Northwest Bancshares, Inc.
Form 10-Q
August 09, 2013
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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 June 30, 2013**

**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) 94,093,857 shares outstanding as of August 1, 2013

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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)**

| | | | |
|---|---|---|---|
| [redacted] | | | |
| Assets | | | |
| [redacted] | | | |
| Interest-earning deposits in other financial institutions | | 359,997 | 362,794 |
| [redacted] | | | |
| Marketable securities available-for-sale (amortized cost of $1,136,792 and $1,053,122) | | 1,144,953 | 1,079,074 |
| [redacted] | | | |
| Total cash and investments | | 1,726,547 | 1,685,859 |
| [redacted] | | | |
| Personal Banking: | | | |
| [redacted] | | | |
| Residential mortgage loans | | 2,414,347 | 2,400,208 |
| [redacted] | | | |
| Other consumer loans | | 223,514 | 235,367 |
| [redacted] | | | |
| Business Banking: | | | |
| [redacted] | | | |
| Commercial loans | | 397,308 | 388,994 |
| [redacted] | | | |
| Total loans | | 5,691,407 | 5,702,480 |
| [redacted] | | | |
| Total loans, net | | 5,618,817 | 5,629,261 |
| [redacted] | | | |
| Federal Home Loan Bank stock, at cost | | 48,240 | 46,834 |
| [redacted] | | | |
| Real estate owned, net | | 21,269 | 26,165 |
| [redacted] | | | |
| Bank owned life insurance | | 139,210 | 137,044 |
| [redacted] | | | |
| Other intangible assets | | 2,832 | 3,529 |
| [redacted] | | | |
| Total assets | $ | 7,963,814 | 7,942,600 |
| [redacted] | | | |
| Liabilities and Shareholders equity | | | |
| [redacted] | | | |
| Noninterest-bearing demand deposits | $ | 796,137 | 755,429 |
| [redacted] | | | |
| Savings deposits | | 2,337,183 | 2,271,311 |
| [redacted] | | | |
| Total deposits | | 5,783,092 | 5,764,600 |
| [redacted] | | | |

| | | |
|---|---|---|
| Borrowed funds | 857,344 | 860,047 |
| [redacted] | | |
| Advances by borrowers for taxes and insurance | 33,260 | 23,325 |
| [redacted] | | |
| Other liabilities | 57,748 | 62,177 |
| [redacted] | | |
| | | |
| [redacted] | | |
| Preferred stock, $0.01 par value: 50,000,000 authorized, no shares issued | | |
| [redacted] | | |
| Paid-in capital | 613,520 | 613,249 |
| [redacted] | | |
| Unallocated common stock of employee stock ownership plan | (23,743) | (24,525) |
| [redacted] | | |
| Total shareholders equity | 1,128,233 | 1,128,469 |
| [redacted] | | |

See accompanying notes to unaaudited consolidated financial statements

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**NORTHWEST BANCSHARES, INC.**

**CONSOLIDATED STATEMENTS OF INCOME (Unaudited)**

**(in thousands, except per share data)**

| | Quarter ended June 30, 2013 | Quarter ended June 30, 2012 | Six months ended June 30, 2013 | Six months ended June 30, 2012 |
|---|---|---|---|---|
| Interest income: | | | | |
| Loans receivable | $ 71,987 | 77,173 | 144,960 | 155,117 |
| Mortgage-backed securities | 3,308 | 4,409 | 6,749 | 9,100 |
| Taxable investment securities | 1,034 | 435 | 1,939 | 1,008 |
| Tax-free investment securities | 2,094 | 2,318 | 4,157 | 4,764 |
| Interest-earning deposits | 340 | 473 | 591 | 853 |
| Total interest income | 78,763 | 84,808 | 158,396 | 170,842 |
| | | | | |
| Interest expense: | | | | |
| Deposits | 7,404 | 11,184 | 15,218 | 24,128 |
| Borrowed funds | 8,032 | 7,912 | 15,863 | 15,811 |
| Total interest expense | 15,436 | 19,096 | 31,081 | 39,939 |
| | | | | |
| Net interest income | 63,327 | 65,712 | 127,315 | 130,903 |
| Provision for loan losses | 5,405 | 4,963 | 12,563 | 11,250 |
| Net interest income after provision for loan losses | 57,922 | 60,749 | 114,752 | 119,653 |
| | | | | |
| Noninterest income: | | | | |
| Impairment losses on securities | | | | (545) |
| Noncredit related losses on securities not expected to be sold (recognized in other comprehensive income) | | | | 307 |
| Net impairment losses | | | | (238) |
| Gain/ (loss) on sale of investments, net | 19 | (44) | 120 | |
| Service charges and fees | 9,037 | 8,951 | 17,728 | 17,591 |
| Trust and other financial services income | 2,263 | 2,018 | 4,467 | 4,134 |
| Insurance commission income | 2,190 | 1,603 | 4,485 | 3,321 |
| Loss on real estate owned, net | (2,285) | (582) | (2,415) | (1,652) |
| Income from bank owned life insurance | 1,088 | 1,107 | 2,173 | 2,224 |
| Mortgage banking income | 236 | 789 | 1,192 | 1,320 |
| Other operating income | 865 | 1,244 | 2,041 | 2,241 |
| Total noninterest income | 13,413 | 15,086 | 29,791 | 28,941 |
| | | | | |
| Noninterest expense: | | | | |
| Compensation and employee benefits | 28,156 | 27,416 | 56,086 | 55,254 |
| Premises and occupancy costs | 5,744 | 5,483 | 11,897 | 11,231 |
| Office operations | 3,866 | 3,340 | 7,134 | 6,664 |
| Processing expenses | 7,390 | 6,059 | 13,243 | 12,201 |
| Marketing expenses | 2,093 | 3,829 | 3,993 | 5,865 |
| Federal deposit insurance premiums | 1,424 | 1,418 | 2,862 | 3,038 |
| Professional services | 1,199 | 1,500 | 2,892 | 3,197 |
| Amortization of other intangible assets | 349 | 279 | 697 | 574 |
| Real estate owned expense | 600 | 571 | 1,199 | 1,311 |
| Other expenses | 1,985 | 2,071 | 4,274 | 3,907 |
| Total noninterest expense | 52,806 | 51,966 | 104,277 | 103,242 |

| | | | | | |
|---|---|---|---|---|---|
| Income before income taxes | | 18,529 | 23,869 | 40,266 | 45,352 |
| Federal and state income taxes | | 5,051 | 7,508 | 11,490 | 13,810 |
| Net income | $ | 13,478 | 16,361 | 28,776 | 31,542 |
| Basic earnings per share | $ | 0.15 | 0.17 | 0.32 | 0.33 |
| Diluted earnings per share | $ | 0.15 | 0.17 | 0.32 | 0.33 |

See accompanying notes to unaudited consolidated financial statements

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**NORTHWEST BANCSHARES, INC.**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)**

**(in thousands)**

| | | Quarter ended June 30, 2013 | Quarter ended June 30, 2012 | Six months ended June 30, 2013 | Six months ended June 30, 2012 |
|---|---|---|---|---|---|
| Net Income | $ | 13,478 | 16,361 | 28,776 | 31,542 |
| Other comprehensive income net of tax: | | | | | |
| Net unrealized holding gains/ (losses) on marketable securities: | | | | | |
| Unrealized holding gains/ (losses) net of tax of $7,276, $(572), $6,841 and $(1,473), respectively | | (11,399) | 894 | (10,729) | 2,255 |
| Other-than-temporary impairment on securities included in net income, net of tax of $0, $0, $0 and $(93), respectively | | | | | 145 |
| Reclassification adjustment for gains included in net income, net of tax of $44, $91, $87 and $122 respectively | | (68) | (141) | (134) | (190) |
| Net unrealized holding gains/ (losses) on marketable securities | | (11,467) | 753 | (10,863) | 2,210 |
| | | | | | |
| Change in fair value of interest rate swaps, net of tax of $(874), $410, $(1,241) and $48, respectively | | 1,626 | (641) | 2,306 | (90) |
| | | | | | |
| Defined benefit plan: | | | | | |
| Reclassification adjustment for prior period service costs included in net income, net of tax of $(123), $(232), $(246) and $(463), respectively | | 229 | 431 | 458 | 862 |
| | | | | | |
| Other comprehensive income/ (loss) | | (9,612) | 543 | (8,099) | 2,982 |
| | | | | | |
| Total comprehensive income | $ | 3,866 | 16,904 | 20,677 | 34,524 |

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, expect per share data)**

| Quarter ended June 30, 2012 | 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 March 31, 2012 | 97,593,396 | $ 976 | 660,933 | 547,352 | (20,787) | (25,568) | 1,162,906 |
| Comprehensive income: | | | | | | | |
| Net income | | | | 16,361 | | | 16,361 |
| Other comprehensive income, net of tax of $(303) | | | | | 543 | | 543 |
| Total comprehensive income | | | | 16,361 | 543 | | 16,904 |
| Exercise of stock options | 24,101 | | 209 | | | | 209 |
| Stock compensation expense | 263,377 | 3 | 1,041 | | | 376 | 1,420 |
| Dividends paid ($0.12 per share) | | | | (11,435) | | | (11,435) |
| Ending balance at June 30, 2012 | 97,880,874 | $ 979 | 662,183 | 552,278 | (20,244) | (25,192) | 1,170,004 |

| Quarter ended June 30, 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 March 31, 2013 | 93,802,335 | $ 938 | 615,160 | 565,594 | (9,975) | (24,137) | 1,147,580 |
| Comprehensive income: | | | | | | | |
| Net income | | | | 13,478 | | | 13,478 |
| Other comprehensive income, net of tax of $6,350 | | | | | (9,612) | | (9,612) |
| Total comprehensive income | | | | 13,478 | (9,612) | | 3,866 |
| Exercise of stock options | 174,992 | 2 | 1,681 | | | | 1,683 |
| Stock compensation expense | 269,320 | 3 | 1,134 | | | 394 | 1,531 |
| Share repurchases | (368,800) | (4) | (4,455) | | | | (4,459) |
| Dividends paid ($0.24 per share) | | | | (21,968) | | | (21,968) |
| Ending balance at June 30, 2013 | 93,877,847 | $ 939 | 613,520 | 557,104 | (19,587) | (23,743) | 1,128,233 |

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, expect per share data)**

| Six months ended June 30, 2012 | 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, 2011 | 97,493,046 | $ 975 | 659,523 | 543,598 | (23,226) | (25,966) | 1,154,904 |
| Comprehensive income: | | | | | | | |
| Net income | | | | 31,542 | | | 31,542 |
| Other comprehensive income, net of tax of $(1,859) | | | | | 2,982 | | 2,982 |
| Total comprehensive income | | | | 31,542 | 2,982 | | 34,524 |
| Exercise of stock options | 124,451 | 1 | 994 | | | | 995 |
| Stock-based compensation expense | 263,377 | 3 | 1,666 | | | 774 | 2,443 |
| Dividends paid ($0.24 per share) | | | | (22,862) | | | (22,862) |
| Ending balance at June 30, 2012 | 97,880,874 | $ 979 | 662,183 | 552,278 | (20,244) | (25,192) | 1,170,004 |

| Six months ended June 30, 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 | | | | 28,776 | | | 28,776 |
| Other comprehensive loss, net of tax of $5,441 | | | | | (8,099) | | (8,099) |
| Total comprehensive income | | | | 28,776 | (8,099) | | 20,677 |
| Exercise of stock options | 324,367 | 3 | 2,898 | | | | 2,901 |
| Stock-based compensation expense | 269,320 | 3 | 1,828 | | | 782 | 2,613 |
| Share repurchases | (368,800) | (4) | (4,455) | | | | (4,459) |
| Dividends paid ($0.24 per share) | | | | (21,968) | | | (21,968) |
| Ending balance at June 30, 2013 | 93,877,847 | $ 939 | 613,520 | 557,104 | (19,587) | (23,743) | 1,128,233 |

See accompanying notes to unaudited consolidated financial statements

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**NORTHWEST BANCSHARES, INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)**

**(in thousands)**

| | Six months ended June 30, 2013 | 2012 |
|---|---|---|
| OPERATING ACTIVITIES: | | |
| Net Income | $ 28,776 | 31,542 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for loan losses | 12,563 | 11,250 |
| Net (gain)/ loss on sale of assets | (584) | 832 |
| Net depreciation, amortization and accretion | 4,708 | 3,691 |
| Decrease in other assets | 11,200 | 15,464 |
| Increase/ (decrease) in other liabilities | (21) | 6,428 |
| Net amortization/ (accretion) on marketable securities | 59 | (19) |
| Noncash impairment losses on investment securities | | 238 |
| Noncash write-down of real estate owned | 2,971 | 886 |
| Origination of loans held for sale | (35,991) | (106,900) |
| Proceeds from sale of loans held for sale | 51,673 | 95,315 |
| Noncash compensation expense related to stock benefit plans | 2,613 | 2,443 |
| Net cash provided by operating activities | 77,967 | 61,170 |
| | | |
| INVESTING ACTIVITIES: | | |
| Purchase of marketable securities available-for-sale | (227,595) | (144,666) |
| Proceeds from maturities and principal reductions of marketable securities available-for-sale | 143,939 | 155,891 |
| Proceeds from maturities and principal reductions of marketable securities held-to-maturity | 21,690 | 51,170 |
| Proceeds from sale of marketable securities available-for-sale | | |
| Loan originations | (984,068) | (1,030,529) |
| Proceeds from loan maturities and principal reductions | 962,424 | 902,818 |
| Redemption/ (purchase) of Federal Home Loan Bank stock | (1,406) | 2,101 |
| Proceeds from sale of real estate owned | 8,969 | 6,329 |
| Sale of real estate owned for investment, net | 228 | 228 |
| Purchase of premises and equipment | (7,895) | (8,561) |
| Net cash used in investing activities | (83,714) | (65,219) |

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**NORTHWEST BANCSHARES, INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited) (continued)**

**(in thousands)**

| | | Six months ended June 30, 2013 | 2012 |
|---|---|---|---|
| FINANCING ACTIVITIES: | | | |
| Increase in deposits, net | $ | 18,492 | 25,545 |
| Proceeds from long-term borrowings | | 30,000 | |
| Repayments of long-term borrowings | | (34) | (34) |
| Net increase/ (decrease) in short-term borrowings | | (32,669) | 25,223 |
| Increase in advances by borrowers for taxes and insurance | | 9,935 | 8,753 |
| Cash dividends paid | | (21,968) | (22,862) |
| Purchase of common stock for retirement | | (4,459) | |
| Proceeds from stock options exercised | | 2,901 | 995 |
| Net cash provided by financing activities | | 2,198 | 37,620 |
| | | | |
| Net increase/ (decrease) in cash and cash equivalents | $ | (3,549) | 33,571 |
| | | | |
| Cash and cash equivalents at beginning of period | $ | 451,704 | 688,297 |
| Net increase/ (decrease) in cash and cash equivalents | | (3,549) | 33,571 |
| Cash and cash equivalents at end of period | $ | 448,155 | 721,868 |
| | | | |
| Cash and cash equivalents: | | | |
| Cash and due from banks | $ | 87,524 | 82,295 |
| Interest-earning deposits in other financial institutions | | 359,997 | 638,940 |
| Federal funds sold and other short-term investments | | 634 | 633 |
| Total cash and cash equivalents | $ | 448,155 | 721,868 |
| | | | |
| Cash paid during the period for: | | | |
| Interest on deposits and borrowings (including interest credited to deposit accounts of $13,707 and $20,736, respectively) | $ | 30,926 | 39,801 |
| Income taxes | $ | 15,960 | 4,292 |
| | | | |
| Non-cash activities: | | | |
| Loans foreclosures and repossessions | $ | 7,019 | 12,038 |
| Sale of real estate owned financed by the Company | $ | 296 | 380 |

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 June 30, 2013, Northwest operated 166 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., Boetger & Associates, Inc., Allegheny Services, Inc., Great Northwest Corporation, Veracity Benefit Designs, Inc. and The Bert Company. 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 and 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, 2012 updated, as required, for any new pronouncements or changes. The following sections of our **Summary of Significant Accounting Principals** have been updated since the filing of our form 10K and are included herein.

**Investment Securities**

We classify marketable securities at the time of purchase as held-to-maturity, available-for-sale, or trading securities. Securities for which management has the intent and we have the ability to hold until their maturity are classified as held-to-maturity and are carried at cost, adjusted for amortization of premiums and accretion of discounts on a level yield basis (amortized cost). If it is management s intent at the time of purchase to hold securities for an indefinite period of time and/or to use such securities as part of its asset/liability management strategy, the securities are classified as available-for-sale and are carried at fair value, with unrealized gains and losses reported as accumulated other comprehensive income/ (loss), a separate component of shareholders equity, net of tax. Securities classified as available-for-sale include securities that may be sold in response to changes in interest rates, resultant prepayment risk, or other market factors. Securities that are bought and held principally for the purpose of selling them in the near term are classified as trading and are reported at fair value, with changes in fair value included in earnings. The cost of securities sold is determined on a specific identification basis. We held no securities classified as trading at or for the years ended December 31, 2012 and 2011.

On at least a quarterly basis, we review our investments that are in an unrealized loss position for other-than-temporary impairment ( OTTI ). An investment security is deemed impaired if the fair value of the investment is less than its amortized cost. If an investment security is determined to be impaired, we evaluate whether the decline in value is other-than-temporary. We also consider whether or not we expect to receive all of the contractual cash flows from the investment security based on factors that include, but are not limited to: the credit worthiness of the issuer and the historical and projected performance of the underlying collateral. Also, we may evaluate the business and financial outlook of the issuer, as well as broader economic performance indicators. We consider our intent to sell the investment securities and the

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likelihood that we will not have to sell the investment securities before recovery of their cost basis during our evaluation. Declines in fair value of investment securities that are deemed credit related are recognized in earnings while declines in fair value of investment securities deemed noncredit related are recorded in accumulated other comprehensive income, if we do not intend to sell and it is not likely we will be required to sell. If we intend to sell the security or if it s more likely than not that we will be required to sell the security the entire unrealized loss is recorded in earnings.

Federal law requires a member institution of the Federal Home Loan Bank (FHLB) system to hold stock of its district FHLB according to a predetermined formula. This stock is recorded at cost. Quarterly, we evaluate our investment in the FHLB of Pittsburgh for impairment. We evaluate recent and long-term operating performance, liquidity, funding and capital positions, stock repurchase history, dividend history and impact of legislative and regulatory changes. Based on our most recent evaluation, we have determined that no impairment write-downs are currently required.

**Loans Receivable**

Our loan portfolio segments consist of Personal Banking loans and Business Banking loans. Personal Banking loans include the following classes: residential mortgage loans, home equity loans and other consumer loans. Business Banking loans include the following classes: commercial real estate loans and commercial loans. All classes of loans are carried at their unpaid principal balance net of any deferred origination fees or costs and the allowance for estimated loan losses. Interest income on loans is credited to income as earned. Interest earned on loans for which no payments were received during the month is accrued at month end. Accrued interest on loans more than 90 days delinquent is reversed, and such loans are placed on nonaccrual.

All classes of loans are placed on nonaccrual when principal or interest is 90 days or more delinquent, or when there is reasonable doubt that interest or principal will not be collected in accordance with the contractual terms. Interest receipts on all classes of nonaccrual and impaired loans are recognized as interest revenue when it has been determined that all principal and interest will be collected or are applied to principal when collectability of principal is in doubt. Nonaccrual loans generally are restored to an accrual basis when principal and interest become current and a period of performance has been established in accordance with the contractual terms, typically six months.

A loan (from any class) is considered to be a trouble-debt restructured loan (TDR) when the restructuring constitutes a concession and the borrower is experiencing financial difficulties. TDRs may include certain modifications of terms of loans, receipts of assets from borrowers in partial or full satisfaction of loans, or a combination thereof. TDRs are impaired loans and are measured for impairment until the loan has performed in accordance with its modified terms for a reasonable period of time, generally six consecutive months. A modified loan is determined to be a TDR based on the contractual terms as specified by the original loan agreements of the most recent modification. Once classified a TDR, a loan is only removed from such classification under three circumstances: (1) the loan is paid off, (2) the loan is charged off, or (3) if, at the beginning of the current fiscal year, the loan has performed in accordance with the modified terms for a minimum of six consecutive months and at the time of modification the loan s interest rate represented a then current market interest rate for a loan of similar risk.

For all classes of loans, delinquency is measured based on the number of days since the payment due date. For all classes of loans, past due status is measured using the loan s contractual maturity date.

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Loan fees and certain direct loan origination costs are deferred, and the net deferred fee or cost is then recognized using the level-yield method over the contractual life of the loan as an adjustment to interest income.

The results of operations for the quarter ended and six months ended June 30, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013, or any other period.

**Stock-Based Compensation**

On May 15, 2013, we awarded employees 511,100 stock options and directors 79,200 stock options with an exercise price of $12.44 and a grant date fair value of $1.03 per stock option. On May 15, 2013, we also awarded employees 240,700 restricted common shares and directors 29,700 restricted common shares with a grant date fair value of $12.55. Awarded stock options and common shares vest over a ten-year period with the first vesting occurring on the grant date. Stock-based compensation expense of $1.5 million and $1.4 million for the quarter ended June 30, 2013 and 2012, respectively, and $2.6 million and $2.4 million for the six months ended June 30, 2013 and 2012, respectively, was recognized in compensation expense relating to our stock benefit plans. At June 30, 2013 there was compensation expense of $5.6 million to be recognized for awarded but unvested stock options and $16.2 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 June 30, 2013 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 June 30, 2013. 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, 2011, 2010 and 2009.

**(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 52 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:

| June 30, 2013 ($ in 000 s) | | Community Banking | Consumer Finance | All other (1) | Consolidated |
|---|---|---|---|---|---|
| External interest income | $ | 73,236 | 5,218 | 309 | 78,763 |
| Intersegment interest income | | 676 | | (676) | |
| Interest expense | | 14,162 | 676 | 598 | 15,436 |
| Provision for loan losses | | 4,700 | 705 | | 5,405 |
| Noninterest income | | 12,986 | 414 | 13 | 13,413 |
| Noninterest expense | | 49,447 | 3,144 | 215 | 52,806 |
| Income tax expense (benefit) | | 5,024 | 459 | (432) | 5,051 |
| Net income | | 13,565 | 648 | (735) | 13,478 |
| Total assets | $ | 7,811,048 | 111,102 | 41,664 | 7,963,814 |

| June 30, 2012 ($ in 000 s) | | Community Banking | Consumer Finance | All other (1) | Consolidated |
|---|---|---|---|---|---|
| External interest income | $ | 79,041 | 5,512 | 255 | 84,808 |
| Intersegment interest income | | 738 | | (738) | |
| Interest expense | | 17,785 | 738 | 573 | 19,096 |
| Provision for loan losses | | 4,250 | 713 | | 4,963 |
| Noninterest income | | 14,490 | 581 | 15 | 15,086 |
| Noninterest expense | | 48,587 | 3,180 | 199 | 51,966 |
| Income tax expense (benefit) | | 7,304 | 647 | (443) | 7,508 |
| Net income | | 16,343 | 815 | (797) | 16,361 |
| Total assets | $ | 7,881,277 | 116,262 | 40,457 | 8,037,996 |

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

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At or for the six months ended:

| June 30, 2013 ($ in 000 s) | | Community Banking | Consumer Finance | All other (1) | Consolidated |
|---|---|---|---|---|---|
| External interest income | $ | 147,330 | 10,419 | 647 | 158,396 |
| Intersegment interest income | | 1,376 | | (1,376) | |
| Interest expense | | 28,556 | 1,376 | 1,149 | 31,081 |
| Provision for loan losses | | 11,006 | 1,557 | | 12,563 |
| Noninterest income | | 29,010 | 733 | 48 | 29,791 |
| Noninterest expense | | 97,559 | 6,288 | 430 | 104,277 |
| Income tax expense (benefit) | | 11,535 | 801 | (846) | 11,490 |
| Net income | | 29,060 | 1,130 | (1,414) | 28,776 |
| Total assets | $ | 7,811,048 | 111,102 | 41,664 | 7,963,814 |

| June 30, 2012 ($ in 000 s) | | Community Banking | Consumer Finance | All other (1) | Consolidated |
|---|---|---|---|---|---|
| External interest income | $ | 159,231 | 11,043 | 568 | 170,842 |
| Intersegment interest income | | 1,486 | | (1,486) | |
| Interest expense | | 37,325 | 1,486 | 1,128 | 39,939 |
| Provision for loan losses | | 9,750 | 1,500 | | 11,250 |
| Noninterest income | | 27,787 | 1,092 | 62 | 28,941 |
| Noninterest expense | | 96,465 | 6,376 | 401 | 103,242 |
| Income tax expense (benefit) | | 13,525 | 1,151 | (866) | 13,810 |
| Net income | | 31,439 | 1,622 | (1,519) | 31,542 |
| Total assets | $ | 7,881,277 | 116,262 | 40,457 | 8,037,996 |

(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 June 30, 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 | $ 36 | | | 36 |
| | | | | |
| Debt issued by government sponsored enterprises: | | | | |
| Due in one year or less | 1,999 | 2 | | 2,001 |
| Due in one year - five years | 207,441 | 160 | (4,645) | 202,956 |
| Due in five years - ten years | 112,750 | 162 | (2,473) | 110,439 |
| | | | | |
| Equity securities | 15,527 | 11,999 | (79) | 27,447 |
| | | | | |
| Municipal securities: | | | | |
| Due in one year - five years | 9,676 | 178 | | 9,854 |
| Due in five years - ten years | 16,250 | 414 | | 16,664 |
| Due after ten years | 87,878 | 2,124 | (182) | 89,820 |
| | | | | |
| Corporate debt issues: | | | | |
| Due after ten years | 22,176 | 609 | (2,273) | 20,512 |
| | | | | |
| Residential mortgage-backed securities: | | | | |
| Fixed rate pass-through | 95,476 | 3,589 | (1,226) | 97,839 |
| Variable rate pass-through | 90,974 | 4,414 | (11) | 95,377 |
| Fixed rate non-agency CMOs | 4,576 | 545 | | 5,121 |
| Fixed rate agency CMOs | 296,311 | 1,845 | (7,477) | 290,679 |
| Variable rate non-agency CMOs | 718 | | (24) | 694 |
| Variable rate agency CMOs | 175,004 | 767 | (257) | 175,514 |
| Total residential mortgage-backed securities | 663,059 | 11,160 | (8,995) | 665,224 |
| Total marketable securities available-for-sale | $ 1,136,792 | 26,808 | (18,647) | 1,144,953 |

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The following table shows the portfolio of investment securities available-for-sale at December 31, 2012 (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 | $ | 40 | | | 40 |
| | | | | | |
| Debt issued by government sponsored enterprises: | | | | | |
| Due in one year or less | | 1,999 | 5 | | 2,004 |
| Due in one year - five years | | 140,352 | 183 | (22) | 140,513 |
| Due in five years - ten years | | 95,602 | 460 | (265) | 95,797 |
| | | | | | |
| Equity securities | | 13,301 | 6,025 | (22) | 19,304 |
| | | | | | |
| Municipal securities: | | | | | |
| Due in one year - five years | | 9,629 | 233 | | 9,862 |
| Due in five years - ten years | | 17,355 | 668 | | 18,023 |
| Due after ten years | | 100,644 | 5,679 | | 106,323 |
| | | | | | |
| Corporate debt issues: | | | | | |
| Due after ten years | | 24,911 | 483 | (2,691) | 22,703 |
| | | | | | |
| Residential mortgage-backed securities: | | | | | |
| Fixed rate pass-through | | 85,134 | 6,266 | | 91,400 |
| Variable rate pass-through | | 104,591 | 5,314 | (6) | 109,899 |
| Fixed rate non-agency CMOs | | 5,700 | 156 | (236) | 5,620 |
| Fixed rate agency CMOs | | 227,608 | 3,462 | (744) | 230,326 |
| Variable rate non-agency CMOs | | 873 | | (20) | 853 |
| Variable rate agency CMOs | | 225,383 | 1,345 | (321) | 226,407 |
| Total residential mortgage-backed securities | | 649,289 | 16,543 | (1,327) | 664,505 |
| Total marketable securities available-for-sale | $ | 1,053,122 | 30,279 | (4,327) | 1,079,074 |

The following table shows the portfolio of investment securities held-to-maturity at June 30, 2013 (in thousands):

| | | Amortized cost | Gross unrealized holding gains | Gross unrealized holding losses | Fair value |
|---|---|---|---|---|---|
| Municipal securities: | | | | | |
| Due in five years - ten years | $ | 5,712 | 170 | | 5,882 |
| Due after ten years | | 63,591 | 1,922 | | 65,513 |
| | | | | | |
| Residential mortgage-backed securities: | | | | | |
| Fixed rate pass-through | | 12,791 | 526 | | 13,317 |
| Variable rate pass-through | | 5,745 | 155 | | 5,900 |
| Fixed rate agency CMOs | | 42,875 | 1,495 | | 44,370 |
| Variable rate agency CMOs | | 2,725 | 26 | | 2,751 |
| Total residential mortgage-backed securities | | 64,136 | 2,202 | | 66,338 |
| Total marketable securities held-to-maturity | $ | 133,439 | 4,294 | | 137,733 |

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The following table shows the portfolio of investment securities held-to-maturity at December 31, 2012 (in thousands):

| | Amortized cost | Gross unrealized holding gains | Gross unrealized holding losses | Fair value |
|---|---|---|---|---|
| Municipal securities: | | | | |
| Due in five years - ten years | $ 3,679 | 160 | | 3,839 |
| Due after ten years | 65,596 | 3,743 | | 69,339 |
| | | | | |
| Residential mortgage-backed securities: | | | | |
| Fixed rate pass-through | 16,369 | 912 | | 17,281 |
| Variable rate pass-through | 6,548 | | (14) | 6,534 |
| Fixed rate agency CMOs | 56,713 | 2,006 | | 58,719 |
| Variable rate agency CMOs | 6,176 | 81 | | 6,257 |
| Total residential mortgage-backed securities | 85,806 | 2,999 | (14) | 88,791 |
| Total marketable securities held-to-maturity | $ 155,081 | 6,902 | (14) | 161,969 |

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 cost has 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 would be 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 June 30, 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 | $ 280,143 | (7,118) | | | 280,143 | (7,118) |
| Municipal securities | 4,969 | (182) | | | 4,969 | (182) |
| Corporate issues | 870 | (21) | 4,034 | (2,252) | 4,904 | (2,273) |
| Equity securities | 543 | (79) | | | 543 | (79) |
| Residential mortgage-backed securities - non-agency | | | 694 | (24) | 694 | (24) |
| Residential mortgage-backed securities - agency | 327,653 | (8,809) | 34,333 | (162) | 361,986 | (8,971) |
| | | | | | | |
| Total temporarily impaired securities | $ 614,178 | (16,209) | 39,061 | (2,438) | 653,239 | (18,647) |

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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, 2012 (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 | $ 70,128 | (286) | 6,537 | (1) | 76,665 | (287) |
| Corporate debt issues | 850 | (39) | 12,095 | (2,652) | 12,945 | (2,691) |
| Equity securities | 601 | (21) | 17 | (1) | 618 | (22) |
| Residential mortgage-backed securities - non-agency | | | 4,357 | (256) | 4,357 | (256) |
| Residential mortgage-backed securities - agency | 167,294 | (1,055) | 14,231 | (30) | 181,525 | (1,085) |
| Total temporarily impaired securities | $ 238,873 | (1,401) | 37,237 | (2,940) | 276,110 | (4,341) |

**Corporate issues**

At June 30, 2013, we had five investments with a total amortized cost of $6.3 million and total fair value of $4.0 million, where the amortized cost exceeded the carrying value for more than 12 months.  These investments were three single issuer trust preferred investments and two pooled trust preferred investments.  The single issuer trust preferred investments were evaluated for other-than-temporary impairment by determining the strength of the underlying issuer.  In all cases, the underlying issuer was well-capitalized for regulatory purposes. None of the issuers have deferred interest payments or announced the intention to defer interest payments.  We believe the decline in fair value is related to the spread over three month LIBOR, on which the quarterly interest payments are based, as the spread over LIBOR is significantly lower than current market spreads on similar investments.  We concluded the impairment of these three investments was considered noncredit related.  In making that determination, we also considered the duration and the severity of the losses and whether we intend to hold these securities until the value is recovered, the securities are redeemed or maturity.  The pooled trust preferred investments were evaluated for other-than-temporary impairment by considering the duration and severity of the losses, actual cash flows, projected cash flows, performing collateral, the class of investment owned and the amount of additional defaults the structure could withstand prior to the investment experiencing a disruption in cash flows.  Neither of the investments experienced a cash flow disruption or are projecting a cash flow disruption.  We concluded, based on all facts evaluated, the impairment of these two investments was noncredit related.  Management asserts that we do not have the intent to sell these investments and that it is more likely than not, we will not have to sell the investments before recovery of their cost basis.

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The following table provides class, amortized cost, fair value and ratings information for our portfolio of corporate securities that have an unrealized loss at June 30, 2013 (in thousands):

| Description | Class | | Amortized cost | Total Fair value | Unrealized losses | Moody s/ Fitch ratings |
|---|---|---|---|---|---|---|
| Bank Boston Capital Trust (1) | N/A | $ | 989 | 786 | (203) | Ba2/ BB+ |
| Huntington Capital Trust | N/A | | 1,428 | 1,059 | (369) | Baa3/ BB |
| Commercebank Capital Trust | N/A | | 891 | 870 | (21) | Not rated |
| Ocean Shore Capital Trust | N/A | | 869 | 830 | (39) | Not rated |
| I-PreTSL I | Mezzanine | | 1,500 | 591 | (909) | Not rated/ CCC |
| I-PreTSL II | Mezzanine | | 1,500 | 768 | (732) | Not rated/ B |
| | | $ | 7,177 | 4,904 | (2,273) | |

(1) Bank Boston was acquired by Bank of America.

The following table provides collateral information on the pooled trust preferred securities included in the previous table at June 30, 2013 (in thousands):

| Description | | Total collateral | Current deferrals and defaults | Performing collateral | Additional immediate defaults before causing an interest shortfall |
|---|---|---|---|---|---|
| I-PreTSL I | $ | 188,500 | 32,500 | 156,000 | 100,845 |
| I-PreTSL II | | 325,500 | 24,500 | 301,000 | 165,965 |

**Mortgage-backed securities**

Mortgage-backed securities include agency (FNMA, FHLMC, GNMA and SBA) mortgage-backed securities and non-agency collateralized mortgage obligations ( CMOs ). We review our portfolio of mortgage-backed securities quarterly for impairment. As of June 30, 2013, we believe the impairment within our portfolio of agency mortgage-backed securities is noncredit related. As of June 30, 2013, we had seven non-agency CMOs with a total amortized cost of $5.3 million and a total fair value of $5.8 million. Included in this total was one non-agency CMO with an amortized cost of $718,000 and a fair value of $694,000, where the amortized cost exceeded the fair value for more than 12 months. During the quarter and six months ended June 30, 2013, we did not recognize other-than-temporary credit related impairment on this security. We determined the impairment was noncredit related by analyzing cash flow estimates, estimated prepayment speeds, loss severity and conditional default rates. We considered the discounted cash flow analysis as our primary evidence when we determined that the impairment on this security was noncredit related.

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The following table shows issuer specific information, amortized cost, fair value, unrealized gain or loss and other-than-temporary impairment recorded in earnings for the portfolio of non-agency CMOs at June 30, 2013 (in thousands):

| Description | | Amortized cost | Fair value | Unrealized gain/ (loss) | Impairment recorded in current period earnings | Total impairment recorded in prior period earnings |
|---|---|---|---|---|---|---|
| AMAC 2003-6 2A2 | $ | 150 | 154 | 4 | | |
| AMAC 2003-6 2A8 | | 311 | 319 | 8 | | |
| BOAMS 2005-11 1A8 | | 135 | 280 | 145 | | (146) |
| CWALT 2005-J14 A3 | | 3,432 | 3,815 | 383 | | (1,007) |
| CFSB 2003-17 2A2 | | 324 | 325 | 1 | | |
| WAMU 2003-S2 A4 | | 224 | 228 | 4 | | |
| WFMBS 2003-B A2 | | 718 | 694 | (24) | | |
| | $ | 5,294 | 5,815 | 521 | | (1,153) |

**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 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 in 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 June 30, 2013, 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.

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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):

| | | 2013 | 2012 |
|---|---|---|---|
| Beginning balance at April 1, (1) | $ | 9,744 | 10,560 |
| Credit losses on debt securities for which other-than-temporary impairment was not previously recognized | | | |
| Reduction for losses realized during the quarter | | (47) | (664) |
| Additional credit losses on debt securities for which other-than-temporary impairment was previously recognized | | | |
| Ending balance at June 30, | $ | 9,697 | 9,896 |

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

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 six months ended (in thousands):

| | | 2013 | 2012 |
|---|---|---|---|
| Beginning balance at Janaury 1, (1) | $ | 9,811 | 11,633 |
| Credit losses on debt securities for which other-than-temporary impairment was not previously recognized | | | |
| Reduction for losses realized during the year | | (114) | (1,975) |
| Additional credit losses on debt securities for which other-than-temporary impairment was previously recognized | | | 238 |
| Ending balance at June 30, | $ | 9,697 | 9,896 |

(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 June 30, 2013 and December 31, 2012 (in thousands):

| | June 30, 2013 | December 31, 2012 |
|---|---|---|
| Personal Banking: | | |
| Loans held for sale | $ 296 | 15,441 |
| Residential mortgage loans | 2,424,478 | 2,416,419 |
| Home equity loans | 1,064,716 | 1,076,637 |
| Other consumer loans | 223,514 | 235,367 |
| Total Personal Banking | 3,713,004 | 3,743,864 |
| | | |
| Business Banking: | | |
| Commercial real estate | 1,650,635 | 1,615,701 |
| Commercial loans | 441,519 | 432,944 |
| Total Business Banking | 2,092,154 | 2,048,645 |
| Total loans receivable, gross | 5,805,158 | 5,792,509 |
| | | |
| Deferred loan fees | 493 | (1,624) |
| Allowance for loan losses | (72,590) | (73,219) |
| Undisbursed loan proceeds: | | |
| Residential mortgage loans | (10,624) | (14,587) |
| Commercial real estate | (59,409) | (29,868) |
| Commercial loans | (44,211) | (43,950) |
| Total loans receivable, net | $ 5,618,817 | 5,629,261 |

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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 June 30, 2013 (in thousands):

| | Balance June 30, 2013 | Current period provision | Charge-offs | Recoveries | Balance March 31, 2013 |
|---|---|---|---|---|---|
| Personal Banking: | | | | | |
| Residental mortgage loans | $ 7,859 | 583 | (777) | 175 | 7,878 |
| Home equity loans | 8,350 | 914 | (805) | 30 | 8,211 |
| Other consumer loans | 4,823 | 963 | (1,280) | 280 | 4,860 |
| Total Personal Banking | 21,032 | 2,460 | (2,862) | 485 | 20,949 |
| | | | | | |
| Business Banking: | | | | | |
| Commercial real estate loans | 35,558 | 2,500 | (2,696) | 194 | 35,560 |
| Commercial loans | 11,786 | 258 | (542) | 597 | 11,473 |
| Total Business Banking | 47,344 | 2,758 | (3,238) | 791 | 47,033 |
| | | | | | |
| Unallocated | 4,214 | 187 | | | 4,027 |
| | | | | | |
| Total | $ 72,590 | 5,405 | (6,100) | 1,276 | 72,009 |

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 June 30, 2012 (in thousands):

| | Balance June 30, 2012 | Current period provision | Charge-offs | Recoveries | Balance March 31, 2012 |
|---|---|---|---|---|---|
| Personal Banking: | | | | | |
| Residental mortgage loans | $ 7,997 | 1,250 | (1,219) | 102 | 7,864 |
| Home equity loans | 8,634 | 1,240 | (589) | 36 | 7,947 |
| Other consumer loans | 4,665 | 1,339 | (1,504) | 241 | 4,589 |
| Total Personal Banking | 21,296 | 3,829 | (3,312) | 379 | 20,400 |
| | | | | | |
| Business Banking: | | | | | |
| Commercial real estate loans | 34,781 | 1,774 | (2,959) | 675 | 35,291 |
| Commercial loans | 9,431 | (712) | (2,719) | 142 | 12,720 |
| Total Business Banking | 44,212 | 1,062 | (5,678) | 817 | 48,011 |
| | | | | | |
| Unallocated | 4,602 | 72 | | | 4,530 |
| | | | | | |
| Total | $ 70,110 | 4,963 | (8,990) | 1,196 | 72,941 |

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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 six months ended June 30, 2013 (in thousands):

| | Balance June 30, 2013 | Current period provision | Charge-offs | Recoveries | Balance December 31, 2012 |
|---|---|---|---|---|---|
| Personal Banking: | | | | | |
| Residental mortgage loans | $ 7,859 | 1,035 | (1,456) | 278 | 8,002 |
| Home equity loans | 8,350 | 1,138 | (1,175) | 93 | 8,294 |
| Other consumer loans | 4,823 | 1,759 | (2,684) | 592 | 5,156 |
| Total Personal Banking | 21,032 | 3,932 | (5,315) | 963 | 21,452 |
| | | | | | |
| Business Banking: | | | | | |
| Commercial real estate loans | 35,558 | 7,357 | (6,686) | 388 | 34,499 |
| Commercial loans | 11,786 | 1,086 | (3,222) | 680 | 13,242 |
| Total Business Banking | 47,344 | 8,443 | (9,908) | 1,068 | 47,741 |
| | | | | | |
| Unallocated | 4,214 | 188 | | | 4,026 |
| | | | | | |
| Total | $ 72,590 | 12,563 | (15,223) | 2,031 | 73,219 |

The following table provides information related to the allowance for loan losses by portfolio segment and by class of financing receivable for the six months ended June 30, 2012 (in thousands):

| | Balance June 30, 2012 | Current period provision | Charge-offs | Recoveries | Balance December 31, 2011 |
|---|---|---|---|---|---|
| Personal Banking: | | | | | |
| Residental mortgage loans | $ 7,997 | 1,577 | (2,262) | 200 | 8,482 |
| Home equity loans | 8,634 | 1,368 | (1,481) | 60 | 8,687 |
| Other consumer loans | 4,665 | 1,546 | (2,791) | 585 | 5,325 |
| Total Personal Banking | 21,296 | 4,491 | (6,534) | 845 | 22,494 |
| | | | | | |
| Business Banking: | | | | | |
| Commercial real estate loans | 34,781 | 6,093 | (4,432) | 972 | 32,148 |
| Commercial loans | 9,431 | 480 | (3,368) | 239 | 12,080 |
| Total Business Banking | 44,212 | 6,573 | (7,800) | 1,211 | 44,228 |
| | | | | | |
| Unallocated | 4,602 | 186 | | | 4,416 |
| | | | | | |
| Total | $ 70,110 | 11,250 | (14,334) | 2,056 | 71,138 |

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The following table provides information related to the loan portfolio by portfolio segment and by class of financing receivable at June 30, 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 | $ | 2,414,643 | 7,859 | 27,276 | | 4,385 | 849 | |
| Home equity loans | | 1,064,716 | 8,350 | 9,745 | | 1,981 | 362 | |
| Other consumer loans | | 223,514 | 4,823 | 1,849 | | | | |
| Total Personal Banking | | 3,702,873 | 21,032 | 38,870 | | 6,366 | 1,211 | |
| | | | | | | | | |
| Business Banking: | | | | | | | | |
| Commercial real estate loans | | 1,591,226 | 35,558 | 55,138 | | 49,084 | 7,060 | 482 |
| Commercial loans | | 397,308 | 11,786 | 26,558 | | 31,067 | 3,517 | 3,656 |
| Total Business Banking | | 1,988,534 | 47,344 | 81,696 | | 80,151 | 10,577 | 4,138 |
| | | | | | | | | |
| Total | $ | 5,691,407 | 68,376 | 120,566 | | 86,517 | 11,788 | 4,138 |

(1) Includes $42.0 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, 2012 (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 | $ | 2,415,649 | 8,002 | 25,083 | 9 | 5,045 | 1,074 | |
| Home equity loans | | 1,076,637 | 8,294 | 9,114 | 2 | 1,891 | 266 | |
| Other consumer loans | | 235,367 | 5,156 | 1,980 | 776 | | | |
| Total Personal Banking | | 3,727,653 | 21,452 | 36,177 | 787 | 6,936 | 1,340 | |
| | | | | | | | | |
| Business Banking: | | | | | | | | |
| Commercial real estate loans | | 1,585,833 | 34,499 | 57,861 | 388 | 49,826 | 7,322 | 391 |
| Commercial loans | | 388,994 | 13,242 | 26,174 | 523 | 32,682 | 4,112 | 2,596 |
| | | 1,974,827 | 47,741 | 84,035 | 911 | 82,508 | 11,434 | 2,987 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Total Business Banking | | | | | | | | |
| Total | $ | 5,702,480 | 69,193 | 120,212 | 1,698 | 89,444 | 12,774 | 2,987 |

(1) Includes $41.2 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 June 30, 2013 (in thousands):

| | Pennsylvania | New York | Ohio | Maryland | Other | Total |
|---|---|---|---|---|---|---|
| Recorded investment in loans receivable: | | | | | | |
| Personal Banking: | | | | | | |
| Residential mortgage loans | $ 2,039,800 | 156,543 | 18,441 | 144,707 | 55,152 | 2,414,643 |
| Home equity loans | 909,012 | 111,977 | 10,107 | 27,656 | 5,964 | 1,064,716 |
| Other consumer loans | 206,322 | 9,914 | 2,896 | 1,247 | 3,135 | 223,514 |
| Total Personal Banking | 3,155,134 | 278,434 | 31,444 | 173,610 | 64,251 | 3,702,873 |
| | | | | | | |
| Business Banking: | | | | | | |
| Commercial real estate loans | 886,468 | 463,079 | 27,302 | 137,357 | 77,020 | 1,591,226 |
| Commercial loans | 282,764 | 61,133 | 17,488 | 25,496 | 10,427 | 397,308 |
| Total Business Banking | 1,169,232 | 524,212 | 44,790 | 162,853 | 87,447 | 1,988,534 |
| | | | | | | |
| Total | $ 4,324,366 | 802,646 | 76,234 | 336,463 | 151,698 | 5,691,407 |
| | | | | | | |
| Percentage of total loans in geographic area | 76.0% | 14.1% | 1.3% | 5.9% | 2.7% | 100.0% |

| | Pennsylvania | New York | Ohio | Maryland | Other | Total |
|---|---|---|---|---|---|---|
| Loans 90 or more days delinquent: | | | | | | |
| Personal Banking: | | | | | | |
| Residential mortgage loans | $ 15,725 | 1,663 | 230 | 3,503 | 2,609 | 23,730 |
| Home equity loans | 5,546 | 1,505 | 87 | 1,287 | 182 | 8,607 |
| Other consumer loans | 1,664 | 21 | 4 | 4 | 13 | 1,706 |
| Total Personal Banking | 22,935 | 3,189 | 321 | 4,794 | 2,804 | 34,043 |
| | | | | | | |
| Business Banking: | | | | | | |
| Commercial real estate loans | 15,865 | 381 | | 2,483 | 2,143 | 20,872 |
| Commercial loans | 4,394 | 2,718 | | 861 | 622 | 8,595 |
| Total Business Banking | 20,259 | 3,099 | | 3,344 | 2,765 | 29,467 |
| | | | | | | |
| Total | $ 43,194 | 6,288 | 321 | 8,138 | 5,569 | 63,510 |
| | | | | | | |
| Percentage of loans 90 or more days delinquent in geographic area. | 1.0% | 0.8% | 0.4% | 2.4% | 3.7% | 1.1% |

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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, 2012 (in thousands):

| | Pennsylvania | New York | Ohio | Maryland | Other | Total |
|---|---|---|---|---|---|---|
| Recorded investment in loans receivable: | | | | | | |
| Personal Banking: | | | | | | |
| Residential mortgage loans | $ 2,024,520 | 158,090 | 19,290 | 152,676 | 61,073 | 2,415,649 |
| Home equity loans | 917,645 | 111,461 | 10,828 | 29,734 | 6,969 | 1,076,637 |
| Other consumer loans | 213,604 | 10,235 | 3,066 | 1,291 | 7,171 | 235,367 |
| Total Personal Banking | 3,155,769 | 279,786 | 33,184 | 183,701 | 75,213 | 3,727,653 |
| | | | | | | |
| Business Banking: | | | | | | |
| Commercial real estate loans | 853,290 | 443,940 | 34,261 | 136,600 | 117,742 | 1,585,833 |
| Commercial loans | 269,415 | 55,517 | 12,878 | 25,497 | 25,687 | 388,994 |
| Total Business Banking | 1,122,705 | 499,457 | 47,139 | 162,097 | 143,429 | 1,974,827 |
| | | | | | | |
| Total | $ 4,278,474 | 779,243 | 80,323 | 345,798 | 218,642 | 5,702,480 |
| | | | | | | |
| Percentage of total loans in geographic area | 75.0% | 13.7% | 1.4% | 6.1% | 3.8% | 100.0% |

| | Pennsylvania | New York | Ohio | Maryland | Other | Total |
|---|---|---|---|---|---|---|
| Loans 90 or more days delinquent: | | | | | | |
| Personal Banking: | | | | | | |
| Residential mortgage loans | $ 15,694 | 1,430 | 231 | 3,932 | 2,999 | 24,286 |
| Home equity loans | 5,096 | 1,515 | 132 | 1,428 | 308 | 8,479 |
| Other consumer loans | 1,861 | 69 | | 5 | 1 | 1,936 |
| Total Personal Banking | 22,651 | 3,014 | 363 | 5,365 | 3,308 | 34,701 |
| | | | | | | |
| Business Banking: | | | | | | |
| Commercial real estate loans | 17,406 | 706 | | 4,298 | 2,140 | 24,550 |
| Commercial loans | 3,493 | 7 | | 2,678 | 2,918 | 9,096 |
| Total Business Banking | 20,899 | 713 | | 6,976 | 5,058 | 33,646 |
| | | | | | | |
| Total | $ 43,550 | 3,727 | 363 | 12,341 | 8,366 | 68,347 |
| | | | | | | |
| Percentage of loans 90 or more days delinquent in geographic area. | 1.0% | 0.5% | 0.5% | 3.6% | 3.8% | 1.2% |

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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 six months ended June 30, 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 | $ 23,730 | 3,546 | | 3,090 | 30,366 | 30,378 | 362 |
| Home equity loans | 8,607 | 1,138 | | 1,526 | 11,271 | 10,439 | 183 |
| Other consumer loans | 1,706 | 143 | | | 1,849 | 1,857 | 21 |
| Total Personal Banking | 34,043 | 4,827 | | 4,616 | 43,486 | 42,674 | 566 |
| Business Banking: | | | | | | | |
| Commercial real estate loans | 20,872 | 34,266 | 35,398 | 12,311 | 102,847 | 86,633 | 1,797 |
| Commercial loans | 8,595 | 17,963 | 4,375 | 5,884 | 36,817 | 44,591 | 578 |
| Total Business Banking | 29,467 | 52,229 | 39,773 | 18,195 | 139,664 | 131,224 | 2,375 |
| Total | $ 63,510 | 57,056 | 39,773 | 22,811 | 183,150 | 173,898 | 2,941 |

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, 2012 (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 | $ 24,286 | 797 | | 3,011 | 28,094 | 28,078 | 683 |
| Home equity loans | 8,479 | 635 | | 1,352 | 10,466 | 10,535 | 342 |
| Other consumer loans | 1,936 | 44 | | | 1,980 | 1,841 | 35 |
| Total Personal Banking | 34,701 | 1,476 | | 4,363 | 40,540 | 40,454 | 1,060 |
| Business Banking: | | | | | | | |
| Commercial real estate loans | 24,550 | 33,311 | 33,282 | 16,274 | 107,417 | 98,891 | 3,636 |
| Commercial loans | 9,096 | 17,078 | | 10,180 | 36,354 | 51,131 | 1,828 |
| Total Business Banking | 33,646 | 50,389 | 33,282 | 26,454 | 143,771 | 150,022 | 5,464 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Total | $ | 68,347 | 51,865 | 33,282 | 30,817 | 184,311 | 190,476 | 6,524 |

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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 June 30, 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 | $ 2,409,954 | 4,689 | 4,689 | 850 | |
| Home equity loans | 1,062,649 | 2,067 | 2,067 | 362 | |
| Other consumer loans | 223,394 | 120 | 120 | 1 | |
| Total Personal Banking | 3,695,997 | 6,876 | 6,876 | 1,213 | |
| | | | | | |
| Business Banking: | | | | | |
| Commercial real estate loans | 1,513,176 | 78,050 | 58,040 | 9,153 | 20,010 |
| Commercial loans | 363,314 | 33,994 | 31,690 | 4,773 | 2,304 |
| Total Business Banking | 1,876,490 | 112,044 | 89,730 | 13,926 | 22,314 |
| | | | | | |
| Total | $ 5,572,487 | 118,920 | 96,606 | 15,139 | 22,314 |

The following table provides information related to the evaluation of impaired loans by portfolio segment and by class of financing receivable at December 31, 2012 (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 | $ 2,411,932 | 3,717 | 3,717 | 992 | |
| Home equity loans | 1,076,012 | 625 | 625 | 189 | |
| Other consumer loans | 235,367 | | | | |
| Total Personal Banking | 3,723,311 | 4,342 | 4,342 | 1,181 | |
| | | | | | |
| Business Banking: | | | | | |
| Commercial real estate loans | 1,501,032 | 84,801 | 61,136 | 9,789 | 23,665 |
| Commercial loans | 352,752 | 36,242 | 35,622 | 5,637 | 620 |
| Total Business Banking | 1,853,784 | 121,043 | 96,758 | 15,426 | 24,285 |
| | | | | | |
| Total | $ 5,577,095 | 125,385 | 101,100 | 16,607 | 24,285 |

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Our loan portfolios include certain 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.

During the six months ended June 30, 2013, four home equity loan TDRs with a combined balance of $99,000, two residential mortgage loan TDRs with a combined balance of $172,000, four commercial real estate loan TDRs with a combined balance of $1.1 million and two commercial loan TDRs with a combined balance of $17,000 were charged off. Additionally, two home equity loan TDRs with a combined balance of $7,000, one residential mortgage loan TDR with a balance of $109,000, five commercial real estate loan TDRs with a combined balance of $851,000 and ten commercial loan TDRs with a combined balance of $2.0 million were paid off.

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

| | | For the six months ended June 30, 2013 | 2012 | For the year ended December 31, 2012 |
|---|---|---|---|---|
| Beginning TDR balance: | $ | 89,444 | 69,429 | 69,429 |
| New TDRs (1) | | 9,333 | 23,170 | 56,845 |
| Net paydowns | | (7,924) | (12,728) | (25,205) |
| Charge-offs | | (1,351) | (554) | (2,704) |
| Paid-off loans | | (2,985) | (846) | (8,921) |
| Ending TDR balance: | $ | 86,517 | 78,471 | 89,444 |
| | | | | |
| Accruing TDRs | $ | 44,474 | 50,129 | 48,278 |
| Non-accrual TDRs | | 42,043 | 28,342 | 41,166 |

(1) For December 31, 2012, includes $3.0 million of loans added in accordance with recent regulatory guidance requiring loans discharged under bankruptcy proceedings and not reaffirmed by the borrower to be charged-off to their collateral value and to be considered TDRs regardless of their payment delinquency status.

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

| | For the quarter ended June 30, 2013 | | | | For the six months ended June 30, 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| | Number of contracts | Recorded investment at the time of modification | Current recorded investment | Current allowance | 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 | 161 | 26 |
| Home equity loans | 1 | 4 | 3 | | 4 | 291 | 285 | 133 |
| Other consumer loans | | | | | | | | |
| Total Personal Banking | 1 | 4 | 3 | | 6 | 470 | 446 | 159 |
| Business Banking: | | | | | | | | |
| Commercial real estate loans | 2 | 3,665 | 3,616 | 47 | 35 | 7,082 | 6,004 | 306 |
| Commercial loans | 3 | 53 | 38 | 5 | 24 | 1,781 | 1,658 | 220 |
| Total Business Banking | 5 | 3,718 | 3,654 | 52 | 59 | 8,863 | 7,662 | 526 |
| Total | 6 | $ 3,722 | 3,657 | 52 | 65 | $ 9,333 | 8,108 | 685 |
| Troubled debt restructurings that subsequently defaulted: | | | | | | | | |
| Personal Banking: | | | | | | | | |
| Residential mortgage loans | 1 | $ 60 | 60 | 16 | 1 | $ 60 | 60 | 16 |
| Home equity loans | 1 | 53 | 58 | 33 | 2 | 237 | 188 | 140 |
| Other consumer loans | | | | | | | | |
| Total Personal Banking | 2 | 113 | 118 | 49 | 3 | 297 | 248 | 156 |
| Business Banking: | | | | | | | | |
| Commercial real estate loans | 1 | 211 | 208 | 59 | 4 | 1,785 | 1,630 | 127 |
| Commercial loans | 2 | 2,487 | 2,636 | 146 | 6 | 5,413 | 3,713 | 304 |
| Total Business Banking | 3 | 2,698 | 2,844 | 205 | 10 | 7,198 | 5,343 | 431 |
| Total | 5 | $ 2,811 | 2,962 | 254 | 13 | $ 7,495 | 5,591 | 587 |

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

| | For the quarter ended June 30, 2012 | | | | | For the six months ended June 30, 2012 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Number of contracts | | Recorded investment at the time of modification | Current recorded investment | Current allowance | Number of contracts | | Recorded investment at the time of modification | Current recorded investment | Current allowance |
| Troubled debt restructurings: | | | | | | | | | | |
| Personal Banking: | | | | | | | | | | |
| Residential mortgage loans | | $ | | | | | $ | | | |
| Home equity loans | | | | | | | | | | |
| Other consumer loans | | | | | | | | | | |
| Total Personal Banking | | | | | | | | | | |
| | | | | | | | | | | |
| Business Banking: | | | | | | | | | | |
| Commercial real estate loans | 7 | | 2,887 | 2,881 | 250 | 10 | | 4,155 | 3,745 | 276 |
| Commercial loans | 11 | | 17,752 | 17,377 | 391 | 13 | | 19,015 | 18,485 | 441 |
| Total Business Banking | 18 | | 20,639 | 20,258 | 641 | 23 | | 23,170 | 22,230 | 717 |
| | | | | | | | | | | |
| Total | 18 | $ | 20,639 | 20,258 | 641 | 23 | $ | 23,170 | 22,230 | 717 |
| | | | | | | | | | | |
| Troubled debt restructurings that subsequently defaulted: | | | | | | | | | | |
| Personal Banking: | | | | | | | | | | |
| Residential mortgage loans | | $ | | | | 1 | $ | 449 | 361 | |
| Home equity loans | | | | | | | | | | |
| Other consumer loans | | | | | | | | | | |
| Total Personal Banking | | | | | | 1 | | 449 | 361 | |
| | | | | | | | | | | |
| Business Banking: | | | | | | | | | | |
| Commercial real estate loans | 2 | | 686 | 576 | 58 | 3 | | 1,261 | 1,091 | 58 |
| Commercial loans | | | | | | | | | | |
| Total Business Banking | 2 | | 686 | 576 | 58 | 3 | | 1,261 | 1,091 | 58 |
| | | | | | | | | | | |
| Total | 2 | $ | 686 | 576 | 58 | 4 | $ | 1,710 | 1,452 | 58 |

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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 six months ended June 30, 2013 (dollars in thousands):

[redacted]

| | | | | |
|---|---|---|---|---|
| Personal Banking: | | | | |
| Residental mortgage loans | | $ | | |
| Home equity loans | | | | |
| Other consumer loans | | | | |
| Total Personal Banking | | | | |
| | | | | |
| Business Banking: | | | | |
| Commercial real estate loans | 2 | | 3,616 | 3,616 |
| Commercial loans | 1 | | 10 | 10 |
| Total Business Banking | 3 | | 3,626 | 3,626 |
| | | | | |
| Total | 3 | $ | 3,626 | 3,626 |

No TDRs were re-modified during the six months ended June 30, 2012.

The following table provides information related to loan delinquencies at June 30, 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 | $ | 3,741 | 8,516 | 23,730 | 35,987 | 2,378,656 | 2,414,643 |
| Home equity loans | | 4,993 | 1,361 | 8,607 | 14,961 | 1,049,755 | 1,064,716 |
| Other consumer loans | | 4,334 | 1,470 | 1,706 | 7,510 | 216,004 | 223,514 |
| Total Personal Banking | | 13,068 | 11,347 | 34,043 | 58,458 | 3,644,415 | 3,702,873 |
| | | | | | | | |
| Business Banking: | | | | | | | |
| Commercial real estate loans | | 7,982 | 3,170 | 20,872 | 32,024 | 1,559,202 | 1,591,226 |
| Commercial loans | | 952 | 2,389 | 8,595 | 11,936 | 385,372 | 397,308 |
| Total Business Banking | | 8,934 | 5,559 | 29,467 | 43,960 | 1,944,574 | 1,988,534 |
| | | | | | | | |
| Total | $ | 22,002 | 16,906 | 63,510 | 102,418 | 5,588,989 | 5,691,407 |

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The following table provides information related to loan delinquencies at December 31, 2012 (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 | $ | 32,921 | 9,387 | 24,286 | 66,594 | 2,349,055 | 2,415,649 |
| Home equity loans | | 6,534 | 1,977 | 8,479 | 16,990 | 1,059,647 | 1,076,637 |
| Other consumer loans | | 5,456 | 1,830 | 1,936 | 9,222 | 226,145 | 235,367 |
| Total Personal Banking | | 44,911 | 13,194 | 34,701 | 92,806 | 3,634,847 | 3,727,653 |
| | | | | | | | |
| Business Banking: | | | | | | | |
| Commercial real estate loans | | 13,001 | 4,596 | 24,550 | 42,147 | 1,543,686 | 1,585,833 |
| Commercial loans | | 3,233 | 10,158 | 9,096 | 22,487 | 366,507 | 388,994 |
| Total Business Banking | | 16,234 | 14,754 | 33,646 | 64,634 | 1,910,193 | 1,974,827 |
| | | | | | | | |
| Total | $ | 61,145 | 27,948 | 68,347 | 157,440 | 5,545,040 | 5,702,480 |

**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 further 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 affected in the future.

The following table sets forth information about credit quality indicators, which were updated during the quarter ended June 30, 2013 (in thousands):

| | | Pass | Special mention | Substandard | Doubtful | Loss | Recorded investment in loans receivable |
|---|---|---|---|---|---|---|---|
| Personal Banking: | | | | | | | |
| Residential mortgage loans | $ | 2,396,268 | | 17,089 | | 1,286 | 2,414,643 |
| Home equity loans | | 1,056,154 | | 8,562 | | | 1,064,716 |
| Other consumer loans | | 222,365 | | 1,149 | | | 223,514 |
| Total Personal Banking | | 3,674,787 | | 26,800 | | 1,286 | 3,702,873 |
| | | | | | | | |
| Business Banking: | | | | | | | |
| Commercial real estate loans | | 1,382,750 | 60,700 | 145,052 | 2,724 | | 1,591,226 |
| Commercial loans | | 329,619 | 13,089 | 52,382 | 2,218 | | 397,308 |
| Total Business Banking | | 1,712,369 | 73,789 | 197,434 | 4,942 | | 1,988,534 |
| | | | | | | | |
| Total | $ | 5,387,156 | 73,789 | 224,234 | 4,942 | 1,286 | 5,691,407 |

The following table sets forth information about credit quality indicators, which were updated during the year ended December 31, 2012 (in thousands):

| | | Pass | Special mention | Substandard | Doubtful | Loss | Recorded investment in loans receivable |
|---|---|---|---|---|---|---|---|
| Personal Banking: | | | | | | | |
| Residential mortgage loans | $ | 2,395,809 | | 18,743 | 48 | 1,049 | 2,415,649 |
| Home equity loans | | 1,068,183 | | 8,454 | | | 1,076,637 |
| Other consumer loans | | 234,106 | | 1,261 | | | 235,367 |
| Total Personal Banking | | 3,698,098 | | 28,458 | 48 | 1,049 | 3,727,653 |
| | | | | | | | |
| Business Banking: | | | | | | | |
| Commercial real estate loans | | 1,352,118 | 68,130 | 163,751 | 1,834 | | 1,585,833 |
| Commercial loans | | 320,228 | 13,077 | 52,742 | 2,947 | | 388,994 |
| Total Business Banking | | 1,672,346 | 81,207 | 216,493 | 4,781 | | 1,974,827 |
| | | | | | | | |
| Total | $ | 5,370,444 | 81,207 | 244,951 | 4,829 | 1,049 | 5,702,480 |

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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):

| | | June 30, 2013 | December 31, 2012 |
|---|---|---|---|
| Amortizable intangible assets: | | | |
| Core deposit intangibles gross | $ | 30,578 | 30,578 |
| Acquisitions | | | |
| Less: accumulated amortization | | (30,388) | (30,181) |
| Core deposit intangibles net | | 190 | 397 |
| Customer and Contract intangible assets gross | | 6,197 | 3,779 |
| Acquisition of The Bert Company | | | 2,418 |
| Less: accumulated amortization | | (3,555) | (3,065) |
| Customer and Contract intangible assets net | $ | 2,642 | 3,132 |

The following table shows the actual aggregate amortization expense for the three and six months ended June 30, 2013 and 2012, 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 June 30, 2013 | $ | 349 |
| For the quarter ended June 30, 2012 | | 279 |
| For the six months ended June 30, 2013 | | 697 |
| For the six months ended June 30, 2012 | | 574 |
| For the year ending December 31, 2013 | | 1,210 |
| For the year ending December 31, 2014 | | 814 |
| For the year ending December 31, 2015 | | 571 |
| For the year ending December 31, 2016 | | 415 |
| For the year ending December 31, 2017 | | 259 |
| For the year ending December 31, 2018 | | 173 |

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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, 2011 | $ | 170,269 | 1,613 | 171,882 |
| Goodwill acquired | | 2,579 | | 2,579 |
| Impairment losses | | | | |
| Balance at December 31, 2012 | | 172,848 | 1,613 | 174,461 |
| Goodwill acquired | | 2 | | 2 |
| Impairment losses | | | | |
| Balance at June 30, 2013 | $ | 172,850 | 1,613 | 174,463 |

We performed our annual goodwill impairment test as of June 30, 2013 and concluded that goodwill was not impaired. 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 June 30, 2013, the maximum potential amount of future payments we could be required to make under these standby letters of credit was $43.5 million, of which $42.9 million is fully collateralized. At June 30, 2013, we had a liability, which represents deferred income, of $868,000 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 and six months ended June 30, 2013 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 $12.45 and $12.51, respectively. Stock options to purchase 3,211,267 shares of common stock with a weighted average exercise price of $12.28 per share were outstanding during the quarter and six months ended June 30, 2012 but were not included in the computation of diluted earnings per share for these periods because the options exercise price was greater than the average market price of the common shares of $11.91 and $12.27, respectively.

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

| | | Quarter ended June 30, 2013 | Quarter ended June 30, 2012 | Six months ended June 30, 2013 | Six months ended June 30, 2012 |
|---|---|---|---|---|---|
| Reported net income | $ | 13,478 | 16,361 | 28,776 | 31,542 |
| Weighted average common shares outstanding | | 90,423,717 | 94,294,956 | 90,413,780 | 94,205,239 |
| Dilutive potential shares due to effect of stock options | | 493,419 | 205,921 | 484,258 | 377,866 |
| Total weighted average common shares and dilutive potential shares | | 90,917,136 | 94,500,877 | 90,898,038 | 94,583,105 |
| Basic earnings per share: | $ | 0.15 | 0.17 | 0.32 | 0.33 |
| Diluted earnings per share: | $ | 0.15 | 0.17 | 0.32 | 0.33 |

**(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 June 30, | | | |
|---|---|---|---|---|---|
| | | Pension benefits | | Other post-retirement benefits | |
| | | 2013 | 2012 | 2013 | 2012 |
| Service cost | $ | 1,138 | 1,857 | | |
| Interest cost | | 1,301 | 1,433 | 16 | 16 |
| Expected return on plan assets | | (2,138) | (1,948) | | |
| Amortization of prior service cost | | (580) | (40) | | |
| Amortization of the net loss | | 919 | 690 | 13 | 13 |
| Net periodic benefit cost | $ | 640 | 1,992 | 29 | 29 |

Components of net periodic benefit cost

| | Six months ended June 30, | | | |
|---|---|---|---|---|
| | Pension benefits | | Other post-retirement benefits | |
| | 2013 | 2012 | 2013 | 2012 |
| Service cost | $ 2,276 | 3,715 | | |
| Interest cost | 2,602 | 2,865 | 32 | 33 |
| Expected return on plan assets | (4,276) | (3,896) | | |
| Amortization of prior service cost | (1,160) | (80) | | |
| Amortization of the net loss | 1,838 | 1,380 | 26 | 25 |
| Net periodic benefit cost | $ 1,280 | 3,984 | 58 | 58 |

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We made no contribution to our pension or other post-retirement benefit plans during the six months ended June 30, 2013. While we are not required to make a minimum contribution, we anticipate making a tax-deductible contribution of approximately $4.5 million to our defined benefit pension plan for the year ending December 31, 2013.

## (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.

- 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.

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**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. 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. Characteristics of comparable loans included 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.

**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.

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**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 June 30, 2013 and December 31, 2012, there was no significant unrealized appreciation or depreciation on these financial instruments.

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 June 30, 2013:

| | | Carrying amount | Estimated fair value | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|---|---|
| Financial assets: | | | | | | |
| Cash and cash equivalents | $ | 448,155 | 448,155 | 448,155 | | |
| Securities available-for-sale | | 1,144,953 | 1,144,953 | 27,447 | 1,106,161 | 11,345 |
| Securities held-to-maturity | | 133,439 | 137,733 | | 137,733 | |
| Loans receivable, net | | 5,618,817 | 5,853,630 | 296 | | 5,853,334 |
| Accrued interest receivable | | 23,171 | 23,171 | 23,171 | | |
| FHLB Stock | | 48,240 | 48,240 | | | |
| Total financial assets | $ | 7,416,775 | 7,655,882 | 499,069 | 1,243,894 | 5,864,679 |
| | | | | | | |
| Financial liabilities: | | | | | | |
| Savings and checking accounts | $ | 4,020,746 | 4,020,746 | 4,020,746 | | |
| Time deposits | | 1,762,346 | 1,800,768 | | | 1,800,768 |
| Borrowed funds | | 857,344 | 883,317 | 131,862 | | 751,455 |
| Junior subordinated debentures | | 103,094 | 112,552 | | | 112,552 |
| Cash flow hedges - swaps | | 9,385 | 9,385 | | 9,385 | |
| Accrued interest payable | | 1,043 | 1,043 | 1,043 | | |
| Total financial liabilities | $ | 6,753,958 | 6,827,811 | 4,153,651 | 9,385 | 2,664,775 |

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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 December 31, 2012:

| | | Carrying amount | Estimated fair value | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|---|---|
| Financial assets: | | | | | | |
| Cash and cash equivalents | $ | 451,704 | 451,704 | 451,704 | | |
| Securities available-for-sale | | 1,079,074 | 1,079,074 | 19,304 | 1,048,651 | 11,119 |
| Securities held-to-maturity | | 155,081 | 161,969 | | 161,969 | |
| Loans receivable, net | | 5,629,261 | 5,952,688 | 15,441 | | 5,937,247 |
| Accrued interest receivable | | 23,313 | 23,313 | 23,313 | | |
| FHLB Stock | | 46,834 | 46,834 | | | |
| Total financial assets | $ | 7,385,267 | 7,715,582 | 509,762 | 1,210,620 | 5,948,366 |
| | | | | | | |
| Financial liabilities: | | | | | | |
| Savings and checking accounts | $ | 3,878,511 | 3,878,511 | 3,878,511 | | |
| Time deposits | | 1,886,089 | 1,927,844 | | | 1,927,844 |
| Borrowed funds | | 860,047 | 935,384 | 164,531 | | 770,853 |
| Junior subordinated debentures | | 103,094 | 116,066 | | | 116,066 |
| Cash flow hedges - swaps | | 12,932 | 12,932 | | 12,932 | |
| Accrued interest payable | | 888 | 888 | 888 | | |
| Total financial liabilities | $ | 6,741,561 | 6,871,625 | 4,043,930 | 12,932 | 2,814,763 |

Fair value estimates are made at a point-in-time, based on relevant market data and information about the instrument. The methods and assumptions detailed above were used in estimating the fair value of financial instruments at both June 30, 2013 and December 31, 2012. There were no transfers of financial instruments between Level 1 and Level 2 during the six months ended June 30, 2013.

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The following table represents assets and liabilities measured at fair value on a recurring basis at June 30, 2013 (in thousands):

| | Level 1 | Level 2 | Level 3 | Total assets at fair value |
|---|---|---|---|---|
| Equity securities | $ 27,447 | | | 27,447 |
| Debt securities: | | | | |
| U.S. government and agencies | | 36 | | 36 |
| Government sponsored enterprises | | 315,396 | | 315,396 |
| States and political subdivisions | | 116,338 | | 116,338 |
| Corporate | | 9,167 | 11,345 | 20,512 |
| Total debt securities | | 440,937 | 11,345 | 452,282 |
| Residential mortgage-backed securities: | | | | |
| GNMA | | 35,966 | | 35,966 |
| FNMA | | 97,215 | | 97,215 |
| FHLMC | | 59,354 | | 59,354 |
| Non-agency | | 681 | | 681 |
| Collateralized mortgage obligations: | | | | |
| GNMA | | 13,914 | | 13,914 |
| FNMA | | 193,401 | | 193,401 |
| FHLMC | | 245,275 | | 245,275 |
| SBA | | 13,603 | | 13,603 |
| Non-agency | | 5,815 | | 5,815 |
| Total mortgage-backed securities | | 665,224 | | 665,224 |
| Interest rate swaps | | (9,385) | | (9,385) |
| Total assets | $ 27,447 | 1,096,776 | 11,345 | 1,135,568 |

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The following table represents assets and liabilities measured at fair value on a recurring basis at December 31, 2012 (in thousands):

| | Level 1 | Level 2 | Level 3 | Total assets at fair value |
|---|---|---|---|---|
| Equity securities | $ 19,304 | | | 19,304 |
| | | | | |
| Debt securities: | | | | |
| U.S. government and agencies | | 40 | | 40 |
| Government sponsored enterprises | | 238,314 | | 238,314 |
| States and political subdivisions | | 134,208 | | 134,208 |
| Corporate | | 11,584 | 11,119 | 22,703 |
| Total debt securities | | 384,146 | 11,119 | 395,265 |
| | | | | |
| Residential mortgage-backed securities: | | | | |
| GNMA | | 41,182 | | 41,182 |
| FNMA | | 106,863 | | 106,863 |
| FHLMC | | 52,559 | | 52,559 |
| Non-agency | | 695 | | 695 |
| Collateralized mortgage obligations: | | | | |
| GNMA | | 22,963 | | 22,963 |
| FNMA | | 189,364 | | 189,364 |
| FHLMC | | 228,631 | | 228,631 |
| SBA | | 15,775 | | 15,775 |
| Non-agency | | 6,473 | | 6,473 |
| Total mortgage-backed securities | | 664,505 | | 664,505 |
| | | | | |
| Interest rate swaps | | (12,932) | | (12,932) |
| | | | | |
| Total assets | $ 19,304 | 1,035,719 | 11,119 | 1,066,142 |

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The table below presents a reconciliation of all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the periods indicated (in thousands):

| | Quarter ended June 30, 2013 | Quarter ended June 30, 2012 | Six months ended June 30, 2013 | Six months ended June 30, 2012 |
|---|---|---|---|---|
| Beginning balance | $ 11,070 | 8,290 | 11,119 | 9,657 |
| Total net realized investment gains/ (losses) and net change in unrealized appreciation/ (depreciation): | | | | |
| Included in net income as OTTI | | | | |
| Included in other comprehensive income | 275 | 6 | 226 | (1,361) |
| Purchases | | | | |
| Sales | | | | |
| Transfers in to Level 3 | | | | |
| Transfers out of Level 3 | | | | |
| Ending balance | $ 11,345 | 8,296 | 11,345 | 8,296 |

Certain assets and liabilities are measured at fair value on a nonrecurring basis after initial recognition such as loans measured for impairment and real estate owned. The following table represents the fair value measurement for nonrecurring assets at June 30, 2013 (in thousands):

| | Level 1 | Level 2 | Level 3 | Total assets at fair value |
|---|---|---|---|---|
| Loans measured for impairment | $ | | 81,467 | 81,467 |
| Real estate owned | | | 21,269 | 21,269 |
| Total assets | $ | | 102,736 | 102,736 |

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Certain assets and liabilities are measured at fair value on a nonrecurring basis after initial recognition such as loans measured for impairment and real estate owned. The following table represents the fair value measurement for nonrecurring assets at December 31, 2012 (in thousands):

| | Level 1 | Level 2 | Level 3 | Total assets at fair value |
|---|---|---|---|---|
| Loans measured for impairment | $ | | 84,493 | 84,493 |
| Real estate owned | | | 26,165 | 26,165 |
| Total assets | $ | | 110,658 | 110,658 |

**Impaired loans** A loan is considered to be impaired as described in the Overview of Critical Accounting Policies Involving Estimates, Allowance for Loan Losses section. We classify loans individually evaluated for impairment that require a specific or TDR reserve as nonrecurring Level 3.

**Real Estate Owned** Real estate owned is comprised of property acquired through foreclosure or voluntarily conveyed by delinquent borrowers. These assets are recorded on the date acquired at the lower of the related loan balance or fair value, less estimated disposition costs, with the fair value being determined by appraisal. Subsequently, foreclosed assets are valued at the lower of the amount recorded at acquisition date or fair value, less estimated disposition costs. We classify all real estate owned as nonrecurring Level 3.

The table presents additional quantitative information about assets measured at fair value on a recurring and nonrecurring basis and for which we have utilized Level 3 inputs to determine fair value at June 30, 2013 (dollar amounts in thousands):

| | Fair value | Valuation techniques | Significant unobservable inputs | Range (weighted average) |
|---|---|---|---|---|
| Debt securities | $ 11,345 | Discounted cash flow | Discount margin<br>Default rates<br>Prepayment speeds | 0.35% to 2.1% (0.67)%<br>1.00%<br>1.00% annually |
| Loans measured for impairment | 81,467 | Appraisal value (1) | Estimated cost to sell | 10% |
| Real estate owned | 21,269 | Appraisal | Estimated cost to sell | 10% |