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

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

FORM 10-Q

x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2011
or
¨ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to

Commission File Number 001-34582

Northwest Bancshares, Inc.
(Exact name of registrant as specified in its charter)

Maryland	27-0950358
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
100 Liberty Street, Warren, Pennsylvania	16365
(Address of principal executive offices)	(Zip Code)

(814) 726-2140
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

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

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

Large Accelerated Filer x Accelerated Filer ¨ Non-Accelerated Filer ¨ Smaller reporting company ¨

Indicate by check mark whether the registrant is a Shell Company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:
Common Stock ($0.01 par value) 103,279,692 shares outstanding as of July 31, 2011

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ITEM 1. FINANCIAL STATEMENTS

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

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

Advances by borrowers for taxes and insurance	30,371	22,868
Accrued interest payable	1,155	1,716
Other liabilities	58,828	57,398
Total liabilities	6,860,204	6,840,705
Shareholders' equity:		
Preferred stock, $0.01 par value: 50,000,000 authorized, no shares issued	-	-
Common stock, $0.01 par value: 500,000,000 shares authorized, 103,266,045 and 110,295,117 shares issued, respectively	1,033	1,103
Paid-in capital	726,207	824,164
Retained earnings	533,229	523,089
Unallocated common stock of employee stock ownership plan	(26,639)	(27,409)
Accumulated other comprehensive loss	(6,689)	(13,497)
	1,227,141	1,307,450
Total liabilities and shareholders' equity	$ 8,087,345	8,148,155

See accompanying notes to consolidated financial statements - unaudited

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

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

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

See accompanying notes to unaudited consolidated financial statements

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

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

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

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

See accompanying notes to unaudited consolidated financial statements

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

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

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

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

See accompanying notes to unaudited consolidated financial statements

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

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

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

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

See accompanying notes to unaudited consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Unaudited

(1) Basis of Presentation and Informational Disclosures

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

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

(e) Loans Receivable

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Stock-Based Compensation

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

Income Taxes- Uncertain Tax Positions

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

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

Recently Issued Accounting Standards to be Adopted in Future Periods

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

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

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

(2) Business Segments

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

As of or for the three months ended:

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

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

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

As of or for the six months ended:

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

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

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

(3) Investment securities and impairment of investment securities

The following table shows the portfolio of investment securities available-for-sale at June 30, 2011 (in thousands):

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

The following table shows the Company's portfolio of investment securities available-for-sale at December 31, 2010 (in thousands):

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

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

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