Northwest Bancshares, Inc.
Form 10-K
March 01, 2011

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

x Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. For the Fiscal Year Ended December 31, 2010

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 No. 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 Number)
100 Liberty Street, Warren, Pennsylvania	16365
(Address of Principal Executive Offices)	(Zip Code)

(814) 726-2140
(Registrant's telephone number)

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $0.01 Par Value	NASDAQ Stock Market, LLC

Securities Registered Pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ¨ NO x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES ¨ NO x

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 twelve months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such requirements for the past 90 days. YES x NO ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨.

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See 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

As of February 22, 2011, there were 109,151,550 shares outstanding of the Registrant’s Common Stock.

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant, computed by reference to the last sale price on June 30, 2010, as reported by the Nasdaq Global Select Market, was approximately $1.271 billion.

DOCUMENTS INCORPORATED BY REFERENCE

(1) Proxy Statement for the 2011 Annual Meeting of Stockholders of the Registrant (Part III).

FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements, which can be identified by the use of words such as “estimate,” “project,” “believe,” “intend,” “anticipate,” “plan,” “seek,” “expect” and words of similar meaning. These forward-looking stat include, but are not limited to:

- statements of our goals, intentions and expectations;
- statements regarding our business plans, prospects, growth and operating strategies;
- statements regarding the asset quality of our loan and investment portfolios; and
- estimates of our risks and future costs and benefits.

These forward-looking statements are based on current beliefs and expectations of our management and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change.

The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements:

- changes in laws or government regulations or policies affecting financial institutions, including changes in regulatory fees and capital requirements;
- general economic conditions, either nationally or in our market areas, that are worse than expected;
- competition among depository and other financial institutions;
- inflation and changes in the interest rate environment that reduce our margins or reduce the fair value of financial instruments;
- adverse changes in the securities markets;
- our ability to enter new markets successfully and capitalize on growth opportunities;
- our ability to successfully integrate acquired entities, if any;
- changes in consumer spending, borrowing and savings habits;
- our ability to continue to increase and manage our commercial and residential real estate, multi-family, and commercial and industrial loans;
- possible impairments of securities held by us, including those issued by government entities and government sponsored enterprises;
- the level of future deposit premium assessments;
- the impact of the recession on our loan portfolio (including cash flow and collateral values), investment portfolio, customers and capital market activities;
- the impact of the current governmental effort to restructure the U.S. financial and regulatory system;
- changes in the financial performance and/or condition of our borrowers; and
- the effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Securities and Exchange Commission, the Public Company Accounting Oversight Board, the Financial Accounting Standards Board and other accounting standard setters.

Because of these and other uncertainties, our actual future results may be materially different from the results indicated by these forward-looking statements. Please see “Item 1.A. Risk Factors.”

TABLE OF CONTENTS

ITEM 1. BUSINESS

Northwest Bancshares, Inc.

Northwest Bancshares, Inc., a Maryland corporation, was incorporated in September 2009 to be the successor corporation to Northwest Bancorp, Inc., the former stock holding company for Northwest Savings Bank, upon completion of the mutual-to-stock conversion of Northwest Bancorp, MHC.

The conversion was completed December 18, 2009. Northwest Bancshares, Inc. sold a total of 68,878,267 shares of common stock at $10.00 per share in the related offering. Concurrent with the completion of the offering, shares of Northwest Bancorp, Inc. common stock owned by public stockholders were exchanged for 2.25 shares of Northwest Bancshares, Inc.'s common stock. In lieu of fractional shares, shareholders were paid in cash. Northwest Bancshares, Inc. also issued 1,277,565 shares of common stock and contributed $1.0 million in cash from the offering proceeds to Northwest Charitable Foundation, a charitable foundation that Northwest Bancshares, Inc. established for the benefit of the communities in which Northwest Savings Bank operates. As of December 31, 2010, Northwest Bancshares, Inc. had 110,295,117 shares outstanding and a market capitalization of approximately $1.3 billion.

Northwest Bancshares, Inc.'s executive offices are located at 100 Liberty Street, Warren, Pennsylvania 16365. Our telephone number at this address is (814) 726-2140.

Northwest Bancshares, Inc.'s website (www.northwestsavingsbank.com) contains a direct link to Northwest Bancshares, Inc.'s and its predecessor Northwest Bancorp, Inc.'s filings with the Securities and Exchange Commission, including copies of annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to these filings, if any. Copies may also be obtained, without charge, by written request to Shareholder Relations, P.O. Box 128, Warren, Pennsylvania 16365.

Northwest Savings Bank

Northwest Savings Bank is a Pennsylvania-chartered stock savings bank headquartered in Warren, Pennsylvania, which is located in northwestern Pennsylvania. Northwest Savings Bank is a community-oriented financial institution offering traditional deposit and loan products and investment management and trust services. Through a wholly-owned subsidiary, Northwest Consumer Discount Company, it also offers consumer finance services. Northwest Savings Bank's mutual savings bank predecessor was founded in 1896.

As of December 31, 2010, Northwest Savings Bank operated 171 community-banking offices throughout its market area in central and western Pennsylvania, western New York, eastern Ohio, Maryland and southeastern Florida. Northwest Savings Bank, through its wholly-owned subsidiary, Northwest Consumer Discount Company, also operates 52 consumer finance offices throughout Pennsylvania. Northwest Savings Bank also offers investment management and trust services and, through wholly-owned subsidiaries, actuarial and benefit plan administration services. Historically, our principle lending activity was the origination of fixed-rate loans secured by first mortgages on owner-occupied, one- to four-family residences. In an effort to reduce interest rate risk and improve profit margins, we also offer shorter term consumer loans. In recent years, we have greatly increased our emphasis on the origination of commercial business and commercial real estate loans.

Our principal sources of funds are deposits, borrowed funds and the principal and interest payments on loans and marketable securities. Our principal source of income is interest received on loans and marketable securities. Our principal expenses are the interest paid on deposits and the cost of employee compensation and benefits.

Northwest Savings Bank's principal executive office is located at 100 Liberty Street, Warren, Pennsylvania, and its telephone number at that address is (814) 726-2140.

Market Area and Competition

We are headquartered in Warren, Pennsylvania, which is located in northwestern Pennsylvania, and have our highest concentration of deposits and loans in this area of Pennsylvania. Since the early 1990s, we have expanded, primarily through acquisitions, into the southwestern and central regions of Pennsylvania, as well as western New York, eastern Ohio, Maryland and southeastern Florida. As of December 31, 2010, we operated 141 community banking offices and 52 consumer finance offices in Pennsylvania, four community banking offices in Ohio, 18 community banking offices in New York, five community banking offices in Maryland and three community banking offices in Florida. All of the aforementioned market areas are served by a number of competing financial institutions. As a result, we encounter strong competition both in attracting deposits and in originating retail and commercial loans. Our most direct competition for deposits comes from commercial banks, brokerage houses, other thrift institutions and credit unions in our market areas. We expect continued competition from these financial institutions in the foreseeable future. With the continued acceptance of internet banking by our customers and consumers generally, competition for deposits has increased from institutions operating outside of our market area as well as from insurance companies.

Pennsylvania and Western New York Market Area. Through our acquisitions and de novo branching strategy we have expanded our retail branch footprint throughout 30 counties in Pennsylvania and five counties in western New York. In addition, through our consumer finance offices we operate in 11 additional counties in Pennsylvania. Our northwestern and southwestern Pennsylvania and western New York markets are fueled by a diverse economy driven by service businesses, technology companies and small manufacturing companies. Our southeastern Pennsylvania market is primarily driven by service businesses and serves as a bedroom community to the cities of Baltimore, Maryland and Philadelphia, Pennsylvania. Our primary market area has remained a stable banking market.

Maryland, Ohio and Florida Market Areas. In addition to operating in Pennsylvania and western New York, we also operate four community banking offices in Ashtabula, Lake and Geauga counties in Ohio, five community banking offices in Baltimore, Howard and Anne Arundel counties in Maryland and three community banking offices in Broward county in Florida. Our Maryland regional economy consists of service businesses, government as well as heath care services. The major employment sectors in our Ohio market are similar to our northwestern Pennsylvania market. With the exception of Ashtabula county in Ohio, these markets have an expanding population base as well as higher median household income levels relative to the state and national averages. On January 25, 2011, we announced our intention to exit the Florida market. We anticipate completing our exit by June 30, 2011.

Lending Activities

General. Historically, our principal lending activity has been the origination, for retention in our loan portfolio, of fixed-rate and, to a lesser extent, adjustable-rate mortgage loans collateralized by one- to four-family residential real estate located in our market area. We also originate loans collateralized by multi-family residential and commercial real estate, commercial business loans and consumer loans. Generally, we focus our lending activities in the geographic areas where we maintain offices.

In an effort to manage interest rate risk, we have sought to make our interest-earning assets more interest rate sensitive by originating adjustable-rate loans, such as adjustable-rate residential mortgage loans and home equity lines-of-credit, and by originating short-term and medium-term fixed-rate consumer loans. In recent years we have emphasized the origination of commercial real estate loans and commercial business loans, which generally have adjustable rates of interest and shorter maturities than one- to four-family residential real estate loans. We also purchase mortgage-backed securities and other types of investment securities that generally have short average lives and/or adjustable interest rates. Because we originate a substantial amount of long-term fixed-rate mortgage loans collateralized by one- to four-family residential real estate, when possible, we originate and underwrite loans according to standards that allow us to sell them in the secondary mortgage market for purposes of managing interest-rate risk and liquidity. We currently sell in the secondary market a limited number of fixed-rate residential mortgage loans with maturities of more than 15 years, and generally retain all adjustable-rate mortgage loans and fixed-rate residential mortgage loans with maturities of 15 years or less. Although we have sold an increased number of the mortgage loans that we originated, we continue to be a portfolio lender and at any one time we hold few loans identified as held-for-sale. We currently retain servicing on the mortgage loans we sell which generates monthly service fee income. We generally retain in our portfolio all consumer loans that we originate while we periodically sell participations in the multi-family residential, commercial real estate or commercial business loans that we originate in an effort to reduce the risk of certain individual credits and the risk associated with certain businesses or industries.

One- to Four-Family Residential Mortgage Loans. We currently offer one- to four-family residential mortgage loans with terms typically ranging from 15 to 30 years, with either adjustable or fixed interest rates. Originations of fixed-rate mortgage loans versus adjustable-rate mortgage loans are monitored on an ongoing basis and are affected significantly by such factors as the level of market interest rates, customer preference, our interest rate sensitivity and liquidity position as well as loan products offered by our competitors. Therefore, even when management's strategy is to increase the origination of adjustable-rate mortgage loans, market conditions may be such that there is greater demand for fixed-rate mortgage loans.

Our fixed-rate loans, whenever possible, are originated and underwritten according to standards that permit sale into the secondary mortgage market. Whether we can or will sell fixed-rate loans into the secondary market, however, depends on a number of factors including the yield and the term of the loan, market conditions, and our current liquidity and interest rate sensitivity position. We historically have been primarily a portfolio lender and at any one time we have only a nominal amount of loans as held for sale. Our current strategy is to grow the consumer and commercial loan portfolios by more than we grow our portfolio of long-term fixed-rate residential mortgage loans. With this in mind, we generally retain in our portfolio fixed-rate loans with terms of 15 years or less, and sell a portion of fixed-rate loans (servicing retained) with terms of more than 15 years. Our one- to four-family residential real estate loans are amortized on a monthly basis with principal and interest each due monthly. These loans often remain outstanding for significantly shorter periods than their contractual terms because borrowers may refinance or prepay loans at their option, usually without a prepayment penalty.

We currently offer adjustable-rate mortgage loans with initial interest rate adjustment periods of one, three and five years, based on changes in a designated market index. We determine whether a borrower qualifies for an adjustable-rate mortgage loan based on secondary market guidelines. One- to four-family adjustable-rate residential mortgage loans totaled $36.4 million, or 0.64% of our gross loan portfolio at December 31, 2010.

Our one- to four-family residential mortgage loans customarily include due-on-sale clauses, which are provisions giving us the right to declare a loan immediately due and payable in the event, among other things, the borrower sells or otherwise disposes of the underlying real property serving as collateral for the loan. Due-on-sale clauses are an important means of adjusting the rates on our fixed-rate mortgage loan portfolio.

Regulations limit the amount that a savings bank may lend relative to the appraised value of the real estate securing the loan, as determined by an appraisal at the time of loan origination. Appraisals are either performed by our in-house appraisal staff or by an appraiser who has been deemed qualified by our chief appraiser. Such regulations permit a maximum loan-to-value ratio of 95% for residential property and 80% for all other real estate loans. We generally limit the maximum loan-to-value ratio on both fixed-rate and adjustable-rate mortgage loans without private mortgage insurance to 80% of the lesser of the appraised value or the purchase price of the real estate that serves as collateral for the loan. We originate a limited amount of one- to four-family residential mortgage loans with loan-to-value ratios in excess of 80%. For one- to four-family residential mortgage loans with loan-to-value ratios in excess of 80%, we generally require the borrower to obtain private mortgage insurance. We require fire and casualty insurance, as well as a title guaranty regarding good title, on all properties securing our real estate loans.

Some financial institutions we have acquired have held loans that are serviced by others and are secured by one- to four-family residences. At December 31, 2010, our portfolio of one- to four-family loans serviced by others totaled $8.3 million. We currently have no formal plans to enter into new residential loan participations.

Included in our $2.432 billion portfolio of one- to four-family residential real estate loans are construction loans of $18.1 million, or 0.75% of our total loan portfolio. We offer fixed-rate and adjustable-rate residential construction loans primarily for the construction of owner-occupied one- to four-family residences in our market area to builders or to owners who have a contract for construction. Construction loans are generally structured to become permanent loans, and are originated with terms of up to 30 years with an allowance of up to one year for construction. Advances are made as construction is completed. In addition, we originate loans within our market area that are secured by individual unimproved or improved lots. Land loans for the construction of owner-occupied residential real estate properties are currently offered with fixed-rates for terms of up to 10 years. The maximum loan-to-value ratio for these loans is 80% of the as-completed appraised value, and the maximum loan-to-value ratio for our construction loans is 95% of the lower of cost or as-completed appraised value.

Construction lending generally involves a greater degree of credit risk than permanent one- to four-family residential mortgage lending. The repayment of the construction loan is often dependent upon the successful completion of the construction project. Construction delays or the inability of the borrower to sell the property once construction is completed may impair the borrower's ability to repay the loan.

Multi-family Residential and Commercial Real Estate Loans. Our multi-family residential real estate loans are secured by multi-family residences, such as rental properties. Our commercial real estate loans are secured by nonresidential properties such as hotels, church property, manufacturing facilities and retail establishments. At December 31, 2010, a significant portion of our multi-family residential and commercial real estate loans were secured by properties located within our market area. Our largest multi-family residential real estate loan relationship at December 31, 2010 had a principal balance of $7.4 million, and was collateralized by multiple residential real estate rental properties. These loans were performing in accordance with their terms as of December 31, 2010. Our largest commercial real estate loan relationship at December 31, 2010, had a principal balance of $35.6 million and was collateralized by six different mixed use commercial buildings. These loans were performing in accordance with their terms as of December 31, 2010. Multi-family residential and commercial real estate loans are offered with both adjustable interest rates and fixed interest rates. The terms of each multi-family residential and commercial real estate loan are negotiated on a case-by-case basis. We generally originate multi-family residential and commercial real estate loans in amounts up to 80% of the appraised value of the property collateralizing the loan.

Loans secured by multi-family residential and commercial real estate generally involve a greater degree of credit risk than one- to four-family residential mortgage loans and carry larger loan balances. This increased credit risk is a result of several factors, including the concentration of principal in a limited number of loans and borrowers, the effects of general economic conditions on income producing properties, and the increased difficulty of evaluating and monitoring these types of loans. Furthermore, the repayment of loans secured by multi-family residential and commercial real estate is typically dependent upon the successful operation of the related real estate property. If the cash flow from the project is reduced, the borrower's ability to repay the loan may be impaired.

Home Equity Loans and Lines of Credit. Generally, our home equity loans and home equity lines of credit are secured by the borrower's principal residence with a maximum loan-to-value ratio, including the principal balances of both the first and second mortgage loans, of 90% or less. Home equity loans are offered on a fixed rate basis with terms of up to 20 years. Home equity lines of credit are offered on an adjustable-rate basis with terms of up to 25 years. At December 31, 2010, the disbursed portion of home equity lines of credit totaled $278.7 million, or 4.9% of our total loans, with $280.9 million remaining undisbursed, and our fixed-rate home equity loans totaled $817.2 million, or 14.4% of our total loans. We generally underwrite home equity loans and lines of credit in a manner similar to our underwriting of one- to four-family residential real estate loans.

Consumer Loans. The principal types of consumer loans we offer are automobile loans, sales finance loans, unsecured personal loans, credit card loans, and loans secured by deposit accounts. Consumer loans are typically offered with maturities of ten years or less.

The underwriting standards we employ for consumer loans include a determination of the applicant's credit history and an assessment of ability to meet existing obligations and payments on the proposed loan. The stability of the applicant's monthly income may be determined by verification of gross monthly income from primary employment, and additionally, from any verifiable secondary income. Creditworthiness of the applicant is of primary consideration; however, the underwriting process also includes a comparison of the value of the collateral in relation to the proposed loan amount.

Consumer loans entail greater credit risk than residential mortgage loans, particularly in the case of consumer loans that are unsecured or secured by assets that depreciate rapidly, such as automobiles, mobile homes, boats, recreation vehicles, appliances and furniture. In such cases, repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment for the outstanding loan and the remaining deficiency often does not warrant further substantial collection efforts against the borrower. In particular, amounts realizable on the sale of repossessed automobiles may be significantly reduced based upon the condition of the automobiles and the lack of demand for used automobiles.

Commercial Business Loans. We offer commercial business loans to finance various activities in our market area, some of which are secured in part by additional real estate collateral. At December 31, 2010 the largest commercial business loan relationship had a principal balance of $15.6 million, and was secured by all fixed assets of an oil and gas extraction company.

Commercial business loans are offered with both fixed and adjustable interest rates. Underwriting standards we employ for commercial business loans include a determination of the applicant's ability to meet existing obligations and payments on the proposed loan from normal cash flows generated by the applicant's business. The financial strength of each applicant also is assessed through a review of financial statements provided by the applicant.

Commercial business loans generally bear higher interest rates than residential loans, but they also may involve a higher risk of default since their repayment is generally dependent on the successful operation of the borrower's business. We generally obtain personal guarantees from the borrower or a third party as a condition to originating commercial business loans.

Loan Originations, Solicitation, Processing and Commitments. Loan originations are derived from a number of sources such as real estate broker referrals, existing customers, borrowers, builders, attorneys and walk-in customers. All of our loan originators are salaried employees, and we do not pay commissions in connection with loan originations. Upon receiving a retail loan application, we obtain a credit report and employment verification to verify specific information relating to the applicant's employment, income, and credit standing. In the case of a real estate loan, an in-house appraiser, or an appraiser we approve, appraises the real estate intended to secure the proposed loan. A loan processor in our loan department checks the loan document file for accuracy and completeness, and verifies the information provided.

For our retail loans, including residential mortgage loans, home equity loans and lines of credit, automobile loans, credit cards and other unsecured loans, we have implemented a credit approval process based on a laddered individual loan authority system. Local loan officers are granted various levels of authority based on their lending experience and expertise. These authority levels are reviewed by the Credit Committee on at least an annual basis.

Our commercial loan policy assigns lending limits for our various commercial loan officers. These individual authorities are established by the Credit Committee. Regional loan committees may approve extensions of credit above those that may be authorized by individual officers, and the Senior Loan Committee may approve extensions of credit in excess of those that may be approved by regional loan committees. The Credit Committee meets quarterly to review the assigned lending limits and to monitor our lending policies, loan activity, economic conditions and concentrations of credit.

The Board of Directors must approve all loans where the total debt relationship exceeds $7.5 million ($5.0 million for loans exceeding the maximum loan-to-value ratio or not meeting minimum debt service coverage), or as may be required by Regulation O. Loans exceeding the limits established for the Senior Loan Committee must be approved by the Executive Committee of the Board of Directors or by the entire Board of Directors. Our general policy is to make no loans either individually or in the aggregate to one entity in excess of $15.0 million. Exceptions to this policy are permitted with the prior approval from the Board of Directors. Fire and casualty insurance is required at the time the loan is made and throughout the term of the loan, and flood insurance is required as determined by regulation. After the loan is approved, a loan commitment letter is promptly issued to the borrower. At December 31, 2010, we had commitments to originate $135.8 million of loans.

If the loan is approved, the commitment letter specifies the terms and conditions of the proposed loan including the amount of the loan, interest rate, amortization period, maturity, a description of the required collateral and required insurance coverage. The borrower must provide proof of fire and casualty insurance on the property (and, as required, flood insurance) serving as collateral, which insurance must be maintained during the full term of the loan. Property searches are requested, as needed, on all loans secured by real property.

Loan Origination Fees. In addition to interest earned on loans, we generally receive loan origination fees. We defer loan origination fees and costs and amortize such amounts as an adjustment of yield over the life of the loan by use of the level yield method. Deferred loan fees are recognized into income immediately upon prepayment or the sale of the related loan. At December 31, 2010, we had $7.2 million of net deferred loan origination fees. Loan origination fees are volatile sources of income. Such fees vary with the volume and type of loans and commitments originated and purchased, principal repayments, and competitive conditions in the marketplace.

Income from loan origination fees was $6.6 million, $7.6 million and $7.4 million for the years ended December 31, 2010, 2009 and 2008, respectively.

Loans-to-One Borrower. Savings banks are subject to the same loans-to-one borrower limits as those applicable to national banks, which restrict loans to one borrower to an amount equal to 15% of unimpaired capital and unimpaired surplus on an unsecured basis, and an additional amount equal to 10% of unimpaired capital and unimpaired surplus if the loan is secured by readily marketable collateral (generally, financial instruments and bullion, but not real estate). We have established our own internal limit of loans to one borrower of $15.0 million, which may be exceeded only with the approval of the Board of Directors. At December 31, 2010, the largest aggregate amount loaned to one borrower, or related borrowers, totaled $35.6 million and was secured by six different mixed use commercial buildings. Our second largest lending relationship totaled $35.1 million and was secured by nine different properties including several hotels and other commercial real estate. Our third largest lending relationship totaled $16.8 million and was secured by a hotel. Our fourth largest lending relationship totaled $15.8 million and was secured by all of the assets of an oil and gas extraction company. Our fifth largest lending relationship totaled $15.0 million and was secured by an oil refinery. All of these loans were performing in accordance with their terms at December 31, 2010.

Investment Activities

Our Board of Directors has primary responsibility for establishing and overseeing our investment policy. The board of directors has delegated authority to implement the investment policy to our Chief Financial Officer. The investment policy is reviewed at least annually by the Chief Financial Officer, and any changes to the policy are subject to approval by the full Board of Directors. The overall objectives of the Investment Policy are to maintain a portfolio of high quality and diversified investments, to provide liquidity, and to control interest rate risk while providing an acceptable return. The investment portfolio is also used to provide collateral for borrowings, to provide additional earnings when loan production is low, and to reduce our tax liability. The policy dictates that investment decisions give consideration to the safety of principal, liquidity requirements and potential returns. Either our Chief Financial Officer executes our securities portfolio transactions or our Treasurer executes transactions as directed by the Chief Financial Officer. All purchase and sale transactions are reported to the Board of Directors on a monthly basis.

Our current investment policy does not permit investment in complex securities and derivatives as defined in federal banking regulations and other high-risk securities, nor does it permit additional investments in non-agency mortgage-backed securities, pooled trust preferred securities, or single issuer trust preferred securities.

At the time of purchase, we designate a security as either held to maturity, available-for-sale, or trading, based upon our ability and intent. Securities available-for-sale and trading securities are reported at market value and securities held to maturity are reported at amortized cost. A periodic review and evaluation of the available-for-sale and held-to-maturity securities portfolios is conducted to determine if the fair value of any security has declined below its carrying value and whether such decline is other-than-temporary. If impairment exists, credit related impairment losses are recorded in earnings while noncredit related impairment losses are recorded in accumulated other comprehensive income (for available for sale securities). The fair values of our securities are based on published or securities dealers' market values, when available. See the footnotes to the audited financial statements for a detailed analysis and description of our investment portfolio and valuation techniques.

We purchase mortgage-backed securities that generally are issued by Fannie Mae, Freddie Mac or Ginnie Mae. Historically, we invested in mortgage-backed securities to achieve positive interest rate spreads with minimal administrative expense and to lower our credit risk as a result of the guarantees provided by Freddie Mac, Fannie Mae or Ginnie Mae. However, in September 2008, the Federal Housing Finance Agency placed Freddie Mac and Fannie Mae into conservatorship. The U.S. Treasury Department has established financing agreements to ensure that Freddie Mac and Fannie Mae meet their obligations to holders of mortgage-backed securities that they have issued or guaranteed. These actions have not materially affected the markets for mortgage-backed securities issued by Freddie Mac or Fannie Mae.

Sources of Funds

General. Deposits are the major source of our funds for lending and other investment purposes. In addition to deposits, we derive funds from the amortization and prepayment of loans and mortgage-backed securities, the maturity of investment securities, operations and, if needed, borrowings. Scheduled loan principal repayments are a relatively stable source of funds, while deposit inflows and outflows and loan prepayments are influenced significantly by general interest rates and market conditions. Borrowings may be used on a short-term basis to compensate for reductions in the availability of funds from other sources or on a longer term basis for general business purposes, including to manage interest rate risk.

Deposits. Consumer and commercial deposits are generated principally from our market area by offering a broad selection of deposit instruments including checking accounts, savings accounts, money market deposit accounts, term certificate accounts and individual retirement accounts. While we accept deposits of $100,000 or more, we do not offer premium rates for such deposits. We accept brokered deposits through the CDARS program, but generally do not solicit funds outside our market area. As of December 31, 2010, we had no deposits through the CDARS program. Deposit account terms vary according to the minimum balance required, the period of time during which the funds must remain on deposit, and the interest rate, among other factors. We regularly execute changes in our deposit rates based upon cash flow requirements, general market interest rates, competition, and liquidity requirements.

Borrowings. Deposits are the primary source of funds for our lending and investment activities and general business purposes. We also rely upon borrowings to supplement our supply of lendable funds and to meet deposit withdrawal requirements. Borrowings from the Federal Home Loan Bank of Pittsburgh typically are collateralized by our stock in the Federal Home Loan Bank of Pittsburgh and a portion of our real estate loans. In addition to the Federal Home Loan Bank of Pittsburgh, we have borrowing facilities with the Federal Reserve Bank, two correspondent banks and we borrow funds, in the form of reverse repurchase agreements, from municipalities and school districts.

The Federal Home Loan Bank of Pittsburgh functions as a central reserve bank providing credit for Northwest Savings Bank and other member financial institutions. As a member, Northwest Savings Bank is required to own capital stock in the Federal Home Loan Bank of Pittsburgh and is authorized to apply for borrowings on the security of such stock and certain of its real estate loans, provided certain standards related to creditworthiness have been met. Borrowings are made pursuant to several different programs. Each credit program has its own interest rate and range of maturities. Depending on the program, limitations on the amount of borrowings are based either on a fixed percentage of a member institution's net worth or on the Federal Home Loan Bank of Pittsburgh's assessment of the institution's creditworthiness. All of our Federal Home Loan Bank of Pittsburgh borrowings currently have fixed interest rates and original maturities of between one day and ten years.

Subsidiary Activities

Northwest Bancshares, Inc.'s sole consolidated subsidiary is Northwest Savings Bank. Northwest Bancshares, Inc. also owns all of the common stock of two statutory business trusts: Northwest Bancorp Capital Trust III, a Delaware statutory business trust, and Northwest Bancorp Statutory Trust IV, a Connecticut statutory business trust (the "Trusts"). The Trusts have issued a total of $100.0 million of trust preferred securities. The Trusts are not consolidated with Northwest Bancshares, Inc. At December 31, 2010, Northwest Bancshares, Inc.'s investment in the Trusts totaled $3.1 million, and the Trusts had assets of $103.1 million at that date.

Northwest Savings Bank has eight wholly-owned subsidiaries – Northwest Settlement Agency, LLC, Great Northwest Corporation, Northwest Financial Services, Inc., Northwest Consumer Discount Company, Inc., Allegheny Services, Inc., Boetger and Associates, Inc., Veracity Benefits Design, Inc. and Northwest Capital Group, Inc. For financial reporting purposes all of these companies are included in the consolidated financial statements of Northwest Bancshares, Inc.

Northwest Settlement Agency, LLC provides title insurance to borrowers of Northwest Savings Bank and other lenders. At December 31, 2010, Northwest Savings Bank had an equity investment in Northwest Settlement Agency, LLC of $2.0 million. For the year ended December 31, 2010, Northwest Settlement Agency, LLC had net income of $467,000.

Great Northwest's sole activity is holding equity investments in government-assisted low-income housing projects in various locations throughout our market area. At December 31, 2010, Northwest Savings Bank had an equity investment in Great Northwest of $6.6 million. For the year ended December 31, 2010, Great Northwest had net income of $306,000, generated primarily from federal low-income housing tax credits.

Northwest Financial Services' principal activity is the operation of retail brokerage activities. It also owns the common stock of several financial institutions. In addition, Northwest Financial Services holds an equity investment in one government assisted low-income housing project. At December 31, 2010, Northwest Savings Bank had an equity investment in Northwest Financial Services of $7.2 million, and for the year ended December 31, 2010, Northwest Financial Services had net income of $103,000.

Northwest Consumer Discount Company operates 52 consumer finance offices throughout Pennsylvania. At December 31, 2010, Northwest Savings Bank had an equity investment in Northwest Consumer Discount Company of $32.0 million and the net income of Northwest Consumer Discount Company for the year ended December 31, 2010 was $2.4 million.

Allegheny Services, Inc. is a Delaware investment company that holds mortgage loans originated through our wholesale lending operation as well as municipal bonds. In addition, Allegheny Services, Inc. has loans to both Northwest Savings Bank and Northwest Consumer Discount Company. At December 31, 2010, Northwest Savings Bank had an equity investment in Allegheny Services, Inc. of $672.7 million, and for the year ended December 31, 2010, Allegheny Services, Inc. had net income of $19.3 million.

Boetger and Associates, Inc. is an actuarial and employee benefits consulting firm that specializes in the design, implementation and administration of qualified retirement plan programs. At December 31, 2010, Northwest Savings Bank had an equity investment of $1.9 million in Boetger and Associates and for the year ended December 31, 2010, Boetger and Associates had net income of $221,000.

Veracity Benefits Design, Inc. is an employee benefits firm specializing in services to employer and employee groups. At December 31, 2010, Northwest Savings Bank had an equity investment of $2.0 million in Veracity Benefits Design and for the year ended December 31, 2010, Veracity Benefits Design had a net loss of $274,000.

Northwest Capital Group's principal activity is to own, operate and ultimately divest of properties that were acquired in foreclosure. At December 31, 2010, Northwest Savings Bank had an equity investment of $6.3 million in Northwest Capital Group and reported no net income for the year ended December 31, 2010.

Federal regulations require insured institutions to provide 30 days advance notice to the Federal Deposit Insurance Corporation before establishing or acquiring a subsidiary or conducting a new activity in a subsidiary. The insured institution must also provide the Federal Deposit Insurance Corporation such information as may be required by applicable regulations and must conduct the activity in accordance with the rules and orders of the Federal Deposit Insurance Corporation. In addition to other enforcement and supervision powers, the Federal Deposit Insurance Corporation may determine after notice and opportunity for a hearing that the continuation of a savings bank's ownership of or relation to a subsidiary constitutes a serious risk to the safety, soundness or stability of the savings bank, or is inconsistent with the purposes of federal banking laws. Upon the making of such a determination, the Federal Deposit Insurance Corporation may order the savings bank to divest the subsidiary or take other actions.

Personnel

As of December 31, 2010, we had 1,722 full-time and 318 part-time employees (including employees of our wholly-owned subsidiaries). None of our employees is represented by a collective bargaining group. We believe we have a good working relationship with our employees.

SUPERVISION AND REGULATION

General

Northwest Savings Bank is a Pennsylvania-chartered savings bank and our deposit accounts are insured up to applicable limits by the Federal Deposit Insurance Corporation under the Deposit Insurance Fund. Northwest Savings Bank is subject to extensive regulation by the Department of Banking of the Commonwealth of Pennsylvania (the "Department of Banking"), as its chartering agency, and by the Federal Deposit Insurance Corporation, as the insurer of its deposit accounts. Northwest Savings Bank must file reports with the Department of Banking and the Federal Deposit Insurance Corporation concerning its activities and financial condition in addition to obtaining regulatory approvals prior to entering into certain transactions including, acquisitions of other financial institutions. Northwest Savings Bank is examined periodically by the Department of Banking and the Federal Deposit Insurance Corporation to test Northwest Savings Bank's compliance with various laws and regulations. This regulation and supervision, as well as federal and state law, establishes a comprehensive framework of activities in which Northwest Savings Bank may engage and is intended primarily for the protection of the Federal Deposit Insurance Corporation insurance fund and depositors. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and with their examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes.

Any change in these laws or regulations, whether by the Department of Banking or the Federal Deposit Insurance Corporation, could have a material adverse impact on Northwest Bancshares, Inc., Northwest Savings Bank and their respective operations.

As a savings and loan holding company, Northwest Bancshares, Inc. is required to comply with the rules and regulations of the Office of Thrift Supervision, and is required to file certain reports with and is subject to examination by, the Office of Thrift Supervision. Northwest Bancshares, Inc. is also subject to the rules and regulations of the Securities and Exchange Commission under the federal securities laws.

Set forth below is a brief description of certain regulatory requirements that are applicable to Northwest Savings Bank and Northwest Bancshares, Inc. The description below is limited to certain material aspects of the statutes and regulations addressed, and is not intended to be a complete description of such statutes and regulations and their effects on Northwest Savings Bank and Northwest Bancshares, Inc.

Dodd-Frank Wall Street Reform and Consumer Protection Act

Congress recently enacted the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"). This new law will significantly change the current bank regulatory structure and affect the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies. The Dodd-Frank Act requires various federal agencies to adopt a broad range of new rules and regulations, and to prepare numerous studies and reports for Congress. The federal agencies are given significant discretion in drafting rules and regulations, and consequently, many of the details and much of the impact of the Dodd-Frank Act may not be known for many months or years.

10

Certain provisions of the Dodd-Frank Act are expected to have a near term effect on us. For example, the new law provides that the Office of Thrift Supervision, which currently is the primary federal regulator for Northwest Bancshares, Inc., will cease to exist one year from the date of the new law's enactment. The Board of Governors of the Federal Reserve System will supervise and regulate all savings and loan holding companies that were formerly regulated by the Office of Thrift Supervision, including Northwest Bancshares, Inc.

Also effective one year after the date of enactment is a provision of the Dodd-Frank Act that eliminates the federal prohibitions on paying interest on demand deposits, thus allowing businesses to have interest bearing checking accounts. Depending on competitive responses, this significant change to existing law could have an adverse effect on our interest expense.

The Dodd-Frank Act also broadens the base for Federal Deposit Insurance Corporation insurance assessments. Assessments will now be based on the average consolidated total assets less tangible equity capital of a financial institution. The Dodd-Frank Act also permanently increases the maximum amount of deposit insurance for banks, savings institutions and credit unions to $250,000 per depositor, retroactive to January 1, 2009, and non-interest bearing transaction accounts have unlimited deposit insurance through December 31, 2013.

The Dodd-Frank Act will require publicly traded companies to give stockholders a non-binding vote on executive compensation and so-called "golden parachute" payments, and authorize the Securities and Exchange Commission to promulgate rules that would allow stockholders to nominate their own candidates using a company's proxy materials. The legislation also directs the Federal Reserve Board to promulgate rules prohibiting excessive compensation paid to bank holding company executives, regardless of whether the company is publicly traded or not.

The Dodd-Frank Act creates a new Consumer Financial Protection Bureau with broad powers to supervise and enforce consumer protection laws. The Consumer Financial Protection Bureau has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions, including the authority to prohibit "unfair, deceptive or abusive" acts and practices. The Consumer Financial Protection Bureau has examination and enforcement authority over all banks and savings institutions with more than $10 billion in assets. Banks and savings institutions with $10 billion or less in assets will be examined by their applicable bank regulators. The Dodd-Frank Act also weakens the federal preemption rules that have been applicable for national banks and federal savings associations, and gives state attorneys general the ability to enforce federal consumer protection laws.

It is difficult to predict at this time what specific impact the Dodd-Frank Act and the yet to be written implementing rules and regulations will have on community banks. However, it is expected that at a minimum they will increase our operating and compliance costs and could increase our interest expense.

Pennsylvania Savings Bank Law

The Pennsylvania Banking Code of 1965, as amended (the "Banking Code") contains detailed provisions governing the organization, operations, corporate powers, savings and investment authority, branching rights and responsibilities of directors, officers and employees of Pennsylvania savings banks. A Pennsylvania savings bank may locate or change the location of its principal place of business and establish an office anywhere in, or adjacent to, Pennsylvania, with the prior approval of the Department of Banking. The Banking Code delegates extensive rulemaking power and administrative discretion to the Department of Banking in its supervision and regulation of state-chartered savings banks.

The Department of Banking generally examines each savings bank not less frequently than once every two years. Although the Department of Banking may accept the examinations and reports of the Federal Deposit Insurance Corporation in lieu of its own examination, the current practice is for the Department of Banking to conduct individual examinations. The Department of Banking may order any savings bank to discontinue any violation of law or unsafe or unsound business practice and may direct any trustee, officer, attorney, or employee of a savings bank engaged in an objectionable activity, after the Department of Banking has ordered the activity to be terminated, to show cause at a hearing before the Department of Banking why such person should not be removed.

Federal Deposit Insurance Reform

The FDIC currently maintains the Deposit Insurance Fund (the "DIF"), which was created in 2006 in the merger of the Bank Insurance Fund and the Savings Association Insurance Fund. The deposit accounts of our subsidiary bank are insured by the DIF to the maximum amount provided by law. This insurance is backed by the full faith and credit of the United States Government.

As insurer, the FDIC is authorized to conduct examinations of and to require reporting by DIF-insured institutions. It also may prohibit any DIF-insured institution from engaging in any activity the FDIC determines by regulation or order to pose a serious threat to the DIF. The FDIC also has the authority to take enforcement actions against insured institutions.

Under its current regulations, the FDIC imposes assessments for deposit insurance on an insured institution quarterly according to its ranking in one of four risk categories based upon supervisory and capital evaluations. The assessment rate for an individual institution is determined according to a formula based on a weighted average of the institution's individual CAMELS component ratings plus either six financial ratios or, in the case of an institution with assets of $10.0 billion or more, the average ratings of its long-term debt. Well-capitalized institutions (generally those with CAMELS composite ratings of 1 or 2) are grouped in Risk Category I and their initial base assessment rate for deposit insurance is set at an annual rate of between 12 and 16 basis points. The initial base assessment rate for institutions in Risk Categories II, III and IV is set at annual rates of 22, 32 and 50 basis points, respectively. These initial base assessment rates are adjusted to determine an institution's final assessment rate based on its brokered deposits, secured liabilities and unsecured debt. The adjustments include higher premiums for institutions that rely significantly on excessive amounts of brokered deposits, including CDARS, higher premiums for excessive use of secured liabilities, including Federal Home Loan Bank advances and adding financial ratios and debt issuer ratings to the premium calculations for banks with over $10 billion in assets, while providing a reduction for all institutions for their unsecured debt. Total base assessment rates after adjustments range from 7 to 24 basis points for Risk Category I, 17 to 43 basis points for Risk Category II, 27 to 58 basis points for Risk Category III, and 40 to 77.5 basis points for Risk Category IV.

In addition, all institutions with deposits insured by the FDIC are required to pay assessments to fund interest payments on bonds issued by the Financing Corporation, a mixed-ownership government corporation established to recapitalize a predecessor to the Deposit Insurance Fund. These assessments will continue until the Financing Corporation bonds mature in 2019.

Insurance of deposits may be terminated by the FDIC upon a finding that the institution has engaged or is engaging in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC or written agreement entered into with the FDIC. The management of the Bank does not know of any practice, condition or violation that might lead to termination of deposit insurance.

On November 12, 2009, the FDIC adopted regulations that required insured depository institutions to prepay on December 30, 2009, their estimated quarterly risk-based assessments for the fourth quarter of 2009 and all of 2010, 2011 and 2012, along with their quarterly risk-based assessment for the fourth quarter of 2009. The FDIC collected our pre-paid assessment amounting to $32.9 million on December 30, 2009.

Pursuant to the Dodd-Frank Act, the FDIC has established 2.0% as the designated reserve ratio (DRR), that is, the ratio of the DIF to insured deposits. The FDIC has adopted a plan under which it will meet the statutory minimum DRR of 1.35% by September 30, 2020, the deadline imposed by the Dodd-Frank Act. The Dodd-Frank requires the FDIC to offset the effect on institutions with assets less than $10 billion of the increase in the statutory minimum DRR to 1.35% from the former statutory minimum of 1.15%. The FDIC has not yet announced how it will implement this offset or how larger institutions will be affected by it. The Dodd-Frank Act requires the FDIC to establish rules setting insurance premium assessments based on an institution's total assets minus its tangible equity instead of its deposits.

On November 9, 2010 and January 18, 2011, the FDIC (as mandated by Section 343 of the Dodd-Frank Act) adopted rules providing for unlimited deposit insurance for traditional noninterest-bearing transaction accounts and IOLTA accounts for two years starting December 31, 2010. This coverage applies to all insured deposit institutions, and there is no separate FDIC assessment for the insurance. Furthermore, this unlimited coverage is separate from, and in addition to, the coverage provided to depositors with respect to other accounts held at an insured depository institution.

Capital Requirements

Any savings institution that fails any of the Federal Deposit Insurance Corporation capital requirements is subject to enforcement action by the Federal Deposit Insurance Corporation. Such action may include a capital directive, a cease and desist order, civil money penalties, restrictions on an institution's operations, termination of federal deposit insurance, and the appointment of a conservator or receiver. Certain enforcement actions are required by law. The Federal Deposit Insurance Corporation's capital regulation provides that such action, through enforcement proceedings or otherwise, may require a variety of corrective actions.

Northwest Savings Bank is also subject to capital guidelines of the Department of Banking. Although not adopted in regulation form, the Department of Banking requires 6% leverage capital and 10% risk-based capital. The components of leverage and risk-based capital are substantially the same as those defined by the Federal Deposit Insurance Corporation.

Prompt Corrective Action

Under federal regulations, a bank is considered to be (i) "well capitalized" if it has total risk-based capital of 10.0% or more, Tier 1 risk-based capital of 6.0% or more, Tier I leverage capital of 5.0% or more, and is not subject to any written capital order or directive; (ii) "adequately capitalized" if it has total risk-based capital of 8.0% or more, Tier I risk-based capital of 4.0% or more and Tier I leverage capital of 4.0% or more (3.0% under certain circumstances), and does not meet the definition of "well capitalized"; (iii) "undercapitalized" if it has total risk-based capital of less than 8.0%, Tier I risk-based capital of less than 4.0% or Tier I leverage capital of less than 4.0% (3.0% under certain circumstances); (iv) "significantly undercapitalized" if it has total risk-based capital of less than 6.0%, Tier I risk-based capital less than 3.0%, or Tier I leverage capital of less than 3.0%; and (v) "critically undercapitalized" if its ratio of tangible equity to total assets is equal to or less than 2.0%. Federal regulations also specify circumstances under which a federal banking agency may reclassify a well capitalized institution as adequately capitalized, and may require an adequately capitalized institution to comply with supervisory actions as if it were in the next lower category (except that the Federal Deposit Insurance Corporation may not reclassify a significantly undercapitalized institution as critically undercapitalized). As of December 31, 2010, Northwest Savings Bank was "well-capitalized" for this purpose.

Loans-to-One Borrower Limitation

Under federal regulations, with certain limited exceptions, a Pennsylvania chartered savings bank may lend to a single or related group of borrowers on an "unsecured" basis an amount equal to 15% of its unimpaired capital and surplus. An additional amount may be lent, equal to 10% of unimpaired capital and surplus, if such loan is secured by readily marketable collateral, which is defined to include certain securities and bullion, but generally does not include real estate. Our internal policy, however, is to make no loans either individually or in the aggregate to one entity in excess of $15.0 million. This limit may be exceeded subject to the approval of the Board of Directors. We currently have five credit relationships that exceed our $15.0 million internal limit.

13

Activities and Investments of Insured State-Chartered Banks

Federal law generally limits the activities and equity investments of state-chartered banks insured by the Federal Deposit Insurance Corporation to those that are permissible for national banks. Under regulations dealing with equity investments, an insured state bank generally may not, directly or indirectly, acquire or retain any equity investment of a type, or in an amount, that is not permissible for a national bank. An insured state bank is not prohibited from, among other things: (i) acquiring or retaining a majority interest in a subsidiary; (ii) investing as a limited partner in a partnership the sole purpose of which is direct or indirect investment in the acquisition, rehabilitation, or new construction of a qualified housing project, provided that such limited partnership investments may not exceed 2% of the bank's total assets; (iii) acquiring up to 10% of the voting stock of a company that solely provides or reinsures liability insurance for directors, trustees or officers, or blanket bond group insurance coverage for insured depository institutions; and (iv) acquiring or retaining the voting shares of a depository institution if certain requirements are met.

The USA PATRIOT Act

The USA Patriot Act gives the federal government powers to address terrorist threats through enhanced domestic security measures, expanded surveillance powers, increased information sharing and broadened anti-money laundering requirements. The USA Patriot Act also requires the federal banking agencies to take into consideration the effectiveness of controls designed to combat money-laundering activities in determining whether to approve a merger or other acquisition application of a member institution. Accordingly, if we engage in a merger or other acquisition, our controls designed to combat money laundering would be considered as part of the application process. We have established policies, procedures and systems designed to comply with these regulations.

Holding Company Regulation

General. Federal law allows a state savings bank, such as Northwest Savings Bank, that qualifies as a "Qualified Thrift Lender," as discussed below, to elect to be treated as a savings association for purposes of the savings and loan company provisions of the Home Owners' Loan Act of 1933, as amended. Such election results in its holding company being regulated as a savings and loan holding company by the Office of Thrift Supervision rather than as a bank holding company by the Federal Reserve Board. Northwest Bancshares, Inc. has made such an election. Therefore, Northwest Bancshares, Inc. is a savings and loan holding company within the meaning of the Home Owners' Loan Act of 1933, as amended. As such, Northwest Bancshares, Inc. is registered with the Office of Thrift Supervision and will be subject to Office of Thrift Supervision regulations, examinations, supervision and reporting requirements. In addition, the Office of Thrift Supervision has enforcement authority over Northwest Bancshares, Inc. and any nonsavings institution subsidiaries of Northwest Bancshares, Inc. Among other things, this authority permits the Office of Thrift Supervision to restrict or prohibit activities that are determined to be a serious risk to the subsidiary savings institution.

As part of the Dodd-Frank Act regulatory restructuring, the OTS' authority over savings and loan holding companies will be transferred to the Federal Reserve Board.

Permissible Activities. The business activities of Northwest Bancshares, Inc. are generally limited to those activities permissible for financial holding companies under Section 4(k) of the Bank Holding Company Act of 1956, as amended, or for multiple savings and loan holding companies. A financial holding company may engage in activities that are financial in nature, including underwriting equity securities and insurance as well as activities that are incidental to financial activities or complementary to financial activities. A multiple savings and loan holding company is generally limited to activities permissible for bank holding companies under Section 4(c)(8) of the Bank Holding Company Act, subject to the prior approval of the Office of Thrift Supervision, and certain additional activities authorized by Office of Thrift Supervision regulations.

Federal law prohibits a savings and loan holding company, including Northwest Bancshares, Inc., directly or indirectly, or through one or more subsidiaries, from acquiring more than 5% of another savings institution or holding company thereof, without prior written approval of the Office of Thrift Supervision. It also prohibits the acquisition or retention of, with certain exceptions, more than 5% of a nonsubsidiary company engaged in activities that are not closely related to banking or financial in nature, or acquiring or retaining control of an institution that is not federally insured. In evaluating applications by holding companies to acquire savings institutions, the Office of Thrift Supervision must consider the financial and managerial resources, future prospects of the company and institution involved, the effect of the acquisition on the risk to the federal deposit insurance fund, the convenience and needs of the community and competitive factors.

The Office of Thrift Supervision is prohibited from approving any acquisition that would result in a multiple savings and loan holding company controlling savings institutions in more than one state, subject to two exceptions:

(i) the approval of interstate supervisory acquisitions by savings and loan holding companies; and

(ii) the acquisition of a savings institution in another state if the laws of the state of the target savings institution specifically permit such acquisition.

The states vary in the extent to which they permit interstate savings and loan holding company acquisitions.

Qualified Thrift Lender Test. To be regulated as a savings and loan holding company by the Office of Thrift Supervision (rather than as a bank holding company by the Federal Reserve Board), Northwest Savings Bank must qualify as a Qualified Thrift Lender. To qualify as a Qualified Thrift Lender, Northwest Savings Bank must be a “domestic building and loan association,” as defined in the Internal Revenue Code, or comply with the Qualified Thrift Lender test. Under the Qualified Thrift Lender test, a savings institution is required to maintain at least 65% of its “portfolio assets” (total assets less: (1) specified liquid assets up to 20% of total assets; (2) intangibles, including goodwill; and (3) the value of property used to conduct business) in certain “qualified thrift investments” (primarily residential mortgages and related investments, including certain mortgage-backed and related securities) in at least nine months out of each 12-month period. As of December 31, 2010 Northwest Savings Bank met the Qualified Thrift Lender test.

Federal Securities Laws

Shares of our common stock are registered with the SEC under Section 12(b) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). We are also subject to the proxy rules, tender offer rules, insider trading restrictions, annual and periodic reporting, and other requirements of the Exchange Act.

Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act of 2002 was enacted to increase corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies, and to protect investors by improving the accuracy and reliability of corporate disclosures pursuant to the securities laws. The Sarbanes-Oxley Act generally applies to all companies that file or are required to file periodic reports with the Securities and Exchange Commission, under the Securities Exchange Act of 1934.

The Sarbanes-Oxley Act includes specific additional disclosure requirements, requires the Securities and Exchange Commission and national securities exchanges to adopt extensive additional disclosure, corporate governance and other related rules, and mandates further studies of certain issues by the Securities and Exchange Commission. The Sarbanes-Oxley Act represents significant federal involvement in matters traditionally left to state regulatory systems, such as the regulation of the accounting profession, and to corporate law, such as the relationship between a board of directors and management and between a board of directors and its committees.

FEDERAL AND STATE TAXATION

Federal Taxation. For federal income tax purposes, Northwest Bancshares, Inc. files a consolidated federal income tax return with its wholly-owned subsidiaries on a calendar year basis. The applicable federal income tax expense or benefit is properly allocated to each subsidiary based upon taxable income or loss calculated on a separate company basis.

We account for income taxes using the asset and liability method which accounts for deferred income taxes by applying the enacted statutory rates in effect at the balance sheet date to differences between the book basis and the tax basis of assets and liabilities. The resulting deferred tax liabilities and assets are adjusted to reflect changes in tax laws.

State Taxation. As a Maryland business corporation, Northwest Bancshares, Inc. is required to file annual tax returns with the State of Maryland. Northwest Bancshares, Inc. is subject to Pennsylvania's corporate net income tax and capital stock tax. Dividends received from Northwest Savings Bank qualify for a 100% dividends received deduction and are not subject to corporate net income tax.

Northwest Savings Bank is subject to a Pennsylvania mutual thrift institutions tax based on Northwest Savings Bank's net income determined in accordance with generally accepted accounting principles, with certain adjustments. The tax rate under the mutual thrift institutions tax is 11.5%. Interest on Pennsylvania and federal obligations is excluded from net income. An allocable portion of interest expense incurred to carry the obligations is disallowed as a deduction. Northwest Savings Bank is also subject to taxes in the other states in which it conducts business. These taxes are apportioned based upon the volume of business conducted in those states as a percentage of the whole. Because a majority of Northwest Savings Bank's affairs are conducted in Pennsylvania, taxes paid to other states are not material.

The subsidiaries of Northwest Savings Bank are subject to a Pennsylvania corporate net income tax and a capital stock tax, and are also subject to other applicable taxes in the states where they conduct business.

ITEM 1A. RISK FACTORS

In addition to factors discussed in the description of our business and elsewhere in this report, the following are factors that could adversely affect our future results of operations and financial condition.

We have been negatively affected by current market and economic conditions. A continuation or worsening of these conditions could adversely affect our operations, financial condition and earnings.

The severe economic recession of 2008 and 2009 and the weak economic recovery since then have resulted in continued uncertainty in the financial markets and the expectation of weak general economic conditions, including high levels of unemployment, continuing through 2011. The resulting economic pressure on consumers and businesses has adversely affected our business, financial condition and results of operations. The credit quality of loan and investment securities portfolios has deteriorated at many financial institutions and the values of real estate collateral supporting many commercial loans and home mortgages have declined and may continue to decline. Financial companies' stock prices have been negatively affected, as has the ability of banks and bank holding companies to raise capital or borrow in the debt markets. A continuation or worsening of these conditions could result in reduced loan demand and further increases in loan delinquencies, loan losses, loan loss provisions, costs associated with monitoring delinquent loans and disposing of foreclosed property, and otherwise negatively affect our operations, financial condition and earnings. Further, a decline in the stock market in general, or for stock of financial institutions and their holding companies, could affect our stock performance.

Financial reform legislation recently enacted by Congress will, among other things, eliminate the Office of Thrift Supervision, tighten capital standards, create a new Consumer Financial Protection Bureau and result in new laws and regulations that are expected to increase our costs of operations.

Congress recently enacted the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"). This new law will significantly change the current bank regulatory structure and affect the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies. The Dodd-Frank Act requires various federal agencies to adopt a broad range of new implementing rules and regulations, and to prepare numerous studies and reports for Congress. The federal agencies are given significant discretion in drafting the implementing rules and regulations, and consequently, many of the details and much of the impact of the Dodd-Frank Act may not be known for many months or years.

Certain provisions of the Dodd-Frank Act are expected to have a near term effect on us. For example, the new law provides that the Office of Thrift Supervision, which currently is the primary federal regulator for Northwest Bancshares, Inc., will cease to exist one year from the date of the new law's enactment. The Board of Governors of the Federal Reserve System will supervise and regulate all savings and loan holding companies that were formerly regulated by the Office of Thrift Supervision, including Northwest Bancshares, Inc.

Also effective one year after the date of enactment is a provision of the Dodd-Frank Act that eliminates the federal prohibitions on paying interest on demand deposits, thus allowing businesses to have interest bearing checking accounts. Depending on competitive responses, this significant change to existing law could have an adverse effect on our interest expense.

The Dodd-Frank Act also broadens the base for Federal Deposit Insurance Corporation insurance assessments. Assessments will now be based on the average consolidated total assets less tangible equity capital of a financial institution. The Dodd-Frank Act also permanently increases the maximum amount of deposit insurance for banks, savings institutions and credit unions to $250,000 per depositor, retroactive to January 1, 2009, and non-interest bearing transaction accounts have unlimited deposit insurance through December 31, 2013.

The Dodd-Frank Act will require publicly traded companies to give stockholders a non-binding vote on executive compensation and so-called "golden parachute" payments, and authorize the Securities and Exchange Commission to promulgate rules that would allow stockholders to nominate their own candidates using a company's proxy materials. The legislation also directs the Federal Reserve Board to promulgate rules prohibiting excessive compensation paid to bank holding company executives, regardless of whether the company is publicly traded or not.

The Dodd-Frank Act creates a new Consumer Financial Protection Bureau with broad powers to supervise and enforce consumer protection laws. The Consumer Financial Protection Bureau has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions, including the authority to prohibit "unfair, deceptive or abusive" acts and practices. The Consumer Financial Protection Bureau has examination and enforcement authority over all banks and savings institutions with more than $10 billion in assets. Banks and savings institutions with $10 billion or less in assets will be examined by their applicable bank regulators. The Dodd-Frank Act also weakens the federal preemption rules that have been applicable for national banks and federal savings associations, and gives state attorneys general the ability to enforce federal consumer protection laws.

It is difficult to predict at this time what specific impact the Dodd-Frank Act and the yet to be written implementing rules and regulations will have on community banks. However, it is expected that at a minimum they will increase our operating and compliance costs and could increase our interest expense.

Government responses to economic conditions may adversely affect our operations, financial condition and earnings.

Newly enacted financial reform legislation will change the bank regulatory framework, create an independent consumer protection bureau that will assume the consumer protection responsibilities of the various federal banking agencies, and establish more stringent capital standards for banks and bank holding companies. The legislation will also result in new regulations affecting the lending, funding, trading and investment activities of banks and bank holding companies. Bank regulatory agencies also have been responding aggressively to concerns and adverse trends identified in examinations. Ongoing uncertainty and adverse developments in the financial services industry and the domestic and international credit markets, and the effect of new legislation and regulatory actions in response to these conditions, may adversely affect our operations by restricting our business activities, including our ability to originate or sell loans, modify loan terms, or foreclose on property securing loans. These measures are likely to increase our costs of doing business and may have a significant adverse effect on our lending activities, financial performance and operating flexibility. In addition, these risks could affect the performance and value of our loan and investment securities portfolios, which also would negatively affect our financial performance.

Furthermore, the Board of Governors of the Federal Reserve System, in an attempt to help the overall economy, has, among other things, kept interest rates low through its targeted federal funds rate and the purchase of mortgage-backed securities. If the Federal Reserve Board increases the federal funds rate, overall interest rates will likely rise, which may negatively impact the housing markets and the U.S. economic recovery. In addition, deflationary pressures, while possibly lowering our operating costs, could have a significant negative effect on our borrowers, especially our business borrowers, and the values of underlying collateral securing loans, which could negatively affect our financial performance.

Recent health care legislation could increase our expenses or require us to pass further costs on to our employees, which could adversely affect our operations, financial condition and earnings.

Legislation enacted in 2010 requires companies to provide expanded health care coverage to their employees, such as affordable coverage to part-time employees and coverage to dependent adult children of employees. Companies will also be required to enroll new employees automatically into one of their health plans. Compliance with these and other new requirements of the health care legislation will increase our employee benefits expense, and may require us to pass these costs on to our employees, which could give us a competitive disadvantage in hiring and retaining qualified employees.

The corporate governance provisions in our articles of incorporation and bylaws, and the corporate governance provisions under Maryland law, may prevent or impede the holders of our common stock from obtaining representation on our Board of Directors and may impede takeovers of the company that our board might conclude are not in the best interest of us or our stockholders.

Provisions in our articles of incorporation and bylaws may prevent or impede holders of our common stock from obtaining representation on our Board of Directors and may make takeovers of Northwest Bancshares, Inc. more difficult. For example, our Board of Directors is divided into three staggered classes. A classified board makes it more difficult for stockholders to change a majority of the directors because it generally takes at least two annual elections of directors for this to occur. Our articles of incorporation include a provision that no person will be entitled to vote any shares of our common stock in excess of 10% of our outstanding shares of common stock. This limitation does not apply to the purchase of shares by a tax-qualified employee stock benefit plan established by us. In addition, our articles of incorporation and bylaws restrict who may call special meetings of stockholders and how directors may be removed from office. Additionally, in certain instances, the Maryland General Corporation Law requires a supermajority vote of our stockholders to approve a merger or other business combination with a large stockholder, if the proposed transaction is not approved by a majority of our directors.

Changes in interest rates could adversely affect our results of operations and financial condition.

While we strive to control the impact of changes in interest rates on our net income, our results of operations and financial condition could be significantly affected by changes in interest rates. Our results of operations depend substantially on our net interest income, which is the difference between the interest income we earn on our interest-earning assets, such as loans and securities, and the interest expense we pay on our interest-bearing liabilities, such as deposits, borrowings and trust preferred securities. Because it is difficult to perfectly match the maturities and cash flows from our financial assets and liabilities our net income could be adversely impacted by changes in the level of interest rates or the slope of the Treasury yield curve.

Changes in interest rates may also affect the average life of loans and mortgage-related securities. Decreases in interest rates can result in increased prepayments of loans and mortgage-related securities, as borrowers refinance to reduce their borrowing costs. Under these circumstances, we are subject to reinvestment risk to the extent that we are unable to reinvest the cash received from such prepayments at rates that are comparable to the rates on existing loans and securities. Additionally, increases in interest rates may decrease loan demand and make it more difficult for borrowers to repay adjustable rate loans. Also, increases in interest rates may extend the life of fixed rate assets, which would restrict our ability to reinvest in higher yielding alternatives, and may result in customers withdrawing certificates of deposit early so long as the early withdrawal penalty is less than the interest they could receive as a result of the higher interest rates.

Changes in interest rates also affect the current fair value of our interest-earning securities portfolio. Generally, the value of securities moves inversely with changes in interest rates. At December 31, 2010, the fair value of our investment and mortgage-backed securities portfolio totaled $1.305 billion. Net unrealized gains on these securities totaled $1.1 million at December 31, 2010.

At December 31, 2010, our interest rate risk analysis indicated that the market value of our equity would decrease by 16.9% if there was an instant parallel 200 basis point increase in market interest rates. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Management of Market Risk."

If the allowance for credit losses is not sufficient to cover actual loan losses, our earnings could decrease.

Our customers may not repay their loans according to the original terms, and the collateral, if any, securing the payment of these loans may be insufficient to pay any remaining loan balance. We may experience significant loan losses, which may have a material adverse effect on operating results. We make various assumptions and judgments about the collectability of the loan portfolio, including the creditworthiness of borrowers and the value of the real estate and other assets serving as collateral for the repayment of loans. If the assumptions prove to be incorrect, the allowance for credit losses may not be sufficient to cover losses inherent in our loan portfolio, resulting in additions to the allowance. Material additions to the allowance would materially decrease net income.

Our emphasis on originating commercial real estate and commercial loans is one of the more significant factors in evaluating the allowance for loan losses. As we continue to increase the amount of such loans, increased provisions for loan losses may be necessary which would decrease our earnings.

Bank regulators periodically review our allowance for loan losses and may require an increase to the provision for loan losses or further loan charge-offs. Any increase in our allowance for loan losses or loan charge-offs as required by these regulatory authorities may have a material adverse effect on our results of operations or financial condition.

We could record future losses on our investment securities portfolio.

During the year ended December 31, 2010, we recognized $2.7 million of impairment losses on investment securities, of which $1.2 million was recognized as other comprehensive loss in the equity section of our balance sheet, and $1.5 million was recognized as a reduction to noninterest income in our income statement. At December 31, 2010, we held corporate debt securities and non-government agency collateralized mortgage obligations with unrealized holding losses of $7.2 million and $1.1 million, respectively.

A number of factors or combinations of factors could require us to conclude in one or more future reporting periods that an unrealized loss that exists with respect to these securities constitutes an impairment that is other than temporary, which could result in material losses to us. These factors include, but are not limited to, failure by the issuer to make scheduled interest payments, an increase in the severity of the unrealized loss on a particular security, an increase in the continuous duration of the unrealized loss without an improvement in value or changes in market conditions and/or industry or issuer specific factors that would render us unable to forecast a full recovery in value. In addition, the fair values of securities could decline if the overall economy and the financial condition of some of the issuers continues to deteriorate and there remains limited liquidity for these securities.

See "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations—Balance Sheet Analysis—Securities" for a discussion of our securities portfolio and the unrealized losses related to the portfolio, as well as the "Marketable Securities" and "Disclosures about Fair Value of Financial Instruments" footnotes to the audited financial statements.

19

Our 2009 contribution to our charitable foundation may not be tax deductible, which could reduce our profits.

The Internal Revenue Service may not grant tax-exempt status to Northwest Charitable Foundation. If the contribution is not deductible, we would not receive any tax benefit from the contribution. The total value of the contribution was $13.8 million, which resulted in recording an after-tax expense of $8.3 million. In the event that the Internal Revenue Service does not grant tax-exempt status to the charitable foundation or the contribution to the charitable foundation is otherwise not tax deductible, we would have to recognize additional after-tax expense of up to $5.5 million.

In addition, even if the contribution is tax deductible, we may not have sufficient taxable income to be able to use the deduction fully. Under the Internal Revenue Code, a corporate entity is generally permitted to deduct charitable contributions in an amount of up to 10% of its taxable income (taxable income before the charitable contributions deduction) in any one year for charitable contributions. Any contribution in excess of the 10% limit may be deducted for federal income tax purposes over the five years following the year in which the charitable contribution was made. Accordingly, a charitable contribution by a corporate entity could, if necessary, be deducted for federal income tax purposes over a six-year period. Our taxable income over this period may not be sufficient to fully use this deduction. If the deduction is not able to be used we would have to recognize up to $5.5 million of additional after tax expense.

We hold certain intangible assets that could be classified as impaired in the future. If these assets are considered to be either partially or fully impaired in the future, the book values of these assets would have to be written-down and the amount of the write-down would decrease earnings.

We are required to test our goodwill and core deposit intangible assets for impairment on a periodic basis and more regularly if indicators of impairment exist. The impairment testing process considers a variety of factors, including the current market price of our common shares, the estimated net present value of our assets and liabilities and information concerning the terminal valuation of similar insured depository institutions. Future impairment testing may result in a partial or full impairment of the value of our goodwill or core deposit intangible assets, or both. If an impairment determination is made in a future reporting period, our earnings and the book value of these intangible assets will be reduced by the amount of the impairment. However, the recording of such an impairment loss would have no impact on the tangible book value of our shares of common stock or our regulatory capital levels.

Strong competition may limit growth and profitability.

Competition in the banking and financial services industry is intense. We compete with commercial banks, savings institutions, mortgage brokerage firms, credit unions, finance companies, mutual funds, insurance companies, and brokerage and investment banking firms operating locally and elsewhere. Many of these competitors (whether regional or national institutions) have substantially greater resources and lending limits than we have and may offer certain services that we do not or cannot provide. Our profitability depends upon our ability to successfully compete in our market areas.

We operate in a highly regulated environment and may be adversely affected by changes in laws and regulations.

We are subject to extensive regulation, supervision and examination by the Federal Deposit Insurance Corporation, the Pennsylvania Department of Banking and the Office of Thrift Supervision. Laws and regulations govern the activities in which we may engage, primarily for the protection of depositors and the Deposit Insurance Fund at the Federal Deposit Insurance Corporation. These regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities, including the ability to impose restrictions on a bank's operations, reclassify assets, determine the adequacy of a bank's allowance for loan losses, determine the level of deposit insurance premiums assessed, and capital levels to be maintained. Any change in such regulation and oversight, whether in the form of regulatory policy, new regulations or legislation or additional deposit insurance premiums could have a material impact on our operations. Because our business is highly regulated, the laws and applicable regulations are subject to frequent change. Any new laws, rules and regulations could make compliance more difficult or expensive or otherwise adversely affect our business, financial condition or prospects.

Future legislative or regulatory actions responding to perceived financial and market problems could impair our ability to foreclose on collateral.

There have been proposals made by members of Congress and others that would reduce the amount distressed borrowers are otherwise contractually obligated to pay under their mortgage loans and limit an institution's ability to foreclose on mortgage collateral. Were proposals such as these, or other proposals limiting our rights as a creditor, to be implemented, we could experience increased credit losses or increased expense in pursuing our remedies as a creditor.

If our investment in the Federal Home Loan Bank of Pittsburgh becomes impaired, our earnings and stockholders' equity could decrease.

We are required to own common stock of the Federal Home Loan Bank of Pittsburgh to qualify for membership in the Federal Home Loan Bank System and to be eligible to borrow funds under the Federal Home Loan Bank's advance program. The aggregate cost of our Federal Home Loan Bank common stock as of December 31, 2010 was $60.1 million. Federal Home Loan Bank common stock is not a marketable security and can only be redeemed by the Federal Home Loan Bank.

Federal Home Loan Banks may be subject to accounting rules and asset quality risks that could materially lower their regulatory capital. In an extreme situation, it is possible that the capitalization of a Federal Home Loan Bank, including the Federal Home Loan Bank of Pittsburgh, could be substantially diminished or reduced to zero. Consequently, we believe that there is a risk that our investment in Federal Home Loan Bank of Pittsburgh common stock could be deemed impaired at some time in the future, and if this occurs, it would cause our earnings and stockholders' equity to decrease by the amount of the impairment charge.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

As of December 31, 2010, we conducted our business through our main office located in Warren, Pennsylvania, 132 other full-service offices and eight free-standing drive-up locations throughout our market area in central and western Pennsylvania, 18 offices in western New York, four offices in eastern Ohio, five offices in Maryland and three offices in south Florida. Northwest Bancshares, Inc. and its wholly-owned subsidiaries also operated 52 consumer finance offices located throughout Pennsylvania. At December 31, 2010, our premises and equipment had an aggregate net book value of approximately $128.1 million.

ITEM 3. LEGAL PROCEEDINGS

Northwest Bancshares, Inc. and its subsidiaries are subject to various legal actions arising in the normal course of business. In the opinion of management, the resolution of these legal actions is not expected to have a material adverse effect on our results of operations.

ITEM 4. [Reserved]

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is listed on the Nasdaq Global Select Market under the symbol "NWBI." As of February 22, 2011, we had 31 registered market makers, 14,693 stockholders of record (excluding the number of persons or entities holding stock in street name through various brokerage firms), and 109,151,550 shares outstanding. The following table sets forth market price and dividend information for our common stock, adjusted to reflect the 2.25-for-one stock split in connection with the mutual-to-stock conversion.

Year Ended December 31, 2010	High	Low	Cash Dividends Declared
First Quarter	$ 12.04	$ 11.15	$ 0.10
Second Quarter	$ 12.79	$ 11.10	$ 0.10
Third Quarter	$ 12.30	$ 10.55	$ 0.10
Fourth Quarter	$ 11.90	$ 10.24	$ 0.10

Year Ended December 31, 2009	High	Low	Cash Dividends Declared
First Quarter	$ 9.60	$ 5.81	$ 0.10
Second Quarter	$ 9.15	$ 7.12	$ 0.10
Third Quarter	$ 10.98	$ 8.09	$ 0.10
Fourth Quarter	$ 11.48	$ 9.39	$ 0.10

Payment of dividends on our shares of common stock is subject to determination and declaration by the Board of Directors and will depend upon a number of factors, including capital requirements, regulatory limitations on the payment of dividends, our results of operations and financial condition, tax considerations and general economic conditions. No assurance can be given that dividends will continue to be declared or, if declared, what the amount of dividends will be.

There were no sales of unregistered securities during the quarter ended December 31, 2010.

The following table discloses information regarding repurchases of shares of common stock during the quarter ended December 31, 2010, and includes the repurchase program announced on November 8, 2010. The repurchase program is for 11,000,000 shares and does not have an expiration date.

Month	Number of shares purchased	Average price paid per share	Total number of shares purchased as part of a publicly announced repurchase plan	Maximum number of shares yet to be purchased under the plan
October	—	$ —	—	—
November	—	—	—	—
December	555,000	11.58	555,000	10,445,000
	555,000	$ 11.58		

Stock Performance Graph

Set forth hereunder is a stock performance graph comparing (a) the cumulative total return on our Common Stock between December 31, 2005 and December 31, 2010, adjusted to reflect the 2.25-for-one stock split in connection with the mutual-to-stock conversion, (b) the cumulative total return on stocks included in the Total Return Index for the Nasdaq Stock Market (US) over such period, and (c) the cumulative total return on stocks included in the Nasdaq Bank Index over such period. Cumulative return assumes the reinvestment of dividends, and is expressed in dollars based on an assumed investment of $100.

There can be no assurance that the Company's stock performance will continue in the future with the same or similar trend depicted in the graph. The Company will not make or endorse any predictions as to future stock performance.

	12/31/05	12/31/06	12/31/07	12/31/08	12/18/09	12/31/09	12/31/10
Northwest Bancshares, Inc.	100.00	132.86	132.54	110.33	137.79	136.82	147.93
NASDAQ Composite	100.00	111.74	124.67	73.77	107.12	107.12	125.93
NASDAQ Bank	100.00	114.45	88.71	71.34	62.32	62.32	75.34

ITEM 6. SELECTED FINANCIAL DATA

Selected Financial and Other Data

The summary financial information presented below is derived in part from the consolidated financial statements of Northwest Bancshares, Inc. and subsidiaries after December 18, 2009 (the date of our second-step conversion), and from the consolidated financial statements of Northwest Bancorp, Inc. and subsidiaries prior to December 18, 2009. The following is only a summary and you should read it in conjunction with the consolidated financial statements and notes included elsewhere in this document. The information at December 31, 2010 and 2009 and for the years ended December 31, 2010, 2009 and 2008 is derived in part from the audited consolidated financial statements that appear in this document. The information at December 31, 2008, 2007 and 2006, for the year ended December 31, 2007 and 2006, is derived in part from audited consolidated financial statements that do not appear in this document.

	At December 31,				
	2010	2009	2008	2007	2006
Selected Consolidated Financial Data:					
Total assets	$ 8,148,155	8,025,298	6,930,241	6,663,516	6,527,815
Investment securities held-to-maturity (1)	106,520	—	—	—	465,312
Investment securities available-for-sale	246,985	333,522	393,531	601,620	388,546
Mortgage-backed securities held-to-maturity (1)	251,402	—	—	—	251,655
Mortgage-backed securities available-for-sale	703,698	733,567	745,639	531,747	378,968
Loans receivable net:					
Real estate (2)	4,789,744	4,578,235	4,508,393	4,172,850	3,926,859
Consumer	249,966	267,311	261,398	261,598	253,490
Commercial	417,883	383,516	372,101	361,174	232,092
Total loans receivable, net	5,457,593	5,229,062	5,141,892	4,795,622	4,412,441
Deposits	5,764,336	5,624,424	5,038,211	5,542,334	5,366,750
Advances from Federal Home Loan Bank and other borrowed funds	891,293	897,326	1,067,945	339,115	392,814
Shareholders' equity	1,307,450	1,316,515	613,784	612,878	604,561

(1) In 2007 we divested investment securities that we deemed to have a deteriorating risk profile, including several classified as held-to-maturity, which required us to reclassify all investment securities as available-for-sale until January 1, 2010.

(2) Includes one- to four-family residential mortgage loans, home equity loans and commercial real estate loans.

	For the Year Ended December 31,				
	2010	2009	2008	2007	2006
Selected Consolidated Operating Data:					
Total interest income	$ 370,568	364,463	388,659	396,031	368,573
Total interest expense	112,927	135,806	169,293	211,015	191,109
Net interest income	257,641	228,657	219,366	185,016	177,464
Provision for loan losses	40,486	41,847	22,851	8,743	8,480
Net interest income after provision for loan losses	217,155	186,810	196,515	176,273	168,984
Noninterest income	60,398	53,337	38,752	43,022	46,026
Noninterest expense	196,508	200,494	170,128	152,742	143,682
Income before income tax expense	81,045	39,653	65,139	66,553	71,328
Income tax expense	23,522	7,000	16,968	17,456	19,792
Net income	$ 57,523	32,653	48,171	49,097	51,536
Earnings per share:					
Basic	$ 0.53	0.30	0.44	0.44	0.46
Diluted	$ 0.53	0.30	0.44	0.44	0.46

	At or For the Year Ended December 31,				
	2010	2009	2008	2007	2006
Selected Financial Ratios and Other Data:					
Return on average assets (1)	0.71 %	0.46 %	0.70 %	0.73 %	0.79 %
Return on average equity (2)	4.40 %	4.71 %	7.75 %	8.18 %	8.60 %
Average capital to average assets	16.09 %	9.67 %	9.04 %	8.96 %	9.19 %
Capital to total assets	16.05 %	16.40 %	8.86 %	9.20 %	9.26 %
Tangible common equity to tangible assets	14.19 %	14.53 %	6.36 %	6.50 %	6.79 %
Net interest rate spread (3)	3.19 %	3.30 %	3.25 %	2.74 %	2.77 %
Net interest margin (4)	3.52 %	3.56 %	3.57 %	3.10 %	3.06 %
Noninterest expense to average assets	2.42 %	2.80 %	2.48 %	2.28 %	2.20 %
Efficiency ratio	61.79 %	71.10 %	65.91 %	66.98 %	64.29 %
Noninterest income to average assets	0.74 %	0.74 %	0.56 %	0.64 %	0.71 %
Net interest income to noninterest expense	1.31 x	1.14 x	1.29 x	1.21 x	1.24 x
Dividend payout ratio (5)	75.47 %	130.37 %	88.89 %	84.85 %	67.96 %
Nonperforming loans to net loans receivable	2.72 %	2.38 %	1.93 %	1.03 %	0.92 %
Nonperforming assets to total assets	2.08 %	1.81 %	1.67 %	0.87 %	0.72 %
Allowance for loan losses to nonperforming loans	51.49 %	56.49 %	55.37 %	84.22 %	92.92 %
	1.40 %	1.35 %	1.07 %	0.87 %	0.85 %

Allowance for loan losses to net loans receivable										
Average interest-earning assets to average interest-bearing liabilities	1.22	x	1.12	x	1.10	x	1.10	x	1.09	x
Number of full-service offices	171		171		167		166		160	
Number of consumer finance offices	52		51		51		51		51	

(1) Represents net income divided by average total assets.
(2) Represents net income divided by average equity.
(3) Represents average yield on interest-earning assets less average cost of interest-bearing liabilities.
(4) Represents net interest income as a percentage of average interest-earning assets.
(5) The dividend payout ratio represents dividends declared per share divided by net income per share.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

Our principal business consists of attracting deposits from the general public and the business community and making loans secured by various types of collateral, including real estate and other consumer assets in the markets in which we operate. Attracting and maintaining deposits is affected by a number of factors, including interest rates paid on competing investments offered by other financial and non-financial institutions, account maturities, fee structures, and levels of personal income and savings. Lending activities are affected by the demand for funds and thus are influenced by interest rates, the number and quality of lenders and regional economic conditions. Sources of funds for lending activities include deposits, borrowings, repayments on loans, cash flows from investment securities and income provided from operations.

Our earnings depend primarily on our level of net interest income, which is the difference between interest earned on our interest-earning assets, consisting primarily of loans and investment securities, and the interest paid on interest-bearing liabilities, consisting primarily of deposits, borrowed funds, and trust-preferred securities. Net interest income is a function of our interest rate spread, which is the difference between the average yield earned on our interest-earning assets and the average rate paid on our interest-bearing liabilities, as well as a function of the average balance of interest-earning assets compared to the average balance of interest-bearing liabilities. Also contributing to our earnings is noninterest income, which consists primarily of service charges and fees on loan and deposit products and services, fees related to insurance and investment management and trust services, and net gains and losses on the sale of assets. Net interest income and noninterest income are offset by provisions for loan losses, general administrative and other expenses, including employee compensation and benefits and occupancy and equipment costs, as well as by state and federal income tax expense.

Our net income was $57.5 million, or $0.53 per diluted share, for the year ended December 31, 2010 compared to $32.7 million, or $0.30 per diluted share, for the year ended December 31, 2009 and $48.2 million, or $0.44 per diluted share, for the year ended December 31, 2008. The loan loss provision was $40.5 million for the year ended December 31, 2010 compared to $41.8 million for the year ended December 31, 2009 and $22.9 million for the year ended December 31, 2008. We recorded other-than-temporary impairment charges for securities, which were reflected as a reduction of noninterest income, of $1.5 million, $6.1 million and $16.0 million for the years ended December 31, 2010, 2009 and 2008, respectively.

We did not significantly change our underwriting standards in the past several years nor did we add controversial residential loan products. Other than our loans for the construction of one- to four-family residential mortgage loans, we do not offer "interest only" mortgage loans on one- to four-family residential properties (where the borrower pays interest for an initial period, after which the loan converts to a fully amortizing loan). We also do not offer loans that provide for negative amortization of principal, such as "Option ARM" loans, where the borrower can pay less than the interest owed on the loan, resulting in an increased principal balance during the life of the loan. We do not directly offer "subprime loans" (loans that generally target borrowers with FICO scores of less than 660) or Alt-A loans (traditionally defined as loans having less than full documentation). However, a portion of the loans originated by one of our subsidiaries, Northwest Consumer Discount Company ("NCDC"), consists of loans to persons with credit scores that would cause such loans to be considered subprime. NCDC has been in operation for over 25 years and has 52 offices throughout Pennsylvania. NCDC offers a variety of consumer loans for automobiles, appliances and furniture as well as one- to four-family residential real estate loans. At December 31, 2010, NCDC's total loan portfolio was approximately $115.1 million with an average loan size of $4,400, an average FICO score of 621 and an average yield of approximately 17.1%. NCDC's total delinquency has remained steady at approximately 3.07% of outstanding loans, with loans nonperforming for 90 days or more at 1.20% of loans outstanding. Annual net charge-offs average approximately $3.4 million, or 3.0% of outstanding loans, and it maintains an allowance for loan losses of $5.3 million, or 4.6% of loans. Although loans originated through NCDC have higher average rates of delinquency and charge-offs than similar loans originated directly by Northwest Savings Bank, management believes that the higher yields on loans originated through NCDC compensate for the incremental credit risk exposure.

Critical Accounting Policies

Certain accounting policies are important to the understanding of our financial condition, since they require management to make difficult, complex or subjective judgments, some of which may relate to matters that are inherently uncertain. Estimates associated with these policies are susceptible to material changes as a result of changes in facts and circumstances, including, but without limitation, changes in interest rates, performance of the economy, financial condition of borrowers and laws and regulations. The following are the accounting policies we believe are critical.

Allowance for Loan Losses. We recognize that losses will be experienced on loans and that the risk of loss will vary with, among other things, the type of loan, the creditworthiness of the borrower, general economic conditions and the quality of the collateral for the loan. We maintain an allowance for loan losses for losses inherent in the loan portfolio. The allowance for loan losses represents management's estimate of probable losses based on all available information. The allowance for loan losses is based on management's evaluation of the collectibility of the loan portfolio, including past loan loss experience, known and inherent losses, information about specific borrower situations and estimated collateral values, and current economic conditions. The loan portfolio and other credit exposures are regularly reviewed by management in its determination of the allowance for loan losses. The methodology for assessing the appropriateness of the allowance includes a review of historical losses, peer group comparisons, industry data and economic conditions. As an integral part of their examination process, regulatory agencies periodically review our allowance for loan losses and may require us to make additional provisions for estimated losses based upon judgments different from those of management. In establishing the allowance for loan losses, loss factors are applied to various pools of outstanding loans. Loss factors are derived using our historical loss experience and may be adjusted for factors that affect the collectibility of the portfolio as of the evaluation date. Commercial loans over $1.0 million that are criticized are evaluated individually to determine the required allowance for loan losses and to evaluate the potential impairment. Although management believes that it uses the best information available to establish the allowance for loan losses, future adjustments to the allowance for loan losses may be necessary and results of operations could be adversely affected if circumstances differ substantially from the assumptions used in making the determinations. Because future events affecting borrowers and collateral cannot be predicted with certainty, there can be no assurance that the existing allowance for loan losses is adequate or that increases will not be necessary should the quality of loans deteriorate as a result of the factors discussed previously. Any material increase in the allowance for loan losses may adversely affect our financial condition and results of operations. The allowance is based on information known at the time of the review. Changes in factors underlying the assessment could have a material impact on the amount of the allowance that is necessary and the amount of provision to be charged against earnings. Such changes could impact future results. Management believes that all known losses as of December 31, 2010 and 2009 have been recorded as of those dates.

Valuation of Investment Securities. Our investment securities are classified as either held-to-maturity or available-for-sale. Held-to-maturity securities are carried at amortized cost, while available-for-sale securities are carried at fair value. Unrealized gains or losses, net of deferred taxes, are reported in other comprehensive income as a separate component of shareholders' equity. In general, fair value is based upon quoted market prices of identical assets, when available. If quoted market prices are not available, fair value is based upon valuation models that use cash flow, security structure and other observable information. Where sufficient data is not available to produce a fair valuation, fair value is based on broker quotes for similar assets. Broker quotes may be adjusted to ensure that financial instruments are recorded at fair value. Adjustments may include unobservable parameters, among other things. No adjustments were made to any broker quotes received by us.

We conduct a quarterly review and evaluation of all investment securities to determine if any declines in fair value are other than temporary. In making this determination, we consider the period of time the securities were in a loss position, the percentage decline in comparison to the securities' amortized cost, the financial condition of the issuer, if applicable, and the delinquency or default rates of underlying collateral. We consider our intent to sell the investment securities evaluated and the likelihood that we will not have to sell the investment securities before recovery of their cost basis. If impairment exists, credit related impairment losses are recorded in earnings while noncredit related impairment losses are recorded in accumulated other comprehensive income. Any future deterioration in the fair value of an investment security, or the determination that the existing unrealized loss of an investment security is other-than-temporary, may have a material adverse affect on future earnings.

Goodwill. Goodwill is not subject to amortization but must be tested for impairment at least annually, and possibly more frequently if certain events or changes in circumstances arise. Impairment testing requires that the fair value of each reporting unit be compared to its carrying amount, including goodwill. Reporting units are identified based upon analyzing each of our individual operating segments. A reporting unit is defined as any distinct, separately identifiable component of an operating segment for which complete, discrete financial information is available that management regularly reviews. Goodwill is allocated to the carrying value of each reporting unit based on its relative fair value at the time it is acquired. Determining the fair value of a reporting unit requires a high degree of subjective management judgment. With the assistance of an independent third party, we evaluate goodwill for possible impairment using four valuation methodologies including a public market peers approach, a comparable transactions approach, a control premium approach and a discounted cash flow approach. Future changes in the economic environment or the operations of the reporting units could cause changes to these variables, which could give rise to declines in the estimated fair value of the reporting unit. Declines in fair value could result in impairment being identified. We have established June 30 of each year as the date for conducting our annual goodwill impairment assessment. Quarterly, we evaluate if there are any triggering events that would require an update to our previous assessment. The variables are selected as of that date and the valuation model is run to determine the fair value of each reporting unit. We did not identify any individual reporting unit where the fair value was less than the carrying value.

Deferred Income Taxes. We use the asset and liability method of accounting for income taxes. Using this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. If current available information raises doubt as to the realization of the deferred tax assets, a valuation allowance is established. Deferred tax assets and liabilities are measured using enacted tax rates expected to be applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. We exercise significant judgment in evaluating the amount and timing of recognition of the resulting tax liabilities and assets. These judgments require us to make projections of future taxable income. The judgments and estimates we make in determining our deferred tax assets, which are inherently subjective, are reviewed on an ongoing basis as regulatory and business factors change. A reduction in estimated future taxable income could require us to record a valuation allowance. Changes in levels of valuation allowances could result in increased income tax expense, and could negatively affect earnings.

Pension Benefits. Pension expense and obligations are dependent on assumptions used in calculating such amounts. These assumptions include discount rates, anticipated salary increases, interest costs, expected return on plan assets, mortality rates, and other factors. In accordance with U.S. generally accepted accounting principles, actual results that differ from the assumptions are amortized over average future service and, therefore, generally affect recognized expense. While management believes that the assumptions used are appropriate, differences in actual experience or changes in assumptions may affect our pension obligations and future expense.

In determining the projected benefit obligations for pension benefits at December 31, 2010 and 2009, we used a discount rate of 5.57% and 6.00%, respectively. We use the Citigroup Pension Liability Index rates matching the duration of our benefit payments as of the measurement date to determine the discount rate. Our measurement date is December 31.

Balance Sheet Analysis

Assets. Our total assets at December 31, 2010 were $8.148 billion, an increase of $122.9 million, or 1.5%, from $8.025 billion at December 31, 2009. This increase in assets was primarily caused by an increase in deposits, which increased to $5.764 billion at December 31, 2010, an increase of $139.9 million, or 2.5%, from $5.624 billion at December 31, 2009.

Cash and Investments. Total cash and investments decreased by $147.2 million, or 6.8%, to $2.028 billion at December 31, 2010, from $2.175 billion at December 31, 2009. This decrease was a result of the deployment of the capital raised during our second-step conversion into the loan portfolio. Management intends to deploy additional cash and investments into loans over a period of time in an effort to improve operating profits. Timing and the amount of this deployment will depend on a number of factors including loan demand, internal deposit growth, economic conditions and the general level of interest rates.

Loans receivable. Net loans receivable increased by $228.5 million, or 4.4%, to $5.458 billion at December 31, 2010, from $5.229 billion at December 31, 2009. Loan demand was strong, with originations of $2.137 billion for the year ended December 31, 2010. We sold $205.3 million of one- to four-family residential mortgage loans originated during the year to assist with our interest-rate risk management. We reduced the sale of one- to four-family mortgage loans in 2010 compared to 2009 due to our strong liquidity position. During the year ended December 31, 2010 gross commercial loans increased by $190.3 million, or 11.2%, gross mortgage loans increased by $60.4 million, or 2.5% and gross consumer and home equity loans remained flat.

Total loans 30 days or more past due increased by $15.2 million, or 8.1%, to $201.7 million at December 31, 2010 from $186.5 million at December 31, 2009. The December 31, 2010 amount consisted of 3,517 loans, while the December 31, 2009 amount consisted of 3,450 loans. Delinquencies on one- to four-family mortgage loans increased by $10.8 million, or 16.8%, delinquencies on consumer and home equity loans increased by $3.2 million, or 12.1% and delinquencies on commercial real estate and commercial business loans increased by $1.2 million, or 1.2%. Like most financial institutions, we experienced an increase in the amount of delinquencies during the past 24 months due to deteriorating economic conditions.

Set forth below are selected data relating to the composition of our loan portfolio by type of loan as of the dates indicated.

	At December 31,								
	2010		2009		2008		2007		200
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount
					(Dollars in Thousands)				
Real estate:									
One- to four-family	$2,432,421	42.9 %	2,371,996	43.8 %	2,492,940	47.2 %	2,430,117	48.9 %	2,411,024
Home equity	1,095,953	19.3	1,080,011	19.9	1,035,954	19.6	992,335	20.0	887,352
Multi-family and commercial	1,423,021	25.1	1,292,145	23.8	1,100,218	20.8	906,594	18.3	701,951
Total real estate loans	4,951,395	87.3	4,744,152	87.5	4,629,112	87.6	4,329,046	87.2	4,000,327
Consumer:									
Automobile	88,486	1.6	101,046	1.9	102,267	2.0	125,298	2.5	138,401
Education loans	21,957	0.4	32,860	0.6	38,152	0.7	14,551	0.3	11,973
Loans on savings accounts	11,850	0.2	12,209	0.2	11,191	0.2	10,563	0.2	10,313
Other (1)	133,483	2.3	127,750	2.4	115,913	2.2	117,831	2.4	109,303
Total consumer loans	255,776	4.5	273,865	5.1	267,523	5.1	268,243	5.4	269,990
Commercial business	463,006	8.2	403,589	7.4	387,145	7.3	367,459	7.4	235,311
Total loans receivable, gross	5,670,177	100.0%	5,421,606	100.0%	5,283,780	100.0%	4,964,748	100.0%	4,505,628
Deferred loan fees	(7,165)		(7,030)		(5,041)		(4,179)		(3,027
Undisbursed loan proceeds	(129,007)		(115,111)		(81,918)		(123,163)		(52,505
Allowance for loan losses (real estate loans)	(62,371)		(43,776)		(33,760)		(28,854)		(17,936
Allowance for loan losses (other loans)	(14,041)		(26,627)		(21,169)		(12,930)		(19,719
Total loans receivable	$5,457,593		5,229,062		5,141,892		4,795,622		4,412,441

net

(1) Consists primarily of secured and unsecured personal loans.

30

The following table sets forth loans by state (based on borrowers' residence) at December 31, 2010.

State	One- to four-family mortgage	Percentage (1)	Consumer and home equity	Percentage (2)	Commercial business and commercial real estate	Percentage (3)	Total	Percentage (4)
				(Dollars in thousands)				
Pennsylvania	$ 1,942,824	81.0 %	1,170,012	86.6 %	1,077,440	60.4 %	4,190,276	75.7 %
New York	162,367	6.8	113,153	8.4	381,671	21.4	657,191	11.9
Ohio	20,111	0.8	15,222	1.1	41,834	2.4	77,167	1.4
Maryland	194,607	8.1	35,248	2.6	155,731	8.7	385,586	7.0
Florida	30,908	1.3	12,487	0.9	62,673	3.5	106,068	1.9
Other	47,487	2.0	5,607	0.4	64,623	3.6	117,717	2.1
Total	$ 2,398,304	100.0 %	1,351,729	100.0 %	1,783,972	100.0 %	5,534,005	100.0 %

(1) Percentage of total mortgage loans.
(2) Percentage of total consumer loans.
(3) Percentage of total commercial loans.
(4) Percentage of total loans.

The following table sets forth the maturity or period of repricing of our loan portfolio at December 31, 2010. Demand loans and loans having no stated schedule of repayments and no stated maturity are reported as due in one year or less. Adjustable and floating-rate loans are included in the period in which interest rates are next scheduled to adjust rather than in which they contractually mature, and fixed-rate loans are included in the period in which the final contractual repayment is due.

At December 31, 2010:	Due in one year or less	Due after one year through two years	Due after two years through three years	Due after three years through five years	Due after five years	Total
			(In Thousands)			
Real estate loans:						
One-to four-family residential	$182,035	127,637	114,664	229,917	1,778,168	2,432,421
Multi-family and commercial	493,742	188,087	207,462	470,785	62,945	1,423,021
Consumer loans	347,254	117,903	110,407	197,893	578,272	1,351,729
Commercial business loans	160,648	61,198	67,502	153,178	20,480	463,006
Total loans	$1,183,679	494,825	500,035	1,051,773	2,439,864	5,670,177

The following table sets forth at December 31, 2010, the dollar amount of all fixed-rate and adjustable-rate loans due one year or more after the date indicated. Adjustable- and floating-rate loans are included in the table based on the contractual due date of the loan.

At December 31, 2010:	Fixed	Adjustable	Total
		(In Thousands)	
Real estate loans:			
One-to four-family residential	$2,250,071	44,290	2,294,361
Multi-family and commercial	506,484	744,223	1,250,707

Consumer loans	974,286	144,489	1,118,775
Commercial business loans	175,179	231,761	406,940
Total loans	$3,906,019	1,164,763	5,070,782

Investment securities. Investment securities increased by $241.5 million, or 22.6%, to $1.309 billion at December 31, 2010 from $1.067 billion at December 31, 2009. This increase was the result of our deploying the proceeds from our second step conversion into investment securities throughout the year. During the year ended December 31, 2010, we recognized other-than-temporary credit related impairment charges of $1.5 million on four private label collateralized mortgage obligations, one pooled trust-preferred investment and one common stock issuance.

The following table sets forth certain information regarding the amortized cost and fair value of our investment securities portfolio and mortgage-backed securities portfolio at the dates indicated.

	At December 31,					
	2010		2009		2008	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In Thousands)					
Mortgage-backed securities available for sale:						
Fixed-rate pass through certificates	$111,581	118,722	145,363	151,756	186,659	193,099
Variable-rate pass through certificates	167,685	174,937	231,232	239,041	276,121	277,183
Fixed-rate CMOs	126,308	125,864	38,913	38,156	60,119	57,480
Variable-rate CMOs	280,305	284,175	303,473	304,614	228,917	217,877
Total mortgage-backed securities available for sale	685,879	703,698	718,981	733,567	751,816	745,639
Investment securities available for sale:						
U.S. Government, agency and GSEs	18,499	18,886	76,632	77,938	97,884	108,908
Municipal securities	214,535	208,293	235,128	237,456	268,616	267,548
Corporate debt issues	26,017	18,860	27,382	17,001	25,165	15,961
Equity securities and mutual funds	867	946	1,054	1,127	954	1,114
Total investment securities available for sale	259,912	246,985	340,196	333,522	392,619	393,531
Mortgage-backed securities held-to-maturity:						
Fixed-rate pass through certificates	29,820	30,226	—	—	—	—
Variable-rate pass through certificates	9,853	9,932	—	—	—	—
Fixed-rate CMOs	186,948	186,171	—	—	—	—
Variable-rate CMOs	24,781	25,174	—	—	—	—
Total mortgage-backed securities held-to-maturity	251,402	251,503	—	—	—	—
Investment securities held-to-maturity:						
U.S. Government, agency and GSEs	26,500	26,536	—	—	—	—

Municipal securities	80,020	76,087	—	—	—	—
Total investment securities held-to-maturity	$106,520	102,623	—	—	—	—

The following table sets forth information regarding the issuers and the carrying value of our mortgage-backed securities.

	At December 31,		
	2010	2009	2008
	(In Thousands)		
Mortgage-backed securities:			
Fannie Mae	$355,727	256,981	288,082
Ginnie Mae	223,768	126,164	99,354
Freddie Mac	335,803	324,562	320,297
Other (non-agency)	39,802	25,860	37,906
Total mortgage-backed securities	$955,100	733,567	745,639

Investment Portfolio Maturities and Yields. The following table sets forth the scheduled maturities, carrying values, amortized cost, market values and weighted average yields for our investment securities and mortgage-backed securities portfolios at December 31, 2010. Adjustable-rate mortgage-backed securities are included in the period in which interest rates are next scheduled to adjust.

	At December 31, 2010										
	One Year or Less		More than One Year to Five Years		More than Five Years to Ten Years		More than Ten Years		Total		
	Amortized Cost	Annualized Weighted Average Yield	Amortized Cost	Annualized Weighted Average Yield	Amortized Cost	Annualized Weighted Average Yield	Amortized Cost	Annualized Weighted Average Yield	Amortized Cost	Fair Value	Annuali Weight Averag Yielc
	(Dollars in thousands)										
Investment securities available for sale											
Government sponsored entities	$1,989	5.37%	—		6,495	5.84%	9,948	0.44%	18,432	18,819	2.87
U.S. Government and agency obligations	67	1.21%	—		—		—		67	67	1.21
Municipal securities	—		3,382	3.82%	37,898	4.22%	173,255	4.38%	214,535	208,293	4.34
Corporate debt issues	100	4.00%	500	2.91%	—		25,417	3.33%	26,017	18,860	3.32
Equity securities and mutual funds	—		—		—		861	3.67%	861	946	3.67
Total investment securities available for sale	2,156	5.17%	3,882	3.70%	44,393	4.46%	209,481	4.06%	259,912	246,985	4.13
Mortgage-backed securities available for sale:											
Pass through certificates	167,692	3.92%	5,194	4.39%	5,787	4.92%	100,593	5.28%	279,266	293,659	4.44
CMOs	280,305	1.20%	—		71,653	2.65%	54,655	3.15%	406,613	410,039	1.72
Total mortgage-backed securities available for sale	447,997	2.22%	5,194	4.39%	77,440	2.82%	155,248	4.53%	685,879	703,698	2.82
Investment securities held-to-maturity:											
Government sponsored entities	—		26,500	1.17%	—		—		26,500	26,536	1.17
Municipal securities	—		—		—		80,020	3.98%	80,020	76,087	3.98

Total investment securities held-to-maturity	—		26,500	1.17%	—		80,020	3.98%	106,520	102,623	3.28
Mortgage-backed securities held-to-maturity:											
Pass through certificates	9,853	2.80%	—		—		29,820	3.69%	39,673	40,158	3.47
CMOs	24,781	1.11%	—		7,819	2.02%	179,129	2.80%	211,729	211,345	2.57
Total mortgage-backed securities held-to-maturity	34,634	1.59%	—		7,819	4.85%	208,949	2.93%	251,402	251,503	2.72
Total investment securities and mortgage-backed	$484,787	2.18%	35,576	1.92%	129,652	3.33%	653,698	3.80%	1,303,713	1,304,809	3.10

33

The following tables set forth information with respect to gross unrealized holding gains and losses on our portfolio of investment securities as of December 31, 2010.

	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
	(In thousands)			
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 greater than one year to five years	1,989	93	—	2,082
Due in greater than five years to ten years	6,495	347	—	6,842
Due after ten years	9,948	—	(53)	9,895
Equity securities	861	86	(1)	946
Municipal securities:				
Due in greater than one year to five years	3,382	125	—	3,507
Due in greater than five years to 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 greater than one year to 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 CMO	13,825	91	(843)	13,073
Fixed-rate agency CMO	112,483	1,067	(759)	112,791
Variable-rate non-agency CMO	3,274	—	(379)	2,895
Variable-rate agency CMO	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	$945,791	23,124	(18,232)	950,683

	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
		(In thousands)		
Debt issued by government-sponsored enterprises:				
Due in greater than one year to 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 CMO	186,948	924	(1,701)	186,171
Variable-rate agency CMO	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. In addition, management must assert that it does not have the intent to sell the security and that it is more likely than not we will not have to sell the security before recovery of its cost basis. Other investments are evaluated using our best estimate of future cash flows. If our estimate of cash flow 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 our 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.

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
			(In thousands)			
U.S. Government and agencies	$9,896	(53)	35	(1)	9,931	(54)
Municipal securities	188,659	(11,107)	8,181	(1,381)	196,840	(12,488)
Corporate issuers	—	—	13,700	(7,353)	13,700	(7,353)
Equities	44	(1)	—	—	44	(1)
Residential mortgage-backed securities – non-agency	303	(301)	10,093	(921)	10,396	(1,222)
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)

As of December 31, 2010, we had nine investments in corporate issues with a total book value of $21.1 million and total fair value of $13.7 million, where book value exceeded carrying value for more than 12 months. These investments were three single issuer trust preferred investments and six 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. 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 investments was considered temporary. In making that determination, we also considered the duration and the severity of the losses. The pooled trust preferred investments were evaluated for other-than-temporary impairment considering duration and severity of losses, actual cash flows, projected cash flows, performing collateral, the class of securities we owned and the amount of additional defaults the structure could withstand prior to the security experiencing a disruption in cash flows. None of these investments have experienced a disruption in cash flows nor are we projecting near-term cash flow disruptions. We concluded, based on all facts evaluated, the remaining impairment of these investments, other than the credit related impairment recognized, was considered temporary and management asserts that we do not have the intent to sell these investments and that it is more likely than not we will not have to sell the investments before recovery of their cost basis.

The following table provides class, book value, fair value and ratings information for our portfolio of corporate securities that had an unrealized loss as of December 31, 2010.

Description	Class	Book Value	Total Fair Value (In thousands)	Unrealized Losses	Moody's/Fitch Ratings
Bank Boston Capital Trust (1)	N/A	$ 988	702	(286)	Baa3/BBB-
Reliance Capital Trust	N/A	1,000	838	(162)	Not rated
Huntington Capital Trust	N/A	1,422	848	(574)	Ba1/BBB-
MM Community Funding I	Mezzanine	105	56	(49)	Ca/C
MM Community Funding II	Mezzanine	331	29	(302)	Baa2/BB
I-PreTSL I	Mezzanine	1,500	188	(1,312)	Not rated/CCC
I-PreTSL II	Mezzanine	1,500	188	(1,312)	Not rated/B
PreTSL XIX	Senior A-1	8,770	6,715	(2,055)	Baa2/BBB
PreTSL XX	Senior A-1	5,437	4,136	(1,301)	Ba2/BB
		$ 21,053	13,700	(7,353)	

(1)Bank Boston was acquired by Bank of America

The following table provides collateral information, where available, on pooled trust preferred securities included in the previous table as of December 31, 2010.

Description	Total collateral	Current Deferrals and Defaults (In thousands)	Performing Collateral	Additional Immediate Defaults Before Causing an Interest Shortfall
I-PreTSL I	$193,500	17,500	176,000	101,500
I-PreTSL II	378,000	—	378,000	153,000
PreTSL XIX	699,981	172,400	527,581	185,000
PreTSL XX	576,238	176,500	399,738	109,500

Mortgage-backed securities include agency (Fannie Mae, Freddie Mac and Ginnie Mae) mortgage-backed securities and non-agency collateralized mortgage obligations. We review our portfolio of agency mortgage-backed securities quarterly for impairment. As of December 31, 2010, we believe that the impairment within our portfolio of agency mortgage-backed securities is temporary. As of December 31, 2010, we had 11 non-agency collateralized mortgage obligations with total book value of $17.1 million and total fair value of $16.0 million. During the year ended December 31, 2010, we recognized other-than-temporary credit related impairment of $1.1 million related to four of these investments. After recognizing the other-than-temporary impairment, our book value on these four investments was $10.7 million, with a fair value of $9.6 million. We determined how much of the impairment was credit related and noncredit related by analyzing cash flow estimates, estimated prepayment speeds, loss severity and conditional default rates. We consider the discounted cash flow analysis to be our primary evidence when determining whether credit related other-than-temporary impairment exists. The impairment on the other seven collateralized mortgage obligations, with book value of $6.4 million and fair value of $6.4 million, were also reviewed considering the severity and length of impairment. After this review, we determined that there was no impairment on these seven securities.

The following table shows issuer specific information, book value, fair value, unrealized losses and other-than-temporary impairment recorded in earnings for our portfolio of non-agency collateralized mortgage obligations as of December 31, 2010.

Description	Book Value	Total Fair Value	Unrealized Losses	Life to-date Impairment Recorded in Earnings
		(In thousands)		
AMAC 2003-6 2A2	$604	619	—	—
AMAC 2003-6 2A8	1,250	1,277	—	—
AMAC 2003-7 A3	737	748	—	—
BOAMS 2005-11 1A8	3,580	3,441	(139)	(146)
CWALT 2005-J14 A3	5,661	4,957	(704)	(411)
CFSB 2003-17 2A2	1,130	1,145	—	—
WAMU 2003-S2 A4	862	885	—	—
CMLTI 2005-10 1A5B	897	897	—	(2,952)
FHASI 2003-8 1A24	693	685	(8)	—
SARM 2005-21 4A2	605	303	(302)	(3,100)
WFMBS 2003-B A2	1,080	1,011	(69)	—
	$17,099	15,968	(1,222)	(6,609)

Deposits. Deposits increased by $139.9 million, or 2.5%, to $5.764 billion at December 31, 2010 from $5.624 billion at December 31, 2009. Deposit balances increased across all of our products, except certificates of deposit, and all of our regions. We have continued our focus on generating checking accounts and other low cost deposits. Checking accounts increased by $102.4 million, or 8.2%, to $1.358 billion at December 31, 2010 from $1.255 billion at December 31, 2009.

The following table sets forth the dollar amount of deposits in each state indicated as of December 31, 2010.

State	Balance	Percent
	(Dollars in thousands)	
Pennsylvania	$ 4,684,001	81.3 %
New York	662,372	11.4
Ohio	66,862	1.2
Maryland	292,094	5.1
Florida	59,007	1.0
Total	$ 5,764,336	100.0 %

The following table indicates the amount of our certificates of deposit of $100,000 or more by time remaining until maturity at December 31, 2010.

Maturity Period	Certificates of Deposit (In thousands)
Three months or less	$ 79,931
Over three months through six months	61,055

Over six months through twelve months		120,184
Over twelve months		362,147
Total	$	623,317

The following table sets forth the dollar amount of deposits in the various types of accounts we offered at the dates indicated.

	At December 31,								
	2010			2009			2008		
	Balance	Percent (1)	Rate (2)	Balance	Percent (1)	Rate (2)	Balance	Percent (1)	Rate (2)
	(Dollars in thousands)								
Savings accounts	$ 1,049,194	18.2 %	0.60 %	924,461	16.4 %	0.85 %	760,245	15.1 %	1.14 %
Checking accounts	1,357,538	23.6	0.07 %	1,255,146	22.3	0.13 %	1,100,131	21.8	0.37 %
Money market accounts	899,688	15.6	0.52 %	820,076	14.6	0.91 %	720,375	14.3	1.58 %
Certificates of deposit:									
Maturing within 1 year	1,230,549	21.3	1.62 %	1,545,784	27.5	2.43 %	1,285,695	25.5	2.88 %
Maturing 1 to 3 years	1,011,806	17.6	2.88 %	958,027	17.0	3.46 %	829,776	16.5	3.74 %
Maturing more than 3 years	215,561	3.7	2.82 %	120,930	2.2	3.44 %	341,989	6.8	4.11 %
Total certificates	2,457,916	42.6	2.25 %	2,624,741	46.7	2.85 %	2,457,460	48.8	3.34 %
Total deposits	$ 5,764,336	100.0 %	1.13 %	5,624,424	100.0 %	1.58 %	5,038,211	100.0 %	2.08 %

(1) Represents percentage of total deposits.
(2) Represents weighted average nominal rate at year end.

Borrowings. Borrowings decreased by $6.0 million, or 0.7%, to $891.3 million at December 31, 2010 from $897.3 million at December 31, 2009. This decrease resulted from the repayment of $35.0 million of FHLB borrowings that matured during 2010, which was partially offset by an increase in reverse repurchase agreements of $30.5 million. During 2010, we restructured $695.0 million of FHLB borrowings reducing the annual interest cost by 0.22%, while extending the average maturities of these borrowings by approximately 3.5 years. We incurred a penalty of $52.2 million in conjunction with this restructuring, which will be amortized over the life of the borrowings. Reverse repurchase agreements increased during the year as the average rate of 1.01% during the year exceeded the alternative deposit account rate.

The following table sets forth information concerning our borrowings at the dates and for the periods indicated.

	During the Years Ended December 31,					
	2010		2009		2008	
	(Dollars in Thousands)					
Federal Home Loan Bank of Pittsburgh borrowings:						
Average balance outstanding	$769,493		844,483		625,707	
Maximum outstanding at end of any month during year	782,210		917,478		972,018	
Balance outstanding at end of year	745,651		782,221		972,018	
Weighted average interest rate during year	3.95	%	3.96	%	3.89	%
Weighted average interest rate at end of year	3.75	%	4.04	%	3.49	%
Reverse repurchase agreements:						
Average balance outstanding	127,350		90,706		88,349	
Maximum outstanding at end of any month during year	157,582		115,342		98,108	
Balance outstanding at end of year	145,642		115,105		91,436	
Weighted average interest rate during year	1.01	%	1.35	%	1.75	%
Weighted average interest rate at end of year	0.74	%	1.55	%	1.02	%
Other borrowings:						
Average balance outstanding	—		1,382		4,602	
Maximum outstanding at end of any month during year	—		4,496		4,652	
Balance outstanding at end of year	—		—		4,491	
Weighted average interest rate during year	—		4.99	%	4.99	%
Weighted average interest rate at end of year	—		—		4.99	%
Total borrowings:						
Average balance outstanding	$896,843		936,571		718,657	
Maximum outstanding at end of any month during year	905,874		1,009,586		1,067,945	
Balance outstanding at end of year	891,293		897,326		1,067,945	
Weighted average interest rate during year	3.57	%	3.69	%	3.74	%
Weighted average interest rate at end of year	3.26	%	3.72	%	3.29	%

Shareholders' equity. Total shareholders' equity at December 31, 2010 was $1.307 billion, a decrease of $9.1 million, or 0.7%, from $1.317 billion at December 31, 2009. This decrease was a result of the purchase of $17.2 million of common stock by the ESOP, an increase in other comprehensive loss of $3.5 million and the payment of dividends of $43.3 million, all of which were partially offset by net income of $57.5 million.

Average Balance Sheets

The following tables set forth average balance sheets, average yields and costs, and certain other information at and for the periods indicated. All average balances are daily average balances. Non-accrual loans were included in the computation of average balances, but have been reflected in the table as loans carrying a zero yield. The yields set forth below include the effect of deferred fees and discounts and premiums that are amortized or accreted to interest income or expense. The average yield for loans receivable and investment securities are calculated on a fully-taxable equivalent basis.

	For the Years Ended December 31,								
	2010			2009			2008		
	Average Outstanding Balance	Interest	Average Yield/ Cost (11)	Average Outstanding Balance	Interest	Average Yield/ Cost (11)	Average Outstanding Balance	Interest	Average Yield/ Cost (11)
	(Dollars in Thousands)								
Interest-earning assets:									
Loans receivable (includes FTE adjustments of $1,483, $1,643 and $1,559, respectively) (1)(2)(3)	$ 5,487,645	330,431	6.03%	5,199,829	321,764	6.17%	5,016,694	328,687	6.50%
Mortgage-backed securities (5)	816,182	25,271	3.10%	720,683	27,263	3.78%	732,281	34,694	4.74%
Investment securities (includes FTE adjustments of $6,320, $5,952 and $6,597, respectively) (4)(5)	369,858	20,572	5.56%	360,620	22,390	6.21%	478,933	29,250	6.11%
Federal Home Loan Bank stock (6)	62,688	—	—	63,162	—	—	48,167	1,428	2.96%
Interest-earning deposits	805,161	2,097	0.26%	297,228	641	0.21%	104,895	2,756	2.59%
Total interest-earning assets (includes FTE adjustments of $7,803 $7,595 and $8,156, respectively)	7,541,534	378,371	5.02%	6,641,522	372,058	5.59%	6,380,970	396,815	6.18%
Non-interest-earning assets (7)	578,317			523,038			488,579		
Total assets	$ 8,119,851			7,164,560			6,869,549		
Interest-bearing liabilities:									
Savings	$ 1,031,362	8,166	0.79%	850,707	6,501	0.76%	778,341	9,159	1.18%
Interest-bearing demand	776,091	1,211	0.16%	739,102	2,536	0.34%	732,097	6,434	0.88%
Money market	888,081	5,977	0.67%	752,166	8,471	1.13%	720,713	14,726	2.04%
Certificates	2,483,481	59,820	2.41%	2,546,867	77,886	3.06%	2,716,815	106,742	3.93%
Borrowed funds (8)	896,843	32,054	3.57%	936,571	34,579	3.69%	718,657	26,893	3.74%
Junior subordinated deferrable interest debentures	103,094	5,699	5.45%	105,672	5,834	5.45%	108,287	5,339	4.86%

Total interest-bearing liabilities	6,178,952	112,927	1.83 %	5,931,085	135,806	2.29 %	5,774,910	169,293	2.93 %
Non-interest-bearing liabilities	634,119			540,536			473,410		
Total liabilities	6,813,071			6,471,621			6,248,320		
Shareholders' equity	1,306,780			692,939			621,229		
Total liabilities and stockholders' equity	$ 8,119,851			7,164,560			6,869,549		
Net interest income		265,444			236,252			227,522	
Net interest rate spread (9)			3.19 %			3.30 %			3.25 %
Net interest earning assets									
Net interest margin (10)	$ 1,362,582		3.52 %	710,437		3.56 %	606,060		3.57 %
Ratio of average interest-earning assets to average interest-bearing liabilities	1.22	x		1.12	x		1.10	x	

(1) Average gross loans receivable includes loans held as available-for-sale and loans placed on nonaccrual status.

(2) Interest income includes accretion/amortization of deferred loan fees/expenses, which were not material.

(3) Interest income on tax-free loans is presented on a taxable equivalent basis including adjustments as indicated.

(4) Interest income on tax-free investment securities is presented on a taxable equivalent basis including adjustments as indicated.

(5) Average balances do not include the effect of unrealized gains or losses on securities held as available-for-sale.

(6) During the quarter ended December 31, 2008, the Federal Home Loan Bank of Pittsburgh suspended dividends until further notice.

(7) Average balances include the effect of unrealized gains or losses on securities held as available-for-sale.

(8) Average balances include Federal Home Loan Bank advances, securities sold under agreements to repurchase and other borrowings.

(9) Net interest rate spread represents the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities.

(10) Net interest margin represents net interest income as a percentage of average interest-earning assets.

(11) Shown on a FTE basis. GAAP basis yields were: Loans – 6.00%, 6.14% and 6.47%, respectively, Investment securities – 3.85%, 4.56% and 4.73%, respectively, interest-earning assets – 4.92%, 5.48% and 6.05%, respectively, GAAP basis net interest rate spreads were 3.09%, 3.19% and 3.12%, respectively, and GAAP basis net interest margins were 3.42%, 3.44% and 3.43%, respectively.

Rate/Volume Analysis

The following table presents the dollar amount of changes in interest income and interest expense for major components of interest-earning assets and interest-bearing liabilities for the year ended December 31, 2010 compared to 2009 and for the year ended December 31, 2009 compared to 2008. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to: (1) changes in volume multiplied by the prior year rate; (2) changes in rate, which are changes in rate multiplied by the prior year volume; and (3) changes not solely attributable to rate or volume, which have been allocated proportionately to the change due to volume and the change due to rate.

	Years Ended December 31, 2010 vs. 2009			Years Ended December 31, 2009 vs. 2008		
	Increase (Decrease) Due to		Total Increase (Decrease)	Increase (Decrease) Due to		Total Increase (Decrease)
	Rate	Volume		Rate	Volume	
	(In Thousands)					
Interest-earning assets:						
Loans receivable	$(9,091)	17,758	8,667	(18,826)	11,903	(6,923)
Mortgage-backed securities	(5,605)	3,613	(1,992)	(6,937)	(494)	(7,431)
Investment securities	(2,392)	574	(1,818)	486	(7,346)	(6,860)
Federal Home Loan Bank stock	—	—	—	(1,873)	445	(1,428)
Interest-earning deposits	133	1,323	1,456	(7,168)	5,053	(2,115)
Total interest-earning assets	(16,955)	23,268	6,313	(34,318)	9,561	(24,757)
Interest-bearing liabilities:						
Savings accounts	259	1,406	1,665	(3,510)	852	(2,658)
Interest-bearing demand accounts	(1,452)	127	(1,325)	(3,960)	62	(3,898)
Money market demand accounts	(4,025)	1,531	(2,494)	(6,897)	642	(6,255)
Certificate accounts	(16,334)	(1,732)	(18,066)	(22,919)	(5,937)	(28,856)
Borrowed funds	(1,081)	(1,443)	(2,524)	(470)	8,155	7,685
Junior subordinated deferrable interest debentures	8	(143)	(135)	639	(144)	495
Total interest-bearing liabilities	(22,625)	(254)	(22,879)	(37,117)	3,630	(33,487)
Net change in net interest income	$5,670	23,522	29,192	2,799	5,931	8,730

Comparison of Results of Operations for the Years Ended December 31, 2010 and 2009

General. Net income for the year ended December 31, 2010 was $57.5 million, or $0.53 per diluted share, an increase of $24.8 million, or 76.2%, from $32.7 million, or $0.30 per diluted share, for the year ended December 31, 2009. The increase in net income resulted primarily from an increase in net interest income of $29.0 million, an increase in noninterest income of $7.1 million and a decrease in noninterest expense of $4.0 million. These items were partially offset by an increase in income taxes of $16.5 million. A discussion of each significant change follows.

Net income for the year ended December 31, 2010 represents a 4.40% and 0.71% return on average equity and return on average assets, respectively, compared to 4.71% and 0.46% for the year ended December 31, 2009.

Interest income. Interest income increased by $6.1 million, or 1.7%, to $370.6 million for the year ended December 31, 2010 from $364.5 million for the year ended December 31, 2009. The increase in interest income was due to an increase in the average balance of interest-earning assets, which was partially offset by a decrease in the average yield on interest-earning assets. The average balance of interest-earning assets increased by $900.0 million, or 13.6%, to $7.542 billion for the year ended December 31, 2010 from $6.642 billion for the year ended December 31, 2009. The average rate earned on interest-earnings assets decreased by 0.56%, to 4.92% for the year ended December 31, 2010 from 5.48% for the year ended December 31, 2009. An explanation of the changes in the balances of interest-earnings assets and changes in the yield is discussed in each category below.

Interest income on loans receivable increased by $8.8 million, or 2.8%, to $328.9 million for the year ended December 31, 2010 from $320.1 million for the year ended December 31, 2009. This increase was attributable to an increase in the average balance of loans receivable, which was partially offset by a decrease in the average yield. Average loans receivable increased by $287.8 million, or 5.5%, to $5.488 billion for the year ended December 31, 2010 from $5.200 billion for the year ended December 31, 2009. This increase was attributable both to our efforts in attracting and maintaining quality retail and commercial loan relationships as well as continued strong loan demand throughout our market area. The average yield on loans receivable decreased by 0.14%, to 6.00% for the year ended December 31, 2010, from 6.14% for the year ended December 31, 2009. This decrease is primarily due to the repricing of variable rate loans and the origination of new loans in a lower interest rate environment.

Interest income on mortgage-backed securities decreased by $2.0 million, or 7.3%, to $25.3 million for the year ended December 31, 2010 from $27.3 million for the year ended December 31, 2009. This decrease was attributable to a decrease in the average yield earned on mortgage-backed securities, which was partially offset by an increase in the average balance of mortgage-backed securities. The average yield on mortgage-backed securities decreased by 0.68%, to 3.10% for the year ended December 31, 2010, from 3.78% for the year ended December 31, 2009. This decrease in yield is primarily the result of the generally low interest rate environment throughout 2010 which caused the rates on our variable rate securities to decrease. The average mortgage-backed securities balance increased by $95.5 million, or 13.3%, to $816.2 million for the year ended December 31, 2010 from $720.7 million for the year ended December 31, 2009. The increase in the average balance was primarily the result of moving overnight funds into mortgage-backed securities.

Interest income on investment securities decreased by $2.1 million, or 13.3%, to $14.3 million for the year ended December 31, 2010 from $16.4 million for the year ended December 31, 2009. This decrease was attributable to a decrease in the yield on investment securities, which was partially offset by an increase in the average balance of investment securities. The average yield decreased by 0.71%, to 3.85% for the year ended December 31, 2010, from 4.56% for the year ended December 31, 2009. This decrease in yield resulted from the general decline in market interest rates which caused a decrease in the rates on our variable rate securities. The average balance of investment securities increased by $9.3 million, or 2.6%, to $369.9 million for the year ended December 31, 2010 from $360.6 million for the year ended December 31, 2009. The increase in the average balance of investment securities is primarily attributable to moving overnight funds into investment securities.

Interest income on interest-earning deposits increased by $1.5 million, or 227.1%, to $2.1 million for the year ended December 31, 2010 from $641,000 for the year ended December 31, 2009. This increase is the result of an increase in the average balance of interest-earning deposits. Average interest-earning deposits increased to $805.2 million for the year ended December 31, 2010 from $297.2 million for the year ended December 31, 2009. This increase is a result of the funds received from our second-step common stock offering being held as interest-earning deposits until they can be moved into higher yielding loans and investments.

Interest expense. Interest expense decreased by $22.9 million, or 16.8%, to $112.9 million for the year ended December 31, 2010 from $135.8 million for the year ended December 31, 2009. This decrease was attributed to a decrease in the interest rate paid on deposits and borrowings, which was partially offset by an increase in the average balance of interest-bearing deposits. The average rate paid on all deposit accounts, except savings accounts, decreased during the year ending December 31, 2010 due to a decrease in market conditions and competitive rates. Interest-bearing demand deposits decreased from 0.34% for the year ended December 31, 2009 to 0.16% for the year ended December 31, 2010; money market demand accounts decreased from 1.13% for the year ended December 31, 2009 to 0.67% for the year ended December 31, 2010 and certificates of deposit decreased from 3.06% for the year ended December 31, 2009 to 2.41% for the year ended December 31, 2010. Savings accounts increased from 0.76% for the year ended December 31, 2009 to 0.79% for the year ended December 31, 2010 due primarily to new office opening promotions. Also contributing to the decrease in interest expense was a shift in the mix of our deposits where we increased the balances of savings, interest-bearing checking and money market demand accounts, while decreasing the balance of certificates. The average rate paid on borrowed funds also decreased by 0.12% to 3.57% for the year ended December 31, 2010, from 3.69% for the year ended December 31, 2009 as the average rate on repurchase agreements decreased from 1.35% for the year ended December 31, 2009 to 1.01% for the year ended December 31, 2010. In addition, during September 2010 we refinanced $695.0 million of FHLB of Pittsburgh borrowings which reduced the average rate by 0.22% and increased the weighted average life by 3.5 years.

Net interest income. Net interest income increased by $28.9 million, or 12.7%, to $257.6 million for the year ended December 31, 2010 from $228.7 million for the year ended December 31, 2009. This increase was a result of the factors previously discussed. Our net interest rate spread decreased by 0.10% to 3.09% for the year ended December 31, 2010 from 3.19% for the year ended December 31, 2009 and our net interest margin decreased by 0.02% to 3.42% for the year ended December 31, 2010 from 3.44% for the year ended December 31, 2009.

Provision for loan losses. Management analyzes the allowance for loan losses as described in the section “Allowance for Loan Losses.” The provision for loan losses decreased by $1.3 million, or 3.3%, to $40.5 million for year ended December 31, 2010 from $41.8 million for the year ended December 31, 2009. Included in the current year provision is a specific reserve of $395,000 for a loan secured by a marina in Florida, a specific reserve of $1.4 million for a loan secured by a hotel in Maryland, a specific reserve of $501,000 for a loan to a car dealership in northwestern Pennsylvania, a specific reserve of $449,000 for a land development in Maryland, a specific reserve of $612,000 for a loan to a recycling company in northwestern Pennsylvania, a specific reserve of $3.5 million for a residential land development loan in southwestern Pennsylvania, a specific reserve of $589,000 for a condominium development in western New York, a specific reserve of $331,000 for a loan secured by retail rental space located in Virginia, a specific reserve of $3.0 million for a hotel located in Maryland and a specific reserve of $1.4 million for a loan secured by a hotel in Florida. Loans with payments 90 days or more delinquent and other nonaccrual loans have increased to $148.4 million at December 31, 2010 from $124.6 million at December 31, 2009.

In determining the amount of the current period provision, the Company considered the continued economic conditions in our markets, including sustained levels of high unemployment and an increase in bankruptcy filings, and continued softness in the real estate sector. Net loan charge-offs increased by $8.1 million, or 30.7%, to $34.5 million for the year ended December 31, 2010 from $26.4 million for the year ended December 31, 2009. Annual net charge-offs to average loans increased to 0.63% for the year ended December 31, 2010 from 0.51% for the year ended December 31, 2009. The provision that is recorded is sufficient, in management’s judgment, to bring the allowance for loan losses to a level that reflects the losses inherent in the Company’s loan portfolio relative to loan mix, economic conditions and historical loss experience. Management believes, to the best of their knowledge, that all known losses as of the balance sheet dates have been recorded.

Noninterest income. Noninterest income increased by $7.1 million, or 13.2%, to $60.4 million for the year ended December 31, 2010 from $53.3 million for the year ended December 31, 2009. This increase in noninterest income was due to a number of factors. The noncash net impairment losses of investment securities decreased by $4.6 million, or 75.4%, to $1.5 million for the year ended December 31, 2010, from $6.1 million for the year ended December 31, 2009 due to the stabilization of market values. Service charges and fees increased by $3.1 million, or 8.9%, to $37.9 million for the year ended December 31, 2010, from $34.8 million for the year ended December 31, 2009 primarily due to an increase in deposit related fees, insurance commission income increased by $2.5 million, or 95.3%, to $5.2 million for the year ended December 31, 2010, from $2.7 million for the year ended December 31, 2009 as a result of our January 1, 2010 purchase of Veracity Benefits Design, an employee benefits firm specializing in services to employer and employee groups, loss on real estate owned decreased by $1.5 million, or 36.6%, to $2.6 million of the year ended December 31, 2010 from $4.1 million for the year ended December 31, 2009 and other operating income increased by $1.1 million, or 30.4%, to $4.7 million for the year ended December 31, 2010 from $3.6 million for the year ended December 31, 2009. Partially offsetting these increases was a decrease in mortgage banking income and a bargain purchase gain recorded in 2009. Mortgage banking income decreased by $5.2 million, or 70.5%, to $2.2 million for the year ended December 31, 2010 from $7.4 million for the year ended December 31, 2009 due to less favorable pricing in the secondary mortgage markets. In the prior year we recorded a gain on the purchase of Keystone State Savings Bank of $3.5 million.

Noninterest expense. Noninterest expense decreased by $4.0 million, or 2.0%, to $196.5 million for the year ended December 31, 2010 from $200.5 million for the year ended December 31, 2009. This decrease was primarily due the FDIC special insurance fund assessment of $3.3 million which was assessed in 2009 and the contribution to the charitable foundation of $13.8 million which was established in connection with our second step common stock offering in 2009. Partially offsetting these items were increases in all major expense categories, except amortization expense. Compensation and employee benefits increased by $5.1 million, or 5.4%, to $100.7 million for the year ended December 31, 2010 from $95.6 million for the year ended December 31, 2009 primarily due to the addition of Veracity Benefits Design and normal merit increases for existing employees. Premises and occupancy costs increased by $702,000, or 3.2%, to $22.7 million for the year ended December 31, 2010 from $22.0 million for the year ended December 31, 2009. Office operations expense increased by $917,000, or 7.1%, to $13.9 million for the year ended December 31, 2010 from $12.9 million for the year ended December 31 2009. Processing expenses increase by $1.9 million, or, 8.6%, to $23.2 million for the year ended December 31, 2010 from $21.3 million for the year ended December 31, 2009, primarily due to an increase in number of accounts serviced. Marketing expense increased by $723,000, or 7.9%, to $9.9 million for the year ended December 31, 2010 from $9.2 million for the year ended December 31, 2009 due to our efforts to increase customer relationships and build brand loyalty. We also recognized $1.2 million of acquisition related expenses as a result of the termination of the merger agreement to acquire another bank.

Income taxes. Income tax expense increased by $16.5 million, or 236.0%, to $23.5 million for the year ended December 31, 2010 from $7.0 million for the year ended December 31, 2009. This increase is due to an increase in income before income taxes of $41.4 million, or 104.4%, and an increase in the effective tax rate from 17.7% to 29.0%. The increase in the effective tax rate was primarily due to a lower ratio of tax exempt income to pretax income.

Comparison of Results of Operations for the Years Ended December 31, 2009 and 2008

General. Net income for the year ended December 31, 2009 was $32.7 million, or $0.30 per diluted share, a decrease of $15.5 million, or 32.2%, from $48.2 million, or $0.44 per diluted share, for the year ended December 31, 2008. The decrease in net income resulted primarily from an increase in the provision for loan losses of $19.0 million and an increase in noninterest expense of $30.4 million. These items were partially offset by an increase in net interest income of $9.3 million and an increase in noninterest income of $14.6 million. A discussion of each significant change follows.

Net income for the year ended December 31, 2009 represents a 4.71% and 0.46% return on average equity and return on average assets, respectively, compared to 7.75% and 0.70% for the year ended December 31, 2008.

Interest income. Interest income decreased by $24.2 million, or 6.2%, to $364.5 million for the year ended December 31, 2009 from $388.7 million for the year ended December 31, 2008. The decrease in interest income was due to a decrease in the average yield on interest-earning assets, which was partially offset by an increase in the average balance of interest-earning assets. The average rate earned on interest-earnings assets decreased by 0.57%, to 5.48% for the year ended December 31, 2009 from 6.05% for the year ended December 31, 2008. The average balance of interest-earning assets increased by $260.6 million, or 4.1%, to $6.642 billion for the year ended December 31, 2009 from $6.381 billion for the year ended December 31, 2008. An explanation of the changes in the balances of interest-earnings assets and changes in the yield is discussed in each category below.

Interest income on loans receivable decreased by $7.0 million, or 2.1%, to $320.1 million for the year ended December 31, 2009 from $327.1 million for the year ended December 31, 2008. This decrease was attributable to a decrease in the average yield, which was partially offset by an increase in the average balance of loans receivable. The average yield on loans receivable decreased by 0.33%, to 6.14% for the year ended December 31, 2009, from 6.47% for the year ended December 31, 2008. This decrease is primarily due to the repricing of variable rate loans and the origination of new loans in a lower interest rate environment. Average loans receivable increased by $183.1 million, or 3.7%, to $5.200 billion for the year ended December 31, 2009 from $5.017 billion for the year ended December 31, 2008. This increase was attributable both to our efforts in attracting and maintaining quality consumer and commercial loan relationships as well as continued strong loan demand throughout our market area.

Interest income on mortgage-backed securities decreased by $7.4 million, or 21.4%, to $27.3 million for the year ended December 31, 2009 from $34.7 million for the year ended December 31, 2008. This decrease was attributable to decreases in both the yield earned on mortgage-backed securities and the average balance of mortgage-backed securities. The average yield on mortgage-backed securities decreased by 0.96%, to 3.78% for the year ended December 31, 2009, from 4.74% for the year ended December 31, 2008. This decrease in yield is primarily the result of the generally low interest rate environment throughout 2009. The average mortgage-backed securities balance decreased by $11.6 million, or 1.6%, to $720.7 million for the year ended December 31, 2009 from $732.3 million for the year ended December 31, 2008. The decrease in the average balance was primarily the result of the repayments on mortgage-backed securities exceeding the purchases of new securities in a market where we found our own loan originations to be more attractive than the yield offered on these securities.

Interest income on investment securities decreased by $7.6 million, or 31.7%, to $16.4 million for the year ended December 31, 2009 from $24.1 million for the year ended December 31, 2008. This decrease was attributable to a decrease in the average balance of investment securities and a decrease in the yield on investment securities. The average balance of investment securities decreased by $118.3 million, or 24.7%, to $360.6 million for the year ended December 31, 2009 from $478.9 million for the year ended December 31, 2008. The decrease in the average balance of investment securities is primarily attributable to investing cash flows from these securities into loans and interest-earning deposits. The average yield decreased by 0.17%, to 4.56% for the year ended December 31, 2009, from 4.73% for the year ended December 31, 2008. This decrease in yield resulted from the general decline in market interest rates.

Interest income on interest-earning deposits decreased by $2.1 million, or 76.7%, to $641,000 for the year ended December 31, 2009 from $2.8 million for the year ended December 31, 2008. This decrease is the result of a decrease in average yield earned on interest-earning deposits, which was partially offset by an increase in the average balance of interest-earning deposits. The average yield decreased by 2.38%, to 0.21% for the year ended December 31, 2009, from 2.59% for the year ended December 31, 2008. This decrease is a result of the rate of overnight deposits being decreased to the Federal Reserve's target rate of between 0% and 0.25%. The interest-earning deposit balance increased by $192.3 million, or 183.4%, to $297.2 million for the year ended December 31, 2009 from $104.9 million for the year ended December 31, 2008. This increase in average balance was due to substantial deposit growth during the entire year and was also due to the proceeds of our second-step stock offering being held in overnights funds during the month of December.

Interest expense. Interest expense decreased by $33.5 million, or 19.8%, to $135.8 million for the year ended December 31, 2009 from $169.3 million for the year ended December 31, 2008. This decrease was attributed to a decrease in the interest rate paid on all deposits and borrowings, which was partially offset by an increase in the average balance of interest-bearing liabilities. The average rate paid on all deposit accounts decreased during the year ending December 31, 2009 with savings accounts decreasing from 1.18% for the year ended December 31, 2008 to 0.76% for the year ended December 31, 2009; interest-bearing demand deposits decreasing from 0.88% for the year ended December 31, 2008 to 0.34% for the year ended December 31, 2009; money market demand accounts decreasing from 2.04% for the year ended December 31, 2008 to 1.13% for the year ended December 31, 2009 and certificate accounts decreasing from 3.93% for the year ended December 31, 2008 to 3.06% for the year ended December 31, 2009. In addition to the decrease in the rates paid on deposit accounts there was an overall decrease in the average balance of deposit accounts, which decreased by $59.1 million, or 1.2%, to $4.889 billion for the year ended December 31, 2009 from $4.948 billion for the year ended December 31, 2008. Also contributing to the decrease in interest expense was a shift in the mix of our deposits where we increased the balances of savings, interest-bearing checking and money market demand accounts, while decreasing the balance of certificates of deposit. The average rate paid on borrowed funds also decreased by 0.05% to 3.69% for the year ended December 31, 2009, from 3.74% for the year ended December 31, 2008. Throughout 2008, we utilized alternative funding sources, including borrowings from the Federal Home Loan Bank of Pittsburgh, to extend the maturities of our interest-bearing liabilities while continuing our efforts to control our cost of funds. During 2009, we repaid $43.8 million of term borrowings with the Federal Home Loan Bank and $146.0 million of short-term advances from the Federal Reserve Bank.

Net interest income. Net interest income increased by $9.3 million, or 4.2%, to $228.7 million for the year ended December 31, 2009 from $219.4 million for the year ended December 31, 2008. This increase was a result of the factors previously discussed, primarily due to the cost of funds decreasing more than the asset yield, contributing to a 0.01% increase in net interest margin to 3.44% for the year ended December 31, 2009 from 3.43% for the year ended December 31, 2008 and a 0.07% increase in net interest rate spread to 3.19% for the year ended December 31, 2009 from 3.12% for the year ended December 31, 2008.

45

Provision for loan losses. Management analyzes the allowance for loan losses as described in the section "Allowance for Loan Losses." The provision for loan losses increased by $18.9 million, or 83.1%, to $41.8 million for year ended December 31, 2009 from $22.9 million for the year ended December 31, 2008. The increase in the provision over the previous year is primarily attributed to increasing the reserve percentages used to calculate the provision for losses due to deteriorating economic factors, increased historical losses, the specific reserves on eight loans to different borrowers and an increase in troubled loans. Increasing the reserve percentages resulted in an increase in the provision for loan losses of $5.2 million. The increases were made based on historical loss history, delinquency trends and geographical loan stratification. A specific reserve was increased by $764,000, resulting in reserves of $951,000 for a loan secured by a strip mall in the state of Indiana. A specific reserve was increased by $855,000, resulting in reserves of $1.8 million for a loan secured by a housing development in Delaware. A specific reserve was increased by $1.8 million, resulting in reserves of $2.4 million to a moving, storage and automobile sales company in central Pennsylvania. A specific reserve of $1.1 million was established for a loan to a recycling company in northwestern Pennsylvania. A specific reserve was increased by $317,000 resulting in a specific reserve of $477,000 for a property eventually taken into REO located in northern Virginia. A specific reserve of $393,000 was established for a property located in northern Florida. A specific reserve was established for a condominium project in Gainesville, Florida of $2.0 million. A specific reserve was established for a hotel in Jacksonville, Florida of $2.0 million. Loans with payments 90 days or more delinquent and other nonaccrual loans have increased to $124.6 million at December 31, 2009 from $99.2 million at December 31, 2008.

In determining the amount of the current period provision, the Company considered the deteriorating economic conditions in our markets, including increases in unemployment and bankruptcy filings, and declines in real estate values. Net loan charge-offs increased by $16.7 million, or 171.7%, to $26.4 million for the year ended December 31, 2009 from $9.7 million for the year ended December 31, 2008. Annual net charge-offs to average loans increased to 0.51% for the year ended December 31, 2009 from 0.19% for the year ended December 31, 2008. The provision that is recorded is sufficient, in management's judgment, to bring the allowance for loan losses to a level that reflects the losses inherent in the Company's loan portfolio relative to loan mix, economic conditions and historical loss experience. Management believes, to the best of their knowledge, that all known losses as of the balance sheet dates have been recorded.

Noninterest income. Noninterest income increased by $14.5 million, or 37.6%, to $53.3 million for the year ended December 31, 2009 from $38.8 million for the year ended December 31, 2008. This increase in noninterest income was primarily due to a decrease in the noncash net impairment losses of investment securities, which decreased by $9.9 million, or 61.9%, to $6.1 million for the year ended December 31, 2009, from $16.0 million for the year ended December 31, 2008. In addition, service charges and fees increased by $2.4 million, or 7.3%, to $34.8 million for the year ended December 31, 2009, from $32.4 million for the year ended December 31, 2008 primarily due to the increase in deposits and deposit related fees; insurance commission income increased by $282,000, or 11.9%, to $2.7 million for the year ended December 31, 2009, from $2.4 million for the year ended December 31, 2008; mortgage banking income increased by $8.9 million to $7.4 million for the year ended December 31, 2009, from a loss of $1.5 million for the year ended December 31, 2008, due to the sale of a majority of our one- to four-family mortgage originations during the current year and a recovery of noncash impairment of mortgage servicing assets of $1.8 million for the year ended December 31, 2009 compared to a noncash impairment of mortgage servicing assets of $2.2 million for the year ended December 31, 2008 and we recorded a gain on the purchase of Keystone State Savings Bank of $3.5 million. Partially offsetting these increases were decreases in trust and other financial services income, which decreased by $411,000, or 6.1%, to $6.3 million for the year ended December 31, 2009, from $6.7 million for the year ended December 31, 2008 and other operating income, which decreased by $743,000, or 17.2%, to $3.6 million for the year ended December 31, 2009, from $4.3 million for the year ended December 31, 2008 and an increase in the loss on real estate owned, which increased by $3.6 million to $4.1 million for the year ended December

31, 2009 from $428,000 for the year ended December 31, 2008. This increase in the loss of real estate owned was primarily attributable to a $3.9 million write down of vacant land in Florida.

Noninterest expense. Noninterest expense increased by $30.4 million, or 17.8%, to $200.5 million for the year ended December 31, 2009 from $170.1 million for the year ended December 31, 2008. This increase was primarily due to a special assessment from the FDIC of $3.3 million, a contribution to our charitable foundation established in connection with our second-step conversion of $13.8 million, an increase in compensation and employee benefits of $4.5 million, an increase in processing expenses of $2.7 million, an increase in marketing expenses of $3.7 million and an increase in federal deposit insurance premiums of $4.4 million. These increases were partially offset by a decrease in amortization of intangible assets of $1.4 million and the prior year penalty on early extinguishment of debt of $705,000. The increases in operating expenses were a result of our continued upgrading of personnel and systems to build customer loyalty, improve loan and deposit mix, establish brand loyalty and build our infrastructure to support additional growth.

Income taxes. Income tax expense decreased by $10.0 million, or 58.7%, to $7.0 million for the year ended December 31, 2009 from $17.0 million for the year ended December 31, 2008. This decrease is due to a decrease in income before income taxes of $25.5 million and a decrease in the effective tax rate from 26.0% to 17.7%. The decrease in the effective tax rate was primarily due to a higher percentage of tax exempt income to pretax income.

Asset Quality

We actively manage asset quality through our underwriting practices and collection procedures. Our underwriting practices are focused on balancing risk and return while our collection operatives focus on diligently working with delinquent borrowers in an effort to minimize losses.

Collection procedures. Our collection procedures generally provide that when a loan is five days past due, a computer-generated late notice is sent to the borrower requesting payment. If delinquency continues, at 15 days a delinquent notice, plus a notice of a late charge, is sent and personal contact efforts are attempted, either in person or by telephone, to strengthen the collection process and obtain reasons for the delinquency. Also, plans to establish a payment plan are developed. Personal contact efforts are continued throughout the collection process, as necessary. Generally, if a loan becomes 60 days past due, a collection letter is sent and the loan becomes subject to possible legal action if suitable arrangements for payment have not been made. In addition, the borrower is given information which provides access to consumer counseling services to the extent required by the regulations of the Department of Housing and Urban Development. When a loan continues in a delinquent status for 90 days or more, and a payment schedule has not been developed or kept by the borrower, we may send the borrower a notice of intent to foreclose, giving 30 days to cure the delinquency. If not cured, foreclosure proceedings are initiated.

Nonperforming assets. Loans are reviewed on a regular basis and are placed on a nonaccrual status when, in the opinion of management, the collection of additional principal and/or interest is doubtful. Loans are automatically placed on nonaccrual status when either principal or interest is 90 days or more past due. Interest accrued and unpaid at the time a loan is placed on a nonaccrual status is reversed and charged against interest income.

Real estate acquired as a result of foreclosure or by deed in lieu of foreclosure is classified as real estate owned until such time as it is sold. When real estate is acquired through foreclosure or by deed in lieu of foreclosure, it is recorded at the lower of the related loan balance or its fair value as determined by an appraisal, less estimated costs of disposal. If the value of the property is less than the loan, less any related specific loan loss reserve allocations, the difference is charged against the allowance for loan losses. Any subsequent write-down of real estate owned or loss at the time of disposition is charged against earnings.

Loans Past Due and Nonperforming Assets. The following table sets forth information regarding our loans 30 days or more past due, nonaccrual loans 90 days or more past due, and real estate acquired or deemed acquired by foreclosure at the dates indicated. When a loan is delinquent 90 days or more, we fully reserve all accrued interest thereon and cease to accrue interest thereafter.

	At December 31				
	2010	2009	2008	2007	2006
Loans past due 30 days to 59 days:					
One- to four-family residential loans	$ 35,329	27,998	32,988	27,270	24,078
Multi-family and commercial real estate loans	16,287	16,152	18,901	11,331	7,975
Consumer loans	12,635	11,226	11,295	10,550	9,096
Commercial business loans	6,590	3,293	7,700	9,947	4,325
Total loans past due 30 days to 59 days	70,841	58,669	70,884	59,098	45,474
Loans past due 60 days to 89 days:					
One- to four-family residential loans	9,848	6,772	7,599	6,077	5,970
Multi-family and commercial real estate loans	14,365	5,811	8,432	4,984	3,846
Consumer loans	4,580	3,029	2,836	2,676	2,833
Commercial business loans	1,678	2,474	3,801	2,550	501
Total loans past due 60 days to 89 days	30,471	18,086	22,668	16,287	13,150
Loans past due 90 days or more: (1)					
One- to four-family residential loans	29,751	29,373	20,435	12,542	10,334
Multi-family and commercial real estate loans	44,965	49,594	43,828	24,323	18,982
Consumer loans	12,828	12,544	9,756	7,582	4,578
Commercial business loans	12,877	18,269	25,184	5,163	6,631
Total loans past due 90 days or more	100,421	109,780	99,203	49,610	40,525
Total loans 30 days or more past due	$ 201,733	186,535	192,755	124,995	99,149
Total real estate owned	20,780	20,257	16,844	8,667	6,653
Total loans 90 days or more past due and real estate owned	121,201	130,037	116,047	58,277	47,178
Total loans 90 days or more past due to net loans receivable	1.84 %	2.10 %	1.93 %	1.03 %	0.92 %
Total loans 90 days or more past due and real estate owned to total assets	1.49 %	1.63 %	1.67 %	0.87 %	0.72 %
Troubled debt restructurings	$ 52,605	13,493	—	—	—

(1) We classify as nonperforming all loans 90 days or more delinquent.

During the year ended December 31, 2010, gross interest income of approximately $15.0 million would have been recorded on loans accounted for on a nonaccrual basis if the loans had been current during the year. No interest income on nonaccrual loans was included in income during the year.

The following table sets forth loans 90 or more days past due by state (based on borrowers' residence) at December 31, 2010.

One- to four- family(1)	Percentage	Consumer and home equity	Percentage (2)	Commercial business and commercial real estate	Percentage (3)	Total	Percentage (4)

(Dollars in thousands)

State												
Pennsylvania	$17,891	0.9	%	9,673	0.8	%	33,304	3.1	%	60,868	1.5	%
New York	1,463	0.9	%	523	0.5	%	1,940	0.5	%	3,926	0.6	%
Ohio	134	0.7	%	87	0.6	%	—	0.0	%	221	0.3	%
Maryland	4,573	2.3	%	1,169	3.3	%	6,051	3.9	%	11,793	3.1	%
Florida	4,768	15.4	%	1,326	10.6	%	8,145	13.0	%	14,239	13.4	%
Other	922	1.9	%	50	0.9	%	8,402	13.0	%	9,374	8.0	%
Total	$29,751	1.2	%	12,828	0.9	%	57,842	3.2	%	100,421	1.8	%

(1) Percentage of mortgage loans in specified geographic area.
(2) Percentage of consumer loans in specified geographic area.
(3) Percentage of commercial loans in specified geographic area.
(4) Percentage of total loans in specified geographic area.

Classification of Assets. Our policies, consistent with regulatory guidelines, provide for the classification of loans considered to be of lesser quality as “substandard,” “doubtful,” or “loss” assets. An asset is considered “substandard” if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. “Substandard” assets include those characterized by the “distinct possibility” that the savings institution will sustain “some loss” if the deficiencies are not corrected. Assets classified as “doubtful” have all of the weaknesses inherent in those classified “substandard” with the added characteristic that the weaknesses present make “collection or liquidation in full,” on the basis of currently existing facts, conditions, and values, “highly questionable and improbable.” Assets classified as “loss” are those considered “uncollectible” so that their continuance as assets without the establishment of a specific loss reserve is not warranted. Assets that do not expose the savings institution to risk sufficient to warrant classification in one of the aforementioned categories, but which possess some weaknesses, are required to be designated “special mention.” At December 31, 2010, we had 301 loans, with an aggregate principal balance of $96.3 million, designated as special mention.

We regularly review our asset portfolio to determine whether any assets require classification in accordance with applicable regulations. Our largest classified assets generally are also our largest nonperforming assets.

The following table sets forth the aggregate amount of our classified assets at the dates indicated.

	At December 31,		
	2010	2009	2008
	(In Thousands)		
Substandard assets	$263,131	206,629	155,245
Doubtful assets	3,838	2,258	3,596
Loss assets	1,048	473	64
Total classified assets	$268,017	209,360	158,905

Allowance for Loan Losses. Our board of directors has adopted an Allowance for Loan Losses Policy designed to provide management with a systematic methodology for determining and documenting the allowance for loan losses each reporting period. This methodology was developed to provide a consistent process and review procedure to ensure that the allowance for loan losses is in conformity with GAAP, our policies and procedures and other supervisory and regulatory guidelines.

On an ongoing basis, the Credit Administration department, as well as loan officers, branch managers and department heads, review and monitor the loan portfolio for problem loans. This portfolio monitoring includes a review of the monthly delinquency reports as well as historical comparisons and trend analysis. On an on-going basis the loan officer along with the Credit Administration department grades or classifies problem loans or potential problem loans based upon their knowledge of the lending relationship and other information previously accumulated. Loans that have been classified as substandard or doubtful are reviewed by the Credit Administration department for possible impairment. A loan is considered impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement including both contractual principal and interest payments. Our loan grading system for problem loans is described above in “—Classification of Assets.”

If an individual loan is deemed to be impaired, we determine the proper measurement of impairment for each loan based on one of three methods: (1) the present value of expected future cash flows discounted at the loan’s effective interest rate; (2) the loan’s observable market price; or (3) the fair value of the collateral if the loan is collateral dependent. If the measure of the impaired loan is more or less than the recorded investment in the loan, we adjust the specific allowance associated with that individual loan accordingly.

If a substandard or doubtful loan is not considered individually for impairment, it is grouped with other loans that possess common characteristics for impairment evaluation and analysis. This segmentation is accomplished by grouping loans of similar product types, risk characteristics and industry concentration into homogeneous pools. Each pool is then analyzed based on the historical delinquency, charge-off and recovery trends over the past three years which are then extended to include the loss realization period during which the event of default occurs, additional consideration is also given to the current economic, political, regulatory and interest rate environment. This adjusted historical net charge-off amount as a percentage of loans outstanding for each group is used to estimate the measure of impairment.

The individual impairment measures along with the estimated losses for each homogeneous pool are consolidated into one summary document. This summary schedule along with the supporting documentation used to establish this schedule is prepared monthly and presented to the Credit Committee on a quarterly basis. The Credit Committee is comprised of members of Senior Management from our various departments, including mortgage, consumer and commercial lending, appraising, administration and finance as well as our President and Chief Executive Officer. The Credit Committee reviews the processes and documentation presented, reviews the concentration of credit by industry and customer, discusses lending products, activity, competition and collateral values, as well as economic conditions in general and in each of our market areas. Based on this review and discussion, the appropriate allowance for loan losses is estimated and any adjustments necessary to reconcile the actual allowance for loan losses with this estimate are determined. In addition, the Credit Committee considers whether any changes to the methodology are needed. The Credit Committee also compares our delinquency trends, nonperforming asset amounts and allowance for loan loss levels to its peer group and to state and national statistics. A similar review is also performed by the Risk Management Committee of the board of directors.

In addition to the reviews by the Credit Committee and the Risk Management Committee, regulators from either the Federal Deposit Insurance Corporation or Pennsylvania State Department of Banking perform a review on an annual basis of the adequacy of the allowance for loan losses and its conformity with regulatory guidelines and pronouncements. The internal audit department also performs a regular review of the detailed supporting schedules for accuracy and reports their findings to the Audit Committee of the board of directors. Any recommendations or enhancements from these independent parties are considered by management and the Credit Committee and implemented accordingly.

Management acknowledges that this is a dynamic process and consists of factors, many of which are external and beyond management’s control, which can change. The adequacy of the allowance for loan losses is based upon estimates using all the information previously discussed as well as current and known circumstances and events. There is no assurance that actual portfolio losses will not be substantially different than those that were estimated. Management believes that all known losses as of December 31, 2010 and 2009 have been recorded.

Management utilizes a consistent methodology each period when analyzing the adequacy of the allowance for loan losses and the related provision for loan losses. As part of the analysis, management considered the deteriorating economic data in our markets such as the continued increases in unemployment and bankruptcies as well as the declines in real estate collateral values. In addition, management considered the negative trend in asset quality, loan charge-offs and the allowance for loan losses as a percentage of nonperforming loans. As a result, we increased the allowance for loan losses during the year by $6.0 million, or 8.5%, to $76.4 million, or 1.40% of total loans, at December 31, 2010 from $70.4 million, or 1.35% of total loans, at December 31, 2009. The increase in the allowance for loan losses and the related provision for loan losses is discussed above in the section “Provision for loan losses.”

Analysis of the Allowance For Loan Losses. The following table sets forth the analysis of the allowance for loan losses for the periods indicated.

	Years Ended December 31,				
	2010	2009	2008	2007	2006
	(In Thousands)				
Net loans receivable	$5,457,593	5,229,062	5,141,892	4,795,622	4,412,441
Average loans outstanding	5,487,645	5,199,829	5,016,694	4,660,693	4,395,274
Allowance for loan losses					
Balance at beginning of period	70,403	54,929	41,784	37,655	33,411
Provision for loan losses	40,486	41,847	22,851	8,743	8,480
Charge offs:					
Real estate loans	(21,177)	(6,293)	(3,962)	(2,042)	(1,148)
Consumer loans	(6,390)	(5,912)	(6,290)	(5,175)	(5,543)
Commercial loans	(9,305)	(15,611)	(1,358)	(973)	(926)
Total charge-offs	(36,872)	(27,816)	(11,610)	(8,190)	(7,617)
Recoveries:					
Real estate loans	572	155	140	250	123
Consumer loans	1,422	1,093	1,060	1,073	1,214
Commercial loans	401	195	704	134	62
Total recoveries	2,395	1,443	1,904	1,457	1,399
Acquired through acquisitions	—	—	—	2,119	1,982
Balance at end of period	$76,412	70,403	54,929	41,784	37,655
Allowance for loan losses as a percentage of net loans receivable	1.40 %	1.35 %	1.07 %	0.87 %	0.85 %
Net charge-offs as a percentage of average loans outstanding	0.63 %	0.51 %	0.19 %	0.14 %	0.14 %
Allowance for loan losses as a percentage of nonperforming loans	51.49 %	56.49 %	55.37 %	84.22 %	92.92 %
Allowance for loan losses as a percentage of nonperforming loans and real estate owned	45.17 %	54.14 %	47.33 %	71.70 %	79.81 %

Allocation of Allowance for Loan Losses. The following tables set forth the allocation of allowance for loan losses by loan category at the dates indicated. The allowance for loan losses allocated to each category is not necessarily indicative of future losses in any particular category. Effective January 1, 2008, we revised our methodology for calculating the allowance for loan losses. Prior to that date, we established the allowance for loan losses based on ranges applicable to various loan categories (as opposed to single amounts applicable to the loan categories), which resulted in our not having an unallocated component of the allowance prior to that date.

	At December 31,					
	2010		2009		2008	
	Amount	% of Total Loans (1)	Amount	% of Total Loans (1)	Amount	% of Total Loans (1)
	(Dollars in Thousands)					
Balance at end of year applicable to:						
Real estate loans	$ 50,361	87.3 %	39,584	87.5 %	29,115	87.6 %
Consumer loans	5,810	4.5	6,554	5.1	6,125	5.1
Commercial business loans	15,770	8.2	20,073	7.4	15,044	7.3
Total allocated allowance	71,941		66,211			