviewed for impairment	TDRs less than 90 days delinquent not included elsewhere	Total impaired loans	Average recorded investment in impaired loans	Interest income recognized on impaired loans
Personal Banking:							
Residental mortgage loans	$ 20,564	3,719		4,369	28,652	28,422	187
Home equity loans	8,420	2,411		1,787	12,618	12,047	143
Other consumer loans	1,818	271			2,089	2,355	17
Total Personal Banking	30,802	6,401		6,156	43,359	42,824	347
Business Banking:							
Commercial real estate loans	16,098	31,584	25,336	14,230	87,248	83,858	860
Commercial loans	4,494	19,703	4,239	3,364	31,800	34,897	226
Total Business Banking	20,592	51,287	29,575	17,594	119,048	118,755	1,086
Total	$ 51,394	57,688	29,575	23,750	162,407	161,579	1,433

The following table provides information related to the composition of impaired loans by portfolio segment and by class of financing receivable at and for the year ended December 31, 2013 (in thousands):

	Nonaccrual loans 90 or more days delinquent	Nonaccrual loans less than 90 days delinquent	Loans less than 90 days delinquent reviewed for impairment	TDRs less than 90 days delinquent not included elsewhere	Total impaired loans	Average recorded investment in impaired loans	Interest income recognized on impaired loans
Personal Banking:							
Residental mortgage loans	$ 24,625	2,652		3,372	30,649	29,994	723
Home equity loans	8,344	1,519		1,810	11,673	10,828	383
Other consumer loans	2,057	200			2,257	1,976	44
Total Personal Banking	35,026	4,371		5,182	44,579	42,798	1,150
Business Banking:							
Commercial real estate loans	18,433	23,370	39,199	13,060	94,062	90,912	3,678
Commercial loans	4,298	21,723	5,219	3,963	35,203	41,303	1,127
Total Business Banking	22,731	45,093	44,418	17,023	129,265	132,215	4,805
Total	$ 57,757	49,464	44,418	22,205	173,844	175,013	5,955

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The following table provides information related to the evaluation of impaired loans by portfolio segment and by class of financing receivable at March 31, 2014 (in thousands):

		Loans collectively evaluated for impairment	Loans individually evaluated for impairment	Loans individually evaluated for impairment for which there is a related impairment reserve	Related impairment reserve	Loans individually evaluated for impairment for which there is no related reserve
Personal Banking:						
Residental mortgage loans	$	2,479,167	6,521	6,521	1,240	
Home equity loans		1,063,743	2,245	2,245	347	
Other consumer loans		222,955	90	90	17	
Total Personal Banking		3,765,865	8,856	8,856	1,604	
Business Banking:						
Commercial real estate loans		1,577,687	86,568	50,176	8,520	36,392
Commercial loans		384,954	27,144	18,966	7,242	8,178
Total Business Banking		1,962,641	113,712	69,142	15,762	44,570
Total	$	5,728,506	122,568	77,998	17,366	44,570

The following table provides information related to the evaluation of impaired loans by portfolio segment and by class of financing receivable at December 31, 2013 (in thousands):

		Loans collectively evaluated for impairment	Loans individually evaluated for impairment	Loans individually evaluated for impairment for which there is a related impairment reserve	Related impairment reserve	Loans individually evaluated for impairment for which there is no related reserve
Personal Banking:						
Residental mortgage loans	$	2,477,888	5,116	5,116	1,136	
Home equity loans		1,081,699	2,240	2,240	333	
Other consumer loans		228,227	121	121	1	
Total Personal Banking		3,787,814	7,477	7,477	1,470	
Business Banking:						
Commercial real estate loans		1,532,117	76,282	45,761	6,300	30,521
Commercial loans		371,287	31,314	21,395	4,133	9,919
Total Business Banking		1,903,404	107,596	67,156	10,433	40,440
Total	$	5,691,218	115,073	74,633	11,903	40,440

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Our loan portfolios include loans that have been modified in a troubled debt restructuring (TDR), where concessions have been granted to borrowers who have experienced financial difficulties. These concessions typically result from our loss mitigation activities and could include: extending the note s maturity date, permitting interest only payments, reducing the interest rate to a rate lower than current market rates for new debt with similar risk, reducing the principal payment, principal forbearance or other actions. These concessions are applicable to all loan segments and classes. Certain TDRs are classified as nonperforming at the time of restructuring and may be returned to performing status after considering the borrower s sustained repayment performance for a reasonable period of at least six months.

When we modify loans in a TDR, we evaluate any possible 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, the loan s observable market price or 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 an allowance estimate or a charge-off to the allowance. In periods subsequent to modification, we evaluate all TDRs, including those that have payment defaults, for possible impairment, using ASC 310-10. As a result, loans modified in a TDR may have the financial effect of increasing the specific allowance associated with the loan.

Loans modified in a TDR are closely monitored for delinquency as an early indicator of possible future default. If loans modified in a TDR subsequently default, we evaluate the loan for possible further impairment. The allowance may be increased, adjustments may be made in the allocation of the allowance, partial charge-offs may be taken to further write-down the carrying value of the loan, or the loan may be charged-off completely.

The following table provides a roll forward of troubled debt restructurings for the periods indicated (in thousands):

	For the quarters ended March 31,					
	2014			2013		
	Number of contracts			Number of contracts		
Beginning TDR balance:	276	$	79,166	225	$	89,444
New TDRs	11		1,468	58		5,611
Net paydowns			(4,494)			(2,337)
Charge-offs:						
Home equity loans				1		(23)
Commercial real estate loans	2		(31)	2		(650)
Commercial loans	1		(7)	2		(17)
Paid-off loans:						
Commercial real estate loans	2		(277)	1		(310)
Commercial loans	6		(1,314)	8		(353)
Ending TDR balance:	276	$	74,511	269	$	91,365
Accruing TDRs		$	40,243		$	45,256
Non-accrual TDRs			34,268			46,109

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The following table provides information related to troubled debt restructurings (including re-modified TDRs) by portfolio segment and by class of financing receivable during the periods indicated (dollars in thousands):

	For the quarter ended March 31, 2014				
	Number of contracts		Recorded investment at the time of modification	Current recorded investment	Current allowance
Troubled debt restructurings:					
Personal Banking:					
Residential mortgage loans	6	$	1,290	1,289	119
Home equity loans					
Other consumer loans					
Total Personal Banking	6		1,290	1,289	119
Business Banking:					
Commercial real estate loans	3		89	87	32
Commercial loans	2		89	107	10
Total Business Banking	5		178	194	42
Total	11	$	1,468	1,483	161
Troubled debt restructurings that subsequently defaulted:					
Personal Banking:					
Residential mortgage loans	2	$	259	227	58
Home equity loans					
Other consumer loans					
Total Personal Banking	2		259	227	58
Business Banking:					
Commercial real estate loans	2		505	484	67
Commercial loans	2		327	331	98
Total Business Banking	4		832	815	165
Total	6	$	1,091	1,042	223

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The following table provides information related to troubled debt restructurings (including re-modified TDRs) by portfolio segment and by class of financing receivable during the periods indicated (dollars in thousands):

	For the quarter ended March 31, 2013				
	Number of contracts		Recorded investment at the time of modification	Current recorded investment	Current allowance
Troubled debt restructurings:					
Personal Banking:					
Residential mortgage loans	2	$	179	162	26
Home equity loans	3		287	285	133
Other consumer loans					
Total Personal Banking	5		466	447	159
Business Banking:					
Commercial real estate loans	32		3,417	2,878	270
Commercial loans	21		1,728	1,513	171
Total Business Banking	53		5,145	4,391	441
Total	58	$	5,611	4,838	600
Troubled debt restructurings that subsequently defaulted:					
Personal Banking:					
Residential mortgage loans	1	$	244	237	30
Home equity loans	1		183	130	106
Other consumer loans					
Total Personal Banking	2		427	367	136
Business Banking:					
Commercial real estate loans	3		778	713	38
Commercial loans	6		16,267	11,708	2,174
Total Business Banking	9		17,045	12,421	2,212
Total	11	$	17,472	12,788	2,348

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The following table provides information for troubled debt restructurings (including re-modified TDRs) by type of modification by portfolio segment and by class of financing receivable for the quarter ended March 31, 2014 (dollars in thousands):

	Number of contracts	Rate	Payment	Maturity date	Other	Total
		Type of modification				
Personal Banking:						
Residental mortgage loans	6	$		1,289		1,289
Home equity loans						
Other consumer loans						
Total Personal Banking	6			1,289		1,289
Business Banking:						
Commercial real estate loans	3			59	28	87
Commercial loans	2		102		5	107
Total Business Banking	5		102	59	33	194
Total	11	$	102	1,348	33	1,483

The following table provides information for troubled debt restructurings (including re-modified TDRs) by type of modification by portfolio segment and by class of financing receivable for the quarter ended March 31, 2013 (dollars in thousands):

	Number of contracts	Rate	Payment	Maturity date	Other	Total
		Type of modification				
Personal Banking:						
Residental mortgage loans	2	$		162		162
Home equity loans	3			285		285
Other consumer loans						
Total Personal Banking	5			447		447
Business Banking:						
Commercial real estate loans	32	990	458	474	956	2,878
Commercial loans	21	139	452	806	116	1,513
Total Business Banking	53	1,129	910	1,280	1,072	4,391
Total	58	$ 1,129	910	1,727	1,072	4,838

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The following table provides information related to re-modified troubled debt restructurings by portfolio segment and by class of financing receivable for the quarter ended March 31, 2014 (dollars in thousands):

	Number of re-modified TDRs	Type of re-modification Rate	Payment	Maturity date	Other	Total
Personal Banking:						
Residental mortgage loans	1	$		77		77
Home equity loans						
Other consumer loans						
Total Personal Banking	1			77		77
Business Banking:						
Commercial real estate loans	2			59	18	77
Commercial loans	1				5	5
Total Business Banking	3			59	23	82
Total	4	$		136	23	159

No troubled debt restructurings were re-modified during the quarter ended March 31, 2013.

The following table provides information related to loan payment delinquencies at March 31, 2014 (in thousands):

	30-59 Days delinquent	60-89 Days delinquent	90 Days or greater delinquent	Total delinquency	Current	Recorded investment in loans receivable
Personal Banking:						
Residential mortgage loans	$ 26,874	3,674	20,564	51,112	2,434,576	2,485,688
Home equity loans	5,449	1,437	8,420	15,306	1,050,682	1,065,988
Other consumer loans	3,412	1,289	1,818	6,519	216,526	223,045
Total Personal Banking	35,735	6,400	30,802	72,937	3,701,784	3,774,721
Business Banking:						
Commercial real estate loans	26,518	2,570	16,098	45,186	1,619,069	1,664,255
Commercial loans	1,375	473	4,494	6,342	405,756	412,098
Total Business Banking	27,893	3,043	20,592	51,528	2,024,825	2,076,353
Total	$ 63,628	9,443	51,394	124,465	5,726,609	5,851,074

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The following table provides information related to loan payment delinquencies at December 31, 2013 (in thousands):

		30-59 Days delinquent	60-89 Days delinquent	90 Days or greater delinquent	Total delinquency	Current	Recorded investment in loans receivable
Personal Banking:							
Residential mortgage loans	$	27,486	7,568	24,625	59,679	2,423,325	2,483,004
Home equity loans		6,946	2,243	8,344	17,533	1,066,406	1,083,939
Other consumer loans		4,515	1,866	2,057	8,438	219,910	228,348
Total Personal Banking		38,947	11,677	35,026	85,650	3,709,641	3,795,291
Business Banking:							
Commercial real estate loans		8,449	3,968	18,433	30,850	1,577,549	1,608,399
Commercial loans		9,243	1,555	4,298	15,096	387,505	402,601
Total Business Banking		17,692	5,523	22,731	45,946	1,965,054	2,011,000
Total	$	56,639	17,200	57,757	131,596	5,674,695	5,806,291

Credit quality indicators: We categorize loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. We analyze loans individually by classifying the loans by credit risk. Credit relationships greater than or equal to $1.0 million classified as special mention or substandard are reviewed quarterly for deterioration or improvement to determine if the loan is appropriately classified. We use the following definitions for risk ratings other than pass:

Special mention Loans designated as special mention have specific, well-defined risk issues, which create a high level of uncertainty regarding the long-term viability of the business. Loans in this class are considered to have high-risk characteristics. A special mention loan exhibits material negative financial trends due to company-specific or systemic conditions. If these potential weaknesses are not mitigated, they threaten the borrower s capacity to meet its debt obligations. Special mention loans still demonstrate sufficient financial flexibility to react to and positively address the root cause of the adverse financial trends without significant deviations from their current business strategy. Their potential weaknesses deserve our close attention and warrant enhanced monitoring.

Substandard Loans classified as substandard are inadequately protected by the current net worth and payment capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that we will sustain some loss if the deficiencies are not corrected.

Doubtful Loans classified as doubtful have all the weaknesses inherent in those classified as substandard. In addition, those weaknesses make collection or liquidation in full highly questionable and improbable. A loan classified as doubtful exhibits discernible loss potential, but a complete loss seems very unlikely. The possibility of a loss on a doubtful loan is high, but because of certain important and reasonably specific pending factors that may strengthen the loan, its classification as an estimated loss is deferred until a more exact status can be determined.

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Loss Loans classified as loss are considered uncollectible and of such value that the continuance as a loan is not warranted. A loss classification does not mean that the loan has no recovery or salvage value; instead, it means that it is not practical or desirable to defer writing off all or a portion of a basically worthless loan even though partial recovery may be possible in the future.

The following table sets forth information about credit quality indicators, which were updated during the quarter ended March 31, 2014 (in thousands):

		Pass	Special mention	Substandard	Doubtful	Loss	Recorded investment in loans receivable
Personal Banking:							
Residential mortgage loans	$	2,469,561		14,649		1,478	2,485,688
Home equity loans		1,057,568		8,420			1,065,988
Other consumer loans		221,776		1,269			223,045
Total Personal Banking		3,748,905		24,338		1,478	3,774,721
Business Banking:							
Commercial real estate loans		1,456,037	54,004	151,248	2,966		1,664,255
Commercial loans		357,778	11,987	33,515	8,818		412,098
Total Business Banking		1,813,815	65,991	184,763	11,784		2,076,353
Total	$	5,562,720	65,991	209,101	11,784	1,478	5,851,074

The following table sets forth information about credit quality indicators, which were updated during the year ended December 31, 2013 (in thousands):

		Pass	Special mention	Substandard	Doubtful	Loss	Recorded investment in loans receivable
Personal Banking:							
Residential mortgage loans	$	2,464,057		17,626		1,321	2,483,004
Home equity loans		1,075,595		8,344			1,083,939
Other consumer loans		226,922		1,426			228,348
Total Personal Banking		3,766,574		27,396		1,321	3,795,291
Business Banking:							
Commercial real estate loans		1,398,652	46,557	161,906	1,284		1,608,399
Commercial loans		345,612	12,045	43,040	1,904		402,601
Total Business Banking		1,744,264	58,602	204,946	3,188		2,011,000
Total	$	5,510,838	58,602	232,342	3,188	1,321	5,806,291

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(5) Goodwill and Other Intangible Assets

The following table provides information for intangible assets subject to amortization at the dates indicated (in thousands):

		March 31, 2014	December 31, 2013
Amortizable intangible assets:			
Core deposit intangibles gross	$	30,578	30,578
Acquisitions			
Less: accumulated amortization		(30,513)	(30,491)
Core deposit intangibles net		65	87
Customer and Contract intangible assets gross		6,197	6,197
Acquisitions		2,037	
Less: accumulated amortization		(4,274)	(3,965)
Customer and Contract intangible assets net	$	3,960	2,232

The following table shows the actual aggregate amortization expense for the quarters ended March 31, 2014 and 2013, as well as the estimated aggregate amortization expense, based upon current levels of intangible assets, for the current fiscal year and each of the five succeeding fiscal years (in thousands):

For the quarter ended March 31, 2014	$	331
For the quarter ended March 31, 2013		348
For the year ending December 31, 2014		1,323
For the year ending December 31, 2015		1,008
For the year ending December 31, 2016		779
For the year ending December 31, 2017		550
For the year ending December 31, 2018		391
For the year ending December 31, 2019		232

The following table provides information for the changes in the carrying amount of goodwill (in thousands):

		Community Banks	Consumer Finance	Total
Balance at December 31, 2012	$	172,848	1,613	174,461
Goodwill acquired		2		2
Impairment losses				
Balance at December 31, 2013		172,850	1,613	174,463
Goodwill acquired		1,525		1,525
Impairment losses				
Balance at March 31, 2014	$	174,375	1,613	175,988

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We performed our annual goodwill impairment test as of June 30, 2013 and concluded that goodwill was not impaired. At March 31, 2014, there were no changes in our operations or other factors that would cause us to update that test. See the Overview of Critical Accounting Policies Involving Estimates section for a description of our testing procedures.

(6) Guarantees

We issue standby letters of credit in the normal course of business. Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Standby letters of credit generally are contingent upon the failure of the customer to perform according to the terms of the underlying contract with the third party. We are required to perform under a standby letter of credit when drawn upon by the guaranteed third party in the case of nonperformance by our customer. The credit risk associated with standby letters of credit is essentially the same as that involved in extending loans to customers and is subject to normal loan underwriting procedures. Collateral may be obtained based on management s credit assessment of the customer. At March 31, 2014, the maximum potential amount of future payments we could be required to make under these standby letters of credit was $26.3 million, of which $25.2 million is fully collateralized. At March 31, 2014, we had a liability, which represents deferred income, of $931,000 related to the standby letters of credit. There are no recourse provisions that would enable us to recover any amounts from third parties.

(7) Earnings Per Share

Basic earnings per common share (EPS) is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period, without considering any dilutive items. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company. All stock options outstanding during the quarter ended March 31, 2014 were included in the computation of diluted earnings per share because the stock options exercise price was less than the average market price of the common shares of $14.47 during the quarter. Stock options to purchase 4,500 shares of common stock with a weighted average exercise price of $12.48 per share were outstanding during the quarter ended March 31, 2013 but were not included in the computation of diluted earnings per share for this period because the options exercise price was greater than the average market price of the common shares of $12.45 during the quarter.

The computation of basic and diluted earnings per share follows (in thousands, except share data and per share amounts):

		Quarter ended March 31,	
		2014	**2013**
Reported net income	$	14,640	15,298
Weighted average common shares outstanding		91,154,998	90,403,909
Dilutive potential shares due to effect of stock options		1,198,314	474,994
Total weighted average common shares and dilutive potential shares		92,353,312	90,878,903
Basic earnings per share:	$	0.16	0.17
Diluted earnings per share:	$	0.16	0.17

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(8) Pension and Other Post-retirement Benefits

The defined benefit pension plan was amended to lock-in all benefits earned through March 31, 2013 based on the plan formula using years of service and average monthly compensation as of March 31, 2013. The amendments also provide that, for service commencing January 1, 2013, additional benefits will be earned equal to 1% of career average pay for each year that a participant completes at least 1,000 hours of service. Also, effective April 1, 2013, participants who are eligible to receive required minimum distributions due to attaining age 70 ½ will be required to begin payment of benefits even though they may remain employed by us.

The following table sets forth the net periodic costs for the defined benefit pension plans and post retirement healthcare plans for the periods indicated (in thousands):

Components of net periodic benefit cost

	Quarter ended March 31,			
	Pension benefits		Other post-retirement benefits	
	2014	2013	2014	2013
Service cost	$ 1,035	1,138		
Interest cost	1,457	1,301	16	16
Expected return on plan assets	(2,416)	(2,138)		
Amortization of prior service cost	(581)	(580)		
Amortization of the net loss	356	919	12	13
Net periodic (benefit)/ cost	$ (149)	640	28	29

We made no contribution to our pension or other post-retirement benefit plans during the quarter ended March 31, 2014 and do not anticipate the need to make a contribution to our defined benefit pension plan during the year ending December 31, 2014.

(9) Disclosures About Fair Value of Financial Instruments

Fair value information about financial instruments, whether or not recognized in the consolidated statement of financial condition, is required to be disclosed. These requirements exclude certain financial instruments and all nonfinancial instruments. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

Financial assets and liabilities recognized or disclosed at fair value on a recurring basis and certain financial assets and liabilities on a non-recurring basis are accounted for using a three-level hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. This hierarchy gives the highest priority to quoted prices with readily available independent data in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable market inputs (Level 3). When various inputs for measurement fall within different levels of the fair value hierarchy, the lowest level input that has a significant impact on fair value measurement is used.

Financial assets and liabilities are categorized based upon the following characteristics or inputs to the valuation techniques:

- Level 1 Financial assets and liabilities for which inputs are observable and are obtained from reliable quoted prices for identical assets or liabilities in actively traded markets. This is the most reliable fair value measurement and includes, for example, active exchange-traded equity securities.

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- Level 2 Financial assets and liabilities for which values are based on quoted prices in markets that are not active or for which values are based on similar assets or liabilities that are actively traded. Level 2 also includes pricing models in which the inputs are corroborated by market data, for example, matrix pricing.

- Level 3 Financial assets and liabilities for which values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. Level 3 inputs include the following:

- Quotes from brokers or other external sources that are not considered binding;

- Quotes from brokers or other external sources where it cannot be determined that market participants would in fact transact for the asset or liability at the quoted price;

- Quotes and other information from brokers or other external sources where the inputs are not deemed observable.

We are responsible for the valuation process and as part of this process may use data from outside sources in establishing fair value. We perform due diligence to understand the inputs used or how the data was calculated or derived. We also corroborate the reasonableness of external inputs in the valuation process.

The carrying amounts reported in the consolidated statement of financial condition approximate fair value for the following financial instruments: cash on hand, interest-earning deposits in other institutions, federal funds sold and other short-term investments, accrued interest receivable, accrued interest payable, and marketable securities available-for-sale.

Marketable Securities

Where available, market values are based on quoted market prices, dealer quotes, and prices obtained from independent pricing services.

Debt securities available for sale - Generally, debt securities are valued using pricing for similar securities, recently executed transactions and other pricing models utilizing observable inputs. The valuation for most debt securities is classified as Level 2. Securities within Level 2 include corporate bonds, municipal bonds, mortgage-backed securities and US government obligations. Certain corporate debt securities do not have an active market and as such the broker pricing received uses alternative methods. The fair value of these corporate debt securities is determined by using a discounted cash flow model using market assumptions, which generally include cash flow, collateral and other market assumptions. As such, these securities are included herein as Level 3 assets.

Equity securities available for sale Level 1 securities include publicly traded securities valued using quoted market prices. We consider the financial condition of the issuer to determine if the securities have indicators of impairment.

Debt securities held to maturity - The fair value of debt securities held to maturity is determined in the same manner as debt securities available for sale.

Loans Receivable

Loans with comparable characteristics including collateral and re-pricing structures are segregated for valuation purposes. Characteristics include remaining term, coupon interest, and estimated prepayment speeds. Delinquent loans are separately evaluated given the impact delinquency has on the projected future cash flow of the loan and the approximate discount or market rate. Each loan pool is separately valued utilizing a discounted cash flow analysis. Projected monthly cash flows are discounted to present value using a market rate for comparable loans, which is not considered an exit price.

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FHLB Stock

Due to the restrictions placed on the transferability of FHLB stock it is not practical to determine the fair value.

Deposit Liabilities

The estimated fair value of deposits with no stated maturity, which includes demand deposits, money market, and other savings accounts, is the amount payable on demand. Although market premiums paid for depository institutions reflect an additional value for these low-cost deposits, adjusting fair value for any value expected to be derived from retaining those deposits for a future period of time or from the benefit that results from the ability to fund interest-earning assets with these deposit liabilities is prohibited. The fair value estimates of deposit liabilities do not include the benefit that results from the low-cost funding provided by these deposits compared to the cost of borrowing funds in the market. Fair values for time deposits are estimated using a discounted cash flow calculation that applies contractual cost currently being offered in the existing portfolio to current market rates being offered locally for deposits of similar remaining maturities. The valuation adjustment for the portfolio consists of the present value of the difference of these two cash flows, discounted at the assumed market rate of the corresponding maturity.

Borrowed Funds

Fixed rate advances are valued by comparing their contractual cost to the prevailing market cost. The carrying amount of repurchase agreements approximates the fair value.

Junior Subordinated Debentures

The fair value of junior subordinated debentures is calculated using the discounted cash flows at the prevailing rate of interest.

Cash flow hedges Interest rate swap agreements (swaps)

The fair value of the swaps is the amount we would expect to pay to terminate the agreements and is based upon the present value of the expected future cash flows using the LIBOR swap curve, the basis for the underlying interest rate.

Off-Balance Sheet Financial Instruments

These financial instruments generally are not sold or traded, and estimated fair values are not readily available. However, the fair value of commitments to extend credit and standby letters of credit is estimated using the fees currently charged to enter into similar agreements. Commitments to extend credit are generally short-term in nature and, if drawn upon, are issued under current market terms. At March 31, 2014 and December 31, 2013, there was no significant unrealized appreciation or depreciation on these financial instruments.

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The following table sets forth the carrying amount and estimated fair value of our financial instruments included in the consolidated statement of financial condition at March 31, 2014:

		Carrying amount	Estimated fair value	Level 1	Level 2	Level 3
Financial assets:						
Cash and cash equivalents	$	462,326	462,326			