BANCORPSOUTH INC
Form 10-Q
August 06, 2014
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2014

OR

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: 001-12991

BANCORPSOUTH, INC.

(Exact name of registrant as specified in its charter)

Mississippi	64-0659571
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

One Mississippi Plaza, 201 South Spring Street

Tupelo, Mississippi	38804
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (662) 680-2000

NOT APPLICABLE

(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 [ ]

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

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 the definitions 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 [ ] Non-accelerated filer (Do not check if a smaller reporting company) [ ] Smaller reporting company [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [X]

As of August 1, 2014, the registrant had outstanding 96,050,621 shares of common stock, par value $2.50 per share.

BANCORPSOUTH, INC.

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PART I.

FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

BANCORPSOUTH, INC. AND SUBSIDIARIES
Consolidated Balance Sheets

	June 30, 2014 (Unaudited)	December 31, 2013 (1)	June 30, 2013 (Unaudited)
	(Dollars in thousands, except per share amounts)		
ASSETS			
Cash and due from banks	$ 201,196	$ 208,961	$ 268,647
Interest bearing deposits with other banks	44,949	319,462	526,608
Available-for-sale securities, at fair value	2,332,192	2,466,989	2,644,939
Loans and leases	9,347,429	8,993,888	8,711,023
Less: Unearned income	35,768	35,873	32,309
Allowance for credit losses	147,132	153,236	161,047
Net loans and leases	9,164,529	8,804,779	8,517,667
Loans held for sale ($105,643 at fair value at June 30, 2014)	105,643	69,593	111,574
Premises and equipment, net	310,515	315,260	313,079
Accrued interest receivable	40,697	42,150	41,425
Goodwill	291,498	286,800	275,173
Other identifiable intangibles	26,745	26,079	15,865
Bank-owned life insurance	241,962	239,434	235,015
Other real estate owned	55,253	69,338	88,438
Other assets	170,708	180,888	179,275
TOTAL ASSETS	$ 12,985,887	$ 13,029,733	$ 13,217,705
LIABILITIES			
Deposits:			
Demand: Noninterest bearing	$ 2,718,242	$ 2,644,592	$ 2,610,768
Interest bearing	4,511,760	4,582,450	4,667,041
Savings	1,299,203	1,234,130	1,210,497
Other time	2,141,209	2,312,664	2,473,312
Total deposits	10,670,414	10,773,836	10,961,618
Federal funds purchased and securities sold under agreement to repurchase	394,446	421,028	382,871
Short-term Federal Home Loan Bank borrowings and other short-term borrowing	2,000	-	-
Accrued interest payable	3,926	4,836	5,230
Junior subordinated debt securities	23,198	31,446	160,312
Long-term debt	83,835	81,714	33,500
Other liabilities	219,218	203,743	214,381
TOTAL LIABILITIES	11,397,037	11,516,603	11,757,912

SHAREHOLDERS' EQUITY			
Common stock, $2.50 par value per share			
Authorized - 500,000,000 shares; Issued - 96,046,057,			
95,231,691 and 95,190,797 shares, respectively	240,118	238,079	237,976
Capital surplus	321,952	312,900	312,074
Accumulated other comprehensive loss	(15,040)	(29,959)	(39,333)
Retained earnings	1,041,820	992,110	949,076
TOTAL SHAREHOLDERS' EQUITY	1,588,850	1,513,130	1,459,793
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 12,985,887	$ 13,029,733	$ 13,217,705

(1) Derived from audited financial statements.

See accompanying notes to consolidated financial statements.

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BANCORPSOUTH, INC. AND SUBSIDIARIES
Consolidated Statements of Income
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
	(In thousands, except for per share amounts)			
INTEREST REVENUE:				
Loans and leases	$ 99,962	$ 98,524	$ 198,706	$ 197,616
Deposits with other banks	87	483	363	1,085
Available-for-sale securities:				
Taxable	7,133	8,405	14,680	17,105
Tax-exempt	3,669	3,911	7,384	7,871
Loans held for sale	648	686	965	1,359
Total interest revenue	111,499	112,009	222,098	225,036
INTEREST EXPENSE:				
Deposits:				
Interest bearing demand	1,905	2,423	3,825	5,548
Savings	402	422	793	935
Other time	5,249	7,671	11,139	15,712
Federal funds purchased and securities sold under agreement to repurchase	80	70	158	133
Long-term debt	619	349	1,248	697
Junior subordinated debt	162	2,860	330	5,717
Other	1	1	1	3
Total interest expense	8,418	13,796	17,494	28,745
Net interest revenue	103,081	98,213	204,604	196,291
Provision for credit losses	-	3,000	-	7,000
Net interest revenue, after provision for credit losses	103,081	95,213	204,604	189,291
NONINTEREST REVENUE:				
Mortgage lending	9,089	17,892	12,483	30,238
Credit card, debit card and merchant fees	8,567	8,324	16,410	15,847
Deposit service charges	12,437	12,824	24,973	25,656
Security gains, net	5	3	1	22
Insurance commissions	28,621	25,862	60,220	52,503
Wealth management	5,828	5,802	11,744	11,589
Other	5,291	5,402	10,524	11,572
Total noninterest revenue	69,838	76,109	136,355	147,427
NONINTEREST EXPENSE:				
Salaries and employee benefits	74,741	78,284	153,624	157,698
Occupancy, net of rental income	10,245	10,577	20,532	20,814
Equipment	4,169	4,585	8,668	9,533
Deposit insurance assessments	2,035	2,939	3,635	5,743

Voluntary early retirement expense	-	10,850	-	10,850
Write-off and amortization of bond issue cost	12	38	24	76
Other	36,752	34,978	68,178	72,908
Total noninterest expense	127,954	142,251	254,661	277,622
Income before income taxes	44,965	29,071	86,298	59,096
Income tax expense	14,097	8,316	26,986	17,536
Net income	$ 30,868	$ 20,755	$ 59,312	$ 41,560
Earnings per share: Basic	$ 0.32	$ 0.22	$ 0.62	$ 0.44
Diluted	$ 0.32	$ 0.22	$ 0.62	$ 0.44
Dividends declared per common share	$ 0.05	$ 0.01	$ 0.10	$ 0.02

See accompanying notes to consolidated financial statements.

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BANCORPSOUTH, INC. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income (Loss)
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
	(In thousands)			
Net income	$ 30,868	20,755	$ 59,312	$ 41,560
Other comprehensive income (loss), net of tax				
Unrealized gains (losses) on securities	6,564	(27,039)	14,007	(32,339)
Pension and other postretirement benefits	456	826	912	1,652
Other comprehensive income (loss), net of tax	7,020	(26,213)	14,919	(30,687)
Comprehensive income (loss)	$ 37,888	$ (5,458)	$ 74,231	$ 10,873

See accompanying notes to consolidated financial statements.

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BANCORPSOUTH, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(Unaudited)

	Six months ended June 30, 2014	2013
	(In thousands)	
Operating Activities:		
Net income	$ 59,312	$ 41,560
Adjustment to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	-	7,000
Depreciation and amortization	13,569	13,316
Deferred taxes	(1,939)	(3,002)
Amortization of intangibles	2,206	1,465
Amortization of debt securities premium and discount, net	6,724	7,736
Share-based compensation expense	1,089	1,522
Security gains, net	(1)	(22)
Net deferred loan origination expense	(3,427)	(3,843)
Excess tax benefit from exercise of stock options	1,216	19
Decrease in interest receivable	1,453	2,931
Decrease in interest payable	(910)	(910)
Realized gain on mortgages sold	(15,477)	(29,260)
Proceeds from mortgages sold	496,915	911,537
Origination of mortgages held for sale	(488,120)	(860,847)
Loss on other real estate owned, net	5,587	3,185
Increase in bank-owned life insurance	(3,733)	(3,895)
Decrease in prepaid pension asset	2,829	13,733
Other, net	17,352	(32,664)
Net cash provided by operating activities	94,645	69,561
Investing activities:		
Proceeds from calls and maturities of available-for-sale securities	275,038	247,705
Purchases of available-for-sale securities	(125,055)	(521,600)
Net increase in loans and leases	(395,544)	(60,162)
Purchases of premises and equipment	(8,905)	(10,253)
Proceeds from sale of premises and equipment	219	3,181
Purchase of bank-owned life insurance, net of proceeds from death benefits	1,206	-
Acquisition of Insurance agency	(5,060)	-
Proceeds from sale of other real estate owned	17,348	23,174
Other, net	(12)	(6)
Net cash used in investing activities	(240,765)	(317,961)
Financing activities:		
Net decrease in deposits	(103,422)	(126,528)
Net decrease in short-term debt and other liabilities	(26,590)	(31,747)
Advances of long-term debt	8,000	-
Repayment of long-term debt	(3,879)	-
Redemption of junior subordinated debt	(8,248)	-
Issuance of common stock	9,461	225

Repurchase of common stock	(675)	-
Excess tax benefit from exercise of stock options	(1,216)	(19)
Payment of cash dividends	(9,589)	(1,890)
Net cash used in financing activities	(136,158)	(159,959)
Decrease in cash and cash equivalents	(282,278)	(408,359)
Cash and cash equivalents at beginning of period	528,423	1,203,614
Cash and cash equivalents at end of period	$ 246,145	$ 795,255

See accompanying notes to consolidated financial statements.

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Notes to Consolidated Financial Statements

(Unaudited)

NOTE 1 – BASIS OF FINANCIAL STATEMENT PRESENTATION AND PRINCIPLES OF CONSOLIDATION

The accompanying unaudited interim consolidated financial statements of BancorpSouth, Inc. (the “Company”) have been prepared in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and follow general practices within the industries in which the Company operates. For further information, refer to the audited consolidated financial statements and notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2013. In the opinion of management, all adjustments necessary for a fair presentation of the consolidated financial statements have been included and all such adjustments were of a normal, recurring nature. The results of operations for the three-month and six-month periods ended June 30, 2014 are not necessarily indicative of the results to be expected for the full year. Certain 2013 amounts have been reclassified to conform with the 2014 presentation.

The consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries, BancorpSouth Bank (the “Bank”) and Gumtree Wholesale Insurance Brokers, Inc., and the Bank’s wholly-owned subsidiaries, BancorpSouth Insurance Services, Inc., BancorpSouth Investment Services, Inc., BancorpSouth Municipal Development Corporation and BancorpSouth Bank Securities Corporation.

NOTE 2 – LOANS AND LEASES

The Company’s loan and lease portfolio is disaggregated into the following segments: commercial and industrial; real estate; credit card; and all other loans and leases. The real estate segment is further disaggregated into the following classes: consumer mortgage; home equity; agricultural; commercial and industrial-owner occupied; construction, acquisition and development; and commercial real estate. A summary of gross loans and leases by segment and class as of the dates indicated follows:

	June 30, 2014	2013	December 31, 2013
	(In thousands)		
Commercial and industrial	$ 1,707,368	$ 1,559,597	$ 1,538,302

Real estate			
Consumer mortgages	2,071,503	1,880,338	1,976,073
Home equity	506,988	482,068	494,339
Agricultural	238,003	237,914	234,576
Commercial and industrial-owner occupied	1,505,679	1,375,711	1,473,320
Construction, acquisition and development	772,162	709,499	741,458
Commercial real estate	1,901,759	1,754,841	1,846,039
Credit cards	109,186	103,251	111,328
All other	534,781	607,804	578,453
Total	$ 9,347,429	$ 8,711,023	$ 8,993,888

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The following table shows the Company's loans and leases, net of unearned income, as of June 30, 2014 by segment, class and geographical location:

	Alabama and Florida Panhandle (In thousands)	Arkansas*	Mississippi*	Missouri	Greater Memphis Area	Tennessee*	Texas an Louisian
Commercial and industrial	$ 85,845	$ 166,736	$ 282,645	$ 38,309	$ 22,403	$ 86,494	$ 29
Real estate							
Consumer mortgages	162,767	268,149	698,709	64,881	110,498	162,614	511,039
Home equity	67,945	38,782	164,668	20,890	68,304	77,465	66,340
Agricultural	7,338	71,448	56,598	3,399	13,826	12,260	68,723
Commercial and industrial-owner occupied	175,413	168,289	479,599	64,571	90,239	90,953	301,538
Construction, acquisition and development	109,801	67,822	199,662	19,013	77,028	110,705	164,969
Commercial real estate	270,053	320,961	278,943	193,572	104,944	109,130	438,417
Credit cards	-	-	-	-	-	-	-
All other	29,996	43,696	133,041	3,428	37,399	35,431	75,109
Total	$ 909,158	$ 1,145,883	$ 2,293,865	$ 408,063	$ 524,641	$ 685,052	$ 1,92

* Excludes the Greater Memphis Area.

The Company's loan concentrations which exceed 10% of total loans are reflected in the preceding tables. A substantial portion of construction, acquisition and development loans are secured by real estate in markets in which the Company is located. The Company's loan policy generally prohibits the use of interest reserves on loans originated after March 2010. Certain of the construction, acquisition and development loans were structured with interest-only terms. A portion of the consumer mortgage and commercial real estate portfolios originated through the permanent financing of construction, acquisition and development loans. The prolonged economic downturn has negatively impacted many borrowers' and guarantors' ability to make payments under the terms of the loans as their liquidity has been depleted. Accordingly, the ultimate collectability of a substantial portion of these loans and the recovery of a substantial portion of the carrying amount of other real estate owned ("OREO") are susceptible to changes in real estate values in the corresponding market areas. Continued economic distress could negatively impact additional borrowers' and guarantors' ability to repay their debt which would make more of the Company's loans collateral dependent.

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The following tables provide details regarding the aging of the Company's loan and lease portfolio, net of unearned income, by segment and class at June 30, 2014 and December 31, 2013:

	June 30, 2014						
	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Outstanding	90+ Days Past Due still Accruing
	(In thousands)						
Commercial and industrial	$ 3,201	$ 501	$ 835	$ 4,537	$ 1,695,266	$ 1,699,803	$ 302
Real estate							
Consumer mortgages	9,681	4,316	12,447	26,444	2,045,059	2,071,503	1,607
Home equity	950	236	395	1,581	505,407	506,988	116
Agricultural	1,085	37	562	1,684	236,319	238,003	100
Commercial and industrial-owner occupied	6,281	684	2,924	9,889	1,495,790	1,505,679	-
Construction, acquisition and development	1,532	140	2,173	3,845	768,317	772,162	-
Commercial real estate	1,436	1,945	1,588	4,969	1,896,790	1,901,759	-
Credit cards	330	274	308	912	108,274	109,186	281
All other	1,324	212	104	1,640	504,938	506,578	-
Total	$ 25,820	$ 8,345	$ 21,336	$ 55,501	$ 9,256,160	$ 9,311,661	$ 2,406

	December 31, 2013						
	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Outstanding	90+ Days Past Due still Accruing
	(In thousands)						
Commercial and industrial	$ 3,122	$ 310	$ 601	$ 4,033	$ 1,525,216	$ 1,529,249	$ 27
Real estate							
Consumer mortgages	12,244	4,703	12,579	29,526	1,946,547	1,976,073	888
Home equity	1,860	869	740	3,469	490,870	494,339	-
Agricultural	319	206	883	1,408	233,168	234,576	-
	4,256	1,230	4,585	10,071	1,463,249	1,473,320	-

Commercial and industrial-owner occupied							
Construction, acquisition and development	2,557	2,658	7,005	12,220	729,238	741,458	-
Commercial real estate	5,597	321	2,539	8,457	1,837,582	1,846,039	311
Credit cards	455	235	350	1,040	110,288	111,328	-
All other	1,985	296	264	2,545	549,088	551,633	-
Total	$ 32,395	$ 10,828	$ 29,546	$ 72,769	$ 8,885,246	$ 8,958,015	$ 1,226

The Company utilizes an internal loan classification system to grade loans according to certain credit quality indicators. These credit quality indicators include, but are not limited to, recent credit performance, delinquency, liquidity, cash flows, debt coverage ratios, collateral type and loan-to-value ratio. The Company's internal loan classification system is compatible with classifications used by the Federal Deposit Insurance Corporation, as well as other regulatory agencies. Loans may be classified as follows:

Pass: Loans which are performing as agreed with few or no signs of weakness. These loans show sufficient cash flow, capital and collateral to repay the loan as agreed.

Special Mention: Loans where potential weaknesses have developed which could cause a more serious problem if not corrected.

Substandard: Loans where well-defined weaknesses exist that require corrective action to prevent further deterioration.

Doubtful: Loans having all the characteristics of Substandard and which have deteriorated to a point where collection and liquidation in full is highly questionable.

Loss: Loans that are considered uncollectible or with limited possible recovery.

Impaired: Loans for which it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement and for which a specific impairment reserve has been considered.

The following tables provide details of the Company's loan and lease portfolio, net of unearned income, by segment, class and internally assigned grade at June 30, 2014 and December 31, 2013:

	June 30, 2014						
	Pass	Special Mention	Substandard	Doubtful	Loss	Impaired (1)	Total
	(In thousands)						
Commercial and industrial	$ 1,650,893	$ 16,307	$ 31,157	$ -	$ -	$ 1,446	$ 1,699,803
Real estate							
Consumer mortgages	1,983,165	-	82,769	-	-	5,569	2,071,503
Home equity	496,451	-	9,903	-	-	634	506,988
Agricultural	224,337	509	12,724	-	-	433	238,003
Commercial and industrial-owner occupied	1,435,618	3,782	61,508	342	-	4,429	1,505,679
Construction, acquisition and development	721,572	255	43,238	576	-	6,521	772,162
Commercial real estate	1,814,209	-	76,286	350	-	10,914	1,901,759
Credit cards	109,186	-	-	-	-	-	109,186
All other	495,292	-	11,104	-	-	182	506,578
Total	$ 8,930,723	$ 20,853	$ 328,689	$ 1,268	$ -	$ 30,128	$ 9,311,661

	December 31, 2013						
	Pass	Special Mention	Substandard	Doubtful	Loss	Impaired (1)	Total
	(In thousands)						
Commercial and industrial	$ 1,495,972	$ 978	$ 30,886	$ 99	$ -	$ 1,314	$ 1,529,249
Real estate							
Consumer mortgages	1,859,094	1,531	108,615	427	-	6,406	1,976,073
Home equity	478,283	250	14,570	96	-	1,140	494,339
Agricultural	214,728	779	18,187	-	-	882	234,576
Commercial and industrial-owner occupied	1,409,757	116	50,853	849	-	11,745	1,473,320
Construction, acquisition and development	674,299	1,459	49,401	587	-	15,712	741,458
Commercial real estate	1,751,553	386	76,199	420	-	17,481	1,846,039
Credit cards	111,328	-	-	-	-	-	111,328
All other	538,467	71	12,832	-	-	263	551,633
Total	$ 8,533,481	$ 5,570	$ 361,543	$ 2,478	$ -	$ 54,943	$ 8,958,015

(1) Impaired loans are shown exclusive of accruing troubled debt restructurings ("TDRs").

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The following tables provide details regarding impaired loans and leases, net of unearned income, by segment and class as of and for the three months and six months ended June 30, 2014 and as of and for the year ended December 31, 2013:

	June 30, 2014			Average Recorded Investment		Interest Income Recognized	
	Recorded Investment in Impaired Loans	Unpaid Principal Balance of Impaired Loans	Related Allowance for Credit Losses	Three months ended June 30, 2014	Six months ended June 30, 2014	Three months ended June 30, 2014	Six months ended June 30, 2014
	(In thousands)						
With no related allowance:							
Commercial and industrial	$ 1,275	$ 1,275	$ -	$ 1,281	$ 1,291	$ 16	$ [illegible]
Real estate:							
Consumer mortgages	4,979	5,854	-	4,253	4,743	15	37
Home equity	215	216	-	217	218	1	3
Agricultural	433	740	-	433	499	1	2
Commercial and industrial-owner occupied	3,975	4,929	-	3,408	5,307	19	33
Construction, acquisition and development	6,521	8,049	-	6,831	7,849	23	43
Commercial real estate	6,378	10,006	-	7,237	10,849	47	81
All other	182	325	-	184	200	3	4
Total	$ 23,958	$ 31,394	$ -	$ 23,844	$ 30,956	$ 125	$ 2[illegible]
With an allowance:							
Commercial and industrial	$ 171	$ 200	$ 183	$ 57	$ 28	$ -	$
Real estate:							
Consumer mortgages	590	590	179	1,482	1,318	14	19
Home equity	419	419	71	-	-	-	-
Agricultural	-	-	-	-	81	-	-
Commercial and industrial-owner occupied	454	454	115	1,576	1,390	9	11
Construction, acquisition and development	-	-	-	201	782	-	-
Commercial real estate	4,536	4,617	823	8,485	6,668	44	65

All other	-	-	-	-	10	-	-
Total	$ 6,170	$ 6,280	$ 1,371	$ 11,801	$ 10,277	$ 67	$
Total:							
Commercial and industrial	$ 1,446	$ 1,475	$ 183	$ 1,338	$ 1,319	$ 16	$
Real estate:							
Consumer mortgages	5,569	6,444	179	5,735	6,061	29	56
Home equity	634	635	71	217	218	1	3
Agricultural	433	740	-	433	580	1	2
Commercial and industrial-owner occupied	4,429	5,383	115	4,984	6,697	28	44
Construction, acquisition and development	6,521	8,049	-	7,032	8,631	23	43
Commercial real estate	10,914	14,623	823	15,722	17,517	91	146
All other	182	325	-	184	210	3	4
Total	$ 30,128	$ 37,674	$ 1,371	$ 35,645	$ 41,233	$ 192	$

	December 31, 2013				
	Recorded Investment in Impaired Loans	Unpaid Principal Balance of Impaired Loans	Related Allowance for Credit Losses	Average Recorded Investment	Interest Income Recognized
	(In thousands)				
With no related allowance:					
Commercial and industrial	$ 1,314	$ 1,314	$ -	$ 2,578	$ 16
Real estate:					
Consumer mortgages	5,744	6,591	-	8,943	54
Home equity	712	712	-	933	5
Agricultural	882	1,472	-	3,286	4
Commercial and industrial-owner occupied	9,938	12,681	-	8,150	76
Construction, acquisition and development	11,549	13,497	-	25,877	103
Commercial real estate	13,562	23,233	-	24,185	173
All other	263	405	-	655	6
Total	$ 43,964	$ 59,905	$ -	$ 74,607	$ 437
With an allowance:					
Commercial and industrial	$ -	$ -	$ 305	$ 590	$ -
Real estate:					
Consumer mortgages	662	662	309	3,417	31
Home equity	428	428	37	444	3
Agricultural	-	-	15	402	2
Commercial and industrial-owner occupied	1,807	1,807	739	4,735	54
Construction, acquisition and development	4,163	5,393	1,599	7,989	67
Commercial real estate	3,919	3,919	1,138	11,280	51
All other	-	-	4	-	-
Total	$ 10,979	$ 12,209	$ 4,146	$ 28,857	$ 208
Total:					
Commercial and industrial	$ 1,314	$ 1,314	$ 305	$ 3,168	$ 16
Real estate:					
Consumer mortgages	6,406	7,253	309	12,360	85
Home equity	1,140	1,140	37	1,377	8
Agricultural	882	1,472	15	3,688	6
Commercial and industrial-owner occupied	11,745	14,488	739	12,885	130
	15,712	18,890	1,599	33,866	170

Construction, acquisition and development					
Commercial real estate	17,481	27,152	1,138	35,465	224
All other	263	405	4	655	6
Total	$ 54,943	$ 72,114	$ 4,146	$ 103,464	$ 645

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The following tables provide details regarding impaired loans and leases, net of unearned income, which include accruing TDRs, by segment and class as of and for the three months and six months ended June 30, 2014 and as of and for the year ended December 31, 2013:

	June 30, 2014						
				Average Recorded Investment		Interest Income Recogniz	
	Recorded Investment in Impaired Loans (In thousands)	Unpaid Principal Balance of Impaired Loans	Related Allowance for Credit Losses	Three months ended June 30, 2014	Six months ended June 30, 2014	Three months ended June 30, 2014	Six mon ended June 30,
With no related allowance:							
Commercial and industrial	$ 1,275	$ 1,275	$ -	$ 1,281	$ 1,291	$ 16	$
Real estate:							
Consumer mortgages	4,979	5,854	-	4,253	4,743	15	37
Home equity	216	216	-	217	218	1	3
Agricultural	433	740	-	433	499	1	2
Commercial and industrial-owner occupied	3,974	4,929	-	3,408	5,307	19	33
Construction, acquisition and development	6,521	8,049	-	6,831	7,849	23	43
Commercial real estate	6,378	10,006	-	7,237	10,849	47	81
All other	182	325	-	184	200	3	4
Total	$ 23,958	$ 31,394	$ -	$ 23,844	$ 30,956	$ 125	$
With an allowance:							
Commercial and industrial	$ 656	$ 1,076	$ 302	$ 1,236	$ 1,323	$ 15	$
Real estate:							
Consumer mortgages	2,350	2,576	437	4,567	4,244	38	67
Home equity	429	723	71	23	21	-	-
Agricultural	-	-	-	421	603	5	11
Commercial and industrial-owner occupied	4,238	5,388	240	7,904	7,874	72	142
Construction, acquisition and development	1,693	2,553	134	2,495	2,899	21	83
Commercial real estate	6,387	6,682	1,242	10,577	9,237	92	185

Credit card	1,228	1,228	29	1,335	1,434	134	143
All other	146	182	14	107	104	1	2
Total	$ 17,127	$ 20,408	$ 2,469	$ 28,665	$ 27,739	$ 378	$
Total:							
Commercial and industrial	$ 1,931	$ 2,351	$ 302	$ 2,517	$ 2,614	$ 31	$
Real estate:							
Consumer mortgages	7,329	8,430	437	8,820	8,987	53	104
Home equity	645	939	71	240	239	1	3
Agricultural	433	740	-	854	1,102	6	13
Commercial and industrial-owner occupied	8,212	10,317	240	11,312	13,181	91	175
Construction, acquisition and development	8,214	10,602	134	9,326	10,748	44	126
Commercial real estate	12,765	16,688	1,242	17,814	20,086	139	266
Credit card	1,228	1,228	29	1,335	1,434	134	143
All other	328	507	14	291	304	4	6
Total	$ 41,085	$ 51,802	$ 2,469	$ 52,509	$ 58,695	$ 503	$

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	December 31, 2013				
	Recorded Investment in Impaired Loans	Unpaid Principal Balance of Impaired Loans	Related Allowance for Credit Losses	Average Recorded Investment	Interest Income Recognized
	(In thousands)				
With no related allowance:					
Commercial and industrial	$ 1,314	$ 1,314	$ -	$ 2,579	$ 16
Real estate:					
Consumer mortgages	5,744	6,591	-	8,943	54
Home equity	712	712	-	933	5
Agricultural	882	1,472	-	3,286	4
Commercial and industrial-owner occupied	9,938	12,681	-	8,150	76
Construction, acquisition and development	11,549	13,497	-	25,877	103
Commercial real estate	13,562	23,233	-	24,185	173
All other	263	405	-	655	6
Total	$ 43,964	$ 59,905	$ -	$ 74,608	$ 437
With an allowance:					
Commercial and industrial	$ 937	$ 937	$ 415	$ 975	$ 14
Real estate:					
Consumer mortgages	4,151	4,378	771	6,921	164
Home equity	438	438	-	444	2
Agricultural	625	639	43	871	21
Commercial and industrial-owner occupied	9,590	9,997	1,371	11,895	350
Construction, acquisition and development	10,897	13,933	1,554	15,181	320
Commercial real estate	12,619	12,887	1,604	15,140	224
Credit cards	1,639	1,639	51	2,018	202
All other	1,307	1,310	198	646	24
Total	$ 42,203	$ 46,158	$ 6,007	$ 54,091	$ 1,321
Total:					
Commercial and industrial	$ 2,251	$ 2,251	$ 415	$ 3,554	$ 30
Real estate:					
Consumer mortgages	9,895	10,969	771	15,864	218
Home equity	1,150	1,150	-	1,377	7
Agricultural	1,507	2,111	43	4,157	25
Commercial and industrial-owner occupied	19,528	22,678	1,371	20,045	426
Construction, acquisition and development	22,446	27,430	1,554	41,058	423
Commercial real estate	26,181	36,120	1,604	39,325	397
Credit cards	1,639	1,639	51	2,018	202
All other	1,570	1,715	198	1,301	30
Total	$ 86,167	$ 106,063	$ 6,007	$ 128,699	$ 1,758

Loans considered impaired under Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 310, Receivables ("FASB ASC 310"), are loans for which, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. The Company's recorded investment in loans considered impaired exclusive of accruing TDRs at June 30, 2014 and December 31, 2013 was \$30.1 million and \$54.9 million, respectively. At June 30, 2014 and December 31, 2013, $6.2 million and $11.0 million, respectively, of those impaired loans had a valuation allowance of $1.4 million and $4.1 million, respectively. The remaining balance of impaired loans of $24.0 million and $44.0 million at June 30, 2014 and December 31, 2013, respectively, were charged down to fair value, less estimated selling costs which approximated net realizable value. Therefore, such loans did not have an associated valuation allowance. Impaired loans that were characterized as TDRs totaled $7.4 million and $19.1 million at June 30, 2014 and December 31, 2013, respectively. The average recorded investment in impaired loans was $35.6 million and $41.2 million for the three months and six months ended June 30, 2014, respectively, and $103.5 million for the year ended December 31, 2013.

Non-performing loans and leases ("NPLs") consist of non-accrual loans and leases, loans and leases 90 days or more past due and still accruing, and loans and leases that have been restructured (primarily in the form of reduced interest rates and modified payment terms) because of the borrower's weakened financial condition or bankruptcy proceedings. The following table presents information concerning NPLs as of the dates indicated:

	June 30, 2014	2013	December 31, 2013
	(In thousands)		
Non-accrual loans and leases	$ 64,533	$ 149,542	$ 92,173
Loans and leases 90 days or more past due, still accruing	2,406	1,440	1,226
Restructured loans and leases still accruing	6,712	16,953	27,007
Total non-performing loans and leases	$ 73,651	$ 167,935	$ 120,406

The Bank's policy for all loan classifications provides that loans and leases are generally placed in non-accrual status if, in management's opinion, payment in full of principal or interest is not expected or payment of principal or interest is more than 90 days past due, unless such loan or lease is both well-secured and in the process of collection. At June 30, 2014, the Company's geographic NPL distribution was concentrated primarily in its Alabama, Mississippi and Tennessee markets, including the greater Memphis, Tennessee area, a portion of which is in northwest Mississippi and Arkansas. The following table presents the Company's nonaccrual loans and leases by segment and class as of the dates indicated:

	June 30, 2014	2013	December 31, 2013
	(In thousands)		
Commercial and industrial	$ 2,917	$ 6,225	$ 3,079
Real estate			
Consumer mortgages	24,355	34,226	25,645
Home equity	2,116	3,862	3,695

Agricultural	595	5,007	1,260
Commercial and industrial-owner occupied	11,094	17,084	18,568
Construction, acquisition and development	9,202	39,315	17,567
Commercial real estate	13,406	40,940	20,972
Credit cards	132	398	119
All other	716	2,485	1,268
Total	$ 64,533	$ 149,542	$ 92,173

In the normal course of business, management will sometimes grant concessions, which would not otherwise be considered, to borrowers that are experiencing financial difficulty. Loans identified as meeting the criteria set out in FASB ASC 310 are identified as TDRs. The concessions granted most frequently for TDRs involve reductions or delays in required payments of principal and interest for a specified period, the rescheduling of payments in accordance with a bankruptcy plan or the charge-off of a portion of the loan. In most cases, the conditions of the credit also warrant nonaccrual status, even after the restructure occurs. Other conditions that warrant a loan being considered a TDR include reductions in interest rates to below market rates due to bankruptcy plans or by the bank in an attempt to assist the borrower in working through liquidity problems. As part of the credit approval process, the restructured loans are evaluated for adequate collateral protection in determining the appropriate accrual status at the time of restructure. TDRs recorded as nonaccrual loans may generally be returned to accrual status in periods after the restructure if there has been at least a six-month period of sustained repayment performance by the borrower in accordance with the terms of the restructured loan and the interest rate at the time of restructure was at or above market for a comparable loan. During the second quarter of 2014, the most common concessions that were granted involved rescheduling payments of principal and interest over a longer amortization period, granting a period of reduced principal payment or interest only payment for a limited time period, or the rescheduling of payments in accordance with a bankruptcy plan.

The following tables summarize the financial effect of TDRs recorded during the periods indicated:

	Three months ended June 30, 2014				
	Number of Contracts	Pre-Modification Outstanding Recorded Investment		Post-Modification Outstanding Recorded Investment	
	(Dollars in thousands)				
Real estate					
Consumer mortgages	9	$	573	$	567
Agricultural	1	10		10	
All other	5	109		108	
Total	15	$	692	$	685

	Six months ended June 30, 2014				
	Number of Contracts	Pre-Modification Outstanding Recorded Investment		Post-Modification Outstanding Recorded Investment	
	(Dollars in thousands)				
Commercial and industrial	5	$	613	$	613
Real estate					
Consumer mortgages	19	3,196		2,665	
Home equity	2	31		30	
Agricultural	1	10		10	
Commercial and industrial-owner occupied	7	1,997		1,704	
Construction, acquisition and development	1	878		878	
Commercial real estate	4	875		876	

All other	11	160		159	
Total	50	$	7,760	$	6,935

	Year ended December 31, 2013		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
	(Dollars in thousands)		
Commercial and industrial	3	$ 919	$ 919
Real estate			
Consumer mortgages	23	1,843	1,840
Home equity	2	25	10
Commercial and industrial-owner occupied	8	3,821	3,815
Construction, acquisition and development	15	3,071	2,826
Commercial real estate	4	1,574	1,570
All other	5	1,160	1,160
Total	60	$ 12,413	$ 12,140

The tables below summarize TDRs within the previous 12 months for which there was a payment default during the period indicated (i.e., 30 days or more past due at any given time during the period indicated).

	Three months ended June 30, 2014	
	Number of Contracts	Recorded Investment
	(Dollars in thousands)	
All other	1	$ 4
Total	1	$ 4

	Six months ended June 30, 2014	
	Number of Contracts	Recorded Investment
	(Dollars in thousands)	
Real estate		
Consumer mortgages	2	$ 81
Construction, acquisition and development	2	279

All other	1	4	
Total	5	$	364

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	Year ended December 31, 2013	
	Number of Contracts	Recorded Investment
	(Dollars in thousands)	
Commercial and industrial	3	$ 129
Real estate		
Consumer mortgages	9	823
Commercial and industrial-owner occupied	6	877
Construction, acquisition and development	3	1,874
Commercial real estate	4	3,625
All other	1	1
Total	26	$ 7,329

NOTE 3 – ALLOWANCE FOR CREDIT LOSSES

The following tables summarize the changes in the allowance for credit losses by segment and class for the periods indicated:

	Six months ended June 30, 2014				
	Balance, Beginning of Period	Charge-offs	Recoveries	Provision	Balance, End of Period
	(In thousands)				
Commercial and industrial	$ 18,376	$ (1,061)	$ 1,435	$ 848	$ 19,598
Real estate					
Consumer mortgages	39,525	(3,627)	1,494	(922)	36,470
Home equity	5,663	(756)	366	147	5,420
Agricultural	2,800	(714)	35	355	2,476
Commercial and industrial-owner occupied	17,059	(2,142)	436	2,274	17,627
Construction, acquisition and development	11,828	(1,707)	2,445	(2,157)	10,409
Commercial real estate	43,853	(1,262)	549	158	43,298
Credit cards	3,782	(1,167)	266	(331)	2,550
All other	10,350	(1,254)	560	(372)	9,284
Total	$ 153,236	$ (13,690)	$ 7,586	$ -	$ 147,132

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	Year ended December 31, 2013 Balance, Beginning of Period	Charge-offs	Recoveries	Provision	Balance, End of Period
	(In thousands)				
Commercial and industrial	$ 23,286	$ (4,672)	$ 3,517	$ (3,755)	$ 18,376
Real estate					
Consumer mortgages	35,966	(9,159)	5,067	7,651	39,525
Home equity	6,005	(1,469)	607	520	5,663
Agricultural	3,301	(736)	215	20	2,800
Commercial and industrial-owner occupied	20,178	(3,855)	2,724	(1,988)	17,059
Construction, acquisition and development	21,905	(6,745)	4,682	(8,014)	11,828
Commercial real estate	40,081	(10,341)	4,978	9,135	43,853
Credit cards	3,611	(2,316)	629	1,858	3,782
All other	10,133	(2,899)	1,043	2,073	10,350
Total	$ 164,466	$ (42,192)	$ 23,462	$ 7,500	$ 153,236

	Six months ended June 30, 2013 Balance, Beginning of Period	Charge-offs	Recoveries	Provision	Balance, End of Period
	(In thousands)				
Commercial and industrial	$ 23,286	$ (2,946)	$ 1,336	$ 2,316	$ 23,992
Real estate					
Consumer mortgages	35,966	(4,728)	1,816	2,179	35,233
Home equity	6,005	(803)	444	549	6,195
Agricultural	3,301	(329)	133	119	3,224
Commercial and industrial-owner occupied	20,178	(1,130)	1,693	(4)	20,737
Construction, acquisition and development	21,905	(3,234)	1,246	(298)	19,619
Commercial real estate	40,081	(6,861)	3,973	(701)	36,492
Credit cards	3,611	(1,007)	332	692	3,628
All other	10,133	(954)	600	2,148	11,927
Total	$ 164,466	$ (21,992)	$ 11,573	$ 7,000	$ 161,047

The following tables provide the allowance for credit losses by segment, class and impairment status as of the dates indicated::

	June 30, 2014 Recorded Balance of Impaired Loans	Allowance for Impaired Loans and Leases	Allowance for All Other Loans and Leases	Total Allowance
	(In thousands)			
Commercial and industrial	$ 1,446	$ 183	$ 19,415	$ 19,598
Real estate				
Consumer mortgages	5,569	179	36,291	36,470
Home equity	634	71	5,349	5,420
Agricultural	433	-	2,476	2,476
Commercial and industrial-owner occupied	4,429	115	17,512	17,627
Construction, acquisition and development	6,521	-	10,409	10,409
Commercial real estate	10,914	823	42,475	43,298
Credit cards	-	-	2,550	2,550
All other	182	-	9,284	9,284
Total	$ 30,128	$ 1,371	$ 145,761	$ 147,132

	December 31, 2013 Recorded Balance of Impaired Loans	Allowance for Impaired Loans and Leases	Allowance for All Other Loans and Leases	Total Allowance
	(In thousands)			
Commercial and industrial	$ 1,314	$ 305	$ 18,071	$ 18,376
Real estate				
Consumer mortgages	6,406	309	39,216	39,525
Home equity	1,140	37	5,626	5,663
Agricultural	882	15	2,785	2,800
Commercial and industrial-owner occupied	11,745	739	16,320	17,059
Construction, acquisition and development	15,712	1,599	10,229	11,828
Commercial real estate	17,481	1,138	42,715	43,853
Credit cards	-	-	3,782	3,782
All other	263	4	10,346	10,350
Total	$ 54,943	$ 4,146	$ 149,090	$ 153,236

Management evaluates impaired loans individually in determining the adequacy of the allowance for impaired loans. As a result of the Company individually evaluating loans of $500,000 or more that are 60 or more days past due for impairment, further review of remaining loans collectively, as well as the corresponding potential allowance, would be immaterial in the opinion of management.

NOTE 4 – OTHER REAL ESTATE OWNED

The following table presents the activity in OREO for the periods indicated:

	Six months ended June 30, 2014	2013	Year ended December 31, 2013
	(In thousands)		
Balance at beginning of period	$ 69,338	$ 103,248	$ 103,248
Additions to foreclosed properties			
New foreclosed properties	8,999	11,861	29,265
Reductions in foreclosed properties			
Sales	(19,036)	(23,452)	(57,057)
Writedowns	(4,048)	(3,219)	(6,118)
Balance at end of period	$ 55,253	$ 88,438	$ 69,338

The following tables present the OREO by geographical location, segment and class as of the dates indicated:

	June 30, 2014 Alabama and Florida Panhandle	Arkansas*	Mississippi*	Missouri	Greater Memphis Area	Tennessee*	Texas and Louisiana	Other	Total
	(In thousands)								
Commercial and industrial	$ 84	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$
Real estate									
Consumer mortgages	979	223	1,999	29	34	83	5	-	3,352
Home equity	-	-	370	-	-	-	-	-	370
Agricultural	-	-	216	-	462	-	-	-	678
Commercial and industrial-owner occupied	-	33	2,543	-	824	-	60	-	3,460

Construction, acquisition and development	11,084	91	10,286	794	17,739	3,283	239	-	43,516
Commercial real estate	352	288	1,893	-	980	-	-	-	3,513
All other	-	-	148	-	-	38	94	-	280
Total	$ 12,499	$ 635	$ 17,455	$ 823	$ 20,039	$ 3,404	$ 398	$ -	$ 55,

* Excludes the Greater Memphis Area.

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	December 31, 2013 Alabama and Florida Panhandle (In thousands)	Arkansas*	Mississippi*	Missouri	Greater Memphis Area	Tennessee*	Texas and Louisiana	Other	Total
Commercial and industrial	$ 223	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$
Real estate									
Consumer mortgages	1,613	309	1,532	33	132	210	-	108	3,937
Home equity	442	-	-	-	-	-	-	-	442
Agricultural	907	-	216	-	1,084	930	-	-	3,137
Commercial and industrial-owner occupied	33	32	1,002	-	449	25	105	-	1,646
Construction, acquisition and development	15,667	631	11,631	1,059	22,696	5,174	257	158	57,27
Commercial real estate	353	316	569	-	980	-	140	-	2,358
All other	84	1	82	-	28	-	94	33	322
Total	$ 19,322	$ 1,289	$ 15,032	$ 1,092	$ 25,369	$ 6,339	$ 596	$ 299	$ 69

* Excludes the Greater Memphis Area.

	June 30, 2013 Alabama and Florida Panhandle (In thousands)	Arkansas*	Mississippi*	Missouri	Greater Memphis Area	Tennessee*	Texas and Louisiana	Other
Commercial and industrial	$ 242	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Real estate								
Consumer mortgages	1,072	799	2,205	-	776	185	461	103
Home equity	-	-	166	-	-	169	-	-
Agricultural	875	-	-	-	1,112	2,215	-	-
Commercial and industrial-owner occupied	238	110	826	-	1,845	-	242	-
Construction, acquisition and development	13,147	1,238	12,773	157	33,456	7,839	78	234
Commercial real estate	358	314	128	2,475	1,648	145	135	-
All other	-	10	307	94	125	13	91	32

Total	$	15,932	$	2,471	$	16,405	$	2,726	$	38,962	$	10,566	$	1,007	$	369

* Excludes the Greater Memphis Area.

The Company incurred total foreclosed property expenses of $4.2 million and $3.2 million for the three months ended June 30, 2014 and 2013, respectively. Realized net losses on dispositions and holding losses on valuations of these properties, a component of total foreclosed property expenses, were $3.2 million and $2.0 million for the three months ended June 30, 2014 and 2013, respectively. The Company incurred total foreclosed property expenses of $6.8 million and $5.6 million for the six months ended June 30, 2014 and 2013, respectively. Realized net losses on dispositions and holding losses on valuations of these properties, a component of total foreclosed property expenses, were $5.6 million and $3.2 million for the six months ended June 30, 2014 and 2013, respectively.

NOTE 5 – SECURITIES

A comparison of amortized cost and estimated fair values of available-for-sale securities as of June 30, 2014 and 2013, respectively and December 31, 2013 follows:

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	June 30, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In thousands)			
U.S. Government agencies	$ 1,328,852	$ 6,995	$ 2,479	$ 1,333,368
Government agency issued residential mortgage-backed securities	225,960	4,157	703	229,414
Government agency issued commercial mortgage-backed securities	240,693	2,225	5,597	237,321
Obligations of states and political subdivisions	497,547	23,656	306	520,897
Other	10,056	1,136	-	11,192
Total	$ 2,303,108	$ 38,169	$ 9,085	$ 2,332,192

	December 31, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In thousands)			
U.S. Government agencies	$ 1,455,417	$ 9,065	$ 6,133	$ 1,458,349
Government agency issued residential mortgage-backed securities	249,682	3,118	2,566	250,234
Government agency issued commercial mortgage-backed securities	239,313	1,773	10,174	230,912
Obligations of states and political subdivisions	509,255	12,883	2,733	519,405
Other	6,941	1,148	-	8,089
Total	$ 2,460,608	$ 27,987	$ 21,606	$ 2,466,989

	June 30, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In thousands)			
U.S. Government agencies	$ 1,575,837	$ 13,082	$ 7,349	$ 1,581,570
Government agency issued residential mortgage-backed securities	288,345	5,584	1,342	292,586
Government agency issued commercial mortgage-backed securities	237,961	2,153	12,733	227,381
Obligations of states and political subdivisions	520,067	17,245	1,975	535,337
Other	7,064	1,001	-	8,065
Total	$ 2,629,274	$ 39,065	$ 23,399	$ 2,644,939

Gross gains of approximately $9,000 and gross losses of approximately $8,000 were recognized on available-for-sale securities during the first six months of 2014, while gross gains of approximately $36,000 and gross losses of approximately $14,000 were recognized during the first six months of 2013.

The amortized cost and estimated fair value of available-for-sale securities at June 30, 2014 by contractual maturity are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Equity securities are considered as maturing after ten years.

	June 30, 2014		
	Amortized Cost	Estimated Fair Value	Weighted Average Yield
	(Dollars in thousands)		
Maturing in one year or less	$ 366,237	$ 368,148	1.43 %
Maturing after one year through five years	1,101,734	1,107,122	1.26
Maturing after five years through ten years	183,070	191,868	5.67
Maturing after ten years	185,414	198,319	5.89
Mortgage-backed securities	466,653	466,735	2.10
Total	$ 2,303,108	$ 2,332,192	

The following tables summarize information pertaining to temporarily impaired available-for-sale securities with continuous unrealized loss positions at June 30, 2014 and December 31, 2013:

	June 30, 2014					
	Continuous Unrealized Loss Position					
	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
U.S. Government agencies	$ 79,262	$ 88	$ 360,808	$ 2,391	$ 440,070	$ 2,479
Government agency issued residential mortgage-backed securities	23,574	89	28,750	614	52,324	703
Government agency issued commercial mortgage-backed securities	978	1	203,253	5,596	204,231	5,597
Obligations of states and political subdivisions	10,671	42	18,523	264	29,194	306
Total	$ 114,485	$ 220	$ 611,334	$ 8,865	$ 725,819	$ 9,085

December 31, 2013					
Continuous Unrealized Loss Position					
Less Than 12 Months		12 Months or Longer		Total	
Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(In thousands)					
$ 533,326	$ 6,133	$ -	$ -	$ 533,326	$ 6,133

U.S. Government agencies						
Government agency issued residential mortgage-backed securities	106,179	2,418	4,407	148	110,586	2,566
Government agency issued commercial mortgage-backed securities	176,253	8,578	27,225	1,596	203,478	10,174
Obligations of states and political subdivisions	97,543	2,555	3,663	178	101,206	2,733
Total	$ 913,301	$ 19,684	$ 35,295	$ 1,922	$ 948,596	$ 21,606

Based upon a review of the credit quality of these securities, and considering that the issuers were in compliance with the terms of the securities, management had no intent to sell these securities, and it was more likely than not that the Company would not be required to sell the securities prior to recovery of costs. Therefore, the impairments related to these securities were determined to be temporary. No other-than-temporary impairment was recorded during the first six months of 2014.

NOTE 6 – PER SHARE DATA

Basic earnings per share ("EPS") are calculated using the two-class method. The two-class method provides that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of basic EPS. Diluted EPS is computed using the weighted-average number of shares determined for the basic EPS computation plus the shares resulting from the assumed exercise of all outstanding share-based awards using the treasury stock method. Weighted-average antidilutive stock options to purchase approximately 414,000 and approximately 69,000 shares of Company common stock with a weighted average exercise price of $24.32 and $24.89 per share for the three months and six months ended June 30, 2014, respectively, were excluded from diluted shares. Antidilutive other equity awards of approximately 10,000 and 5,000 shares of Company common stock for both the three months and six months ended June 30, 2014, respectively, were also excluded from diluted shares. Weighted-average antidilutive stock options to purchase 1.7 million and 1.9 million shares of Company common stock with a weighted average exercise price of $23.41 and $23.39 per share for the three months and six months ended June 30, 2013, respectively, were excluded from diluted shares. Antidilutive other equity awards of approximately 4,000 and 2,000 shares of Company common stock for both the three months and six months ended June 30, 2013, respectively, were excluded from diluted shares. The following table provides a reconciliation of the numerators and denominators of the basic and diluted earnings per share computations for the periods shown:

	Three months ended June 30,					
	2014			2013		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic EPS	(In thousands, except per share amounts)					
Income available to common shareholders	$ 30,868	96,034	$ 0.32	$ 20,755	95,177	$ 0.22
Effect of dilutive share-based awards	-	339		-	229	
Diluted EPS						
Income available to common shareholders plus assumed exercise of all outstanding share-based awards	$ 30,868	96,373	$ 0.32	$ 20,755	95,406	$ 0.22

	Six months ended June 30,					
	2014			2013		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic EPS	(In thousands, except per share amounts)					
Income available to common shareholders	$ 59,312	95,832	$ 0.62	$ 41,560	94,886	$ 0.44
Effect of dilutive share-based awards	-	331		-	195	
Diluted EPS						
Income available to common shareholders plus assumed exercise of all outstanding share-based awards	$ 59,312	96,163	$ 0.62	$ 41,560	95,081	$ 0.44

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NOTE 7 – COMPREHENSIVE INCOME (LOSS)

The following tables present the components of other comprehensive income (loss) and the related tax effects allocated to each component for the periods indicated:

	Three months ended June 30,					
	2014			2013		
	Before tax amount	Tax effect	Net of tax amount	Before tax amount	Tax effect	Net of tax amount
Net unrealized gains (losses) on available-for-sale securities:	(In thousands)					
Unrealized gains (losses) arising during holding period	$ 10,643	$ (4,076)	$ 6,567	$ (43,810)	$ 16,773	$ (27,037)
Reclassification adjustment for net gains realized in net income (1)	(5)	2	(3)	(3)	1	(2)
Recognized employee benefit plan net periodic benefit cost (2)	738	(282)	456	1,337	(511)	826
Other comprehensive income (loss)	$ 11,376	$ (4,356)	$ 7,020	$ (42,476)	$ 16,263	$ (26,213)
Net income			30,868			20,755
Comprehensive income (loss)			$ 37,888			$ (5,458)

	Six months ended June 30,					
	2014			2013		
	Before tax amount	Tax effect	Net of tax amount	Before tax amount	Tax effect	Net of tax amount
	(In thousands)					

Net unrealized gains (losses) on available-for-sale securities:						
Unrealized gains (losses) arising during holding period	$ 22,705	$ (8,697)	$ 14,008	$ (52,381)	$ 20,056	$ (32,325)
Reclassification adjustment for net gains realized in net income (1)	(1)	-	(1)	(22)	8	(14)
Recognized employee benefit plan net periodic benefit cost (2)	1,476	(564)	912	2,674	(1,022)	1,652
Other comprehensive income (loss)	$ 24,180	$ (9,261)	$ 14,919	$ (49,729)	$ 19,042	$ (30,687)
Net income			59,312			41,560
Comprehensive income			$ 74,231			$ 10,873

(1) Reclassification adjustments for net (losses) gains on available-for-sale securities are reported as net security (losses) gains on the consolidated statements of income.

(2) Recognized employee benefit plan net periodic benefit cost include amortization of unrecognized transition amount, recognized prior service cost and recognized net loss. For more information, see Note 9 - Pension Benefits.

NOTE 8 – GOODWILL AND OTHER INTANGIBLE ASSETS

The carrying amounts of goodwill by operating segment for the six months ended June 30, 2014 were as follows:

	Community Banking	Insurance Agencies	Total
	(In thousands)		
Balance as of December 31, 2013	$ 217,618	$ 69,182	$ 286,800
Goodwill recorded during the period	-	4,698	4,698
Balance as of June 30, 2014	$ 217,618	$ 73,880	$ 291,498

The goodwill recorded in the Company's Insurance Agencies reporting segment during the first six months of 2014 was related to an insurance agency acquired during the second quarter of 2014.

The Company's policy is to assess goodwill for impairment at the reporting segment level on an annual basis or sooner if an event occurs or circumstances change which indicate that the fair value of a reporting segment is below its carrying amount. Impairment is the condition that exists when the carrying amount of goodwill exceeds its implied fair value. Accounting standards require management to estimate the fair value of each reporting segment in assessing impairment at least annually. The Company's annual assessment date is during the Company's fourth quarter. No events occurred during the first six months of 2014 that indicated the necessity of an earlier goodwill impairment assessment.

In the current economic environment, forecasting cash flows, credit losses and growth in addition to valuing the Company's assets with any degree of assurance is very difficult and subject to significant changes over very short periods of time. Management will continue to update its analysis as circumstances change. As market conditions continue to be volatile and unpredictable, impairment of goodwill related to the Company's reporting segments may be necessary in future periods.

The following tables present information regarding the components of the Company's identifiable intangible assets for the dates and periods indicated:

	As of June 30, 2014		As of December 31, 2013	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization

Amortized intangible assets:	(In thousands)			
Core deposit intangibles	$ 27,801	$ 22,523	$ 27,801	$ 22,256
Customer relationship intangibles	49,639	30,068	46,967	28,329
Non-solicitation intangibles	1,650	442	1,450	242
Total	$ 79,090	$ 53,033	$ 76,218	$ 50,827
Unamortized intangible assets:				
Trade names	$ 688	$ -	$ 688	$ -

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Aggregate amortization expense for:	(In thousands)			
Core deposit intangibles	$ 130	$ 144	$ 267	$ 301
Customer relationship intangibles	905	540	1,739	1,089
Non-solicitation intangibles	113	38	200	75
Total	$ 1,148	$ 722	$ 2,206	$ 1,465

The following table presents information regarding estimated amortization expense on the Company's amortizable identifiable intangible assets for the year ending December 31, 2014 and the succeeding four years:

	Core Deposit Intangibles	Customer Relationship Intangibles	Non-Solicitation Intangibles	Total
Estimated Amortization Expense:	(In thousands)			
For year ending December 31, 2014	$ 526	$ 3,492	$ 425	$ 4,443
For year ending December 31, 2015	487	3,134	375	3,996
For year ending December 31, 2016	451	2,673	225	3,349
For year ending December 31, 2017	419	2,380	200	2,999
For year ending December 31, 2018	390	2,009	183	2,582

NOTE 9 – PENSION BENEFITS

The following table presents the components of net periodic benefit costs for the periods indicated:

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
	(In thousands)			
Service cost	$ 2,234	$ 2,684	$ 4,468	$ 5,368
Interest cost	2,339	2,053	4,678	4,106
Expected return on assets	(2,634)	(2,743)	(5,268)	(5,486)
Amortization of unrecognized transition amount	5	5	10	10
Recognized prior service cost	(192)	(192)	(384)	(384)
Recognized net loss	926	1,524	1,852	3,048
Net periodic benefit costs	$ 2,678	$ 3,331	$ 5,356	$ 6,662

NOTE 10 – RECENT PRONOUNCEMENTS

There are currently no new accounting standards that have been issued that will have a significant impact on the Company's financial position, results of operations or cash flows upon adoption.

NOTE 11 - SEGMENT REPORTING

The Company is a financial holding company with subsidiaries engaged in the business of banking and activities closely related to banking. The Company determines reportable segments based upon the services offered, the significance of those services to the Company's financial condition and operating results and management's regular review of the operating results of those services. The Company's primary segment is Community Banking, which includes providing a full range of deposit products, commercial loans and consumer loans. The Company has also designated two additional reportable segments -- Insurance Agencies and General Corporate and Other. The Company's insurance agencies serve as agents in the sale of commercial lines of insurance and full lines of property and casualty, life, health and employee benefits products and services. The General Corporate and Other operating segment includes mortgage lending, trust services, credit card activities, investment services and other activities not allocated to the Community Banking or Insurance Agencies operating segments.

Results of operations and selected financial information by operating segment for the three-month and six-month periods ended June 30, 2014 and 2013 were as follows:

	Community Banking	Insurance Agencies	General Corporate and Other	Total
	(In thousands)			
Three months ended June 30, 2014:				
Results of Operations				
Net interest revenue	$ 94,582	$ 30	$ 8,469	$ 103,081
Provision for credit losses	(548)	-	548	-
Net interest revenue after provision for credit losses	95,130	30	7,921	103,081
Noninterest revenue	24,010	28,872	16,956	69,838
Noninterest expense	80,201	24,371	23,382	127,954
Income before income taxes	38,939	4,531	1,495	44,965
Income tax expense (benefit)	12,697	1,807	(407)	14,097
Net income	$ 26,242	$ 2,724	$ 1,902	$ 30,868
Selected Financial Information				
Total assets at end of period	$ 9,565,492	$ 205,756	$ 3,214,639	$ 12,985,887
Depreciation and amortization	6,456	1,346	$ 342	8,144
Three months ended June 30, 2013:				
Results of Operations				
Net interest revenue	$ 92,725	$ 40	$ 5,448	$ 98,213
Provision for credit losses	2,139	-	861	3,000
Net interest revenue after provision for credit losses	90,586	40	4,587	95,213
Noninterest revenue	26,720	25,793	23,596	76,109
Noninterest expense	76,557	21,991	43,703	142,251
Income (loss) before income taxes	40,749	3,842	(15,520)	29,071
Income tax expense (benefit)	13,447	1,542	(6,673)	8,316
Net income (loss)	$ 27,302	$ 2,300	$ (8,847)	$ 20,755
Selected Financial Information				
Total assets at end of period	$ 9,928,278	$ 194,050	$ 3,095,377	$ 13,217,705
Depreciation and amortization	5,726	884	717	7,327

	Community Banking	Insurance Agencies	General Corporate and Other	Total
	(In thousands)			
Six months ended June 30, 2014				
Results of Operations				
Net interest revenue	$ 187,897	$ 58	$ 16,649	$ 204,604
Provision for credit losses	476	-	(476)	0
Net interest revenue after provision for credit losses	187,421	58	17,125	204,604
Noninterest revenue	47,936	60,493	27,926	136,355
Noninterest expense	161,974	48,686	44,001	254,661
Income before income taxes	73,383	11,865	1,050	86,298
Income tax expense (benefit)	23,770	4,725	(1,509)	26,986
Net income	$ 49,613	$ 7,140	$ 2,559	$ 59,312
Selected Financial Information				
Total assets at end of period	$ 9,565,492	$ 205,756	$ 3,214,639	$ 12,985,887
Depreciation and amortization	12,038	2,623	1,114	15,775
Six months ended June 30, 2013				
Results of Operations				
Net interest revenue	$ 184,969	$ 90	$ 11,232	$ 196,291
Provision for credit losses	6,240	-	760	7,000
Net interest revenue after provision for credit losses	178,729	90	10,472	189,291
Noninterest revenue	53,227	52,323	41,877	147,427
Noninterest expense	167,762	43,398	66,462	277,622
Income (loss) before income taxes	64,194	9,015	(14,113)	59,096
Income tax expense (benefit)	21,197	3,619	(7,280)	17,536
Net income (loss)	$ 42,997	$ 5,396	$ (6,833)	$ 41,560
Selected Financial Information				
Total assets at end of period	$ 9,928,278	$ 194,050	$ 3,095,377	$ 13,217,705
Depreciation and amortization	11,516	1,778	1,487	14,781

The increase in income for the General, Corporate and Other division for the three-months and six-months ended June 30, 2014 compared to the same periods in 2013 is mainly due to the voluntary early retirement expense of $10.9 million pre-tax that was recorded during the second quarter of 2013 with no similar expenses recorded during the second quarter of 2014.

NOTE 12 – MORTGAGE SERVICING RIGHTS

Mortgage servicing rights ("MSRs"), which are recognized as a separate asset on the date the corresponding mortgage loan is sold, are recorded at fair value as determined at each accounting period end. An estimate of the fair value of the Company's MSRs is determined utilizing assumptions about factors such as mortgage interest rates, discount rates, mortgage loan prepayment speeds, market trends and industry demand. Data and assumptions used in the fair value calculation related to MSRs as of the dates indicated were as follows:

	June 30, 2014	2013	December 31, 2013
	(Dollars in thousands)		
	$	$	$
Unpaid principal balance	5,630,192	5,393,580	5,577,325
Weighted-average prepayment speed (CPR)	11.3	12.4	10.3
Discount rate (annual percentage)	10.3	10.8	10.3
Weighted-average coupon interest rate (percentage)	4.1	4.2	4.2
Weighted-average remaining maturity (months)	312.0	307.0	310.0
Weighted-average servicing fee (basis points)	26.6	26.7	26.6

Because the valuation is determined by using discounted cash flow models, the primary risk inherent in valuing the MSRs is the impact of fluctuating interest rates on the estimated life of the servicing revenue stream. The use of different estimates or assumptions could also produce different fair values. The Company does not hedge the change in fair value of MSRs and, therefore, the Company is susceptible to significant fluctuations in the fair value of its MSRs in changing interest rate environments.

The Company has only one class of mortgage servicing asset comprised of closed end loans for one-to-four family residences, secured by first liens. The following table presents the activity in this class for the periods indicated:

	2014	2013
	(In thousands)	
Fair value as of January 1	$ 54,662	$ 37,882
Additions:		
Origination of servicing assets	4,025	8,280
Changes in fair value:		
Due to payoffs/paydowns	(2,754)	(3,444)
Due to change in valuation inputs or assumptions used in the valuation model	(3,658)	6,289
Other changes in fair value	(3)	(6)
Fair value as of June 30	$ 52,272	$ 49,001

All of the changes to the fair value of the MSRs are recorded as part of mortgage lending noninterest revenue on the income statement. As part of mortgage lending noninterest revenue, the Company recorded contractual servicing fees of $3.8 million and $3.6 million and late and other ancillary fees of approximately $306,000 and $310,000 for the three months ended June 30, 2014 and 2013, respectively. The Company recorded contractual servicing fees of $7.5 million and $7.1 million and late and other ancillary fees of approximately $640,000 and $670,000 for the six months ended June 30, 2014 and 2013, respectively.

NOTE 13 – DERIVATIVE INSTRUMENTS AND OFFSETTING ASSETS AND LIABILITIES

The derivatives held by the Company include commitments to fund fixed-rate mortgage loans to customers and forward commitments to sell individual fixed-rate mortgage loans. The Company’s objective in obtaining the forward commitments is to mitigate the interest rate risk associated with the commitments to fund the fixed-rate mortgage loans. Both the commitments to fund fixed-rate mortgage loans and the forward commitments to sell individual fixed-rate mortgage loans are reported at fair value, with adjustments being recorded in current period earnings, and are not accounted for as hedges. At June 30, 2014, the notional amount of forward commitments to sell individual fixed-rate mortgage loans was $151.3 million with a carrying value and fair value reflecting a loss of $1.0 million. At

June 30, 2013, the notional amount of forward commitments to sell individual fixed-rate mortgage loans was $298.6 million with a carrying value and fair value reflecting a gain of $7.0 million. At June 30, 2014, the notional amount of commitments to fund individual fixed-rate mortgage loans was $114.2 million with a carrying value and fair value reflecting a gain of $3.5 million. At June 30, 2013, the notional amount of commitments to fund individual fixed-rate mortgage loans was $173.7 million with a carrying value and fair value reflecting a gain of approximately $292,000.

The Company also enters into derivative financial instruments in the form of interest rate swaps to meet the financing, interest rate and equity risk management needs of its customers. Upon entering into these interest rate swaps to meet customer needs, the Company enters into offsetting positions to minimize interest rate and equity risk to the Company. These derivative financial instruments are reported at fair value with any resulting gain or loss recorded in current period earnings. These instruments and their offsetting positions are recorded in other assets and other liabilities on the consolidated balance sheets. As of June 30, 2014, the notional amount of customer related derivative financial instruments was $352.7 million with an average maturity of 53 months, an average interest receive rate of 2.5% and an average interest pay rate of 5.6%. As of June 30, 2013, the notional amount of customer related derivative financial instruments was $465.0 million with an average maturity of 57 months, an average interest receive rate of 2.5% and an average interest pay rate of 5.6%.

Certain financial instruments such as derivatives, may be eligible for offset in the consolidated balance sheet and/or subject to master netting arrangements or similar agreements. The Bank's derivative transactions with upstream financial institution counterparties are generally executed under International Swaps and Derivative Association master agreements which include "right of set-off" provisions. In such cases there is generally a legally enforceable right to offset recognized amounts and there may be an intention to settle such amounts on a net basis. Nonetheless, the Bank does not generally offset such financial instruments for financial reporting purposes.

The following tables present components of financial instruments eligible for offsetting for the periods indicated:

	June 30, 2014					
				Gross Amounts Not Offset in the Consolidated Balance Sheet		
	Gross Amount Recognized	Gross Amount Offset	Net Amount Recognized	Financial Instruments	Financial Collateral Pledged	Net Amount
	(In thousands)					
Financial assets:						
Derivatives:						
Forward commitments	$ 3,607	$ -	$ 3,607	$ -	$ -	$ 3,607
Loan/lease interest rate swaps	26,434	-	26,434	-	-	26,434
Total financial assets	$ 30,041	$ -	$ 30,041	$ -	$ -	$ 30,041
Financial liabilities:						
Derivatives:						
Forward commitments	$ 1,159	$ -	$ 1,159	$ -	$ -	$ 1,159
Loan/lease interest rate swaps	26,434	-	26,434	-	(26,434)	-
Repurchase arrangements	394,446	-	394,446	(394,446)	-	-
Total financial liabilities	$ 422,039	$ -	$ 422,039	$ (394,446)	$ (26,434)	$ 1,159

December 31, 2013

	Gross Amount Recognized	Gross Amount Offset	Net Amount Recognized	Gross Amounts Not Offset in the Consolidated Balance Sheet: Financial Instruments	Financial Collateral Pledged	Net Amount
	(In thousands)					
Financial assets:						
Derivatives:						
Forward commitments	$ 1,324	$ -	$ 1,324	$ -	$ -	$ 1,324
Loan/lease interest rate swaps	29,249	-	29,249	-	-	29,249
Total financial assets	$ 30,573	$ -	$ 30,573	$ -	$ -	$ 30,573
Financial liabilities:						
Derivatives:						
Forward commitments	$ 103	$ -	$ 103	$ -	$ -	$ 103
Loan/lease interest rate swaps	29,249	-	29,249	-	(29,249)	-
Repurchase arrangements	421,028	-	421,028	(421,028)	-	-
Total financial liabilities	$ 450,380	$ -	$ 450,380	$ (421,028)	$ (29,249)	$ 103

June 30, 2013

	Gross Amount Recognized	Gross Amount Offset	Net Amount Recognized	Gross Amounts Not Offset in the Consolidated Balance Sheet: Financial Instruments	Financial Collateral Pledged	Net Amount
	(In thousands)					
Financial assets:						

Derivatives:						
Forward commitments	$ 8,423	$ -	$ 8,423	$ -	$ -	$ 8,423
Loan/lease interest rate swaps	35,345	-	35,345	-	-	35,345
Total financial assets	$ 43,768	$ -	$ 43,768	$ -	$ -	$ 43,768
Financial liabilities:						
Derivatives:						
Forward commitments	$ 1,129	$ -	$ 1,129	$ -	$ -	$ 1,129
Loan/lease interest rate swaps	35,345	-	35,345	-	(35,345)	-
Repurchase arrangements	382,871	-	382,871	(382,871)	-	-
Total financial liabilities	$ 419,345	$ -	$ 419,345	$ (382,871)	$ (35,345)	$ 1,129

NOTE 14 – FAIR VALUE DISCLOSURES

“Fair value” is defined by FASB ASC 820, Fair Value Measurements and Disclosure (“FASB ASC 820”), as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FASB ASC 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available under the circumstances. The hierarchy is broken down into the following three levels, based on the reliability of inputs:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities that are accessible at the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs for the asset or liability that reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability.

Determination of Fair Value

The Company uses the valuation methodologies listed below to measure different financial instruments at fair value. An indication of the level in the fair value hierarchy in which each instrument is generally classified is included. Where appropriate, the description includes details of the valuation models, the key inputs to those models as well as any significant assumptions.

Available-for-sale securities. Available-for-sale securities are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are determined by matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities. The Company's available-for-sale securities that are traded on an active exchange, such as the New York Stock Exchange, are classified as Level 1. Available-for-sale securities valued using matrix pricing are classified as Level 2. Available-for-sale securities valued using matrix pricing that has been adjusted to compensate for the present value of expected cash flows, market liquidity, credit quality and volatility are classified as Level 3.

Mortgage servicing rights. The Company records MSRs at fair value on a recurring basis with subsequent remeasurement of MSRs based on change in fair value. An estimate of the fair value of the Company's MSRs is determined by utilizing assumptions about factors such as mortgage interest rates, discount rates, mortgage loan prepayment speeds, market trends and industry demand. All of the Company's MSRs are classified as Level 3. For additional information about the Company's valuation of MSRs, see Note 12, Mortgage Servicing Rights.

Derivative instruments. The Company's derivative instruments consist of commitments to fund fixed-rate mortgage loans to customers and forward commitments to sell individual fixed-rate mortgage loans. Fair value of these derivative instruments is measured on a recurring basis using recent observable market prices. The Company also enters into interest rate swaps to meet the financing, interest rate and equity risk management needs of its customers. The fair value of these instruments is either an observable market price or a discounted cash flow valuation using the terms of swap agreements but substituting original interest rates with prevailing interest rates ranging from 1.50% to 3.65%. The Company also considers the associated counterparty credit risk when determining the fair value of these instruments. The Company's interest rate swaps, commitments to fund fixed-rate mortgage loans to customers and forward commitments to sell individual fixed-rate mortgage loans are classified as Level 3.

Loans held for sale. In the second quarter of 2014 the Company elected to carry Loans held for sale at fair value. The fair value of loans held for sale is based on commitments outstanding from investors as well as what secondary markets are currently offering for portfolios with similar characteristics. Therefore, loans held for sale are subjected to recurring fair value adjustments and are classified as Level 2. The Company obtains quotes, bids or pricing indications on all or part of these loans directly from the buyers. Premiums and discounts received or to be received on the quotes, bids or pricing indications are indicative of the fact that the cost is lower or higher than fair value. Loans held for sale prior to the second quarter of 2014 were carried at the lower of cost or estimated fair value and were subject to nonrecurring fair value adjustments.

Impaired loans. Loans considered impaired under FASB ASC 310 are loans for which, based on current information and events, it is probable that the creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impaired loans are subject to nonrecurring fair value adjustments to reflect (1) partial write-downs that are based on the observable market price or current appraised value of the collateral, or (2) the full charge-off of the loan carrying value. All of the Company’s impaired loans are classified as Level 3.

Other real estate owned. OREO is carried at the lower of cost or estimated fair value, less estimated selling costs and is subject to nonrecurring fair value adjustments. Estimated fair value is determined on the basis of independent appraisals and other relevant factors less an average of 7% for estimated selling costs. All of the Company’s OREO is classified as Level 3.

Off-Balance sheet financial instruments. 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, taking into account the remaining terms of the agreement and the present creditworthiness of the counterparties. The Company has reviewed the unfunded portion of commitments to extend credit as well as standby and other letters of credit, and has determined that the fair value of such financial instruments is not material. The Company classifies the estimated fair value of credit-related financial instruments as Level 3.

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

The following tables present the balances of the assets and liabilities measured at fair value on a recurring basis as of June 30, 2014 and 2013:

	June 30, 2014			
	Level 1	Level 2	Level 3	Total

Assets:	(In thousands)			
Available-for-sale securities:				
U.S. Government agencies	$ -	$ 1,333,368	$ -	$ 1,333,368
Government agency issued residential mortgage-backed securities	-	229,414	-	229,414
Government agency issued commercial				