Table of Contents

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 September 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) 94,193,125 shares outstanding as of November 4, 2013

Table of Contents

NORTHWEST BANCSHARES, INC.

INDEX

Table of Contents

ITEM 1. FINANCIAL STATEMENTS

NORTHWEST BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(in thousands, except share data)

		(Unaudited) September 30, 2013	December 31, 2012
Assets			
Cash and due from banks	$	93,335	88,277
Interest-earning deposits in other financial institutions		321,344	362,794
Federal funds sold and other short-term investments		634	633
Marketable securities available-for-sale (amortized cost of $1,084,596 and $1,053,122)		1,092,799	1,079,074
Marketable securities held-to-maturity (fair value of $129,580 and $161,969)		125,937	155,081
Total cash and investments		1,634,049	1,685,859
Personal Banking:			
Residential mortgage loans held for sale			15,441
Residential mortgage loans		2,453,109	2,400,208
Home equity loans		1,072,388	1,076,637
Other consumer loans		225,978	235,367
Total Personal Banking		3,751,475	3,727,653
Business Banking:			
Commercial real estate loans		1,586,991	1,585,833
Commercial loans		392,636	388,994
Total Business Banking		1,979,627	1,974,827
Total loans receivable		5,731,102	5,702,480
Allowance for loan losses		(75,865)	(73,219)
Loans receivable, net		5,655,237	5,629,261
Federal Home Loan Bank stock, at cost		43,716	46,834
Accrued interest receivable		22,560	23,313
Real estate owned, net		20,173	26,165
Premises and equipment, net		142,487	138,824
Bank owned life insurance		140,389	137,044
Goodwill		174,463	174,461
Other intangible assets		2,541	3,529
Other assets		72,764	77,310
Total assets	$	7,908,379	7,942,600
Liabilities and Shareholders equity			
Liabilities:			
Noninterest-bearing demand deposits	$	803,498	755,429
Interest-bearing demand deposits		854,288	851,771
Savings deposits		2,348,805	2,271,311
Time deposits		1,718,774	1,886,089
Total deposits		5,725,365	5,764,600

Borrowed funds		865,096	860,047
Junior subordinated deferrable interest debentures held by trusts that issued guaranteed capital debt securities		103,094	103,094
Advances by borrowers for taxes and insurance		14,152	23,325
Accrued interest payable		861	888
Other liabilities		61,277	62,177
Total liabilities		6,769,845	6,814,131
Shareholders equity:			
Preferred stock, $0.01 par value: 50,000,000 authorized, no shares issued			
Common stock, $0.01 par value: 500,000,000 shares authorized, 94,152,042 and 93,652,960 shares issued and outstanding, respectively		942	937
Paid-in capital		617,180	613,249
Retained earnings		562,758	550,296
Unallocated common stock of employee stock ownership plan		(23,305)	(24,525)
Accumulated other comprehensive loss		(19,041)	(11,488)
Total shareholders equity		1,138,534	1,128,469
Total liabilities and shareholders equity	$	7,908,379	7,942,600

See accompanying notes to unaudited consolidated financial statements

Table of Contents

NORTHWEST BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

(in thousands, except per share data)

	Quarter ended September 30, 2013	Quarter ended September 30, 2012	Nine months ended September 30, 2013	Nine months ended September 30, 2012
Interest income:				
Loans receivable	$ 71,480	76,771	216,440	231,888
Mortgage-backed securities	3,113	3,941	9,862	13,041
Taxable investment securities	1,030	577	2,969	1,585
Tax-free investment securities	1,912	2,223	6,069	6,987
Interest-earning deposits	253	364	844	1,217
Total interest income	77,788	83,876	236,184	254,718
Interest expense:				
Deposits	7,150	10,207	22,368	34,335
Borrowed funds	8,126	8,013	23,989	23,824
Total interest expense	15,276	18,220	46,357	58,159
Net interest income	62,512	65,656	189,827	196,559
Provision for loan losses	4,992	6,915	17,555	18,165
Net interest income after provision for loan losses	57,520	58,741	172,272	178,394
Noninterest income:				
Impairment losses on securities		(340)		(885)
Noncredit related losses on securities not expected to be sold (recognized in other comprehensive income)		247		554
Net impairment losses		(93)		(331)
Gain on sale of investments, net	109	260	229	260
Service charges and fees	9,282	9,110	27,010	26,701
Trust and other financial services income	2,380	2,122	6,847	6,256
Insurance commission income	2,019	1,480	6,504	4,801
Loss on real estate owned, net	(111)	(1,187)	(2,526)	(2,839)
Income from bank owned life insurance	1,178	1,148	3,351	3,372
Mortgage banking income	203	1,484	1,395	2,804
Other operating income	1,049	949	3,090	3,190
Total noninterest income	16,109	15,273	45,900	44,214
Noninterest expense:				
Compensation and employee benefits	27,629	28,171	83,715	83,425
Premises and occupancy costs	5,633	5,498	17,530	16,729
Office operations	3,497	3,141	10,631	9,805
Processing expenses	6,036	6,340	19,279	18,541
Marketing expenses	1,032	1,830	5,025	7,695
Federal deposit insurance premiums	1,377	1,305	4,239	4,343
Professional services	1,331	1,939	4,223	5,136
Amortization of other intangible assets	291	219	988	793
Real estate owned expense	681	832	1,880	2,143
Other expenses	2,770	2,528	7,044	6,435
Total noninterest expense	50,277	51,803	154,554	155,045

Income before income taxes		23,352	22,211	63,618	67,563
Federal and state income taxes		5,752	6,518	17,242	20,328
Net income	$	17,600	15,693	46,376	47,235
Basic earnings per share	$	0.19	0.17	0.51	0.50
Diluted earnings per share	$	0.19	0.17	0.51	0.50

See accompanying notes to unaudited consolidated financial statements

Table of Contents

NORTHWEST BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

(in thousands)

	Quarter ended September 30, 2013	2012	Nine months ended September 30, 2013	2012
Net Income	$ 17,600	15,693	46,376	47,235
Other comprehensive income net of tax:				
Net unrealized holding gains/ (losses) on marketable securities:				
Unrealized holding gains/ (losses) net of tax of $(73), $(998), $6,767 and $(2,471), respectively	110	1,550	(10,619)	3,805
Other-than-temporary impairment on securities included in net income, net of tax of $0, $(36), $0 and $(129), respectively		57		202
Reclassification adjustment for gains included in net income, net of tax of $55, $16, $142 and $138 respectively	(87)	(25)	(221)	(215)
Net unrealized holding gains/ (losses) on marketable securities	23	1,582	(10,840)	3,792
Change in fair value of interest rate swaps, net of tax of $(159), $55, $(1,400) and $103, respectively	294	(102)	2,600	(192)
Defined benefit plan:				
Reclassification adjustment for prior period service costs included in net income, net of tax of $(123), $(232), $(369) and $(695), respectively	229	431	687	1,293
Other comprehensive income/ (loss)	546	1,911	(7,553)	4,893
Total comprehensive income	$ 18,146	17,604	38,823	52,128

See accompanying notes to unaudited consolidated financial statements

Table of Contents

NORTHWEST BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY (Unaudited)

(dollars in thousands, expect per share data)

Quarter ended September 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 June 30, 2012	97,880,874	$ 979	662,183	552,278	(20,244)	(25,192)	1,170,004
Comprehensive income:							
Net income				15,693			15,693
Other comprehensive income, net of tax of $(1,195)					1,911		1,911
Total comprehensive income				15,693	1,911		17,604
Exercise of stock options	147,288	1	897				898
Stock compensation expense			713			375	1,088
Share repurchases	(183,780)	(2)	(2,204)				(2,206)
Dividends paid ($0.12 per share)				(11,469)			(11,469)
Ending balance at September 30, 2012	97,844,382	$ 978	661,589	556,502	(18,333)	(24,817)	1,175,919

Quarter ended September 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 June 30, 2013	93,877,847	$ 939	613,520	557,104	(19,587)	(23,743)	1,128,233
Comprehensive income:							
Net income				17,600			17,600
Other comprehensive income, net of tax of $(300)					546		546
Total comprehensive income				17,600	546		18,146
Exercise of stock options	274,195	3	2,657				2,660
Stock compensation expense			1,003			438	1,441
Share repurchases							
Dividends paid ($0.13 per share)				(11,946)			(11,946)
Ending balance at September 30, 2013	94,152,042	$ 942	617,180	562,758	(19,041)	(23,305)	1,138,534

See accompanying notes to unaudited consolidated financial statements

Table of Contents

NORTHWEST BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY (Unaudited)

(dollars in thousands, expect per share data)

Nine months ended September 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				47,235			47,235
Other comprehensive income, net of tax of $(3,054)					4,893		4,893
Total comprehensive income				47,235	4,893		52,128
Exercise of stock options	271,739	2	1,891				1,893
Stock-based compensation expense	263,377	3	2,379			1,149	3,531
Share repurchases	(183,780)	(2)	(2,204)				(2,206)
Dividends paid ($0.36 per share)				(34,331)			(34,331)
Ending balance at September 30, 2012	97,844,382	$ 978	661,589	556,502	(18,333)	(24,817)	1,175,919

Nine months ended September 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				46,376			46,376
Other comprehensive loss, net of tax of $5,140					(7,553)		(7,553)
Total comprehensive income				46,376	(7,553)		38,823
Exercise of stock options	598,562	6	5,555				5,561
Stock-based compensation expense	269,320	3	2,831			1,220	4,054
Share repurchases	(368,800)	(4)	(4,455)				(4,459)
Dividends paid ($0.37 per share)				(33,914)			(33,914)
Ending balance at September 30, 2013	94,152,042	$ 942	617,180	562,758	(19,041)	(23,305)	1,138,534

See accompanying notes to unaudited consolidated financial statements

Table of Contents

NORTHWEST BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(in thousands)

	Nine months ended September 30, 2013	2012
OPERATING ACTIVITIES:		
Net Income	$ 46,376	47,235
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	17,555	18,165
Net gain on sale of assets	(813)	(490)
Net depreciation, amortization and accretion	6,638	7,166
Decrease in other assets	5,665	16,641
Increase in other liabilities	4,131	9,892
Net amortization/ (accretion) on marketable securities	204	(59)
Deferred income tax benefit	(52)	(36)
Noncash impairment losses on investment securities		331
Noncash write-down of real estate owned	3,580	2,129
Origination of loans held for sale	(36,411)	(180,319)
Proceeds from sale of loans held for sale	52,408	168,442
Noncash compensation expense related to stock benefit plans	4,054	3,531
Net cash provided by operating activities	103,335	92,628
INVESTING ACTIVITIES:		
Purchase of marketable securities available-for-sale	(233,606)	(299,414)
Proceeds from maturities and principal reductions of marketable securities available-for-sale	202,109	262,192
Proceeds from maturities and principal reductions of marketable securities held-to-maturity	29,193	63,583
Loan originations	(1,536,087)	(1,568,290)
Proceeds from loan maturities and principal reductions	1,469,752	1,371,874
Redemption of Federal Home Loan Bank stock	3,118	2,101
Proceeds from sale of real estate owned	14,134	11,145
Sale of real estate owned for investment, net	485	343
Purchase of premises and equipment	(12,653)	(11,804)
Net cash used in investing activities	(63,555)	(168,270)

Table of Contents

NORTHWEST BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited) (continued)

(in thousands)

		Nine months ended September 30, 2013	2012
FINANCING ACTIVITIES:			
(Decrease)/ increase in deposits, net	$	(39,235)	44,431
Proceeds from long-term borrowings		30,000	
Repayments of long-term borrowings		(51)	(52)
Net increase/ (decrease) in short-term borrowings		(24,900)	27,679
Decrease in advances by borrowers for taxes and insurance		(9,173)	(12,001)
Cash dividends paid		(33,914)	(34,331)
Purchase of common stock for retirement		(4,459)	(2,206)
Proceeds from stock options exercised		5,561	1,893
Net cash provided by financing activities		(76,171)	25,413
Net decrease in cash and cash equivalents	$	(36,391)	(50,229)
Cash and cash equivalents at beginning of period	$	451,704	688,297
Net decrease in cash and cash equivalents		(36,391)	(50,229)
Cash and cash equivalents at end of period	$	415,313	638,068
Cash and cash equivalents:			
Cash and due from banks	$	93,335	91,286
Interest-earning deposits in other financial institutions		321,344	546,149
Federal funds sold and other short-term investments		634	633
Total cash and cash equivalents	$	415,313	638,068
Cash paid during the period for:			
Interest on deposits and borrowings (including interest credited to deposit accounts of $20,126 and $29,606, respectively)	$	46,384	58,152
Income taxes	$	22,177	10,389
Non-cash activities:			
Loans foreclosures and repossessions	$	11,667	17,141
Sale of real estate owned financed by the Company	$	888	428

See accompanying notes to unaudited consolidated financial statements

Table of Contents

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 September 30, 2013, Northwest operated 165 community-banking offices throughout Pennsylvania, western New York, eastern Ohio and Maryland.

The accompanying unaudited consolidated financial statements include the accounts of the Company and its subsidiary, Northwest, and Northwest s subsidiaries Northwest Settlement Agency, LLC, Northwest Consumer Discount Company, Northwest Financial Services, Inc., Northwest Advisors, Inc., Northwest Capital Group, Inc., 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 or footnotes required for complete annual financial statements. In the opinion of management, all adjustments necessary for the fair presentation of the Company s financial position and results of operations have been included. The consolidated statements have been prepared using the accounting policies described in the financial statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 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 September 30, 2013 or December 31, 2012.

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

Table of Contents

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.

9

Table of Contents

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 nine months ended September 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 $1.2 million and $1.1 million for the quarter ended September 30, 2013 and 2012, respectively, and $3.8 million and $3.5 million for the nine months ended September 30, 2013 and 2012, respectively, was recognized in compensation expense relating to our stock benefit plans. At September 30, 2013 there was compensation expense of $5.4 million to be recognized for awarded but unvested stock options and $15.8 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 September 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 September 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, 2012, 2011 and 2010.

(2) Business Segments

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

The following tables provide financial information for these reportable segments. The All Other column represents the parent company and elimination entries necessary to reconcile to the consolidated amounts presented in the financial statements.

Table of Contents

At or for the quarter ended:

September 30, 2013 ($ in 000 s)		Community Banking	Consumer Finance	All other (1)	Consolidated
External interest income	$	72,451	5,077	260	77,788
Intersegment interest income		670		(670)	
Interest expense		13,975	670	631	15,276
Provision for loan losses		4,000	992		4,992
Noninterest income		15,651	445	13	16,109
Noninterest expense		47,102	2,998	177	50,277
Income tax expense (benefit)		5,842	343	(433)	5,752
Net income		17,853	519	(772)	17,600
Total assets	$	7,757,940	110,003	40,436	7,908,379

September 30, 2012 ($ in 000 s)		Community Banking	Consumer Finance	All other (1)	Consolidated
External interest income	$	78,048	5,513	315	83,876
Intersegment interest income		748		(748)	
Interest expense		16,881	748	591	18,220
Provision for loan losses		6,000	915		6,915
Noninterest income		14,750	509	14	15,273
Noninterest expense		48,484	3,120	199	51,803
Income tax expense (benefit)		6,442	507	(431)	6,518
Net income		15,739	732	(778)	15,693
Total assets	$	7,889,245	116,112	42,314	8,047,671

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

Table of Contents

At or for the nine months ended:

September 30, 2013 ($ in 000 s)		Community Banking	Consumer Finance	All other (1)	Consolidated
External interest income	$	219,781	15,496	907	236,184
Intersegment interest income		2,046		(2,046)	
Interest expense		42,531	2,046	1,780	46,357
Provision for loan losses		15,006	2,549		17,555
Noninterest income		44,661	1,178	61	45,900
Noninterest expense		144,661	9,286	607	154,554
Income tax expense (benefit)		17,377	1,144	(1,279)	17,242
Net income		46,913	1,649	(2,186)	46,376
Total assets	$	7,757,940	110,003	40,436	7,908,379

September 30, 2012 ($ in 000 s)		Community Banking	Consumer Finance	All other (1)	Consolidated
External interest income	$	237,279	16,556	883	254,718
Intersegment interest income		2,234		(2,234)	
Interest expense		54,206	2,234	1,719	58,159
Provision for loan losses		15,750	2,415		18,165
Noninterest income		42,537	1,601	76	44,214
Noninterest expense		144,949	9,496	600	155,045
Income tax expense (benefit)		19,967	1,658	(1,297)	20,328
Net income		47,178	2,354	(2,297)	47,235
Total assets	$	7,889,245	116,112	42,314	8,047,671

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

Table of Contents

(3) Investment securities and impairment of investment securities

The following table shows the portfolio of investment securities available-for-sale at September 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	$	34			34
Debt issued by government sponsored enterprises:					
Due in one year or less		2,000	1		2,001
Due in one year - five years		223,122	268	(3,270)	220,120
Due in five years - ten years		101,190		(2,198)	98,992
Equity securities		15,527	10,838	(37)	26,328
Municipal securities:					
Due in one year or less		435	12		447
Due in one year - five years		9,344	156		9,500
Due in five years - ten years		14,582	360		14,942
Due after ten years		82,994	1,581	(217)	84,358
Corporate debt issues:					
Due after ten years		21,853	718	(1,839)	20,732
Residential mortgage-backed securities:					
Fixed rate pass-through		88,960	3,539	(995)	91,504
Variable rate pass-through		84,278	3,685	(15)	87,948
Fixed rate non-agency CMOs		4,123	153		4,276
Fixed rate agency CMOs		278,308	1,555	(6,509)	273,354
Variable rate non-agency CMOs		696		(19)	677
Variable rate agency CMOs		157,150	680	(244)	157,586
Total residential mortgage-backed securities		613,515	9,612	(7,782)	615,345
Total marketable securities available-for-sale	$	1,084,596	23,546	(15,343)	1,092,799

Table of Contents

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 September 30, 2013 (in thousands):

		Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
Municipal securities:					
Due in five years - ten years	$	5,713	177		5,890
Due after ten years		63,599	1,640		65,239
Residential mortgage-backed securities:					
Fixed rate pass-through		11,507	603		12,110
Variable rate pass-through		5,412	80		5,492
Fixed rate agency CMOs		37,803	1,128		38,931
Variable rate agency CMOs		1,903	15		1,918
Total residential mortgage-backed securities		56,625	1,826		58,451

Total marketable securities held-to-maturity	$	125,937	3,643	129,580

Table of Contents

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 September 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	$	285,376	(5,468)			285,376	(5,468)
Municipal securities		6,842	(217)			6,842	(217)
Corporate issues				4,470	(1,839)	4,470	(1,839)
Equity securities		585	(37)			585	(37)
Residential mortgage-backed securities - non-agency		676	(19)			676	(19)
Residential mortgage-backed securities - agency		269,557	(7,526)	79,336	(237)	348,893	(7,763)
Total temporarily impaired securities	$	563,036	(13,267)	83,806	(2,076)	646,842	(15,343)

15

Table of Contents

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 September 30, 2013, we had five investments with a total amortized cost of $6.3 million and total fair value of $4.5 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.

Table of Contents

The following table provides class, amortized cost, fair value and ratings information for our portfolio of corporate securities that have an unrealized loss at September 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	804	(185)	Ba2/ BB+
Huntington Capital Trust	N/A		1,429	1,179	(250)	Baa3/ BB+
Commercebank Capital Trust	N/A		891	870	(21)	Not rated
I-PreTSL I	Mezzanine		1,500	593	(907)	Not rated/ CCC
I-PreTSL II	Mezzanine		1,500	1,024	(476)	Not rated/ B
		$	6,309	4,470	(1,839)	

(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 September 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	101,603
I-PreTSL II		305,500	24,500	281,000	173,825

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 September 30, 2013, we believe the impairment within our portfolio of agency mortgage-backed securities is noncredit related. As of September 30, 2013, we had seven non-agency CMOs with a total amortized cost of $4.8 million and a total fair value of $5.0 million. None of these seven securities have had an amortized cost which has exceeded the fair value for more than 12 months and one security that has had an amortized cost which exceeded the fair value for less than 12 months. During the quarter and nine months ended September 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.

Table of Contents

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 September 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	$	129	131	2		
AMAC 2003-6 2A8		267	270	3		
BOAMS 2005-11 1A8			87	87		(146)
CWALT 2005-J14 A3		3,236	3,293	57		(1,007)
CFSB 2003-17 2A2		292	293	1		
WAMU 2003-S2 A4		199	202	3		
WFMBS 2003-B A2		696	677	(19)		
	$	4,819	4,953	134		(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 September 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.

Table of Contents

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 July 1, (1)	$	9,697	9,896
Credit losses on debt securities for which other-than-temporary impairment was not previously recognized			
Reduction for losses realized during the quarter		(43)	(81)
Additional credit losses on debt securities for which other-than-temporary impairment was previously recognized			93
Ending balance at September 30,	$	9,654	9,908

(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 nine 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		(157)	(2,056)
Additional credit losses on debt securities for which other-than-temporary impairment was previously recognized			331
Ending balance at September 30,	$	9,654	9,908

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

Table of Contents

(4) Loans receivable

The following table shows a summary of our loans receivable at September 30, 2013 and December 31, 2012 (in thousands):

		September 30, 2013	December 31, 2012
Personal Banking:			
Loans held for sale	$		15,441
Residential mortgage loans		2,465,577	2,416,419
Home equity loans		1,072,388	1,076,637
Other consumer loans		225,978	235,367
Total Personal Banking		3,763,943	3,743,864
Business Banking:			
Commercial real estate		1,663,592	1,615,701
Commercial loans		433,326	432,944
Total Business Banking		2,096,918	2,048,645
Total loans receivable, gross		5,860,861	5,792,509
Deferred loan costs/ (fees)		1,697	(1,624)
Allowance for loan losses		(75,865)	(73,219)
Undisbursed loan proceeds:			
Residential mortgage loans		(14,165)	(14,587)
Commercial real estate		(76,601)	(29,868)
Commercial loans		(40,690)	(43,950)
Total loans receivable, net	$	5,655,237	5,629,261

Table of Contents

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 September 30, 2013 (in thousands):

		Balance September 30, 2013	Current period provision	Charge-offs	Recoveries	Balance June 30, 2013
Personal Banking:						
Residental mortgage loans	$	7,821	471	(546)	37	7,859
Home equity loans		8,065	(116)	(213)	44	8,350
Other consumer loans		4,935	1,553	(1,675)	234	4,823
Total Personal Banking		20,821	1,908	(2,434)	315	21,032
Business Banking:						
Commercial real estate loans		38,552	2,676	(1,048)	1,366	35,558
Commercial loans		11,902	32	(463)	547	11,786
Total Business Banking		50,454	2,708	(1,511)	1,913	47,344
Unallocated		4,590	376			4,214
Total	$	75,865	4,992	(3,945)	2,228	72,590

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 September 30, 2012 (in thousands):

		Balance September 30, 2012	Current period provision	Charge-offs	Recoveries	Balance June 30, 2012
Personal Banking:						
Residental mortgage loans	$	8,361	1,440	(1,197)	121	7,997
Home equity loans		8,118	710	(1,268)	42	8,634
Other consumer loans		4,781	1,073	(1,536)	579	4,665
Total Personal Banking		21,260	3,223	(4,001)	742	21,296
Business Banking:						
Commercial real estate loans		34,337	538	(1,385)	403	34,781
Commercial loans		11,225	3,401	(1,641)	34	9,431
Total Business Banking		45,562	3,939	(3,026)	437	44,212
Unallocated		4,355	(247)			4,602
Total	$	71,177	6,915	(7,027)	1,179	70,110

Table of Contents

The following table provides information related to the allowance for loan losses by portfolio segment and by class of financing receivable for the nine months ended September 30, 2013 (in thousands):

		Balance September 30, 2013	Current period provision	Charge-offs	Recoveries	Balance December 31, 2012
Personal Banking:						
Residental mortgage loans	$	7,821	1,506	(2,002)	315	8,002
Home equity loans		8,065	1,022	(1,388)	137	8,294
Other consumer loans		4,935	3,312	(4,359)	826	5,156
Total Personal Banking		20,821	5,840	(7,749)	1,278	21,452
Business Banking:						
Commercial real estate loans		38,552	10,033	(7,734)	1,754	34,499
Commercial loans		11,902	1,118	(3,685)	1,227	13,242
Total Business Banking		50,454	11,151	(11,419)	2,981	47,741
Unallocated		4,590	564			4,026
Total	$	75,865	17,555	(19,168)	4,259	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 nine months ended September 30, 2012 (in thousands):

		Balance September 30, 2012	Current period provision	Charge-offs	Recoveries	Balance December 31, 2011
Personal Banking:						
Residental mortgage loans	$	8,361	3,017	(3,459)	321	8,482
Home equity loans		8,118	2,078	(2,749)	102	8,687
Other consumer loans		4,781	2,619	(4,327)	1,164	5,325
Total Personal Banking		21,260	7,714	(10,535)	1,587	22,494
Business Banking:						
Commercial real estate loans		34,337	6,631	(5,817)	1,375	32,148
Commercial loans		11,225	3,881	(5,009)	273	12,080
Total Business Banking		45,562	10,512	(10,826)	1,648	44,228
Unallocated		4,355	(61)			4,416
Total	$	71,177	18,165	(21,361)	3,235	71,138

Table of Contents

The following table provides information related to the loan portfolio by portfolio segment and by class of financing receivable at September 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	$	2,453,109	7,821	27,972		4,261	849	
Home equity loans		1,072,388	8,065	10,205		1,967	407	
Other consumer loans		225,978	4,935	2,073	786			
Total Personal Banking		3,751,475	20,821	40,250	786	6,228	1,256	
Business Banking:								
Commercial real estate loans		1,586,991	38,552	52,519		46,622	8,757	208
Commercial loans		392,636	11,902	30,130	23	26,540	3,577	1,500
Total Business Banking		1,979,627	50,454	82,649	23	73,162	12,334	1,708
Total	$	5,731,102	71,275	122,899	809	79,390	13,590	1,708

(1) Includes $37.5 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
Total Business Banking		1,974,827	47,741	84,035	911	82,508	11,434	2,987
Total	$	5,702,480	69,193	120,212	1,698	89,444	12,774	2,987

(1) Includes $41.2 million of nonaccrual TDRS.

23

Table of Contents

The following table provides geographical and delinquency information related to the loan portfolio by portfolio segment and class of financing receivable at September 30, 2013 (in thousands):

	Pennsylvania	New York	Ohio	Maryland	Other	Total
Recorded investment in loans receivable:						
Personal Banking:						
Residential mortgage loans	$ 2,079,888	158,296	18,515	142,348	54,062	2,453,109
Home equity loans	913,672	114,571	10,469	27,514	6,162	1,072,388
Other consumer loans	208,515	10,268	2,994	1,229	2,972	225,978
Total Personal Banking	3,202,075	283,135	31,978	171,091	63,196	3,751,475
Business Banking:						
Commercial real estate loans	885,260	476,843	25,871	124,804	74,213	1,586,991
Commercial loans	284,868	62,496	17,071	16,831	11,370	392,636
Total Business Banking	1,170,128	539,339	42,942	141,635	85,583	1,979,627
Total	$ 4,372,203	822,474	74,920	312,726	148,779	5,731,102
Percentage of total loans in geographic area 76.2%		14.4%	1.3%	5.5%	2.6%	100.0%

	Pennsylvania	New York	Ohio	Maryland	Other	Total
Loans 90 or more days delinquent:						
Personal Banking:						
Residential mortgage loans	$ 15,157	1,319	687	4,370	3,469	25,002
Home equity loans	5,832	1,545	145	1,275	162	8,959
Other consumer loans	1,808	27			13	1,848
Total Personal Banking	22,797	2,891	832	5,645	3,644	35,809
Business Banking:						
Commercial real estate loans	14,196	674		1,348	64	16,282
Commercial loans	2,650	2,728		742	293	6,413
Total Business Banking	16,846	3,402		2,090	357	22,695
Total	$ 39,643	6,293	832	7,735	4,001	58,504
Percentage of loans 90 or more days delinquent in geographic area.	0.9%	0.8%	1.1%	2.5%	2.7%	1.0%

Table of Contents

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%

Table of Contents

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 nine months ended September 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	$	25,002	2,970		3,235	31,207	30,173	555
Home equity loans		8,959	1,246		1,513	11,718	10,558	282
Other consumer loans		1,848	225			2,073	1,907	33
Total Personal Banking		35,809	4,441		4,748	44,998	42,638	870
Business Banking:								
Commercial real estate loans		16,282	36,237	33,752	14,209	100,480	88,761	2,734
Commercial loans		6,413	23,717	4,259	3,851	38,240	43,459	869
Total Business Banking		22,695	59,954	38,011	18,060	138,720	132,220	3,603
Total	$	58,504	64,395	38,011	22,808	183,718	174,858	4,473

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

Table of Contents

The following table provides information related to the evaluation of impaired loans by portfolio segment and by class of financing receivable at September 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	$	2,448,848	4,261	4,261	848	
Home equity loans		1,070,421	1,967	1,967	407	
Other consumer loans		225,839	139	139	1	
Total Personal Banking		3,745,108	6,367	6,367	1,256	
Business Banking:						
Commercial real estate loans		1,510,810	76,181	58,069	10,555	18,112
Commercial loans		359,137	33,499	28,007	4,427	5,492
Total Business Banking		1,869,947	109,680	86,076	14,982	23,604
Total	$	5,615,055	116,047	92,443	16,238	23,604

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

Table of Contents

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

When we modify loans in a TDR, we evaluate any possible impairment similar to other impaired loans based on the present value of expected future cash flows, discounted at the contractual interest rate of the original loan agreement, the loan s observable market price or the current fair value of the collateral, less selling costs, for collateral dependent loans. If we determine that the value of the modified loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount), impairment is recognized through an allowance estimate or a charge-off to the allowance. In periods subsequent to modification, we evaluate all TDRs, including those that have payment defaults, for possible impairment, using ASC 310-10. As a result, loans modified in a TDR may have the financial effect of increasing the specific allowance associated with the loan.

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

During the nine months ended September 30, 2013, four home equity loan TDRs with a combined balance of $99,000, four residential mortgage loan TDRs with a combined balance of $357,000, four commercial real estate loan TDRs with a combined balance of $1.1 million and five commercial loan TDRs with a combined balance of $250,000 were charged off. Additionally, three home equity loan TDRs with a combined balance of $9,000, one residential mortgage loan TDR with a balance of $109,000, seven commercial real estate loan TDRs with a combined balance of $3.1 million and 22 commercial loan TDRs with a combined balance of $3.5 million were paid off. For TDRs that subsequently defaulted during the nine months ended September 30, 2013, one residential mortgage loan TDR with a balance of $79,000 was charged off and two commercial loan TDRs with a combined balance of $1.9 million were paid off and are included above. Additionally, one commercial loan TDR with a balance of $2.1 million was transferred to real estate owned.

Table of Contents

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

	For the nine months ended September 30, 2013	2012	For the year ended December 31, 2012
Beginning TDR balance:	$ 89,444	69,429	69,429
New TDRs (1)	11,310	33,999	56,845
Net paydowns	(10,784)	(15,762)	(25,205)
Charge-offs	(1,769)	(554)	(2,704)
Paid-off loans	(6,741)	(787)	(8,921)
Transferred to real estate owned	(2,070)		
Ending TDR balance:	$ 79,390	86,325	89,444
Accruing TDRs	$ 41,871	57,064	48,278
Non-accrual TDRs	37,519	29,261	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.

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 September 30, 2013				For the nine months ended September 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	172	16
Home equity loans	1	6	6		5	296	286	134
Other consumer loans								
Total Personal Banking	1	6	6		7	475	458	150
Business Banking:								
Commercial real estate loans	14	1,900	1,780	277	49	8,982	7,353	1,641
Commercial loans	4	71	71	3	28	1,853	1,384	204
Total Business Banking	18	1,971	1,851	280	77	10,835	8,737	1,845
Total	19	$ 1,977	1,857	280	84	$ 11,310	9,195	1,995
Troubled debt restructurings that subsequently defaulted:								
Personal Banking:								

Residential mortgage loans	1	$	214	161	74	2	$	274	231	79
Home equity loans						2		237	188	179
Other consumer loans										
Total Personal Banking	1		214	161	74	4		511	419	258
Business Banking:										
Commercial real estate loans	4		567	540	115	8		2,352	1,964	255
Commercial loans	1		23	8	2	7		9,082	1,414	182
Total Business Banking	5		590	548	117	15		11,434	3,378	437
Total	6	$	804	709	191	19	$	11,945	3,797	695

Table of Contents

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 September 30, 2012				For the nine months ended September 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	19	$ 3,422	2,739	729	19	$ 3,422	2,739	729
Home equity loans	7	724	630	174	7	724	630	174
Other consumer loans								
Total Personal Banking	26	4,146	3,369	903	26	4,146	3,369	903
Business Banking:								
Commercial real estate loans	25	6,294	6,102	716	35	9,267	9,014	910
Commercial loans	28	7,008	6,778	228	41	20,586	19,159	746
Total Business Banking	53	13,302	12,880	944	76	29,853	28,173	1,656
Total	79	$ 17,448	16,249	1,847	102	$ 33,999	31,542	2,559
Troubled debt restructurings that subsequently defaulted:								
Personal Banking:								
Residential mortgage loans		$			1	$ 449	361	117
Home equity loans								
Other consumer loans								
Total Personal Banking					1	449	361	117
Business Banking:								
Commercial real estate loans	1	230	230	23	4	1,381	1,313	81
Commercial loans	8	1,830	819	82	8	1,830	819	82
Total Business Banking	9	2,060	1,049	105	12	3,211	2,132	163
Total	9	$ 2,060	1,049	105	13	$ 3,660	2,493	280

Table of Contents

The following table provides information related to re-modified troubled debt restructurings by portfolio segment and by class of financing receivable for the nine months ended September 30, 2013 (dollars in thousands):

	Number of re-modified TDRs	Type of modification Rate	Payment	Maturity date	Other	Total
Personal Banking:						
Residental mortgage loans		$				
Home equity loans						
Other consumer loans						
Total Personal Banking						
Business Banking:						
Commercial real estate loans	6		227	4,007		4,234
Commercial loans	1					
Total Business Banking	7		227	4,007		4,234
Total	7	$	227	4,007		4,234

The following table provides information related to re-modified troubled debt restructurings by portfolio segment and by class of financing receivable for the nine months ended September 30, 2012 (dollars in thousands):

	Number of re-modified TDRs	Type of modification Rate	Payment	Maturity date	Other	Total
Personal Banking:						
Residental mortgage loans		$				
Home equity loans						
Other consumer loans						
Total Personal Banking						
Business Banking:						
Commercial real estate loans	2	800				800
Commercial loans	6	1,747		4,073		5,820
Total Business Banking	8	2,547		4,073		6,620
Total	8	$ 2,547		4,073		6,620

Table of Contents

The following table provides information related to loan payment delinquencies at September 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	$	4,391	6,360	25,002	35,753	2,417,356	2,453,109
Home equity loans		4,161	2,193	8,959	15,313	1,057,075	1,072,388
Other consumer loans		4,193	1,646	1,848	7,687	218,291	225,978
Total Personal Banking		12,745	10,199	35,809	58,753	3,692,722	3,751,475
Business Banking:							
Commercial real estate loans		6,536	3,692	16,282	26,510	1,560,481	1,586,991
Commercial loans		1,059	1,242	6,413	8,714	383,922	392,636
Total Business Banking		7,595	4,934	22,695	35,224	1,944,403	1,979,627
Total	$	20,340	15,133	58,504	93,977	5,637,125	5,731,102

The following table provides information related to loan payment 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 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

Table of Contents

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.

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 September 30, 2013 (in thousands):

		Pass	Special mention	Substandard	Doubtful	Loss	Recorded investment in loans receivable
Personal Banking:							
Residential mortgage loans	$	2,433,665		18,123		1,321	2,453,109
Home equity loans		1,063,429		8,959			1,072,388
Other consumer loans		224,644		1,334			225,978
Total Personal Banking		3,721,738		28,416		1,321	3,751,475
Business Banking:							
Commercial real estate loans		1,380,452	44,173	161,069	1,297		1,586,991
Commercial loans		327,137	12,156	52,225	1,118		392,636
Total Business Banking		1,707,589	56,329	213,294	2,415		1,979,627
Total	$	5,429,327	56,329	241,710	2,415	1,321	5,731,102

Table of Contents

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

(5) **Goodwill and Other Intangible Assets**

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

	September 30, 2013	December 31, 2012
Amortizable intangible assets:		
Core deposit intangibles gross	$ 30,578	30,578
Acquisitions		
Less: accumulated amortization	(30,440)	(30,181)
Core deposit intangibles net	138	397
Customer and Contract intangible assets gross	6,197	3,779
Acquisition of The Bert Company		2,418
Less: accumulated amortization	(3,794)	(3,065)
Customer and Contract intangible assets net	$ 2,403	3,132

Table of Contents

The following table shows the actual aggregate amortization expense for the quarter and nine months ended September 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 September 30, 2013	$	291
For the quarter ended September 30, 2012		219
For the nine months ended September 30, 2013		988
For the nine months ended September 30, 2012		793
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

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 September 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. At September 30, 2013, there were no changes in our operations or other factors that would cause us to update that test. See the Overview of Critical Accounting Policies Involving Estimates section for a description of our testing procedures.

(6) **Guarantees**

We issue standby letters of credit in the normal course of business. Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Standby letters of credit generally are contingent upon the failure of the customer to perform according to the terms of the underlying contract with the third party. We are required to perform under a standby letter of credit when drawn upon by the guaranteed third party in the case of nonperformance by our customer. The credit risk associated with standby letters of credit is essentially the same as that involved in extending loans to customers and is subject to normal loan underwriting procedures. Collateral may be obtained based on management s credit assessment of the customer. At September 30, 2013, the maximum potential amount of future payments we could be required to make under these standby letters of credit was $28.8 million, of which $28.1 million is fully collateralized. At September 30, 2013, we had a

35

Table of Contents

liability, which represents deferred income, of $872,000 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 nine months ended September 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 $13.77 and $12.92, respectively. Stock options to purchase 3,119,002 shares of common stock with a weighted average exercise price of $12.28 per share were outstanding during the quarter and nine months ended September 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 $11.98 and $12.17, respectively.

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

		Quarter ended September 30,		Nine months ended September 30,	
		2013	**2012**	**2013**	**2012**
Reported net income	$	17,600	15,693	46,376	47,235
Weighted average common shares outstanding		90,760,402	94,422,878	90,530,417	94,277,362
Dilutive potential shares due to effect of stock options		1,063,982	187,778	679,623	314,040
Total weighted average common shares and dilutive potential shares		91,824,384	94,610,656	91,210,040	94,591,402
Basic earnings per share:	$	0.19	0.17	0.51	0.50
Diluted earnings per share:	$	0.19	0.17	0.51	0.50

(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.

36

Table of Contents

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 September 30,			
	Pension benefits		Other post-retirement benefits	
	2013	2012	2013	2012
Service cost	$ 1,138	1,858		
Interest cost	1,301	1,432	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

	Nine months ended September 30,			
	Pension benefits		Other post-retirement benefits	
	2013	2012	2013	2012
Service cost	$ 3,414	5,573		
Interest cost	3,903	4,297	48	49
Expected return on plan assets	(6,414)	(5,844)		
Amortization of prior service cost	(1,740)	(120)		
Amortization of the net loss	2,757	2,070	39	38
Net periodic benefit cost	$ 1,920	5,976	87	87

We made no contribution to our pension or other post-retirement benefit plans during the nine months ended September 30, 2013. A minimum contribution is not required to be made for the plan 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.

Table of Contents

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

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

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

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

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

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

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

Marketable Securities

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

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

<u>Equity securities available for sale</u> - 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.

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

<u>Loans Receivable</u>

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.

Table of Contents

FHLB Stock

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

Deposit Liabilities

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

Borrowed Funds

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

Junior Subordinated Debentures

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

Cash flow hedges   Interest rate swap agreements (swaps   )

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

Off-Balance Sheet Financial Instruments

These financial instruments generally are not sold or traded, and estimated fair values are not readily available. However, the fair value of commitments to extend credit and standby letters of credit is estimated using the fees currently charged to enter into similar agreements. Commitments to extend credit are generally short-term in nature and, if drawn upon, are issued under current market terms. At September 30, 2013 and December 31, 2012, there was no significant unrealized appreciation or depreciation on these financial instruments.

Table of Contents

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 September 30, 2013:

	Carrying amount	Estimated fair value	Level 1	Level 2	Level 3
Financial assets:					
Cash and cash equivalents	$ 415,313	415,313	415,313		
Securities available-for-sale	1,092,799	1,092,799	26,328	1,054,763	11,708
Securities held-to-maturity	125,937	129,580		129,580	
Loans receivable, net	5,655,237	5,954,252			5,954,252
Accrued interest receivable	22,560	22,560	22,560		
FHLB Stock	43,716	43,716			