Northwest Bancshares, Inc.
Form 10-Q
August 08, 2018
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 June 30, 2018

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, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and "emerging growth company" in Rule 12b-2 of the Exchange Act.

x Large accelerated filer o Accelerated filer
o Non-accelerated filer (Do not check if a smaller reporting company) o Smaller reporting company
o Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. 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), 103,161,338 shares outstanding as of July 31, 2018

Table of Contents

NORTHWEST BANCSHARES, INC.
INDEX

Certifications

Table of Contents

ITEM 1. FINANCIAL STATEMENTS

NORTHWEST BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (Unaudited)
(in thousands, except share data)

	June 30, 2018	December 31, 2017
Assets		
Cash and due from banks	$133,045	77,710
Marketable securities available-for-sale (amortized cost of $814,848 and $800,094)	799,878	792,535
Marketable securities held-to-maturity (fair value of $25,212 and $29,667)	25,747	29,678
Total cash and cash equivalents and marketable securities	958,670	899,923
Personal Banking loans:		
Residential mortgage loans held-for-sale	—	3,128
Residential mortgage loans	2,800,668	2,773,075
Home equity loans	1,276,181	1,310,355
Consumer loans	700,925	671,389
Total Personal Banking loans	4,777,774	4,757,947
Commercial Banking loans:		
Commercial real estate loans	2,553,223	2,454,726
Commercial loans	611,373	580,736
Total Commercial Banking loans	3,164,596	3,035,462
Total loans	7,942,370	7,793,409
Allowance for loan losses	(57,332)	(56,795)
Total loans, net	7,885,038	7,736,614
Federal Home Loan Bank stock, at cost	7,887	11,733
Accrued interest receivable	24,959	23,352
Real estate owned, net	2,722	5,666
Premises and equipment, net	146,276	151,944
Bank owned life insurance	170,791	171,547
Goodwill	307,420	307,420
Other intangible assets	22,629	25,669
Other assets	35,917	30,066
Total assets	$9,562,309	9,363,934
Liabilities and Shareholders' Equity		
Liabilities:		
Noninterest-bearing checking deposits	$1,732,664	1,610,409
Interest-bearing checking deposits	1,485,938	1,442,928
Money market deposit accounts	1,686,052	1,707,450
Savings deposits	1,697,396	1,653,579
Time deposits	1,405,328	1,412,623
Total deposits	8,007,378	7,826,989
Borrowed funds	99,889	108,238
Junior subordinated deferrable interest debentures held by trusts that issued guaranteed capital debt securities	111,213	111,213

Advances by borrowers for taxes and insurance	51,640	40,825
Accrued interest payable	568	460
Other liabilities	62,741	68,485
Total liabilities	8,333,429	8,156,210
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, 103,122,890 and 102,394,828 shares issued, respectively	1,031	1,027
Paid-in capital	739,673	730,719
Retained earnings	531,269	508,058
Accumulated other comprehensive loss	(43,093)	(32,080)
Total shareholders’ equity	1,228,880	1,207,724
Total liabilities and shareholders’ equity	$9,562,309	9,363,934

See accompanying notes to unaudited consolidated financial statements

1

Table of Contents

NORTHWEST BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF INCOME (Unaudited)
(in thousands, except per share data)

	Quarter ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Interest income:				
Loans receivable	$88,106	84,714	173,326	167,465
Mortgage-backed securities	3,254	2,987	6,267	5,209
Taxable investment securities	648	981	1,326	1,987
Tax-free investment securities	313	529	703	1,098
FHLB dividends	85	50	182	109
Interest-earning deposits	469	536	604	1,196
Total interest income	92,875	89,797	182,408	177,064
Interest expense:				
Deposits	7,309	5,826	13,767	11,291
Borrowed funds	1,340	1,240	2,648	2,465
Total interest expense	8,649	7,066	16,415	13,756
Net interest income	84,226	82,731	165,993	163,308
Provision for loan losses	5,349	5,562	9,558	10,199
Net interest income after provision for loan losses	78,877	77,169	156,435	153,109
Noninterest income:				
Gain on sale of investments	—	3	153	20
Service charges and fees	12,908	12,749	24,807	24,466
Trust and other financial services income	4,050	4,600	8,081	8,904
Insurance commission income	2,090	2,353	4,839	5,147
Gain/ (loss) on real estate owned, net	176	(230)	(370)	(297)
Income from bank owned life insurance	2,333	1,652	3,323	2,720
Mortgage banking income	77	434	301	674
Gain on sale of offices	—	17,186	—	17,186
Other operating income	2,475	2,730	4,763	4,161
Total noninterest income	24,109	41,477	45,897	62,981
Noninterest expense:				
Compensation and employee benefits	39,031	38,175	75,541	76,447
Premises and occupancy costs	6,824	7,103	14,131	14,619
Office operations	3,768	4,170	7,176	8,392
Collections expense	434	553	946	1,102
Processing expenses	9,560	9,639	19,266	19,548
Marketing expenses	2,014	2,846	4,154	4,994
Federal deposit insurance premiums	671	856	1,388	2,023
Professional services	2,819	2,452	5,096	5,027
Amortization of intangible assets	1,520	1,749	3,040	3,498
Real estate owned expense	133	217	425	499
Restructuring/ acquisition expense	393	2,634	393	2,857
Other expenses	2,620	2,868	5,652	5,902
Total noninterest expense	69,787	73,262	137,208	144,908
Income before income taxes	33,199	45,384	65,124	71,182
Federal and state income taxes expense	6,900	14,402	13,840	22,454
Net income	$26,299	30,982	51,284	48,728

Basic earnings per share	$0.26	0.31	0.50	0.48
Diluted earnings per share	$0.25	0.30	0.50	0.48

See accompanying notes to unaudited consolidated financial statements

Table of Contents

NORTHWEST BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)
(in thousands)

	Quarter ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Net income	$26,299	30,982	51,284	48,728
Other comprehensive income net of tax:				
Net unrealized holding gains/ (losses) on marketable securities:				
Unrealized holding gains/ (losses) net of tax of $494, $(845), $2,081, and $(1,159), respectively	(1,237)	1,290	(5,199)	1,948
Reclassification adjustment for gains included in net income, net of tax of $30, $39, $37 and $47, respectively	(75)	(56)	(94)	(67)
Net unrealized holding gains/ (losses) on marketable securities	(1,312)	1,234	(5,293)	1,881
Change in fair value of interest rate swaps, net of tax of $(58), $(118), $(153), and $(281), respectively	214	218	574	521
Defined benefit plan:				
Reclassification adjustments for prior period service costs and net losses included in net income, net of tax of $(91), $(154), $(181) and $(307), respectively	226	221	452	441
Other comprehensive income/ (loss)	(872)	1,673	(4,267)	2,843
Total comprehensive income	$25,427	32,655	47,017	51,571

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 share data)

Quarter ended June 30, 2017

	Common Stock		Paid-in	Retained	Accumulated Other Comprehensive	Total Shareholders'
	Shares	Amount	Capital	Earnings	Loss	Equity
Balance at March 31, 2017	101,987,942	$ 1,020	723,055	480,309	(26,821)	1,177,563
Comprehensive income:						
Net income	—	—	—	30,982	—	30,982
Other comprehensive income, net of tax of $(1,078)	—	—	—	—	1,673	1,673
Total comprehensive income	—	—	—	30,982	1,673	32,655
Exercise of stock options	112,154	1	1,275	—	—	1,276
Stock-based compensation expense	378,050	4	1,706	—	—	1,710
Dividends paid ($0.16 per share)	—	—	—	(16,274)	—	(16,274)
Balance at June 30, 2017	102,478,146	$ 1,025	726,036	495,017	(25,148)	1,196,930

Quarter ended June 30, 2018

	Common Stock		Paid-in	Retained	Accumulated Other Comprehensive	Total Shareholders'
	Shares	Amount	Capital	Earnings	Loss	Equity
Balance at March 31, 2018	102,599,662	$1,026	734,065	522,384	(42,221)	1,215,254
Comprehensive income:						
Net income	—	—	—	26,299	—	26,299
Other comprehensive loss, net of tax of $375	—	—	—	—	(872)	(872)
Total comprehensive income/ (loss)	—	—	—	26,299	(872)	25,427
Exercise of stock options	291,595	3	3,312	—	—	3,315
Stock-based compensation expense	414,330	4	2,294	—	—	2,298
Stock-based compensation forfeited	(182,697)	(2)	2	—	—	—

Dividends paid ($0.17 per share)	—	—	—	(17,414)	—	(17,414)
Balance at June 30, 2018	103,122,890	$1,031	739,673	531,269	(43,093)	1,228,880

See accompanying notes to unaudited consolidated financial statements

4

Table of Contents

NORTHWEST BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (Unaudited)
(dollars in thousands, expect share data)

Six months ended June 30, 2017

	Common Stock Shares	Amount	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Beginning balance at December 31, 2016	101,699,406	$ 1,017	718,834	478,803	(27,991)	1,170,663
Comprehensive income:						
Net income	—	—	—	48,728	—	48,728
Other comprehensive income, net of tax of $(1,700)	—	—	—	—	2,843	2,843
Total comprehensive income	—	—	—	48,728	2,843	51,571
Exercise of stock options	400,690	4	4,578	—	—	4,582
Stock-based compensation expense	378,050	4	2,624	—	—	2,628
Share repurchases	—	—	—	—	—	—
Dividends paid ($0.32 per share)	—	—	—	(32,514)	—	(32,514)
Ending balance at June 30, 2017	102,478,146	$ 1,025	726,036	495,017	(25,148)	1,196,930

Six months ended June 30, 2018

	Common Stock Shares	Amount	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Beginning balance at December 31, 2017	102,394,828	$1,027	730,719	508,058	(32,080)	1,207,724
Reclassification due to adoption of ASU No. 2018-02	—	—	—	6,746	(6,746)	—
Comprehensive income:						
Net income	—	—	—	51,284	—	51,284
Other comprehensive loss, net of tax of $1,784	—	—	—	—	(4,267)	(4,267)
Total comprehensive income/ (loss)	—	—	—	58,030	(11,013)	47,017
Exercise of stock options	496,429	5	5,677	—	—	5,682

Stock-based compensation expense	414,330	4	3,272	—	—	3,276
Stock-based compensation forfeited	(182,697)	(5)	5	—	—	—
Dividends paid ($0.34 per share)	—	—		(34,819)	—	(34,819)
Ending balance at June 30, 2018	103,122,890	$ 1,031	739,673	531,269	(43,093)	1,228,880

See accompanying notes to unaudited consolidated financial statements

5

Table of Contents

NORTHWEST BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(in thousands)

	Six months ended June 30, 2018	2017
OPERATING ACTIVITIES:		
Net Income	$51,284	48,728
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	9,558	10,199
Net (gain)/ loss on sale of assets	1,115	(361)
Net gain on sale of offices	—	(17,186)
Net depreciation, amortization and accretion	6,708	8,115
(Increase)/ decrease in other assets	(5,987)	19,372
Decrease in other liabilities	(4,276)	(1,734)
Net amortization on marketable securities	898	1,050
Noncash write-down of real estate owned	940	719
Deferred income tax expense	22	—
Origination of loans held for sale	(1,297)	(37,613)
Proceeds from sale of loans held for sale	4,501	37,199
Noncash compensation expense related to stock benefit plans	3,276	2,628
Net cash provided by operating activities	66,742	71,116
INVESTING ACTIVITIES:		
Purchase of marketable securities held-to-maturity	—	(23,621)
Purchase of marketable securities available-for-sale	(108,879)	(208,850)
Proceeds from maturities and principal reductions of marketable securities held-to-maturity	3,923	7,385
Proceeds from maturities and principal reductions of marketable securities available-for-sale	88,183	64,741
Proceeds from sale of marketable securities available-for-sale	5,206	19,478
Proceeds from bank-owed life insurance	—	1,550
Loan originations	(1,483,080)	(1,337,829)
Proceeds from loan maturities and principal reductions	1,322,618	1,346,050
Net (purchase)/ sale of Federal Home Loan Bank stock	3,846	(752)
Proceeds from sale of real estate owned	4,415	2,372
Sale of real estate owned for investment, net	304	304
(Purchase)/ sale of premises and equipment	(1,661)	502
Net cash used in investing activities	(165,125)	(128,670)

Table of Contents

NORTHWEST BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited) (continued)
(in thousands)

	Six months ended June 30, 2018	2017
FINANCING ACTIVITIES:		
Increase/ (decrease) in deposits, net	$180,389	(126,723)
Net decrease in short-term borrowings	(8,349)	(32,458)
Increase in advances by borrowers for taxes and insurance	10,815	11,567
Cash dividends paid	(34,819)	(32,514)
Proceeds from stock options exercised	5,682	4,582
Net cash provided by/ (used in) financing activities	153,718	(175,546)
Net increase/ (decrease) in cash and cash equivalents	$55,335	(233,100)
Cash and cash equivalents at beginning of period	$77,710	389,867
Net increase/ (decrease) in cash and cash equivalents	55,335	(233,100)
Cash and cash equivalents at end of period	$133,045	156,767
Cash paid during the period for:		
Interest on deposits and borrowings (including interest credited to deposit accounts of $13,115 and $11,028, respectively)	$16,307	13,869
Income taxes	$9,149	9,805
Non-cash activities:		
Loans foreclosures and repossessions	$3,599	5,062
Sale of real estate owned financed by the Company	$183	168

See accompanying notes to unaudited consolidated financial statements

7

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 primary activity of the Company is the ownership of all of the issued and outstanding common stock of Northwest Bank, a Pennsylvania-chartered savings bank ("Northwest"). Northwest is regulated by the FDIC and the Pennsylvania Department of Banking. Northwest operates 172 community-banking offices throughout Pennsylvania, western New York, and eastern Ohio.

The accompanying unaudited consolidated financial statements include the accounts of the Company and its subsidiary, Northwest, and Northwest's subsidiaries Northwest Capital Group, Inc., Allegheny Services, Inc., Great Northwest Corporation, 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, 2017 updated, as required, for any new pronouncements or changes.

Certain items previously reported have been reclassified to conform to the current year's reporting format.

The results of operations for the quarter and six months ended June 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018, or any other period.

Stock-Based Compensation

On May 14, 2018, the Company awarded employees 831,160 stock options and directors 64,800 stock options with an exercise price of $16.59 and grant date fair value of $1.49 per stock option, and the Company awarded employees 390,030 restricted common shares and directors 24,300 restricted common shares with a grant date fair value of $16.59. Awarded stock options and common shares vest over a seven-year period with the first vesting occurring on the grant date. Stock-based compensation expense of $2.3 million and $1.7 million for the quarters ended June 30, 2018 and 2017, and $3.3 million million and $2.6 million for the six months ended June 30, 2018 and 2017, respectively, was recognized in compensation expense relating to our stock benefit plans. At June 30, 2018 there was compensation expense of $4.6 million to be recognized for awarded but unvested stock options and $19.6 million for unvested common shares.

Income Taxes- Uncertain Tax Positions

Accounting standards prescribe a comprehensive model for how a company should recognize, measure, present and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return. A tax benefit from an uncertain position may be recognized only if it is "more likely than not" that the position is sustainable, based on its technical merits. The tax benefit of a qualifying position is the largest amount of tax benefit that is greater than 50% likely of being realized upon ultimate settlement with a taxing authority having full knowledge of all relevant information. At June 30, 2018 we had no liability for unrecognized tax benefits.

We recognize interest accrued related to: (1) unrecognized tax benefits in other expenses and (2) refund claims in other operating income. We recognize penalties (if any) in other expenses. 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, 2017, 2016, 2015 and 2014.

Table of Contents

Recently Adopted Accounting Standards

In May 2014 the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, “Revenue from Contracts with Customers (Topic 606)”. Effective January 1, 2018, we adopted the ASU and all related amendments to all contracts using the modified retrospective approach, with the cumulative effect recorded as an adjustment to opening retained earnings. Due to immateriality, we had no cumulative effect to record. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. We expect the impact of the adoption of the new standard to be immaterial to our net income on an ongoing basis.

Our revenue is comprised of net interest income on financial assets and financial liabilities, which is explicitly excluded from the scope of ASU 2014-09, and non-interest income. The services that fall within the scope of ASC 606 include service charges and fees, trust and other financial services income, insurance commission income, sale of OREO and other operating income.

Revenue is recognized when performance obligations under the terms of a contract with our customers are satisfied. Revenue is measured as the amount of consideration we expect to receive in exchange for transferring goods or providing services. The majority of our revenue continues to be recognized at the point in time when the services are provided to our customers.

Service charges and fees represents income earned on both loan and deposit accounts as well as interchange income. Service charges on deposit accounts primarily consist of overdraft, non-sufficient funds, ATM transaction fees and account management fees. Revenue is recognized at the point in time the transaction occurs or the service is provided to the customer. We earn interchange income from debit and credit cardholder transactions processed through payment networks. Interchange fees represent a percentage of the underlying transaction value and are generally set by the credit card associations. Interchange fees are recognized as transactions occur.

We provide trust management services and investment management services to our customers and recognize revenue as these management services are provided. Trust and investment management services are billed and paid on a monthly or quarterly basis. Additionally, we earn commissions on investment products that are sold to our customers. These commissions are recognized at the time of the sale of the third party’s product or services to our customers.

Our insurance subsidiary is an employee benefits and property and casualty insurance agency specializing in commercial and personal insurance as well as retirement benefit plans. Insurance commission income is earned at the time of sale of the third party’s product or service to our customers.

Loss on real estate owned represents gains and losses on real estate acquired by Northwest through the foreclosure process. Proceeds from the sale of these properties are recognized when control of the property transfers to the buyer. In certain instances the Bank may finance a portion of the purchase price paid by the buyer and an additional evaluation of whether all of the contract criteria are met is required. If it is not probable that we will collect substantially all of the consideration expected, the transaction would not be accounted for as a sale until the concerns about collectability are resolved.

Other operating income consists primarily of revenues earned for providing transaction services to our deposit customers. The revenue is earned at the point in time the transaction occurs.

We have evaluated the nature of our contracts with customers and determined that further disaggregation of revenue from contracts with customers into more granular categories beyond what is presented in the Consolidated Statements of Income was not necessary.

In January 2016 the FASB issued ASU 2016-01, “Financial Instruments - Overall (Subtopic 825-10)”. This guidance requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. This guidance is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. We adopted this guidance as of January 1, 2018 which did not have a material impact on our results of operations and financial position. Additionally, this guidance requires entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes and eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet. Accordingly, we refined the calculation used to determine the disclosed fair value of our loans held for investment portfolio as part of adopting this standard. The refined calculation did not have a significant impact on our fair value disclosures. Refer to note 9, "Disclosures About Fair Value of Financial Instruments".

Table of Contents

In August 2016, the FASB issued ASU No. 2016-15, “Classification of Certain Cash Receipts and Cash Payments”. The main objective of this ASU is to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. The amendments in this Update provide guidance on the following eight specific cash flow issues: debt prepayment or debt extinguishment costs, settlement of zero-coupon debt instruments, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of bank-owned life insurance (BOLI) policies, distributions received from equity method investments, beneficial interests in securitization transactions, and separately identifiable cash flows and application of the predominance principle. This guidance is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2017. We adopted this guidance on January 1, 2018 and applied it on a retrospective basis. No material reclassifications were made for the six months ended and we do not expect the reclassifications to be material for the full year.

In January 2017, the FASB issued ASU 2017-04, "Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment". This guidance eliminates the requirement to determine the fair value of individual assets and liabilities of a reporting unit to measure goodwill impairment. Under this guidance goodwill impairment testing will be performed by comparing the fair value of the reporting unit with its carrying amount and recognizing an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. This guidance is effective for annual and interim goodwill impairment tests in fiscal years beginning after December 15, 2019, and should be applied on a prospective basis. Early adoption is permitted for annual and interim goodwill impairment testing dates after January 1, 2017.We have elected to early adopt this standard as of January 1, 2018 and the amendments were applied on a prospective basis. The adoption did not have a material impact on the consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-01, “Business Combinations (Topic 805): Clarifying the Definition of a Business”. This guidance provides a more robust framework to use in determining when a set of assets and activities (“set”) is a business and to address stakeholder feedback that the definition of a business in current GAAP is applied too broadly. The primary amendments in the ASU provide a screen to exclude transactions where substantially all of the fair value of the transferred set is concentrated in a single asset, or group of similar assets, from being evaluated as a business. We adopted this standard on January 1, 2018 and will apply the guidance to future transactions.

In March 2017, the FASB issued ASU No. 2017-07, “Compensation Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Costs and Net Periodic Postretirement Benefit Costs". This guidance provides financial statement users with clearer and disaggregated information related to the components of net periodic benefit cost and improve transparency of the presentation of net periodic benefit cost in the financial statements. Employers will present the service cost component of net periodic benefit cost in the same income statement line item as other employee compensation costs arising from services rendered during the period. Employers will present the other components of the net periodic benefit cost separately from the line items that includes the service cost outside of any subtotal of operating income, if one is presented. This guidance is effective for annual and interim periods beginning after December 15, 2017 and should be applied retrospectively. We adopted this standard as of January 1, 2018. The other components of the net periodic benefit cost for the quarter and six months ended June 30, 2017 totaled $517,000 and $1.0 million, respectivey, and were reclassified from compensation and employee benefits to other expense.

In March 2017, the FASB issued ASU 2017-08, "Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities". This guidance shortens the amortization period for certain callable debt securities held at a premium to the earliest call date from the maturity date. This guidance is effective for annual and interim periods beginning after December 15, 2018. Early adoption is permitted in any interim period. We have elected to early adopt this standard as of January 1, 2018. The adoption did not have a material impact on our results of operations or financial position.

In May 2017, the FASB issued ASU 2017-09, “Compensation - Stock Compensation (Topic 718) - Scope of Modification Accounting”. This guidance clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as a modification. Under ASU 2017-09, an entity will not apply modification accounting to a share-based payment award if all of the following are the same immediately before and after the change: (i) the award's fair value, (ii) the award's vesting conditions and (iii) the award's classification as an equity or liability instrument. This guidance is effective for annual and interim periods beginning after December 15, 2017 and should be applied on a prospective basis to an award modified on or after the adoption date. We adopted this standard as of January 1, 2018 and will apply the guidance to future modifications.

Table of Contents

In February 2018, the FASB issued ASU 2018-02, "Income Statement - Reporting Comprehensive Income (Topic 220) - Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income." This guidance permits a reclassification from accumulated other comprehensive income to retained earnings of the stranded tax effects resulting from the Tax Cuts and Jobs Act. This guidance is effective for annual or interim reporting periods beginning after December 15, 2018 but permits early adoption in a period for which financial statements have not been issued. We have elected to early adopt the ASU as of January 1, 2018. The reclassification from accumulated other comprehensive income to retained earnings was $6.7 million for the release of stranded income tax benefits relating to the unrealized net gains and losses on available for sale securities and the change in fair value of our interest rate swaps and our pension plan. Our policy for releasing income tax effects from accumulated other comprehensive income is to release them when investments are sold or matured and liabilities are extinguished.

Recently Issued Accounting Standards

In February 2016, the FASB issued ASU 2016-2, “Leases”. This guidance requires a lessee to recognize in the statement of financial condition a liability to make lease payments and a right-of-use asset representing the right to use the underlying asset for the term of the lease. Optional periods should only be recognized if the lessee is reasonably certain to exercise the option. For leases with a term of twelve months or less, the lessee is permitted not to recognize lease assets and lease liabilities and should recognize lease expense for such leases generally on a straight-line basis over the term of the lease. This guidance is effective for annual periods beginning after December 15, 2018, including interim periods within those years and early adoption is permitted. We lease certain branch and office facilities or land under operating leases. While we are currently evaluating the impact this guidance will have on our results of operations and financial position, we expect the primary impact on the consolidated statement of financial position will be the recognition of right-of-use assets and lease obligations under the ASU as a result of our minimum commitments under non-cancellable operating lease. Our current minimum commitments under non-cancellable operating leases are disclosed in Note 7, “Premises and Equipment” in our Annual Report on Form 10-K for the year ended December 31, 2017.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments - Credit Losses (Topic 326) - Measurement of Credit Losses on Financial Instruments", which eliminates the probable initial recognition threshold for credit losses requiring, instead, that all financial assets (or group of financial assets) measured at amortized cost be presented at the net amount expected to be collected inclusive of the entity’s current estimate of all lifetime expected credit losses. This guidance also applies to certain off-balance-sheet credit exposures such as unfunded commitments and non-derivative financial guarantees. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial asset(s) in order to present the net carrying value at the amount expected to be collected on the financial asset. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. The income statement under this guidance will reflect the initial recognition of current expected credit losses for newly recognized assets, as well as any increases or decreases of expected credit losses that have occurred during the period. This guidance retains many currently-existing disclosures related to the credit quality of an entity’s assets and the related allowance for credit losses amended to reflect the change to an expected credit loss methodology, as well as enhanced disclosures to provide information to users at a more disaggregated level. Upon adoption, ASU 2016-13 provides for a modified retrospective transition by means of a cumulative-effect adjustment to equity as of the beginning of the period in which the guidance is effective, except for debt securities for which other-than-temporary impairment has previously been recognized. For these debt securities, a prospective transition is provided in order to maintain the same amortized cost prior to and subsequent to the effective date of the ASU. This guidance is effective for annual reporting periods beginning after December 15, 2019, and interim periods within those annual periods with early adoption permitted for fiscal years beginning after December 15, 2018, and interim periods within those annual periods. Management created a formal working group to govern the implementation of these amendments consisting of key stakeholders from finance, risk, credit and accounting. We are currently in the process of designing current expected credit loss estimation methodologies and systems, and collecting data to be able to comply with the standard. We are also evaluating the effect this guidance will have on our results of operations, financial position and related disclosures. The impact of the ASU will depend upon the state of the economy and the nature of our portfolios, among other items, at the date of adoption.

Table of Contents

(2) Investment securities and impairment of investment securities

The following table shows the portfolio of investment securities available-for-sale at June 30, 2018 (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	$ 1	—	—	1
Debt issued by government sponsored enterprises:				
Due in one year or less	71,103	—	(238)	70,865
Due after one year through five years	130,850	6	(3,136)	127,720
Due after ten years	4,119	—	(75)	4,044
Municipal securities:				
Due in one year or less	1,809	5	—	1,814
Due after one year through five years	4,620	57	(8)	4,669
Due after five years through ten years	12,604	75	(14)	12,665
Due after ten years	10,650	51	(12)	10,689
Corporate debt issues:				
Due after ten years	911	—	—	911
Residential mortgage-backed securities:				
Fixed rate pass-through	136,114	663	(5,162)	131,615
Variable rate pass-through	28,640	1,175	(7)	29,808
Fixed rate non-agency CMOs	1	—	—	1
Fixed rate agency CMOs	344,427	14	(8,917)	335,524
Variable rate agency CMOs	68,999	578	(25)	69,552
Total residential mortgage-backed securities	578,181	2,430	(14,111)	566,500
Total marketable securities available-for-sale	$ 814,848	2,624	(17,594)	799,878

Table of Contents

The following table shows the portfolio of investment securities available-for-sale at December 31, 2017 (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	$ 1	—	—	1
Debt issued by government sponsored enterprises:				
Due in one year or less	66,566	14	(289)	66,291
Due after one year through five years	140,624	—	(2,402)	138,222
Due after ten years	4,833	—	(77)	4,756
Equity securities	551	29	(6)	574
Municipal securities:				
Due in one year or less	2,492	7	(1)	2,498
Due after one year through five years	7,072	82	(6)	7,148
Due after five years through ten years	14,576	171	—	14,747
Due after ten years	26,371	292	—	26,663
Corporate debt issues:				
Due after ten years	909	—	—	909
Residential mortgage-backed securities:				