Northwest Bancshares, Inc.
Form 10-Q
August 09, 2011

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, 2011
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 001-34582

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 ¨

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 ¨

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

Large Accelerated Filer x Accelerated Filer ¨ Non-Accelerated Filer ¨ 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

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) 103,279,692 shares outstanding as of July 31, 2011

NORTHWEST BANCSHARES, INC.
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ITEM 1. FINANCIAL STATEMENTS

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

| | (Unaudited) June 30, 2011 | December 31, 2010 |
|---|---|---|
| Assets | | |
| Cash and due from banks | $ 80,889 | 40,708 |
| Interest-earning deposits in other financial institutions | 631,957 | 677,771 |
| Federal funds sold and other short-term investments | 633 | 632 |
| Marketable securities available-for-sale (amortized cost of $1,023,829 and $945,571) | 1,040,547 | 950,463 |
| Marketable securities held-to-maturity (fair value of $284,685 and $354,126) | 280,782 | 357,922 |
| Total cash and investments | 2,034,808 | 2,027,496 |
| | | |
| Loans held for sale | 8,035 | 11,376 |
| Residential mortgage loans | 2,342,904 | 2,386,928 |
| Home equity loans | 1,083,301 | 1,095,953 |
| Other consumer loans | 247,182 | 255,776 |
| Commercial real estate loans | 1,375,090 | 1,350,319 |
| Commercial loans | 432,666 | 433,653 |
| Total loans | 5,489,178 | 5,534,005 |
| Allowance for loan losses | (75,455 ) | (76,412 ) |
| Total loans, net | 5,413,723 | 5,457,593 |
| | | |
| Federal Home Loan Bank stock, at cost | 54,222 | 60,080 |
| Accrued interest receivable | 25,647 | 26,216 |
| Real estate owned, net | 21,389 | 20,780 |
| Premises and equipment, net | 126,303 | 128,101 |
| Bank owned life insurance | 133,358 | 132,237 |
| Goodwill | 171,882 | 171,882 |
| Other intangible assets | 2,972 | 3,942 |
| Other assets | 103,041 | 119,828 |
| Total assets | $ 8,087,345 | 8,148,155 |
| | | |
| Liabilities and Shareholders' equity | | |
| Liabilities: | | |
| Noninterest-bearing demand deposits | $ 614,718 | 575,281 |
| Interest-bearing demand deposits | 796,482 | 782,257 |
| Savings deposits | 2,042,618 | 1,948,882 |
| Time deposits | 2,365,488 | 2,457,916 |
| Total deposits | 5,819,306 | 5,764,336 |
| | | |
| Borrowed funds | 847,450 | 891,293 |
| Junior subordinated deferrable interest debentures held by trusts that issued guaranteed capital debt securities | 103,094 | 103,094 |

| | | |
|---|---|---|
| Advances by borrowers for taxes and insurance | 30,371 | 22,868 |
| Accrued interest payable | 1,155 | 1,716 |
| Other liabilities | 58,828 | 57,398 |
| Total liabilities | 6,860,204 | 6,840,705 |
| | | |
| 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, 103,266,045 and 110,295,117 shares issued, respectively | 1,033 | 1,103 |
| Paid-in capital | 726,207 | 824,164 |
| Retained earnings | 533,229 | 523,089 |
| Unallocated common stock of employee stock ownership plan | (26,639 ) | (27,409 ) |
| Accumulated other comprehensive loss | (6,689 ) | (13,497 ) |
| | 1,227,141 | 1,307,450 |
| Total liabilities and shareholders' equity | $ 8,087,345 | 8,148,155 |

See accompanying notes to consolidated financial statements - unaudited

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

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Interest income: | | | | |
| Loans receivable | $79,993 | 81,734 | 160,450 | 162,480 |
| Mortgage-backed securities | 6,073 | 6,706 | 12,829 | 12,851 |
| Taxable investment securities | 594 | 599 | 992 | 1,597 |
| Tax-free investment securities | 2,992 | 2,853 | 6,066 | 5,537 |
| Interest-earning deposits | 489 | 512 | 896 | 1,077 |
| Total interest income | 90,141 | 92,404 | 181,233 | 183,542 |
| | | | | |
| Interest expense: | | | | |
| Deposits | 15,473 | 18,973 | 31,536 | 40,377 |
| Borrowed funds | 7,989 | 9,704 | 15,978 | 19,404 |
| Total interest expense | 23,462 | 28,677 | 47,514 | 59,781 |
| | | | | |
| Net interest income | 66,679 | 63,727 | 133,719 | 123,761 |
| Provision for loan losses | 8,367 | 7,896 | 15,611 | 16,697 |
| Net interest income after provision for loan losses | 58,312 | 55,831 | 118,108 | 107,064 |
| | | | | |
| Noninterest income: | | | | |
| Impairment losses on securities | (577) | (1,824) | (577) | (1,921) |
| Noncredit related losses on securities not expected to be sold (recognized in other comprehensive income) | 70 | 1,606 | 70 | 1,606 |
| Net impairment losses | (507) | (218) | (507) | (315) |
| Gain on sale of investments, net | 45 | 94 | 49 | 2,177 |
| Service charges and fees | 9,321 | 9,902 | 18,249 | 18,804 |
| Trust and other financial services income | 2,185 | 1,912 | 4,095 | 3,745 |
| Insurance commission income | 1,790 | 1,293 | 3,170 | 2,435 |
| Loss on real estate owned, net | (593) | (255) | (620) | (279) |
| Income from bank owned life insurance | 1,716 | 1,474 | 2,882 | 2,640 |
| Mortgage banking income | 290 | 29 | 487 | 21 |
| Other operating income | 1,015 | 1,314 | 1,783 | 2,174 |
| Total noninterest income | 15,262 | 15,545 | 29,588 | 31,402 |
| | | | | |
| Noninterest expense: | | | | |
| Compensation and employee benefits | 29,658 | 24,960 | 55,157 | 50,816 |
| Premises and occupancy costs | 5,650 | 5,340 | 11,841 | 11,342 |
| Office operations | 3,255 | 2,934 | 6,355 | 6,171 |
| Processing expenses | 5,687 | 5,552 | 11,454 | 11,248 |
| Marketing expenses | 2,108 | 3,294 | 4,067 | 4,737 |
| Federal deposit insurance premiums | 2,355 | 2,148 | 4,782 | 4,296 |
| Professional services | 1,289 | 583 | 2,545 | 1,311 |
| Amortization of other intangible assets | 479 | 759 | 970 | 1,541 |
| Real estate owned expense | 249 | 712 | 680 | 1,611 |

| | | | | |
|---|---|---|---|---|
| Other expenses | 1,760 | 1,875 | 4,017 | 3,688 |
| Total noninterest expense | 52,490 | 48,157 | 101,868 | 96,761 |
| Income before income taxes | 21,084 | 23,219 | 45,828 | 41,705 |
| Federal and state income taxes | 6,081 | 7,078 | 13,572 | 12,411 |
| Net income | $15,003 | 16,141 | 32,256 | 29,294 |
| Basic earnings per share | $0.15 | 0.15 | 0.31 | 0.27 |
| Diluted earnings per share | $0.15 | 0.15 | 0.31 | 0.27 |

See accompanying notes to unaudited consolidated financial statements

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

| Three months ended June 30, 2010 | Common Stock Shares | Common Stock Amount | Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income/ (loss) | Unallocated common stock of ESOP | Total Shareholders' Equity |
|---|---|---|---|---|---|---|---|
| Beginning balance at March 31, 2010 | 110,680,962 | $ 1,107 | 828,623 | 510,932 | (9,731 ) | (28,851 ) | 1,302,080 |
| Comprehensive income: | | | | | | | |
| Net income | - | - | - | 16,141 | - | - | 16,141 |
| Change in fair value of interest rate swaps, net of tax of $1,752 | - | - | - | - | (2,741 ) | - | (2,741 ) |
| Change in unrealized loss on securities, net of tax of $(2,746) | - | - | - | - | 5,100 | - | 5,100 |
| Reclassification of previously recognized OTTI on investment securities recorded in OCI to net income, net of tax of $(71) | - | - | - | - | 147 | - | 147 |
| Total comprehensive income | - | - | - | 16,141 | 2,506 | - | 18,647 |
| Exercise of stock options | 94,052 | 1 | 838 | - | - | - | 839 |
| Stock compensation expense | - | - | 225 | - | - | - | 225 |
| Dividends paid ($0.10 per share) | - | - | - | (11,068 ) | - | - | (11,068 ) |
| Ending balance at June 30, 2010 | 110,775,014 | $ 1,108 | 829,686 | 516,005 | (7,225 ) | (28,851 ) | 1,310,723 |

| Three months ended June 30, 2011 | Common Stock Shares | Common Stock Amount | Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income/ (loss) | Unallocated common stock of ESOP | Total Shareholders' Equity |
|---|---|---|---|---|---|---|---|
| | 107,733,432 | $ 1,078 | 793,951 | 529,630 | (10,518 ) | (27,025 ) | 1,287,116 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Beginning balance at March 31, 2011 | | | | | | | |
| | | | | | | | |
| Comprehensive income: | | | | | | | |
| Net income | - | - | - | 15,003 | - | - | 15,003 |
| Change in fair value of interest rate swaps, net of tax of $705 | - | - | - | - | (1,309 ) | - | (1,309 ) |
| Change in unrealized loss on securities, net of tax of $(2,767) | - | - | - | - | 4,358 | - | 4,358 |
| Reclassification of previously recognized OTTI on investment securities recorded in OCI to net income, net of tax of $(273) | - | - | - | - | 780 | - | 780 |
| Total comprehensive income | - | - | - | 15,003 | 3,829 | - | 18,832 |
| | | | | | | | |
| Exercise of stock options | 72,230 | 1 | 386 | - | - | - | 387 |
| | | | | | | | |
| Stock compensation expense | 1,273,949 | 12 | 3,384 | - | - | 386 | 3,782 |
| | | | | | | | |
| Share repurchases | (5,813,566 ) | (58 ) | (71,514 ) | - | - | - | (71,572 ) |
| | | | | | | | |
| Dividends paid ($0.11 per share) | - | - | - | (11,404 ) | - | - | (11,404 ) |
| | | | | | | | |
| Ending balance at June 30, 2011 | 103,266,045 | $ 1,033 | 726,207 | 533,229 | (6,689 ) | (26,639 ) | 1,227,141 |

See accompanying notes to unaudited consolidated financial statements

NORTHWEST BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (unaudited)
(dollars in thousands)

| Six months ended June 30, 2010 | Common Stock Shares | Common Stock Amount | Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income/ (loss) | Unallocated common stock of ESOP | Total Shareholders' Equity |
|---|---|---|---|---|---|---|---|
| Beginning balance at December 31, 2009 | 110,641,858 | $ 1,106 | 828,195 | 508,842 | (9,977 ) | (11,651 ) | 1,316,515 |
| Comprehensive income: | | | | | | | |
| Net income | - | - | - | 29,294 | - | - | 29,294 |
| Change in fair value of interest rate swaps, net of tax of $2,291 | - | - | - | - | (3,583 ) | - | (3,583 ) |
| Change in unrealized loss on securities, net of tax of $(3,300) | - | - | - | - | 6,130 | - | 6,130 |
| Reclassification of previously recognized OTTI on investment securities recorded in OCI to net income, net of tax of $(110) | - | - | - | - | 205 | - | 205 |
| Total comprehensive income | - | - | - | 29,294 | 2,752 | - | 32,046 |
| Exercise of stock options | 133,156 | 2 | 1,166 | - | - | - | 1,168 |
| Stock-based compensation expense | - | - | 1,028 | - | - | - | 1,028 |
| Additional costs associated with common stock offering | - | - | (703 ) | - | - | - | (703 ) |
| Purchase of common stock by ESOP | - | - | - | - | - | (17,200 ) | (17,200 ) |
| Dividends paid ($0.20 per share) | - | - | - | (22,131 ) | - | - | (22,131 ) |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Ending balance at June 30, 2010 | 110,775,014 | $ 1,108 | 829,686 | 516,005 | (7,225 ) | (28,851 ) | 1,310,723 |

| Six months ended June 30, 2011 | Common Stock | | Paid-in | Retained | Accumulated Other Comprehensive Income/ (loss) | Unallocated common stock of ESOP | Total Shareholders' Equity |
|---|---|---|---|---|---|---|---|
| | Shares | Amount | Capital | Earnings | | | |
| Beginning balance at December 31, 2010 | 110,295,117 | $ 1,103 | 824,164 | 523,089 | (13,497 ) | (27,409 ) | 1,307,450 |
| Comprehensive income: | | | | | | | |
| Net income | - | - | - | 32,256 | - | - | 32,256 |
| Change in fair value of interest rate swaps, net of tax of $223 | - | - | - | - | (415 ) | - | (415 ) |
| Change in unrealized loss on securities, net of tax of $(3,889) | - | - | - | - | 6,443 | - | 6,443 |
| Reclassification of previously recognized OTTI on investment securities recorded in OCI to net income, net of tax of $(273) | - | - | - | - | 780 | - | 780 |
| Total comprehensive income | - | - | - | 32,256 | 6,808 | - | 39,064 |
| Exercise of stock options | 128,968 | 2 | 738 | - | - | - | 740 |
| Stock-based compensation expense | 1,273,949 | 12 | 3,867 | - | - | 770 | 4,649 |
| Share repurchases | (8,431,989 ) | (84 ) | (102,562 ) | - | - | - | (102,646 ) |
| Dividends paid ($0.21 per share) | - | - | - | (22,116 ) | - | - | (22,116 ) |
| Ending balance at June 30, 2011 | 103,266,045 | $ 1,033 | 726,207 | 533,229 | (6,689 ) | (26,639 ) | 1,227,141 |

See accompanying notes to unaudited consolidated financial statements

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

| | Six months ended June 30, 2011 | Six months ended June 30, 2010 |
|---|---|---|
| OPERATING ACTIVITIES: | | |
| Net Income | $32,256 | 29,294 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for loan losses | 15,611 | 16,697 |
| Net loss/ (gain) on sale of assets | 1,597 | (302) |
| Net depreciation, amortization and accretion | 4,634 | 7,092 |
| Decrease in other assets | 11,013 | 5,084 |
| (Decrease)/ increase in other liabilities | 233 | (570) |
| Net amortization of discount on marketable securities | (258) | (1,101) |
| Noncash impairment losses on investment securities | 507 | 315 |
| Origination of loans held for sale | (46,254) | (27,494) |
| Proceeds from sale of loans held for sale | 49,655 | 15,348 |
| Noncash compensation expense related to stock benefit plans | 4,649 | 1,028 |
| Net cash provided by operating activities | 73,643 | 45,391 |
| | | |
| INVESTING ACTIVITIES: | | |
| Purchase of marketable securities available-for-sale | (184,770) | - |
| Purchase of marketable securities held-to-maturity | - | (465,089) |
| Proceeds from maturities and principal reductions of marketable securities available-for-sale | 106,668 | 191,511 |
| Proceeds from maturities and principal reductions of marketable securities held-to-maturity | 76,783 | 49,789 |
| Proceeds from sale of marketable securities available-for-sale | - | 56,865 |
| Loan originations | (801,314) | (1,003,830) |
| Proceeds from loan maturities and principal reductions | 820,330 | 751,886 |
| Proceeds from sale of Federal Home Loan Bank stock | 5,858 | - |
| Proceeds from sale of real estate owned | 4,594 | 5,250 |
| Purchase of real estate owned for investment, net | (251) | (104) |
| Purchase of premises and equipment | (1,781) | (7,697) |
| Net cash provided by/ (used in) investing activities | 26,117 | (421,419) |

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

| | Six months ended June 30, 2011 | Six months ended June 30, 2010 |
|---|---|---|
| FINANCING ACTIVITIES: | | |
| Increase in deposits, net | $54,970 | 104,555 |
| Repayments of long-term borrowings | (50,033) | (1,532) |
| Net increase in short-term borrowings | 6,190 | 1,769 |
| Increase in advances by borrowers for taxes and insurance | 7,503 | 8,669 |
| Cash dividends paid | (22,116) | (22,131) |
| Purchase of common stock for employee stock ownership plan | - | (17,200) |
| Purchase of common stock for retirement | (102,646) | - |
| Proceeds from stock options exercised | 740 | 1,168 |
| Net cash (used in)/provided by financing activities | (105,392) | 75,298 |
| | | |
| Net decrease in cash and cash equivalents | $(5,632) | (300,730) |
| | | |
| Cash and cash equivalents at beginning of period | $719,111 | 1,107,790 |
| Net decrease in cash and cash equivalents | (5,632) | (300,730) |
| Cash and cash equivalents at end of period | $713,479 | 807,060 |
| | | |
| Cash and cash equivalents: | | |
| Cash and due from banks | $80,889 | 60,647 |
| Interest-earning deposits in other financial institutions | 631,957 | 745,781 |
| Federal funds sold and other short-term investments | 633 | 632 |
| Total cash and cash equivalents | $713,479 | 807,060 |
| | | |
| Cash paid during the period for: | | |
| Interest on deposits and borrowings (including interest credited to deposit accounts of $26,828 and $35,291, respectively) | $48,075 | 59,941 |
| Income taxes | $10,135 | 8,042 |
| | | |
| Non-cash activities: | | |
| Loans transferred to real estate owned | $5,824 | 7,463 |
| Sale of real estate owned financed by the Company | $266 | 895 |

See accompanying notes to unaudited consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Unaudited

(1) Basis of Presentation and Informational Disclosures

Northwest Bancshares, Inc. (the “Company”)(“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. Prior to July 21, 2011 the Company was regulated by the Office of Thrift Supervision. The Company was incorporated to be the successor to Northwest Bancorp, Inc. (“NWSB”) upon the completion of the mutual-to-stock conversion of Northwest Bancorp, MHC. As a result of the conversion, all share information for periods prior to December 31, 2009, has been revised to reflect the 2.25-to-one conversion rate. The primary activity of the Company is the ownership of all of the issued and outstanding common stock of Northwest Savings Bank, a Pennsylvania-chartered savings bank (“Northwest”). Northwest is regulated by the FDIC and the Pennsylvania Department of Banking. At June 30, 2011, Northwest operated 169 community-banking offices throughout Pennsylvania, western New York, eastern Ohio and Maryland. On June 30, 2011 we closed three offices located in southern Florida.

The accompanying unaudited consolidated financial statements include the accounts of the Company and its subsidiary, Northwest, and Northwest’s subsidiaries Northwest Settlement Agency, LLC, Northwest Consumer Discount Company, Northwest Financial Services, Inc., Northwest Advisors, Inc., Northwest Capital Group, Inc., Boetger & Associates, Inc., Allegheny Services, Inc., Great Northwest Corporation and Veracity Benefits Design. The unaudited consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles for interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required for complete annual financial statements. In the opinion of management, all adjustments necessary for the fair presentation of the Company’s financial position and results of operations have been included. The consolidated statements have been prepared using the accounting policies described in the financial statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2010 updated, as required, for any new pronouncements or changes. The following sections of our Summary of Significant Accounting Principals have been updated since the filing of our form 10-K and are included herein.

(e) Loans Receivable

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

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

A loan (from any class) is considered to be a troubled debt restructured loan (“TDR”) when the terms have been renegotiated to a below market condition to provide a reduction or deferral of principal or interest as a result of the deteriorating financial position of the borrower. Troubled debt restructurings are determined on the contractual terms as specified by the original loan agreement of the most recent modification.

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

We have identified certain residential mortgage loans, which will be sold prior to maturity, as loans held for sale. These loans are recorded at the lower of amortized cost or fair value less estimated cost to sell and at June 30, 2011 and December 31, 2010 and were $8.0 million and $11.4 million, respectively.

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

(f) Allowance for Loan Losses and Provision for Loan Losses

Provisions for estimated loan losses and the amount of the allowance for loan losses are based on losses inherent in the loan portfolio that are both probable and reasonably estimable at the date of the financial statements. We believe, to the best of our knowledge, that all known losses as of the statement of condition dates have been recorded.

For all classes of loans, we consider a loan to be impaired when it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. In evaluating whether a loan is impaired, we consider not only the amount that we expect to collect but also the timing of collection. Generally, if a delay in payment is insignificant (e.g., less than 30 days), a loan is not deemed to be impaired.

When a loan is considered to be impaired, the amount of impairment is measured based on the present value of expected future cash flows discounted at the loan’s effective interest rate, the loan’s market price, or fair value of the collateral, less cost to sell, if the loan is collateral dependent. Larger loans are evaluated individually for impairment. Smaller balance, homogeneous loans (e.g., primarily consumer and residential mortgages) are evaluated collectively for impairment. Impairment losses are included in the allowance for loan losses. Impaired loans are charged-off or charged down when we believe that the ultimate collectability of a loan is not likely or the collateral value no longer supports the carrying value of the loan.

Interest income on impaired loans is recognized using the cash basis method. For impaired loans interest collected is credited to income in the period of recovery or applied to reduce principal if there is sufficient doubt about the collectability of principal.

The allowance for loan losses is shown as a valuation allowance to loans. The accounting policy for the determination of the adequacy of the allowance by portfolio segment requires us to make numerous complex and subjective estimates and assumptions relating to amounts which are inherently uncertain. The allowance for loan losses is maintained to absorb losses inherent in the loan portfolio as of the balance sheet date based on our judgment. The methodology used to determine the allowance for loan losses is designed to provide procedural discipline in assessing the appropriateness of the allowance for loan losses. Losses are charged against the allowance for loan losses and recoveries are added to the allowance for loan losses.

The allowance for loan losses for all classes of Business Banking loans consists of three elements:

- An allowance for impaired loans;
- An allowance for homogenous loans based on historical losses; and
- An allowance for homogenous loans based on judgmental factors.

The first element, impaired loans, is based on individual analysis of all nonperforming loans over $1.0 million. The allowance is measured by the difference between the recorded value of impaired loans and their impaired value. Impaired value is either the present value of the expected future cash flows from the borrower, the market value of the loan, or the fair value of the collateral, less cost to sell.

The second element is a rolling three-year average of actual losses incurred, adjusted for a loss realization period (the period of time from the event of loss to loss realization), applied to homogenous pools of loans categorized by similar risk characteristics.

The third element augments the historical loss factors for changes in economic conditions, lending policies and procedures, the nature and volume of the loan portfolio, management, delinquency trends, loan administration, underlying collateral and concentrations of credit.

The allowance for loan losses for all classes of Personal Banking loans consists of three elements:

- An allowance for loans 90 days or more delinquent;
- An allowance for homogenous loans based on historical losses; and
- An allowance for homogenous loans based on judgmental factors.

The first element, loans 90 days or more delinquent is based on the loss history of loans that have become 90 days or more delinquent. We apply a historical loss factor for loans that have been 90 days or more delinquent.

The second element is a rolling three-year average of actual losses incurred, adjusted for a loss realization period (the period of time from the event of loss to loss realization), applied to homogenous pools of loans categorized by similar risk characteristics.

The third element augments the historical loss factors for changes in economic conditions, lending policies and procedures, the nature and volume of the loan portfolio, management, delinquency trends, loan administration, underlying collateral and concentrations of credit.

We also have an unallocated allowance which is based on our judgment regarding economic conditions, collateral values, specific loans and industry conditions and results of bank regulatory and internal credit exams.

The allocation of the allowance for loan losses is inherently judgmental, and the entire allowance for loan losses is available to absorb loan losses regardless of the nature of the loss.

We have not made any changes to our methodology for the calculation of the allowance for loan losses during the current year.

Personal Banking loans are charged-off or charged down when they become no more than 180 days delinquent, unless that borrower has filed for bankruptcy. Business Banking loans are charged-off or charged down when, in our opinion, they are no longer collectible, for commercial loans, or when it has been determined that the collateral value no longer supports the carrying value of the loan, for commercial real estate loans.

Certain items previously reported have been reclassified to conform to the current period's format. The reclassifications had no material effect on the Company's financial condition or results of operations.

The results of operations for the three months ended and six months ended June 30, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011.

Stock-Based Compensation

On April 20, 2011, we awarded a director 30,000 stock options with an exercise price of $12.17 and a grant date fair value of $1.96 per stock option and 12,000 Recognition and Retention Plan ("RRP") shares with a grant date fair price of $12.33 per share. On May 18, 2011, we awarded employees 2,331,898 stock options and directors 270,000 stock options with an exercise price of $12.32 and a grant date fair value of $2.21 per stock option. On May 18, 2011, we awarded employees 1,165,949 RRP shares and directors 108,000 RRP shares with a grant date fair value of $12.34 per share. Awarded stock options and RRP shares vest over a ten-year period with the first vesting occurring on the grant date. Stock-based compensation expense of $3.8 million and $225,000 for the three months ended June 30, 2011 and 2010, respectively, and $4.6 million and $1.0 million for the six months ended June 30, 2011 and 2010, respectively, was recognized in compensation expense relating to our stock benefit plans. Included in compensation expense was $1.6 million from our RRP which vested May 18, 2011. At June 30, 2011 there was compensation expense of $6.4 million to be recognized for awarded but unvested stock options and $13.9 million for unvested RRP shares.

Income Taxes- Uncertain Tax Positions

Accounting standards prescribe a comprehensive model for how a company should recognize, measure, present and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return. A tax benefit from an uncertain position may be recognized only if it is "more likely than not" that the position is sustainable, based on its technical merits. The tax benefit of a qualifying position is the largest amount of tax benefit that is greater than 50% likely of being realized upon ultimate settlement with a taxing authority having full knowledge of all relevant information. As of June 30, 2011 the Company had no liability for unrecognized tax benefits.

We recognize interest accrued related to: (1) unrecognized tax benefits in federal and state income taxes and (2) refund claims in other operating income. We recognize penalties (if any) in federal and state income taxes. There is no amount accrued for the payment of interest or penalties at June 30, 2011. We are subject to audit by the Internal Revenue Service for the tax periods ended December 31, 2009 and 2008 and subject to audit by any state in which we conduct business for the tax periods ended December 31, 2009, 2008 and 2007.

Recently Issued Accounting Standards to be Adopted in Future Periods

In April 2011, the Financial Accounting Standards Board (FASB) issued ASU No. 2011-02, “Receivable (Topic 310): A Creditor’s Determination of Whether a Restructuring Is a Troubled Debt Restructuring.” This guidance is designed to assist creditors with determining whether or not a restructuring constitutes a troubled debt restructuring. Additional guidance has been added to help creditors determine whether a concession has been granted and whether a debtor is experiencing financial difficulty. Both of these conditions are required to be met for a restructuring to constitute a troubled debt restructuring. This guidance is effective for the first interim period beginning on or after June 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption. The adoption of the provisions of this standard is not expected to have a material impact on our Consolidated Financial Statements.

In May 2011, the Financial Accounting Standards Board (FASB) issued ASU No. 2011-04, “Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs.” This guidance eliminates the concepts of in-use and in-exchange when measuring fair value of all financial instruments. The fair value of a financial asset should be measured on a standalone basis and cannot be measured as part of a group. The ASU requires several new disclosures including the disclosure of all transfers between Level 1 and Level 2 of the fair value hierarchy and additional disclosures regarding Level 3 assets. This guidance is effective for interim and annual periods beginning on or after December 15, 2011, and should be applied prospectively. The adoption of the provisions of this standard is not expected to have a material impact on our Consolidated Financial Statements.

In June 2011, the Financial Accounting Standards Board ("FASB") issued ASU No. 2011-05, “Presentation of Comprehensive Income” an accounting pronouncement that requires all non-owner changes in stockholders' equity to be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. Under the two-statement approach, the first statement should present total net income and its components followed consecutively by a second statement that should present total other comprehensive income, the components of other comprehensive income, and the total of comprehensive income. The pronouncement should be applied retrospectively effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Early adoption is permitted. The adoption of this pronouncement is not expected to have a material impact on our consolidated financial statements.

(2) Business Segments

We operate in two reportable business segments: Community Banking and Consumer Finance. The Community Banking segment provides services traditionally offered by full-service community banks, including commercial and individual demand, savings and time deposit accounts and commercial, mortgage and consumer loans, as well as insurance, brokerage and investment management and trust services. The Consumer Finance segment, which is comprised of Northwest Consumer Discount Company, a subsidiary of Northwest, operates 52 offices in Pennsylvania and offers personal installment loans for a variety of consumer and real estate products. This activity is funded primarily through an intercompany borrowing relationship with Allegheny Services, Inc., a subsidiary of Northwest. Net income is the primary measure used by management to measure segment performance. The following tables provide financial information for these reportable segments. The "All Other" column represents the parent company and elimination entries necessary to reconcile to the consolidated amounts presented in the financial statements.

As of or for the three months ended:

| June 30, 2011 ($ in 000's) | Community Banking | Consumer Finance | All Other * | Consolidated |
|---|---|---|---|---|
| External interest income | $84,520 | 5,385 | 236 | 90,141 |
| Intersegment interest income | 766 | - | (766) | - |
| Interest expense | 22,243 | 766 | 453 | 23,462 |
| Provision for loan losses | 7,650 | 717 | - | 8,367 |
| Noninterest income | 14,677 | 572 | 13 | 15,262 |
| Noninterest expense | 49,332 | 3,005 | 153 | 52,490 |
| Income tax expense (benefit) | 5,865 | 611 | (395) | 6,081 |
| Net income | 14,873 | 858 | (728) | 15,003 |
| Total assets | $7,944,536 | 115,428 | 27,381 | 8,087,345 |

| June 30, 2010 ($ in 000's) | Community Banking | Consumer Finance | All Other * | Consolidated |
|---|---|---|---|---|
| External interest income | $87,182 | 5,219 | 3 | 92,404 |
| Intersegment interest income | 807 | - | (807) | - |
| Interest expense | 27,822 | 807 | 48 | 28,677 |
| Provision for loan losses | 7,000 | 896 | - | 7,896 |
| Noninterest income | 14,988 | 544 | 13 | 15,545 |
| Noninterest expense | 45,004 | 3,045 | 108 | 48,157 |
| Income tax expense (benefit) | 6,986 | 422 | (330) | 7,078 |
| Net income | 16,165 | 593 | (617) | 16,141 |
| Total assets | $7,996,270 | 115,991 | 23,872 | 8,136,133 |

* Eliminations consist of intercompany loans, interest income and interest expense.

As of or for the six months ended:

| June 30, 2011 ($ in 000's) | Community Banking | Consumer Finance | All Other * | Consolidated |
|---|---|---|---|---|
| External interest income | $170,136 | 10,632 | 465 | 181,233 |
| Intersegment interest income | 1,536 | - | (1,536) | - |
| Interest expense | 45,203 | 1,536 | 775 | 47,514 |
| Provision for loan losses | 14,150 | 1,461 | - | 15,611 |
| Noninterest income | 28,537 | 1,025 | 26 | 29,588 |
| Noninterest expense | 95,433 | 6,042 | 393 | 101,868 |
| Income tax expense (benefit) | 13,261 | 1,088 | (777) | 13,572 |
| Net income | 32,162 | 1,530 | (1,436) | 32,256 |
| Total assets | $7,944,536 | 115,428 | 27,381 | 8,087,345 |

| June 30, 2010 ($ in 000's) | Community Banking | Consumer Finance | All Other * | Consolidated |
|---|---|---|---|---|
| External interest income | $173,148 | 10,386 | 8 | 183,542 |
| Intersegment interest income | 1,614 | - | (1,614) | - |
| Interest expense | 58,267 | 1,614 | (100) | 59,781 |
| Provision for loan losses | 15,000 | 1,697 | - | 16,697 |
| Noninterest income | 30,435 | 941 | 26 | 31,402 |
| Noninterest expense | 90,470 | 6,070 | 221 | 96,761 |
| Income tax expense (benefit) | 12,197 | 809 | (595) | 12,411 |
| Net income | 29,263 | 1,137 | (1,106) | 29,294 |
| Total assets | $7,996,270 | 115,991 | 23,872 | 8,136,133 |

* Eliminations consist of intercompany loans, interest income and interest expense.

(3) Investment securities and impairment of investment securities

The following table shows the portfolio of investment securities available-for-sale at June 30, 2011 (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 | $ 63 | - | - | 63 |
| | | | | |
| Debt issued by government sponsored enterprises: | | | | |
| Due in one year or less | 1,995 | 46 | - | 2,041 |
| Due in one year - five years | 64,298 | 350 | - | 64,648 |
| Due in five years - ten years | 35,200 | 612 | (107 ) | 35,705 |
| Due after ten years | 9,952 | - | (56 ) | 9,896 |
| | | | | |
| Equity securities | 6,218 | 395 | (1 ) | 6,612 |
| | | | | |
| Municipal securities: | | | | |
| Due in one year - five years | 7,122 | 258 | - | 7,380 |
| Due in five years - ten years | 30,210 | 1,124 | - | 31,334 |
| Due after ten years | 164,405 | 2,317 | (1,520 ) | 165,202 |
| | | | | |
| Corporate debt issues: | | | | |
| Due in one year or less | 500 | - | - | 500 |
| Due after ten years | 25,384 | 338 | (4,933 ) | 20,789 |
| | | | | |
| Residential mortgage-backed securities: | | | | |
| Fixed rate pass-through | 115,138 | 7,275 | (6 ) | 122,407 |
| Variable rate pass-through | 150,022 | 6,837 | (4 ) | 156,855 |
| Fixed rate non-agency CMOs | 11,329 | 178 | (639 ) | 10,868 |
| Fixed rate agency CMOs | 135,274 | 3,095 | (1 ) | 138,368 |
| Variable rate non-agency CMOs | 1,577 | - | (136 ) | 1,441 |
| Variable rate agency CMOs | 265,142 | 1,750 | (454 ) | 266,438 |
| Total residential mortgage-backed securities | 678,482 | 19,135 | (1,240 ) | 696,377 |
| | | | | |
| Total marketable securities available-for-sale | $ 1,023,829 | 24,575 | (7,857 ) | 1,040,547 |

The following table shows the Company's portfolio of investment securities available-for-sale at December 31, 2010 (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 | $ 67 | - | - | 67 |
| | | | | |
| Debt issued by government sponsored enterprises: | | | | |
| Due in one year - five years | 1,989 | 93 | - | 2,082 |
| Due in five years - ten years | 6,495 | 347 | - | 6,842 |
| Due after ten years | 9,948 | - | (53 ) | 9,895 |
| | | | | |
| Equity securities | 641 | 86 | (1 ) | 726 |
| | | | | |
| Municipal securities: | | | | |
| Due in one year - five years | 3,382 | 125 | - | 3,507 |
| Due in five years - ten years | 37,898 | 1,023 | - | 38,921 |
| Due after ten years | 173,255 | 1,158 | (8,548 ) | 165,865 |
| | | | | |
| Corporate debt issues: | | | | |
| Due in one year or less | 100 | - | - | 100 |
| Due in one year - five years | 500 | - | - | 500 |
| Due after ten years | 25,417 | 196 | (7,353 ) | 18,260 |
| | | | | |
| Residential mortgage-backed securities: | | | | |
| Fixed rate pass-through | 111,581 | 7,153 | (12 ) | 118,722 |
| Variable rate pass-through | 167,685 | 7,260 | (8 ) | 174,937 |
| Fixed rate non-agency CMOs | 13,825 | 91 | (843 ) | 13,073 |
| Fixed rate CMOs | 112,483 | 1,067 | (759 ) | 112,791 |
| Variable rate non-agency CMOs | 3,274 | - | (379 ) | 2,895 |
| Variable rate CMOs | 277,031 | 4,525 | (276 ) | 281,280 |
| Total residential mortgage-backed securities | 685,879 | 20,096 | (2,277 ) | 703,698 |
| | | | | |
| Total marketable securities available-for-sale | $ 945,571 | 23,124 | (18,232 ) | 950,463 |

The following table shows the portfolio of investment securities held-to-maturity at June 30, 2011 (in thousands):

| | | Amortized cost | Gross unrealized holding gains | Gross unrealized holding losses | | Fair value |
|---|---|---|---|---|---|---|
| Municipal securities: | | | | | | |
| Due in fiveyears - ten years | $ | 1,086 | 16 | - | | 1,102 |
| Due after ten years | | 76,735 | 477 | (270 | ) | 76,942 |
| | | | | | | |
| Residential mortgage-backed securities: | | | | | | |
| Fixed rate pass-through | | 27,564 | 743 | - | | 28,307 |
| Variable rate pass-through | | 9,530 | 69 | - | | 9,599 |
| Fixed rate agency CMOs | | 147,066 | 2,614 | (65 | ) | 149,615 |
| Variable rate agency CMOs | | 18,801 | 319 | - | | 19,120 |
| Total residential mortgage-backed securities | | 202,961 | 3,745 | (65 | ) | 206,641 |
| | | | | | | |
| Total marketable securities held-to-maturity | $ | 280,782 | 4,238 | (335 | ) | 284,685 |

The following table shows the portfolio of investment securities held-to-maturity at December 31, 2010 (in thousands):

| | | Amortized cost | Gross unrealized holding gains | Gross unrealized holding losses | | Fair value |
|---|---|---|---|---|---|---|
| Debt issued by government sponsored enterprises: | | | | | | |
| Due in one year - five years | | 26,500 | 36 | - | | 26,536 |
| | | | | | | |
| Municipal securities: | | | | | | |
| Due after ten years | | 80,020 | 7 | (3,940 | ) | 76,087 |
| | | | | | | |
| Residential mortgage-backed securities: | | | | | | |
| Fixed rate pass-through | | 29,820 | 410 | (4 | ) | 30,226 |
| Variable rate pass-through | | 9,853 | 79 | - | | 9,932 |
| Fixed rate agency CMOs | | 186,948 | 924 | (1,701 | ) | 186,171 |
| Variable rate agency CMOs | | 24,781 | 393 | - | | 25,174 |
| Total residential mortgage-backed securities | | 251,402 | 1,806 | (1,705 | ) | 251,503 |
| Total marketable securities held-to-maturity | $ | 357,922 | 1,849 | (5,645 | ) | 354,126 |

We review our investment portfolio on a quarterly basis for indications of impairment. This review includes analyzing the length of time and the extent to which the fair value has been lower than the cost, the financial condition and near-term prospects of the issuer, including any specific events which may influence the operations of the issuer, the delinquency or default rates of the underlying collateral, and the intent to hold the investments for a period of time sufficient to allow for a recovery in value. Other investments are evaluated using our best estimate of future cash flows. If the estimate of cash flows determines that it is expected an adverse change has occurred, other-than-temporary impairment would be recognized for the credit loss.

The following table shows the fair value and gross unrealized losses on investment securities, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position at June 30, 2011 (in thousands):

| | Less than 12 months | | 12 months or more | | Total | |
|---|---|---|---|---|---|---|
| | Fair value | Unrealized loss | Fair value | Unrealized loss | Fair value | Unrealized loss |
| U.S. government and agencies | $ 24,359 | (162 ) | 33 | (1 ) | 24,392 | (163 ) |
| Municipal securities | 72,973 | (1,262 ) | 8,814 | (528 ) | 81,787 | (1,790 ) |
| Corporate issues | - | - | 14,941 | (4,933 ) | 14,941 | (4,933 ) |
| Equity securities | 44 | (1 ) | - | - | 44 | (1 ) |
| Residential mortgage-backed securities - non-agency | - | - | 5,820 | (775 ) | 5,820 | (775 ) |
| Residential mortgage-backed securities - agency | 171,770 | (490 ) | 4,946 | (40 ) | 176,716 | (530 ) |
| Total temporarily impaired securities | $ 269,146 | (1,915 ) | 34,554 | (6,277 ) | 303,700 | (8,192 ) |

The following table shows the fair value and gross unrealized losses on investment securities, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position at December 31, 2010 (in thousands):

| | Less than 12 months | | 12 months or more | | Total | |
|---|---|---|---|---|---|---|
| | Fair value | Unrealized loss | Fair value | Unrealized loss | Fair value | Unrealized loss |
| U.S. government and agencies | $ 9,896 | (52 ) | 35 | (1 ) | 9,931 | (53 ) |
| Municipal securities | 188,659 | (11,107 ) | 8,181 | (1,381 ) | 196,840 | (12,488 ) |
| Corporate issues | - | - | 13,700 | (7,353 ) | 13,700 | (7,353 ) |
| Equities | 44 | (1 ) | - | - | 44 | (1 ) |
| Residential mortgage-backed securities - non-agency | 303 | (302 ) | 10,093 | (921 ) | 10,396 | (1,223 ) |
| Residential mortgage-backed securities - agency | 212,261 | (2,632 ) | 4,949 | (127 ) | 217,210 | (2,759 ) |
| Total temporarily impaired securities | $ 411,163 | (14,094 ) | 36,958 | (9,783 ) | 448,121 | (23,877 ) |

Corporate issues
As of June 30, 2011, we had seven investments with a total book value of $19.9 million and total fair value of $14.9 million, where the book value exceeded the carrying value for more than 12 months. These investments were two

single issuer trust preferred investments and five pooled trust preferred investments. The single issuer trust preferred investments were evaluated for other-than-temporary impairment by determining the strength of the underlying issuer. In each case, the underlying issuer was "well-capitalized" for regulatory purposes. None of the issuers have deferred interest payments or announced the intention to defer interest payments, nor have any been downgraded. We believe the decline in fair value is related to the spread over three month LIBOR, on which the quarterly interest payments are based, as the spread over LIBOR is significantly lower than current market spreads. We concluded the impairment of these two investments was considered temporary. The pooled trust preferred investments were evaluated for other-than-temporary impairment by considering the duration and severity of the losses, actual cash flows, projected cash flows, performing collateral, the class of investment we owned and the amount of additional defaults the structure could withstand prior to the investment experiencing a disruption in cash flows. None of these investments are projecting a cash flow disruption nor have any experienced a cash flow disruption. After evaluation, the impairment in the five investments was considered temporary.

The following table provides class, book value, fair value and ratings information for our portfolio of corporate securities that have an unrealized loss as of June 30, 2011 (in thousands):

| Description | Class | Book Value | Total Fair Value | Unrealized Losses | Moody's/ Fitch Ratings |
|---|---|---|---|---|---|
| Bank Boston Capital Trust (1) | N/A | 988 | 807 | (181) | Baa3/ BBB |
| Huntington Capital Trust | N/A | 1,425 | 1,125 | (300) | Ba1/ BBB- |
| MM Community Funding II | Mezzanine | 329 | 139 | (190) | Baa2/ BB |
| I-PreTSL I | Mezzanine | 1,500 | 605 | (895) | Not rated/ CCC |
| I-PreTSL II | Mezzanine | 1,500 | 598 | (902) | Not rated/ B |
| PreTSL XIX | Senior A-1 | 8,709 | 6,977 | (1,732) | Baa2/ BBB |
| PreTSL XX | Senior A-1 | 5,423 | 4,690 | (733) | Ba2/ BB |
| | | $ 19,874 | 14,941 | (4,933) | |

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

The following table provides collateral information on the entire pool for trust preferred securities included in the previous table as of June 30, 2011 (in thousands):

| Description * | Total Collateral | Current deferrals and defaults | Performing Collateral | Additional Immediate defaults before causing an interest shortfall |
|---|---|---|---|---|
| I-PreTSL I | $ 193,500 | 32,500 | 161,000 | 88,893 |
| I-PreTSL II | 358,500 | 17,500 | 341,000 | 143,843 |
| PreTSL XIX | 699,806 | 192,400 | 507,406 | 170,000 |
| PreTSL XX | 576,238 | 188,500 | 387,738 | 99,000 |

* - similar information for the MM Community Funding II is not available.

Mortgage-backed securities

Mortgage-backed securities include agency (FNMA, FHLMC and GNMA) mortgage-backed securities and non-agency collateralized mortgage obligations ("CMOs"). We review our portfolio of agency mortgage-backed securities quarterly for impairment. As of June 30, 2011, we believe that the impairment within its portfolio of agency mortgage-backed securities is temporary. As of June 30, 2011, we had ten non-agency CMOs with a total book value of $12.9 million and a total fair value of $12.3 million.

The following table shows issuer specific information, book value, fair value, unrealized gain or loss and other-than-temporary impairment recorded in earnings for the portfolio of non-agency CMOs as of June 30, 2011 (in thousands):

| Description | | Book Value | Total Fair Value | Unrealized Gain/ (loss) | Impairment recorded in current quarter earnings | Total impairment recorded in earnings |
|---|---|---|---|---|---|---|
| AMAC 2003-6 2A2 | $ | 464 | 477 | 13 | - | - |
| AMAC 2003-6 2A8 | | 960 | 989 | 29 | - | - |
| AMAC 2003-7 A3 | | 571 | 586 | 15 | - | - |
| BOAMS 2005-11 1A8 | | 2,522 | 2,614 | 92 | - | (146) |
| CWALT 2005-J14 A3 | | 5,312 | 4,673 | (639) | - | (411) |
| CFSB 2003-17 2A2 | | 872 | 890 | 18 | - | - |
| WAMU 2003-S2 A4 | | 628 | 639 | 11 | - | - |
| CMLTI 2005-10 1A5B | | 294 | 294 | - | (414) | (3,366) |
| SARM 2005-21 4A2 | | 253 | 183 | (70) | (93) | (3,193) |
| WFMBS 2003-B A2 | | 1,030 | 964 | (66) | - | - |
| | $ | 12,906 | 12,309 | (597) | (507) | (7,116) |

Municipal Securities

As of June 30, 2011, we had 12 investments in municipal securities with a total book value of $9.3 million and a total fair value of $8.8 million, where book value exceeded fair value for more than 12 months. We initially evaluate investments in municipal securities for other-than-temporary impairment by comparing the fair value, provided to us by a third party pricing source using quoted prices for similar assets that are actively traded, to the carrying value. When an investment's fair value is below 80% of the carrying value we then look at the stated interest rate and compare the stated interest rate to current market interest rates to determine if the decline in fair value is attributable to interest rates. If the interest rate approximates current interest rates for similar securities, we determine if the investment is rated and if so, if the rating has changed in the current period. If the rating has not changed during the current period, we review publicly available information to determine if there has been any negative change in the underlying municipality. As of June 30, 2011, we have determined that all of the impairment in our municipal securities portfolio is noncredit related and therefore temporary. The 12 investments in municipal securities discussed above represent six Pennsylvania municipalities.

The following table provides information for our portfolio of municipal securities that have unrealized losses for greater than 12 months as of June 30, 2011 (in thousands):

| Description | State | | Book Value | Total Fair Value | Unrealized Losses | | Rating |
|---|---|---|---|---|---|---|---|
| Cambria & Somerset Counties Revenue | PA | $ | 611 | 610 | (1 | ) | BBB |
| Ohio Township Sewer Revenue | PA | | 307 | 278 | (29 | ) | Not rated |
| North Allegheny School District General Obligation | PA | | 3,029 | 3,028 | (1 | ) | AA+ |
| Plum Boro Water Authority Revenue | PA | | 835 | 823 | (12 | ) | Not rated |
| Cambridge Area JT Revenue | PA | | 595 | 527 | (68 | ) | Not rated |
| Ohio Township Sewer Revenue | PA | | 490 | 466 | (24 | ) | Not rated |
| West Reading General Obligation | PA | | 423 | 376 | (47 | ) | BBB |
| Cambria & Somerset Counties Revenue | PA | | 470 | 460 | (10 | ) | Not rated |
| West Reading General Obligation | PA | | 492 | 431 | (61 | ) | BBB |
| Kutztown General Obligation | PA | | 799 | 705 | (94 | ) | BBB |
| Ohio Township Sewer Revenue | PA | | 305 | 298 | (7 | ) | Not rated |
| West Reading General Obligation | PA | | 986 | 812 | (174 | ) | BBB |
| | | $ | 9,342 | 8,814 | (528 | ) | |

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

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

| | | June 30, 2011 | June 30, 2010 |
|---|---|---|---|
| Beginning balance as of Janaury 1, 2011 (a) | $ | 15,445 | 13,998 |
| Credit losses on debt securities for which other-than-temporary impairment was not previously recognized | | - | - |
| Additional credit losses on debt securities for which other-than-temporary impairment was previously recognized | | 507 | 315 |
| Ending balance as of June 30, 2011 | $ | 15,952 | 14,313 |

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

(4) Loans receivable

We have defined our portfolio segments as Personal Banking loans and Business Banking loans. Classes of Personal Banking loans are residential mortgage loans, home equity loans and other consumer loans. Classes of Business Banking loans are commercial real estate loans and commercial loans. The following table shows a summary of our loans receivable at June 30, 2011 and December 31, 2010 (in thousands):

| | June 30, 2011 | December 31, 2010 |
|---|---|---|
| Personal Banking: | | |
| Residential mortgage loans | $ 2,377,273 | 2,432,421 |
| Home equity loans | 1,083,301 | 1,095,953 |
| Other consumer loans | 247,182 | 255,776 |
| Total Personal banking | 3,707,756 | 3,784,150 |
| | | |
| Business Banking: | | |
| Commercial real estate | 1,428,757 | 1,423,021 |
| Commercial loans | 458,934 | 463,006 |
| Total Business Banking | 1,887,691 | 1,886,027 |
| Total loans receivable, gross | 5,595,447 | 5,670,177 |
| | | |
| Deferred loan fees | (7,250) | (7,165) |
| Allowance for loan losses | (75,455) | (76,412) |
| Undisbursed loan proceeds (real estate loans) | (99,019) | (129,007) |
| Total loans receivable, net | $ 5,413,723 | 5,457,593 |

The following table provides information related to the allowance for loan losses by portfolio segment and by class of financing receivable for the three months ended June 30, 2011 (in thousands):

| | Balance March 31, 2011 | Current period provision | Charge-offs | Recoveries | Balance June 30, 2011 |
|---|---|---|---|---|---|
| Personal Banking: | | | | | |
| Residental mortgage loans | $8,006 | 1,197 | (829) | 89 | 8,463 |
| Home equity loans | 6,840 | 1,718 | (893) | 34 | 7,699 |
| Other consumer loans | 5,556 | 557 | (1,277) | 308 | 5,144 |
| Total Personal Banking | 20,402 | 3,472 | (2,999) | 431 | 21,306 |
| | | | | | |
| Business Banking: | | | | | |
| Commercial real estate loans | 34,040 | (374) | (2,269) | 293 | 31,690 |
| Commercial loans | 17,710 | 5,071 | (4,874) | 56 | 17,963 |
| Total Business Banking | 51,750 | 4,697 | (7,143) | 349 | 49,653 |
| | | | | | |
| Unallocated | 4,298 | 198 | - | - | 4,496 |
| | | | | | |
| Total | $76,450 | 8,367 | (10,142) | 780 | 75,455 |

The following table provides information related to the allowance for loan losses by portfolio segment and by class of financing receivable for the three months ended June 30, 2010 (in thousands):

| | Balance March 31, 2010 | Current period provision | Charge-offs | Recoveries | Balance June 30, 2010 |
|---|---|---|---|---|---|
| Personal Banking: | | | | | |
| Residental mortgage loans | $8,907 | (1,944) | (513) | 50 | 6,500 |
| Home equity loans | 5,666 | 1,448 | (1,288) | 8 | 5,834 |
| Other consumer loans | 6,372 | 762 | (1,593) | 346 | 5,887 |
| Total Personal Banking | 20,945 | 266 | (3,394) | 404 | 18,221 |
| | | | | | |
| Business Banking: | | | | | |
| Commercial real estate loans | 32,340 | 4,446 | (1,900) | 53 | 34,939 |
| Commercial loans | 17,240 | 2,794 | (2,518) | 40 | 17,556 |
| Total Business Banking | 49,580 | 7,240 | (4,418) | 93 | 52,495 |
| | | | | | |
| Unallocated | 4,311 | 390 | - | - | 4,701 |
| | | | | | |
| Total | $74,836 | 7,896 | (7,812) | 497 | 75,417 |

The following table provides information related to the allowance for loan losses by portfolio segment and by class of financing receivable for the six months ended June 30, 2011 (in thousands):

| | Balance December 31, 2010 | Current period provision | Charge-offs | Recoveries | Balance June 30, 2011 |
|---|---|---|---|---|---|
| Personal Banking: | | | | | |
| Residental mortgage loans | $ 6,854 | 3,483 | (2,034) | 160 | 8,463 |
| Home equity loans | 7,675 | 3,121 | (3,148) | 51 | 7,699 |
| Other consumer loans | 5,810 | 1,138 | (2,509) | 705 | 5,144 |
| Total Personal Banking | 20,339 | 7,742 | (7,691) | 916 | 21,306 |
| | | | | | |
| Business Banking: | | | | | |
| Commercial real estate loans | 35,832 | (96) | (4,545) | 499 | 31,690 |
| Commercial loans | 15,770 | 7,940 | (5,915) | 168 | 17,963 |
| Total Business Banking | 51,602 | 7,844 | (10,460) | 667 | 49,653 |
| | | | | | |
| Unallocated | 4,471 | 25 | - | - | 4,496 |
| | | | | | |
| Total | $ 76,412 | 15,611 | (18,151) | 1,583 | 75,455 |

The following table provides information related to the allowance for loan losses by portfolio segment and by class of financing receivable for the six months ended June 30, 2010 (in thousands):

| | Balance December 31, 2009 | Current period provision | Charge-offs | Recoveries | Balance June 30, 2010 |
|---|---|---|---|---|---|
| Personal Banking: | | | | | |
| Residental mortgage loans | $ 9,349 | (1,679) | (1,275) | 105 | 6,500 |
| Home equity loans | 6,293 | 1,222 | (1,721) | 40 | |