

GENERAL MOTORS CORP  
 Form 425  
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Subject Company: General Motors Corporation

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[The remainder of this document is an English translation of an Italian language document]

## General Motors Corporation - Public Exchange Offer in Italy

### Information of the amount of old notes tendered through Italian custodians

#### Release pursuant to Article 41, paragraph 2, letter (c) of CONSOB Regulation 11971/1999

Detroit, May 15, 2009. Reference is made to the public exchange offers and consent solicitations made by General Motors Corporation (“GM”) in Italy (the “Offer”) approved by CONSOB on May 5, 2009 pursuant to Article 102, paragraph 1, of Legislative Decree 58/1998.

The following information is made public pursuant Article 41, paragraph 2, letter (c) of CONSOB Regulation 11971/1999.

By “nominal amount tendered in Italy” reference is made to the nominal amount of old notes tendered by / through participants to the Clearing Systems based in Italy. No independent verification has been made as to the place of residence of the beneficial owners of old notes. Series of old notes of which GM believes there is no or nominal holding by Italian investors have been excluded.

The information is not final and it is subject to change as (i) holders can revoke their tenders up to the expiration of the Withdrawal Deadline; (ii) GM has the right to terminate the exchange offers and (iii) the exchange offers are subject to certain conditions, all as described in the prospectus dated April 27, 2009, as supplemented, relating to the exchange offers (the “European Prospectus”). Moreover, the information is based solely on data provided by the relevant Clearing System, which has not been otherwise verified.

<u>CUSIP/ ISIN</u>	<u>Series of old notes</u>	<u>Nominal amount tendered in Italy in the week 6-13 May 2009</u>	<u>Nominal amount tendered in Italy since the beginning of the Offer (i.e. 6 May 2009)</u>
<b><u>U.S. Dollar Denominated GM Old Notes</u></b>			
370442BB0	7.20% Notes due January 15, 2011	\$0	\$0
370442BS3	7.125% Senior Notes due July 15, 2013	\$0	\$0
370442BW4	8.25% Senior Debentures due July 15, 2023	\$0	\$0
370442BT1	8.375% Senior Debentures due July 15, 2033	\$0	\$0
370442BQ7	7.375% Senior Notes due May 23, 2048	\$0	\$0
<b><u>Euro Denominated GM Old Notes</u></b>			
XS0171942757	7.25% Notes due July 3, 2013	€100,000	€100,000
XS0171943649	8.375% Notes due July 5, 2033	€100,000	€100,000

**Offer Period**

The Withdrawal Deadline and Expiration Date for the exchange offers and consent solicitations are 11:59 p.m., New York City time, on May 26, 2009, unless extended by GM.

**Italian Offer Documentation**

The exchange offers and consent solicitations are being made to holders of GM's outstanding unsecured notes upon the terms and subject to the conditions set forth in the European prospectus dated April 27, 2009 (as amended and supplemented), including any documents incorporated by reference into the European prospectus, as approved by the UKLA on April 27, 2009, as competent authority under EU Directive 2003/71/EC and the Registration Statement on Form S-4 dated April 27, 2009 (as amended and/or supplemented), which includes a combined prospectus and proxy statement and information in accordance with the disclosure requirements of the tender offer rules of the Securities and Exchange Commission ("SEC"), and the related letter of transmittal (or form of electronic instruction notice, in the case of notes held through Euroclear or Clearstream), as also reflected in the Tender Offer Statement on Schedule TO dated and filed with the SEC on April 27, 2009 (as amended and/or supplemented), as each may be amended from time to time (collectively the "US Exchange Offer Documents"). GM strongly encourages you to carefully read the European prospectus (as amended and supplemented) and the documents relating to the exchange offers and consent solicitations that have been filed (or will be filed) with the SEC, because they contain important information regarding the proposed transaction.

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Noteholders in Italy may access the European prospectus for free at GM's website for the exchange offers at [www.gm.com/corporate/investor\\_information](http://www.gm.com/corporate/investor_information). Noteholders can access free copies of the US Exchange Offer Documents at the SEC's website (at [www.sec.gov](http://www.sec.gov)).

Any requests for copies of the Italian offer documentation or related materials should be directed to the Solicitation and Information Agent at the contact information set forth at the end of this press release. Holders may contact the Exchange Agent and Solicitation and Information Agent or the Luxembourg Exchange Agent for assistance in answering questions concerning the terms of the exchange offers and consent solicitations at the respective addresses set forth below.

GM and its directors and executive officers and other members of management and employees may be deemed participants in the solicitation of proxies with respect to the consent solicitations. Information regarding the interests of these directors and executive officers in the consent solicitations is included in the documents described above. Additional information, including information regarding GM's directors and executive officers, is available in GM's Annual Report on Form 10-K, which was filed with the SEC on March 5, 2009 and can be obtained without charge at [www.sec.gov](http://www.sec.gov).

*The Exchange Agent and Solicitation and Information Agent for the exchange offers is:*

**D. F. King (Europe) Limited**

One Ropemaker Street  
London EC2Y 9HT, UK  
Banks and Brokers call: +44 20 7920 9700  
All others call toll free: 00 800 5464 5464  
Email: [gm@dfking.com](mailto:gm@dfking.com)

**D.F. King & Co., Inc.**

48 Wall Street, 22nd Floor  
New York, New York 10005  
Banks and Brokers call: (212) 269-5550  
All others call toll free: (800) 769-7666  
Email: [gm@dfking.com](mailto:gm@dfking.com)

*The Luxembourg Exchange Agent for the exchange offers is:*

**Deutsche Bank Luxembourg, S.A.**

2, Bld Konrad Adenauer  
L-1115 Luxembourg  
Email: [xchange.offer@db.com](mailto:xchange.offer@db.com)

**Questions, requests for assistance and request for copies of the European Prospectus may be directed**

**to the Solicitation and Information Agent at its addresses listed above.**

>We continue to take the steps we believe are necessary to address the requirements of the Consent Order.

**Dodd-Frank Wall Street Reform and Consumer Protection Act**

In July 2010 the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act ) was signed into law. This law has significantly changed the current bank regulatory structure and is affecting 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

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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 years.

Certain provisions of the Dodd-Frank Act have had a near term effect on us. For example, the law provided that the Office of Thrift Supervision, which was the primary federal regulator for Northwest Bancshares, Inc., ceased to exist one year from the date of the new law's enactment. The Federal Reserve Board is now supervising and regulating all savings and loan holding companies that were formerly regulated by the Office of Thrift Supervision, including Northwest Bancshares, Inc.

The Dodd-Frank Act created 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 continue to be examined by their applicable bank regulators. The Dodd-Frank Act also weakened the federal preemption rules that have been applicable for national banks and federal savings associations, and gave state attorneys general the ability to enforce federal consumer protection laws.

Also effective July 2011 was a provision of the Dodd-Frank Act that eliminated 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 broadened the base for Federal Deposit Insurance Corporation insurance assessments. Assessments are now based on the average consolidated total assets less tangible equity capital of a financial institution. The Dodd-Frank Act also permanently increased 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 required publicly traded companies to give stockholders a non-binding vote on executive compensation say-on-pay and so-called golden parachute payments. The legislation directed 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 legislation also provided for origination of certain securitized loans to retain a percentage of the risk for transferred credits, directed the Federal Reserve Board to regulate pricing of certain debit card interchange fees, repealed restrictions on paying interest on checking accounts and contained a number of reforms related to mortgage origination.

Many of the provisions of the Dodd-Frank Act have delayed effective dates and the legislation requires various federal agencies to promulgate numerous and extensive regulations over the next several years. Although the substance and scope of these regulations cannot be completely determined at this time, it is expected that at a minimum the legislation and implementing regulations will increase our operating and compliance costs.

**Pennsylvania Savings Bank Law**

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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

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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. The Department of Banking may also appoint a receiver or conservator for an institution in appropriate cases.

**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.

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 various financial ratios. 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 5 and 9 basis points of total assets less tangible equity. The initial base assessment rate for institutions in Risk Categories II, III and IV is set at annual rates of 14, 23 and 35 basis points, respectively. These initial base assessment rates are adjusted to determine an institution's final assessment rate based on its brokered deposits and unsecured debt. The adjustments include higher premiums for institutions that rely significantly on excessive amounts of brokered deposits, including CDARS, while providing a reduction for all institutions for their unsecured debt. Total base assessment rates after adjustments range from 2.5 to 9 basis points for Risk Category I, 9 to 24 basis points for Risk Category II, 18 to 33 basis points for Risk Category III, and 30 to 45 basis points for Risk Category IV. This assessment structure represents a change, required by the Dodd-Frank Act and effective April 1, 2011, from the FDIC's prior system, which based assessments on deposits rather than total assets less tangible equity.

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. As of December 31, 2011, our prepaid assessment balance was \$16.1 million.

Pursuant to the Dodd-Frank Act, the FDIC has established 2.0% as the designated reserve ratio (DRR) 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 Act 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.

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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



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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.

**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. The Federal Deposit Insurance Corporation's capital regulation provides that such action, through enforcement proceedings or otherwise, may require a variety of corrective measures.

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 I 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%. Institutions that fall into an undercapitalized category are subject to a variety of mandatory and discretionary supervisory actions, including a restriction on capital distributions and the requirement to file a capital restoration plan with the regulators. Performance under the capital restoration plan must be guaranteed by the parent holding company up to the lesser of the amount of the capital deficiency when deemed undercapitalized or 5% of the institution's total assets. 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, 2011, Northwest Savings Bank was well-capitalized for this purpose.

**Loans-to-One Borrower Limitation**

In accordance with the Banking Code a Pennsylvania chartered savings bank, with certain limited exceptions, may lend to a single or related group of borrowers on an unsecured basis an amount equal to 15% of its capital accounts, the aggregate of capital, surplus, undivided profits, capital securities and reserve for loan losses. Our internal policy, however, is to make no loans either individually or in the aggregate to one customer in excess of \$15.0 million. This limit may be exceeded subject to the approval of the Board of Directors. We currently have six credit relationships that equal or exceed our \$15.0 million internal limit.

**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

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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. Activities of state banks and their subsidiaries are generally limited to those permissible for national banks. Exceptions include where the bank meets applicable regulatory capital requirements and the Federal Deposit Insurance Corporation determines that the proposed activity does not pose a significant risk to the deposit insurance fund.

**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 Federal Reserve Board rather than as a bank holding company. 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 as a savings and loan holding company with the Federal Reserve Board and is subject to Federal Reserve Board regulations, examinations, supervision and reporting requirements. In addition, the Federal Reserve Board has enforcement authority over Northwest Bancshares, Inc. and any non-savings institution subsidiaries of Northwest Bancshares, Inc. Among other things, this authority permits the Federal Reserve Board to restrict or prohibit activities that are determined to be a serious risk to the subsidiary savings institution.

**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 Federal Reserve Board, and certain additional activities authorized by Federal Reserve Board 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 Federal Reserve Board. It also prohibits the acquisition or retention of, with certain exceptions, more than 5% of a non-subsidiary 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 Federal Reserve Board 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

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federal deposit insurance fund, the convenience and needs of the community and competitive factors.

The Federal Reserve Board 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:

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- (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 (rather than as a bank holding company), 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, 2011 Northwest Savings Bank met the Qualified Thrift Lender test.

**Capital Requirements.** Savings and loan holding companies have not historically been subjected to consolidated regulatory capital requirements. However, the Dodd-Frank Act requires the Federal Reserve Board to set, for all depository institution holding companies, minimum consolidated capital levels that are as stringent as those required for the insured depository subsidiaries. The components of Tier 1 capital would be restricted to capital instruments that are currently considered to be Tier 1 capital for insured depository institutions. That would exclude instruments such as trust preferred securities and cumulative preferred stock that are currently permitted for bank holding companies. Instruments issued before May 19, 2010 will be grandfathered for companies of consolidated assets of \$15 billion or less. Bank holding companies with assets of less than \$500 million are exempt from consolidated capital requirements. Holding companies that were not regulated by the Federal Reserve Board as of May 19, 2010 (which would include most savings and loan holding companies) receive a five-year phase-in from the July 21, 2010 date of enactment of the Dodd-Frank Act. The Federal Reserve Board has not yet adopted such capital requirements.

**Source of Strength/Capital Distributions.** The Dodd-Frank Act extends to savings and loan holding companies the Federal Reserve Board's source of strength doctrine, which has long applied to bank holding companies. The regulatory agencies must promulgate regulations implementing the source of strength policy, which requires holding companies to act as a source of strength to their subsidiary depository institutions by providing capital, liquidity and other support in times of financial stress.

The Federal Reserve Board has issued a policy statement regarding capital distributions by bank holding companies that it has suggested is applicable to savings and loan holding companies as well. In general, the policy provides that dividends should be paid only out of current earnings and only if the prospective rate of earnings retention by the holding company appears consistent with the organization's capital needs, asset quality and overall financial condition. Regulatory guidance provides for prior regulatory review of capital distributions in certain circumstances such as where the company's net income for the past four quarters, net of dividends previously paid over that period, is insufficient to fully fund the dividend or the company's overall rate of earnings retention is inconsistent with the company's capital needs and overall financial condition. The ability of a holding company to pay dividends may be restricted if a subsidiary depository institution becomes undercapitalized. These regulatory policies could affect the ability of Northwest Bancshares, Inc. to pay dividends or otherwise engage in capital distributions.

**Federal Securities Laws**

Our common stock is 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.

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**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.

As directed by the Sarbanes-Oxley Act, our Chief Executive Officer and Chief Financial Officer are required to certify that our quarterly and annual reports do not contain any untrue statement of a material fact. The rules adopted by the Securities and Exchange Commission under the Sarbanes-Oxley Act have several requirements, including having these officers certify that: they are responsible for establishing, maintaining and regularly evaluating the effectiveness of our internal control over financial reporting; they have made certain disclosures to our auditors and the audit committee of the board of directors about our internal control over financial reporting; and they have included information in our quarterly and annual reports about their evaluation and whether there have been changes in our internal control over financial reporting or in other factors that could materially affect internal control over financial reporting.

**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.

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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.



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**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.

**Difficult market conditions have already affected us and our industry and may continue to do so.**

Our performance is significantly impacted by the general economic conditions in our primary markets in Pennsylvania, New York, Ohio and Maryland. Our markets have been adversely impacted by the severe national economic recession of 2008 and 2009, and the weak economic recovery has resulted in continued uncertainty in the financial markets and the expectation of weak general economic conditions continuing through 2012. The continuation of difficult market conditions is likely to result in continued high levels of unemployment, which will further weaken an already distressed economy and could result in additional defaults of mortgage loans.

At December 31, 2011, 76% of our loan portfolio was secured by properties located in Pennsylvania, with a large portion of the rest of our loans secured by real estate located in New York, Ohio and Maryland. Negative economic conditions, such as high unemployment, in the markets where collateral for our mortgage loans is located could adversely affect the value of the collateral securing such loans. Declines in the U.S. housing market manifested by falling home prices and increasing foreclosures, as well as unemployment and under-employment, have all negatively impacted the credit performance of mortgage loans and resulted in significant write-downs of asset values by financial institutions. Our business, financial condition and results of operations could be adversely affected by recessionary or impaired recovery conditions that are longer or deeper than expected.

Due to concerns about the stability of the financial markets generally, many lenders and institutional investors have reduced or ceased providing funding to borrowers, including other financial institutions. This tightening of credit and market instability has led to an increased level of commercial and consumer delinquencies, lack of consumer confidence, increased market volatility and widespread reduction of business activity generally. The resulting economic pressure on consumers and lack of confidence in the financial markets may adversely affect our business, financial condition and results of operations.

It cannot be known if conditions in the financial markets will improve in the near future. A worsening of these conditions would likely exacerbate the adverse effects of these difficult market conditions on us and others in the financial industry.

**Negative developments in the financial industry and the domestic and international credit markets may adversely affect our operations and results.**

Since the latter half of 2007, negative developments in the global credit and securitization markets have resulted in uncertainty in the financial markets and a general economic downturn which has continued into 2012. The economic downturn has been accompanied by deteriorated loan portfolio quality at many financial institutions. In addition, the value of real estate collateral supporting many home mortgages has declined and may continue to decline. Bank and bank holding company 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. These negative developments along with the turmoil and uncertainties that have accompanied them have heavily influenced the formulation and enactment of the Dodd-Frank Act, along with its implications as described elsewhere in this Risk Factors section. In addition to the many future implementing rules and regulations of the Dodd-Frank Act, the potential exists for other new federal or state laws and regulations regarding lending and funding practices and liquidity standards to be enacted. Bank regulatory agencies are expected to continue to be active in responding to concerns and trends identified in examinations. Negative developments in the financial industry and the domestic and international credit markets, and the impact of new legislation in response to those developments, may negatively impact our operations by increasing our costs, restricting our business operations, including our ability to originate or sell loans, and adversely impact our financial performance. In addition, these risks could affect the value of our loan portfolio as well as the value of our investment portfolio, which would also negatively affect our financial performance.

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**The Dodd-Frank Act, among other things, eliminated the Office of Thrift Supervision, tightened capital standards, created a new Consumer Financial Protection Bureau and will continue to result in new rules and regulations that are expected to increase our costs of operations.**

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act, or the Act) is significantly changing the current bank regulatory structure and affecting the lending, investment, trading and operating activities of financial institutions and their holding companies. The Dodd-Frank Act eliminated the former primary federal regulator for the Company, the Office of Thrift Supervision, and required savings and loan holding companies, such as the Company, to be regulated and supervised by the Board of Governors of the Federal Reserve System (the Federal Reserve Board). The Act also requires the Federal Reserve Board to set minimum capital levels for depository institution holding companies that are as stringent as those required for the insured depository subsidiaries, and the components of Tier 1 capital will be restricted to capital instruments that are currently considered to be Tier 1 capital for insured depository institutions. There is a five-year transition period (from the July 21, 2010 effective date of the Act) before the new capital requirements will apply to savings and loan holding companies, such as the Company. Under the Dodd-Frank Act, the proceeds of trust preferred securities are excluded from Tier 1 capital unless such securities were issued prior to May 19, 2010 by bank or savings and loan holding companies with less than \$15 billion of assets. The legislation also established a floor for capital of insured depository institutions that cannot be lower than the standards in effect on July 21, 2010. The Act also directs the federal banking regulators to implement new leverage and capital requirements that take into account off-balance sheet activities and other risks, including risks relating to securitized products and derivatives.

The Dodd-Frank Act also broadened the base for FDIC insurance assessments. Assessments are now based on the average consolidated total assets less tangible equity capital of a financial institution. The Act also eliminated the federal prohibitions on paying interest on demand deposits effective July 21, 2011, 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.

In addition, the Act created 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 such as Northwest, 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 new legislation also weakens the federal preemption available for national banks and federal savings banks, and gives state attorneys general the ability to enforce applicable federal consumer protection laws. For additional changes under the Dodd-Frank Act, see Supervision and Regulation Dodd-Frank Wall Street Reform and Consumer Protection Act.

It is difficult to predict at this time the full impact that the Dodd Frank Act and its implementing regulations will have on community banks, including the lending and credit practices of such banks. Moreover, many of the provisions of the Dodd-Frank Act are not yet in effect, and the legislation requires various federal agencies to promulgate numerous and extensive implementing regulations over the next few years. Although the substance and scope of these regulations cannot be determined at this time, it is expected that the legislation and implementing regulations, particularly those provisions relating to the new Consumer Financial Protection Bureau, may materially increase our operating and compliance costs and could restrict our ability to pay dividends.

**Changes in laws and regulations and the cost of compliance with new laws and regulations may adversely affect our operations and our income.**

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The Company and Northwest are subject to extensive regulation, supervision and examination by the Federal Reserve Board, the Department of Banking of the Commonwealth of Pennsylvania (the Department of Banking ), and 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 Northwest's operations, reclassify assets, determine the adequacy of Northwest's allowance for loan losses and determine the level of deposit insurance premiums assessed. Because our business is highly regulated, the laws and applicable regulations are subject to frequent change. Any change in these regulations and oversight, whether in the

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form of regulatory policy, new regulations or legislation or additional deposit insurance premiums could have a material impact on our operations.

In response to the financial crisis, Congress has taken actions that are intended to strengthen confidence and encourage liquidity in financial institutions, and the Federal Deposit Insurance Corporation has taken actions to increase insurance coverage on deposit accounts. In addition, there have been proposals made by members of Congress and others that would reduce the amount delinquent borrowers are otherwise contractually obligated to pay under their mortgage loans and limit an institution's ability to foreclose on mortgage collateral. A number of the largest mortgage lenders in the United States previously voluntarily suspended all foreclosures due to document verification deficiencies.

The potential exists for additional federal or state laws and regulations, or changes in policy, affecting lending and funding practices and liquidity standards. Moreover, bank regulatory agencies have been active in responding to concerns and trends identified in examinations, and have issued many formal enforcement orders requiring capital ratios in excess of regulatory requirements. Bank regulatory agencies, such as the Federal Reserve Board, the Department of Banking, the Consumer Financial Protection Bureau and the Federal Deposit Insurance Corporation, govern the activities in which we may engage, primarily for the protection of depositors, and not for the protection or benefit of potential investors. In addition, new laws and regulations may increase our costs of regulatory compliance and of doing business, and otherwise affect our operations. New laws and regulations may significantly affect the markets in which we do business, the markets for and value of our loans and investments, the fees we can charge and our ongoing operations, costs and profitability.

**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.

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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

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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, 2011, the fair value of our investment and mortgage-backed securities portfolio totaled \$1.148 billion. Net unrealized gains on these securities totaled \$31.0 million at December 31, 2011.

At December 31, 2011, our interest rate risk analysis indicated that the market value of our equity would decrease by 14.7% 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.

**Historically low interest rates may adversely affect our net interest income and profitability.**

During the past three years it has been the policy of the Federal Reserve Board to maintain interest rates at historically low levels through its targeted federal funds rate and the purchase of mortgage-backed securities. As a result, market rates on the loans we have originated and the yields on securities we have purchased have been at lower levels than available prior to 2008. As a general matter, our interest-bearing liabilities re-price or mature more quickly than our interest-earning assets, which has been one factor contributing to the increase in our interest rate spread as interest rates decreased. However, our ability to lower our interest expense will be limited at these interest rate levels while the average yield on our interest-earning assets may continue to decrease. The Federal Reserve Board has recently indicated its intention to maintain low interest rates until at least late 2014. Accordingly, our net interest income may be adversely affected and may even decrease, which may have an adverse effect on our profitability.

**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 our 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, 2011, we recognized \$2.1 million of impairment losses on investment securities, of which \$1.1 million was recognized as other comprehensive loss in the equity section of our balance sheet, and \$937,000 was recognized as a reduction to noninterest income in our income statement. At December 31, 2011, we held corporate debt securities and non-government agency collateralized mortgage obligations with net unrealized holding losses of \$4.4 million and \$701,000, 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



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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.

**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.

**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.

**Our exposure to municipalities may lead to operating losses.**

Our municipal bond portfolio may be impacted by the effects of economic stress on state and local governments. At December 31, 2011, we had \$244.0 million invested in obligations of states, municipalities and political subdivisions (collectively referred to as our municipal bond portfolio). We also had \$84.7 million of loans outstanding and \$69.6 million of unfunded commitments, open lines of credit and letters of credit to municipalities and political subdivisions. Widespread concern currently exists regarding the stress on state and local governments emanating from: (i) declining revenues; (ii) large unfunded liabilities to government workers; and (iii) entrenched cost structures. Debt-to-gross domestic product ratios for the majority of states have been deteriorating due to, among other factors: (i) declines in federal monetary assistance provided as the United States is currently experiencing the largest deficit in its history; and (ii) lower levels of sales and property tax revenue as unemployment remains elevated and the housing market continues to remain unstable. This concern has led to speculation about the potential for a significant deterioration in the municipal bond market, which could materially

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affect our results of operations, financial condition and liquidity. We may not be able to mitigate the exposure in our municipal portfolio if state and local governments are unable to fulfill their obligations. The risk of widespread issuer defaults may also increase if there are changes in legislation that permit states, or additional municipalities and political subdivisions, to file for bankruptcy protection or if there are judicial interpretations that, in a bankruptcy or other proceeding, lessen the value of any structural protections.

**The Standard & Poor's downgrade in the U.S. government's sovereign credit rating, and in the credit ratings of instruments issued, insured or guaranteed by certain related institutions, agencies and instrumentalities, could result in risks to the Company and general economic conditions that we are not able to predict.**

On August 5, 2011, Standard & Poor's downgraded the United States long-term debt rating from its AAA rating to AA+. On August 8, 2011, Standard & Poor's downgraded the credit ratings of certain long-term debt instruments issued by Fannie Mae and Freddie Mac and other U.S. government agencies linked to long-term U.S. debt. Instruments of this nature are key assets on the balance sheets of financial institutions, including the Bank. These downgrades could adversely affect the market value of such instruments, and could adversely impact our ability to obtain funding that is collateralized by affected instruments, as well as affecting the pricing of that funding when it is available. We cannot predict if, when or how these changes to the credit ratings will affect economic conditions. These ratings downgrades could result in a significant adverse impact to the Company, and could exacerbate the other risks to which we are subject, including those described above.

**Our information systems may experience an interruption or breach in security.**

We rely heavily on communications and information systems to conduct our business. Any failure, interruption, or breach in security or operational integrity of these systems could result in failures or disruptions in our customer relationship management, general ledger, deposit, loan, and other systems. While we have policies and procedures designed to prevent or limit the effect of the failure, interruption, or security breach of our information systems, we cannot assure you that any such failures, interruptions, or security breaches will not occur or, if they do occur, that they will be adequately addressed. The occurrence of any failures, interruptions, or security breaches of our information systems could damage our reputation, result in a loss of customer business, subject us to additional regulatory scrutiny, or expose us to civil litigation and possible financial liability, any of which could have a material adverse effect on our financial condition and results of operations.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

Not applicable.

**ITEM 2. PROPERTIES**

As of December 31, 2011, 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 and five offices in Maryland. Northwest Bancshares, Inc. and its wholly-owned subsidiaries also operated 52 consumer

finance offices located throughout Pennsylvania. At December 31, 2011, our premises and equipment had an aggregate net book value of approximately \$132.2 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.**

**MINE SAFETY DISCLOSURES**

Not applicable.

Table of Contents**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, 2012, we had 24 registered market makers, 15,109 stockholders of record (excluding the number of persons or entities holding stock in street name through various brokerage firms), and 97,519,701 shares outstanding. The following table sets forth market price and dividend information for our common stock.

<b>Year Ended</b>		<b>High</b>		<b>Low</b>		<b>Cash</b>
<b>December 31, 2011</b>						<b>Dividends</b>
						<b>Declared</b>
First Quarter	\$	12.59	\$	11.47	\$	0.10
Second Quarter	\$	12.67	\$	11.90	\$	0.11
Third Quarter	\$	13.36	\$	10.74	\$	0.11
Fourth Quarter	\$	12.93	\$	11.33	\$	0.11

<b>Year Ended</b>		<b>High</b>		<b>Low</b>		<b>Cash</b>
<b>December 31, 2010</b>						<b>Dividends</b>
						<b>Declared</b>
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

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. See Supervision and Regulation Holding Company Regulation Source of Strength/Capital Distributions for additional information regarding our ability to pay dividends.

There were no sales of unregistered securities during the quarter ended December 31, 2011.

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The following tables disclose information regarding repurchases of shares of common stock during the quarter ended December 31, 2011, and includes the repurchase programs announced on August 10, 2011 and September 26, 2011. The repurchase programs are for 5,150,000 and 4,750,000 shares, respectively, and do not have expiration dates.

Month	Number of shares purchased	Average price paid per share	Total number of shares purchased as part of a publicly announced repurchase plan (1)	Maximum number of shares yet to be purchased under the plan (1)
October	100,100	\$ 11.50	100,100	1,227,747
November	70,000	11.49	70,000	1,157,747
December	170,100	\$ 11.50		1,157,747

Month	Number of shares purchased	Average price paid per share	Total number of shares purchased as part of a publicly announced repurchase plan (2)	Maximum number of shares yet to be purchased under the plan (2)
October		\$		4,750,000
November				4,750,000
December		\$		4,750,000

- 
- (1) Reflects program for 5,150,000 shares announced August 10, 2011.  
 (2) Reflects program for 4,750,000 shares announced September 26, 2011.

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**Stock Performance Graph**

Set forth hereunder is a stock performance graph comparing (a) the cumulative total return on our Common Stock between December 31, 2006 and December 31, 2011, adjusted to reflect the 2.25-for-one stock split in connection with the mutual-to-stock conversion of Northwest Bancorp, MHC on December 18, 2009, (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 our stock performance will continue in the future with the same or similar trend depicted in the graph. We will not make or endorse any predictions as to future stock performance.

	12/31/06	12/31/07	12/31/08	12/18/09	12/31/09	12/31/10	12/31/11
<b>Northwest Bancshares, Inc.</b>	<b>100.00</b>	<b>99.76</b>	<b>83.04</b>	<b>103.71</b>	<b>102.98</b>	<b>111.34</b>	<b>121.84</b>
<b>NASDAQ Composite</b>	<b>100.00</b>	<b>110.26</b>	<b>65.65</b>	<b>90.16</b>	<b>95.19</b>	<b>112.10</b>	<b>110.81</b>
<b>NASDAQ Bank</b>	<b>100.00</b>	<b>76.94</b>	<b>64.14</b>	<b>52.28</b>	<b>53.93</b>	<b>61.47</b>	<b>54.83</b>



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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, 2011 and 2010 and for the years ended December 31, 2011, 2010 and 2009 is derived in part from the audited consolidated financial statements that appear in this document. The information at December 31, 2009, 2008 and 2007, and for the year ended December 31, 2008 and 2007, is derived in part from audited consolidated financial statements that do not appear in this document.

	2011	2010	At December 31, 2009 (In thousands)	2008	2007
<b>Selected Consolidated Financial Data:</b>					
Total assets	\$ 7,957,705	\$ 8,148,155	8,025,298	6,930,241	6,663,516
Investment securities held-to-maturity	74,692	106,520			
Investment securities available-for-sale	279,125	246,765	333,522	393,531	601,620
Mortgage-backed securities held-to-maturity	156,697	251,402			
Mortgage-backed securities available-for-sale	629,224	703,698	733,567	745,639	531,747
Loans receivable net:					
Residential mortgage loans	2,388,884	2,391,450	2,326,354	2,462,106	2,393,744
Home equity	1,076,099	1,088,278	1,073,718	1,031,478	989,321
Other consumer loans	240,364	249,966	267,311	261,398	261,598
Commercial real estate loans	1,403,619	1,314,487	1,214,274	1,050,681	826,180
Commercial loans	375,831	417,883	351,597	340,874	324,779
Total loans receivable, net (1)	5,480,381	5,457,593	5,229,062	5,141,892	4,795,622
Deposits	5,780,325	5,764,336	5,624,424	5,038,211	5,542,334
Advances from Federal Home Loan Bank and other borrowed funds	827,925	891,293	897,326	1,067,945	339,115
Shareholders equity	1,154,904	1,307,450	1,316,515	613,784	612,878

(1) Total includes unallocated allowance for loan losses of \$4.4 million, \$4.5 million, \$4.2 million and \$4.6 million for December 31, 2011, 2010, 2009 and 2008, respectively.

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	2011	For the Year Ended December 31,			2007
		2010	2009	2008	
(In thousands except per share data)					
<b>Selected Consolidated Operating Data:</b>					
Total interest income	\$ 360,070	370,568	364,463	388,659	396,031
Total interest expense	92,801	112,927	135,806	169,293	211,015
Net interest income	267,269	257,641	228,657	219,366	185,016
Provision for loan losses	34,170	40,486	41,847	22,851	8,743
Net interest income after provision for loan losses	233,099	217,155	186,810	196,515	176,273
Noninterest income	58,136	60,398	53,337	38,752	43,022
Noninterest expense	200,227	196,508	200,494	170,128	152,742
Income before income tax expense	91,008	81,045	39,653	65,139	66,553
Income tax expense	26,857	23,522	7,000	16,968	17,456
Net income	\$ 64,151	57,523	32,653	48,171	49,097
Earnings per share:					
Basic	\$ 0.64	0.53	0.30	0.44	0.44
Diluted	\$ 0.64	0.53	0.30	0.44	0.44

	2011	At or For the Year Ended December 31,			2007
		2010	2009	2008	
<b>Selected Financial Ratios and Other Data:</b>					
Return on average assets (1)	0.80%	0.71%	0.46%	0.70%	0.73%
Return on average equity (2)	5.24%	4.40%	4.71%	7.75%	8.18%
Average capital to average assets	15.18%	16.09%	9.67%	9.04%	8.96%
Capital to total assets	14.51%	16.05%	16.40%	8.86%	9.20%
Tangible common equity to tangible assets	12.60%	14.19%	14.53%	6.36%	6.50%
Net interest rate spread (3)	3.39%	3.19%	3.30%	3.25%	2.74%
Net interest margin (4)	3.68%	3.52%	3.56%	3.57%	3.10%
Noninterest expense to average assets	2.48%	2.42%	2.80%	2.48%	2.28%
Efficiency ratio	61.53%	61.79%	71.10%	65.91%	66.98%
Noninterest income to average assets	0.72%	0.74%	0.74%	0.56%	0.64%
Net interest income to noninterest expense	1.35x	1.31x	1.14x	1.29x	1.21x
Dividend payout ratio (5)	67.19%	75.47%	130.37%	88.89%	84.85%
Nonperforming loans to net loans receivable	2.39%	2.72%	2.38%	1.93%	1.03%
Nonperforming assets to total assets	1.99%	2.08%	1.81%	1.67%	0.87%
Allowance for loan losses to nonperforming loans	54.26%	51.49%	56.49%	55.37%	84.22%
Allowance for loan losses to net loans receivable	1.30%	1.40%	1.35%	1.07%	0.87%
Average interest-earning assets to average interest-bearing liabilities	1.22x	1.22x	1.12x	1.10x	1.10x
Number of full-service offices	168	171	171	167	166
Number of consumer finance offices	52	52	51	51	51

(1) Represents net income divided by average 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.

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**ITEM 7.  
OF OPERATIONS**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS**

**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 \$64.2 million, or \$0.64 per diluted share, for the year ended December 31, 2011 compared to \$57.5 million, or \$0.53 per diluted share, for the year ended December 31, 2010 and \$32.7 million, or \$0.30 per diluted share, for the year ended December 31, 2009. The loan loss provision was \$34.2 million for the year ended December 31, 2011 compared to \$40.5 million for the year ended December 31, 2010 and \$41.8 million for the year ended December 31, 2009. We recorded other-than-temporary impairment charges for securities, which were reflected as a reduction of noninterest income, of \$937,000, \$1.5 million and \$6.1 million for the years ended December 31, 2011, 2010 and 2009, 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 solicit 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 residential mortgage loans. At December 31, 2011, NCDC's total loan portfolio was approximately \$114.4 million with an average loan size of \$4,400, an average FICO score of 620 and an average yield of approximately 17.7%. NCDC's total delinquency has remained steady at approximately 3.7% of outstanding loans, with loans nonperforming for 90 days or more at 1.4% of loans outstanding. Annual net charge-offs average approximately \$2.8 million, or 2.5% of outstanding loans, and it maintains an allowance for loan losses of \$5.5 million, or 4.9% 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.

Table of Contents**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 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 collectability 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 collectability 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, 2011 and 2010 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. Annually, we validate the prices received from these third parties by comparing them to prices provided by a different independent pricing service. We have also reviewed the detailed valuation methodologies provided to us by our pricing services. 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.

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**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, 2011 and 2010, we used a discount rate of 4.39% and 5.57%, 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.



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**Balance Sheet Analysis**

**Assets.** Total assets at December 31, 2011 were \$7.958 billion, a decrease of \$190.5 million, or 2.3%, from \$8.148 billion at December 31, 2010. This decrease in assets was primarily caused by a decrease in our marketable securities portfolio of \$168.6 million, or 12.9%, to \$1.140 billion at December 31, 2011 from \$1.308 billion at December 31, 2010.

**Cash and Investments.** Total cash and investments decreased by \$199.5 million, or 9.8%, to \$1.828 billion at December 31, 2011, from \$2.028 billion at December 31, 2010. This decrease was a result of the repurchase of 14,437,253 shares of common stock at a total cost of \$172.7 million during 2011. We also repaid \$50.0 million of FHLB advances that matured in 2011.

**Loans receivable.** Net loans receivable increased by \$22.8 million, or 0.4%, to \$5.480 billion at December 31, 2011, from \$5.458 billion at December 31, 2010. Loan demand for most of the year was weak, with originations of \$1.928 billion nearly offset by loan sales, maturities and repayments of \$1.854 billion for the year ended December 31, 2011. We reduced the sale of residential mortgage loans to \$88.2 million in 2011 compared to \$205.3 million in 2010 due to our strong liquidity position, low loan demand and low yields on investment securities. During the year ended December 31, 2011 gross commercial real estate loans increased by \$58.1 million, or 4.1%, while all other loans classes decreased.

Total loans 30 days or more past due decreased by \$26.8 million, or 13.3%, to \$174.9 million at December 31, 2011 from \$201.7 million at December 31, 2010. The December 31, 2011 amount consisted of 3,412 loans, while the December 31, 2010 amount consisted of 3,517 loans. Delinquencies for all classes of loans with the exception of other consumer loans decreased during the year ended December 31, 2011. Delinquencies on residential mortgage loans decreased by \$4.4 million, or 5.9%, delinquencies on home equity loans decreased by \$1.9 million, or 9.1%, delinquencies on commercial real estate decreased by \$17.2 million, or 22.8% and delinquencies on commercial loans decreased by \$3.4 million, or 16.0%. Although delinquencies remain at historically elevated levels due primarily to the continued economic downturn, 2011 marks the first year since the economic downturn began in 2008 in which both total delinquency and loans 90 or more days delinquent decreased from the prior year.

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

	2011		2010		At December 31, 2009		2008		2007	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
(Dollars in thousands)										
<b>Personal Banking:</b>										
Residential mortgage loans	\$ 2,414,992	42.9%	2,432,421	42.9%	2,371,996	43.8%	2,492,940	47.2%	2,430,117	48.9%
Home equity loans	1,084,786	19.3%	1,095,953	19.3%	1,080,011	19.9%	1,035,954	19.6%	992,335	20.0%
Other consumer loans:										
Automobile	80,839	1.4%	88,486	1.6%	101,046	1.9%	102,267	2.0%	125,298	2.5%
Education loans	18,840	0.3%	21,957	0.4%	32,860	0.6%	38,152	0.7%	14,551	0.3%
Loans on savings accounts	11,764	0.2%	11,850	0.2%	12,209	0.2%	11,191	0.2%	10,563	0.2%
Other (1)	134,246	2.4%	133,483	2.3%	127,750	2.4%	115,913	2.2%	117,831	2.4%
Total other consumer loans	245,689	4.3%	255,776	4.5%	273,865	5.1%	267,523	5.1%	268,243	5.4%
Total Personal Banking	3,745,467	66.5%	3,784,150	66.7%	3,725,872	68.8%	3,796,417	71.9%	3,690,695	74.3%
<b>Business Banking:</b>										
Commercial real estate	1,481,127	26.3%	1,423,021	25.1%	1,292,145	23.8%	1,100,218	20.8%	906,594	18.3%
Commercial loans	408,462	7.2%	463,006	8.2%	403,589	7.4%	387,145	7.3%	367,459	7.4%
Total Business Banking	1,889,589	33.5%	1,886,027	33.3%	1,695,734	31.2%	1,487,363	28.1%	1,274,053	25.7%
Total loans receivable, gross	5,635,056	100.0%	5,670,177	100.0%	5,421,606	100.0%	5,283,780	100.0%	4,964,748	100.0%
Deferred loan fees	(4,752)		(7,165)		(7,030)		(5,041)		(4,179)	
Undisbursed loan proceeds	(78,785)		(129,007)		(115,111)		(81,918)		(123,163)	
Allowance for loan losses:										
<b>Personal Banking:</b>										
Residential mortgage loans	(8,482)		(6,854)		(9,349)		(4,138)		(6,623)	
Home equity loans	(8,687)		(7,675)		(6,293)		(4,476)		(3,014)	
Other consumer loans:	(5,325)		(5,810)		(6,554)		(6,125)		(6,645)	
Total Personal Banking	(22,494)		(20,339)		(22,196)		(14,739)		(16,282)	
<b>Business Banking:</b>										
Commercial real estate	(32,148)		(35,832)		(23,942)		(20,501)		(19,217)	
Commercial loans	(12,080)		(15,770)		(20,073)		(15,044)		(6,285)	
Total Business Banking	(44,228)		(51,602)		(44,015)		(35,545)		(25,502)	
Unallocated	(4,416)		(4,471)		(4,192)		(4,645)			
Total allowance for loan losses	(71,138)		(76,412)		(70,403)		(54,929)		(41,784)	
	\$ 5,480,381		5,457,593		5,229,062		5,141,892		4,795,622	

Total loans  
receivable, net

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

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The following table sets forth the recorded investment in loans receivable by state (based on borrowers' residence) at December 31, 2011.

(Dollars in thousands)	Residential		Home equity		Other consumer		Commercial real estate loans		Commercial loans		Total	(6)
	Mortgage	(1)	(2)	(3)	(4)	(5)						
Pennsylvania	\$ 1,978,512	82.5%	925,368	85.3%	225,827	91.9%	849,702	59.2%	258,775	66.7%	4,238,184	76.3%
New York	159,389	6.7%	104,194	9.6%	11,191	4.6%	356,868	24.9%	56,128	14.5%	687,770	12.4%
Ohio	19,895	0.8%	11,677	1.1%	3,022	1.2%	35,882	2.5%	10,072	2.6%	80,548	1.5%
Maryland	168,247	7.0%	33,816	3.1%	1,417	0.6%	114,839	8.0%	25,942	6.7%	344,261	6.2%
Florida	27,551	1.2%	8,057	0.7%	1,473	0.6%	40,904	2.8%	17,340	4.5%	95,325	1.7%
All other	43,772	1.8%	1,674	0.2%	2,759	1.1%	37,572	2.6%	19,654	5.0%	105,431	1.9%
<b>Total</b>	<b>\$ 2,397,366</b>	<b>100.0%</b>	<b>1,084,786</b>	<b>100.0%</b>	<b>245,689</b>	<b>100.0%</b>	<b>1,435,767</b>	<b>100.0%</b>	<b>387,911</b>	<b>100.0%</b>	<b>5,551,519</b>	<b>100.0%</b>

- (1) Percentage of total mortgage loans
- (2) Percentage of total home equity loans
- (3) Percentage of total other consumer loans
- (4) Percentage of total commercial real estate loans
- (5) Percentage of total commercial loans
- (6) Percentage of total loans

The following table sets forth the maturity or period of re-pricing of our loan portfolio at December 31, 2011. 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, 2011 (In thousands)	Due in one year or less	Due after one year through two years	Due after two year through three years	Due after three year through five years	Due after five years	Total
<b>Personal Banking:</b>						
Residential mortgage loans	\$ 175,625	130,622	115,237	232,366	1,761,142	2,414,992
Home equity loans	144,346	103,319	92,998	154,115	590,008	1,084,786
Other consumer loans	173,615	13,115	15,952	43,007		245,689
<b>Total Personal Banking</b>	<b>493,586</b>	<b>247,056</b>	<b>224,187</b>	<b>429,488</b>	<b>2,351,150</b>	<b>3,745,467</b>
<b>Business Banking:</b>						
Commercial real estate loans	501,856	225,398	218,859	472,308	62,706	1,481,127
Commercial loans	138,401	62,160	60,356	130,252	17,293	408,462
<b>Total Business Banking</b>	<b>640,257</b>	<b>287,558</b>	<b>279,215</b>	<b>602,560</b>	<b>79,999</b>	<b>1,889,589</b>
<b>Total</b>	<b>\$ 1,133,843</b>	<b>534,614</b>	<b>503,402</b>	<b>1,032,048</b>	<b>2,431,149</b>	<b>5,635,056</b>



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The following table sets forth at December 31, 2011, the dollar amount of all fixed-rate and adjustable-rate loans due after one year or more. Adjustable- and floating-rate loans are included in the table based on the contractual due date of the loan.

At December 31, 2011 (In thousands)	Fixed	Adjustable	Total
<b>Personal Banking:</b>			
Residential mortgage loans	\$ 2,238,997	38,356	2,277,353
Home equity loans	681,336	259,104	940,440
Other consumer loans	38,874	132,026	170,900
<b>Total Personal Banking</b>	<b>2,959,207</b>	<b>429,486</b>	<b>3,388,693</b>
<b>Business Banking:</b>			
Commercial real estate loans	460,945	823,422	1,284,367
Commercial loans	137,759	216,440	354,199
<b>Total Business Banking</b>	<b>598,704</b>	<b>1,039,862</b>	<b>1,638,566</b>
<b>Total</b>	<b>\$ 3,557,911</b>	<b>1,469,348</b>	<b>5,027,259</b>

**Investment securities.** Investment securities decreased by \$168.6 million, or 12.9%, to \$1.140 billion at December 31, 2011 from \$1.308 billion at December 31, 2010. This decrease was a result of our decision to deploy excess funds for the repurchase of 14,437,253 shares of common stock at a total cost of \$172.7 million during 2011. During the year ended December 31, 2011, we recognized other-than-temporary credit related impairment charges of \$937,000 on three private label collateralized mortgage obligations.

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

	2011		At December 31, 2010		2009	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
(In thousands)						
Residential mortgage-backed securities available for sale:						
Fixed-rate pass through certificates	\$ 110,364	118,564	111,581	118,722	145,363	151,756
Variable-rate pass through certificates	135,103	141,778	167,685	174,937	231,232	239,041
Fixed-rate non-agency CMOs	9,521	8,974	13,825	13,073	18,919	17,179
Fixed-rate agency CMOs	112,670	116,136	112,483	112,791	19,994	20,976
Variable-rate non-agency CMOs	1,104	950	3,274	2,895	9,075	7,905
Variable-rate agency CMOs	240,963	242,822	277,031	281,280	294,398	296,710
	609,725	629,224	685,879	703,698	718,981	733,567

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Total residential mortgage-backed securities available for sale

Investment securities available for sale:

U.S. Government, agency and GSEs

75,576	76,238	18,499	18,886	76,632	77,938
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Municipal securities

162,491	169,288	214,535	208,293	235,128	237,456
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Corporate debt issues

25,536	21,134	26,017	18,860	27,382	17,001
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Equity securities and mutual funds

12,080	12,465	641	726	1,054	1,127
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Total investment securities available for sale

\$ 275,683	279,125	259,692	246,765	340,196	333,522
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The following table sets forth certain information regarding the amortized cost and fair value of our held-to-maturity investment securities portfolio and mortgage-backed securities portfolio at the dates indicated.

	2011		At December 31, 2010		2009	
	Amortized Cost	Fair Value	Amortized Cost (In thousands)	Fair Value	Amortized Cost	Fair Value
Residential mortgage-backed securities held to maturity:						
Fixed-rate pass through certificates	\$ 24,160	25,259	29,820	30,226		
Variable-rate pass through certificates	9,066	9,160	9,853	9,932		
Fixed-rate agency CMOs	108,881	111,642	186,948	186,171		
Variable-rate agency CMOs	14,590	14,870	24,781	25,174		
<b>Total residential mortgage-backed securities held to maturity</b>	<b>156,697</b>	<b>160,931</b>	<b>251,402</b>	<b>251,503</b>		
Investment securities held to maturity:						
U.S. Government, agency and GSEs			26,500	26,536		
Municipal securities	74,692	78,481	80,020	76,087		
<b>Total investment securities held to maturity</b>	<b>\$ 74,692</b>	<b>78,481</b>	<b>106,520</b>	<b>102,623</b>		

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

	2011		At December 31, 2010		2009	
			(In thousands)			
Residential mortgage-backed securities:						
FNMA	\$	333,188	355,727	256,981		
GNMA		142,774	223,768	126,164		
FHLMC		280,686	335,803	324,562		
SBA		18,624	23,094			
Other (non-agency)		10,649	16,708	25,860		
<b>Total mortgage-backed securities</b>	<b>\$</b>	<b>785,921</b>	<b>955,100</b>	<b>733,567</b>		



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**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, 2011. Adjustable-rate mortgage-backed securities are included in the period in which interest rates are next scheduled to adjust.

	At December 31, 2011										
	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	Annualized Weighted Average Yield
	(Dollars in thousands)										
Investment securities available for sale:											
Government sponsored entities \$			36,295	1.18%	29,557	1.84%	9,665	0.60%	75,517	76,179	1.36%
U.S. Government and agency obligations	59	1.19%							59	59	1.19%
Municipal securities			10,633	3.96%	27,817	4.14%	124,041	4.35%	162,491	169,288	4.29%
Corporate debt issues	500	2.91%					25,036	3.08%	25,536	21,134	3.07%
Equity securities and mutual funds							12,080	1.25%	12,080	12,465	1.25%
Total investment securities available for sale	559	2.73%	46,928	1.18%	57,374	2.95%	170,822	3.73%	275,683	279,125	3.24%
Residential mortgage-backed securities available for sale:											
Pass through certificates	135,145	3.36%	2,458	4.41%	31,690	2.69%	76,174	5.19%	245,467	260,342	3.85%
CMOs	242,067	0.97%	2	6.15%	74,026	2.11%	48,163	2.71%	364,258	368,882	1.43%
Total residential mortgage-backed securities available for sale	377,212	1.82%	2,460	4.41%	105,716	2.28%	124,337	4.23%	609,725	629,224	2.40%
Investment securities held-to-maturity:											
Municipal securities					3,677	3.65%	71,015	4.05%	74,692	78,481	4.03%
Total investment securities held-to-maturity					3,677	3.65%	71,015	4.05%	74,692	78,481	4.03%
Residential mortgage-backed securities held-to-maturity:											

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Pass through certificates	9,066	2.70%				24,160	3.29%	33,226	34,419	3.13%	
CMOs	14,590	1.31%			19,671	2.22%	89,210	3.26%	123,471	126,512	2.86%
Total residential mortgage-backed securities											
held-to-maturity	23,656	1.84%			19,671	2.22%	113,370	3.27%	156,697	160,931	2.92%
Total investment securities and mortgage-backed	\$ 401,427	1.83%	49,388	1.94%	186,438	2.51%	479,544	3.80%	1,116,797	1,147,761	2.79%

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The following tables set forth information with respect to gross unrealized holding gains and losses on our portfolio of available-for-sale investment securities as of December 31, 2011.

	Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
<b>Debt issued by the U.S. government and agencies:</b>				
Due in one year or less	\$ 59			59
<b>Debt issued by government sponsored enterprises:</b>				
Due in one year - five years	36,295	134		36,429
Due in five years - ten years	29,557	638	(61)	30,134
Due after ten years	9,665		(49)	9,616
Equity securities	12,080	644	(259)	12,465
<b>Municipal securities:</b>				
Due in one year - five years	10,633	291		10,924
Due in five years - ten years	27,817	1,336		29,153
Due after ten years	124,041	5,350	(180)	129,211
<b>Corporate debt issues:</b>				
Due in one year or less	500			500
Due after ten years	25,036	233	(4,635)	20,634
<b>Residential mortgage-backed securities:</b>				
Fixed rate pass-through	110,364	8,201	(1)	118,564
Variable rate pass-through	135,103	6,679	(4)	141,778
Fixed rate non-agency CMOs	9,521	188	(735)	8,974
Fixed rate agency CMOs	112,670	3,466		116,136
Variable rate non-agency CMOs	1,104		(154)	950
Variable rate agency CMOs	240,963	1,991	(132)	242,822
Total residential mortgage-backed securities	609,725	20,525	(1,026)	629,224
Total marketable securities available-for-sale	\$ 885,408	29,151	(6,210)	908,349

The following tables set forth information with respect to gross unrealized holding gains and losses on our portfolio of held-to-maturity investment securities as of December 31, 2011.

	Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
		(In thousands)		
<b>Municipal securities:</b>				
Due in five - ten years	\$ 3,677	174		3,851
Due after ten years	71,015	3,615		74,630

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Residential mortgage-backed securities:			
Fixed rate pass-through	24,160	1,099	25,259
Variable rate pass-through	9,066	94	9,160
Fixed rate agency CMOs	108,881	2,761	111,642
Variable rate agency CMOs	14,590	280	14,870
Total residential mortgage-backed securities	156,697	4,234	160,931
Total marketable securities held-to-maturity	\$ 231,389	8,023	239,412

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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 that 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, 2011.

	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
	(In thousands)					
U.S. government and agencies	\$ 24,601	(61)	9,648	(49)	34,249	(110)
Municipal securities			2,317	(180)	2,317	(180)
Corporate issues	3,537	(219)	15,067	(4,416)	18,604	(4,635)
Equity securities	4,178	(258)	18	(1)	4,196	(259)
Residential mortgage-backed securities - non-agency			4,971	(889)	4,971	(889)
Residential mortgage-backed securities - agency	85,921	(100)	14,353	(37)	100,274	(137)
Total temporarily impaired securities	\$ 118,237	(638)	46,374	(5,572)	164,611	(6,210)

As of December 31, 2011, we had six investments in corporate issues with a total book value of \$19.5 million and total fair value of \$15.1 million, where book value exceeded carrying value for more than 12 months. These investments were two single issuer trust preferred investments and four 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 impairment of these investments 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.

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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, 2011.

Description	Class	Book Value	Total Fair Value (In thousands)	Unrealized Losses	Moody s/ Fitch Ratings
Bank Boston Capital Trust (1)	N/A	\$ 988	673	(315)	Ba1/ BBB-
Huntington Capital Trust	N/A	1,425	1,090	(335)	Baa3/ BBB-
Commercebank Capital Trust	N/A	886	880	(6)	Not rated/ Not rated
North Fork Capital Trust (2)	N/A	1,007	977	(30)	Baa3/ BBB
Ocean Shore Capital Trust	N/A	863	700	(163)	Not rated/ Not rated
Reliance Capital Trust	N/A	1,000	980	(20)	Not rated/ Not rated
I-PreTSL I	Mezzanine	1,500	442	(1,058)	Not rated/ CCC
I-PreTSL II	Mezzanine	1,500	603	(897)	Not rated/ B
PreTSL XIX	Senior A-1	8,660	7,304	(1,356)	Baa2/ BBB
PreTSL XX	Senior A-1	5,410	4,955	(455)	Ba2/ BB
		\$ 23,239	18,604	(4,635)	

(1) Bank Boston was acquired by Bank of America

(2) North Fork was acquired by Capital One

The following table provides collateral information, where available, on the entire pool for trust preferred securities included in the previous table as of December 31, 2011.

Description	Total Collateral	Current deferrals and defaults	Performing Collateral	Additional Immediate defaults before causing an interest shortfall
(In thousands)				
I-PreTSL I	\$ 193,500	32,500	161,000	90,900
I-PreTSL II	343,500	17,500	326,000	153,395
PreTSL XIX	650,081	146,900	503,181	175,000
PreTSL XX	552,238	164,500	387,738	106,000

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, 2011, we believe that the impairment within our portfolio of agency mortgage-backed securities is temporary. As of December 31, 2011, we had ten non-agency collateralized mortgage obligations with total book value of \$10.6 million and total fair value of \$9.9 million. During the year ended December 31, 2011, we recognized other-than-temporary credit related impairment of \$937,000 related to three of these investments. After recognizing the other-than-temporary impairment, our book value on these three investments was \$4.8 million, with a fair value of \$4.1 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

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collateralized mortgage obligations, with book value of \$5.7 million and fair value of \$5.8 million, were also reviewed considering the severity and length of impairment. After this review, we determined that the impairment on these seven securities was temporary.

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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, 2011.

Description	Book Value	Total Fair Value	Unrealized Loss	Cumulative impairment recorded in earnings
AMAC 2003-6 2A2	\$ 364	374		
AMAC 2003-6 2A8	753	775		
AMAC 2003-7 A3	461	466		
BOAMS 2005-11 1A8	1,938	2,069		(146)
CWALT 2005-J14 A3	4,756	4,021	(735)	(676)
CFSB 2003-17 2A2	726	736		
WAMU 2003-S2 A4	523	533		
CMLTI 2005-10 1A5B	73	33	(40)	(3,531)
SARM 2005-21 4A2	53	22	(31)	(3,193)
WFMBS 2003-B A2	978	895	(83)	
	\$ 10,625	9,924	(889)	(7,546)

As of December 31, 2011, we had four investments in municipal securities with a total book value of \$2.5 million and a total fair value of \$2.3 million, where book value exceeded fair value for more than 12 months. We review our portfolio of municipal securities quarterly for impairment. We initially evaluate investments in municipal securities for other-than-temporary impairment by comparing the fair value, provided to us by two third party pricing source using quoted prices for similar assets that are actively traded, to the carrying value. When an investment's fair value is below 80% of the carrying value we then compare the stated interest rate to current market interest rates to determine if the decline in fair value is attributable to interest rates. If the stated interest rate approximates current interest rates for similar securities, we determine if the investment is rated and if so, if the rating has changed in the current period. If the rating has not changed during the current period, we review publicly available information to determine if there has been any negative change in the underlying municipality. As of December 31, 2011, we have determined that all of the impairment in our municipal securities portfolio is noncredit related and therefore temporary. The four investments in municipal securities discussed above represent two Pennsylvania municipalities.

The following table provides information for our portfolio of municipal securities that have been in an unrealized loss position for more than 12 months as of December 31, 2011:

Description	State	Book Value	Total Fair Value	Unrealized Losses	Rating
Cambridge Area JT Revenue	PA	\$ 595	544	(51)	Not rated
West Reading General Obligation	PA	424	411	(13)	BBB
West Reading General Obligation	PA	492	475	(17)	BBB
West Reading General Obligation	PA	986	887	(99)	BBB
		\$ 2,497	2,317	(180)	



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**Deposits.** Deposits increased by \$16.0 million, or 0.3%, to \$5.780 billion at December 31, 2011 from \$5.764 billion at December 31, 2010. Deposit balances increased across all of our products with the exception of certificates of deposit. During 2011 we have continued our emphasis on generating checking accounts and other low cost deposits. Checking accounts increased by \$101.7 million, or 7.5%, to \$1.459 billion at December 31, 2011 from \$1.358 billion at December 31, 2010. Savings accounts increased by \$87.4 million, or 4.5%, to \$2.036 billion at December 31, 2011 from \$1.949 billion at December 31, 2010.

The following table sets forth the dollar amount of deposits in each state indicated as of December 31, 2011.

State	Balance (Dollars in thousands)	Percent
Pennsylvania	\$ 4,742,984	82.0%
New York	663,592	11.5%
Ohio	57,581	1.0%
Maryland	283,266	4.9%
Florida	32,902	0.6%
Total	\$ 5,780,325	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, 2011.

Maturity Period	Certificates of Deposit (In thousands)
Three months or less	\$ 121,678
Over three months through six months	96,604
Over six months through twelve months	122,372
Over twelve months	255,684
Total	\$ 596,338

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

	Balance	At December 31,			2010			2009		
		2011 Percent (1)	Rate (2)	Balance	Percent (1)	Rate (2)	Balance	Percent (1)	Rate (2)	
(Dollars in thousands)										
Savings accounts	\$ 1,072,278	18.5%	0.41%	1,049,194	18.2%	0.60%	924,461	16.4%	0.85%	
Checking accounts	1,459,236	25.2	0.06%	1,357,538	23.6	0.07%	1,255,146	22.3	0.13%	
Money market accounts	963,994	16.7	0.40%	899,688	15.6	0.52%	820,076	14.6	0.91%	
Certificates of deposit:										
Maturing within 1 year	1,356,963	23.5	1.95%	1,230,549	21.3	1.62%	1,545,784	27.5	2.43%	
Maturing 1 to 3 years	488,647	8.5	1.82%	1,011,806	17.6	2.88%	958,027	17.0	3.46%	
Maturing more than 3 years	439,207	7.6	2.41%	215,561	3.7	2.82%	120,930	2.2	3.44%	
Total certificates	2,284,817	39.5	2.01%	2,457,916	42.6	2.25%	2,624,741	46.7	2.85%	
Total deposits	\$ 5,780,325	100.0%	0.96%	5,764,336	100.0%	1.13%	5,624,424	100.0%	1.58%	

(1) Represents percentage of total deposits.

(2) Represents weighted average nominal rate at year end.

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**Borrowings.** Borrowings decreased by \$63.4 million, or 7.1%, to \$827.9 million at December 31, 2011 from \$891.3 million at December 31, 2010. This decrease resulted from the repayment of \$50.0 million of FHLB borrowings that matured during 2011, and a decrease in reverse repurchase agreements of \$13.3 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 as part of interest expense over the life of the borrowings. At December 31, 2011 the remaining amount to be amortized was \$43.0 million. The interest rate paid on reverse repurchase agreements decreased during the year to 0.58% from 1.01% the prior year.

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

	During the Years Ended December 31,		
	2011	2010	2009
	(Dollars in thousands)		
<b>Federal Home Loan Bank of Pittsburgh borrowings:</b>			
Average balance outstanding	\$ 700,928	769,493	844,483
Maximum outstanding at end of any month during year	705,645	782,210	917,478
Balance outstanding at end of year	695,585	745,651	782,221
Weighted average interest rate during year	3.67%	3.95%	3.96%
Weighted average interest rate at end of year	3.67%	3.75%	4.04%
<b>Reverse repurchase agreements:</b>			
Average balance outstanding	140,820	127,350	90,706
Maximum outstanding at end of any month during year	151,831	157,582	115,342
Balance outstanding at end of year	132,340	145,642	115,105
Weighted average interest rate during year	0.58%	1.01%	1.35%
Weighted average interest rate at end of year	0.35%	0.74%	1.55%
<b>Other borrowings:</b>			
Average balance outstanding			1,382
Maximum outstanding at end of any month during year			4,496
Balance outstanding at end of year			
Weighted average interest rate during year			4.99%
Weighted average interest rate at end of year			
<b>Total borrowings:</b>			
Average balance outstanding	\$ 841,748	896,843	936,571
Maximum outstanding at end of any month during year	847,449	905,874	1,009,586
Balance outstanding at end of year	827,925	891,293	897,326
Weighted average interest rate during year	3.13%	3.57%	3.69%
Weighted average interest rate at end of year	3.13%	3.26%	3.72%

**Shareholders equity.** Total shareholders equity at December 31, 2011 was \$1.155 billion, a decrease of \$152.5 million, or 11.7%, from \$1.307 billion at December 31, 2010. This decrease was a result of the repurchase of 14,437,253 shares of common stock for \$172.7 million, an increase in other comprehensive loss of \$9.7 million and the payment of dividends of \$43.6 million, all of which were partially offset by net income of \$64.2 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.

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<b>Interest-earning assets:</b>									
Mortgage-backed securities (5)	874,366	23,450	2.68%	816,182	25,271	3.10%	720,683	27,263	3.78%
Federal Home Loan Bank stock (6)	53,985			62,688			63,162		
Total interest-earning assets (includes FTE adjustments of \$7,914 \$7,803 and \$7,595, respectively)	7,486,604	367,984	4.91%	7,541,534	378,371	5.02%	6,641,522	372,058	5.59%
Total assets	8,057,492			8,119,851			7,164,560		
Savings	1,075,890	5,000	0.46%	1,031,362	8,166	0.79%	850,707	6,501	0.76%
Money market	939,317	4,243	0.45%	888,081	5,977	0.67%	752,166	8,471	1.13%
Borrowed funds (8)	841,748	26,381	3.13%	896,843	32,054	3.57%	936,571	34,578	3.69%
Total interest-bearing liabilities	6,115,649	92,801	1.52%	6,178,952	112,927	1.83%	5,931,085	135,806	2.29%
Total liabilities	6,834,083			6,813,071			6,471,621		
Total liabilities and stockholders equity	8,057,492			8,119,851			7,164,560		
Net interest rate spread (9)			3.39%			3.19%			3.30%
Net interest margin (10)	1,370,955		3.68%	1,362,582		3.52%	710,437		3.56%

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- (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 5.82%, 6.00% and 6.14%, respectively, Investment securities 3.63%, 3.85% and 4.56%, respectively, interest-earning assets 4.80%, 4.92% and 5.48%, respectively, GAAP basis net interest rate spreads were 3.29%, 3.09% and 3.19%, respectively, and GAAP basis net interest margins were 3.57%, 3.42% and 3.44%, respectively.

Table of Contents**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, 2011 compared to 2010 and for the year ended December 31, 2010 compared to 2009. 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 multiplied by the prior year volume; and (3) the total increase or decrease. Changes not solely attributable to rate or volume have been allocated proportionately to the change due to volume and the change due to rate.

	Years Ended December 31, 2011 vs. 2010			Years Ended December 31, 2010 vs. 2009		
	Increase (Decrease) Due to		Total Increase (Decrease)	Increase (Decrease) Due to		Total Increase (Decrease)
	Rate	Volume		Rate	Volume	
(In thousands)						
<b>Interest-earning assets:</b>						
Loans receivable	\$ (9,878)	2,103	(7,775)	(9,091)	17,758	8,667
Mortgage-backed securities	(3,623)	1,802	(1,821)	(5,605)	3,613	(1,992)
Investment securities	(1,214)	808	(406)	(2,392)	574	(1,818)
Federal Home Loan Bank stock						
Interest-earning deposits	(22)	(363)	(385)	133	1,323	1,456
Total interest-earning assets	(14,737)	4,350	(10,387)	(16,955)	23,268	6,313
<b>Interest-bearing liabilities:</b>						
Savings accounts	(3,519)	353	(3,166)	259	1,406	1,665
Interest-bearing demand accounts	(278)	27	(251)	(1,452)	127	(1,325)
Money market demand accounts	(2,079)	345	(1,734)	(4,025)	1,531	(2,494)
Certificate accounts	(6,511)	(2,791)	(9,302)	(16,334)	(1,732)	(18,066)
Borrowed funds	(3,825)	(1,848)	(5,673)	(1,081)	(1,443)	(2,524)
Junior subordinated deferrable interest debentures				8	(143)	(135)
Total interest-bearing liabilities	(16,212)	(3,914)	(20,126)	(22,625)	(254)	(22,879)
Net change in net interest income	\$ 1,475	8,264	9,739	5,670	23,522	29,192

**Comparison of Results of Operations for the Years Ended December 31, 2011 and 2010**

**General.** Net income for the year ended December 31, 2011 was \$64.2 million, or \$0.64 per diluted share, an increase of \$6.7 million, or 11.5%, from \$57.5 million, or \$0.53 per diluted share, for the year ended December 31, 2010. The increase in net income resulted primarily from an increase in net interest income of \$9.6 million and a decrease in provision for loan losses of \$6.3 million. These items were partially offset by increases in income tax expense and noninterest expense and a decrease in noninterest income. A discussion of each significant change follows.

Net income for the year ended December 31, 2011 represents 5.24% and 0.80% return on average equity and return on average assets, respectively, compared to 4.40% and 0.71% for the year ended December 31, 2010.

**Interest income.** Interest income decreased by \$10.5 million, or 2.8%, to \$360.1 million for the year ended December 31, 2011 from \$370.6 million for the year ended December 31, 2010. The decrease in interest income was due to a decrease in the average balance of interest-earning assets and a decrease in the average yield on interest-earning assets. The average balance of interest-earning assets decreased by \$54.9 million, or 0.7%, to \$7.487 billion for the year ended December 31, 2011 from \$7.542 billion for the year ended December 31, 2010. The average rate earned on interest-earnings assets decreased by 0.12%, to 4.80% for the year ended December 31, 2011 from 4.92% for the year ended December 31, 2010. An explanation of the changes in the balances of interest-earnings assets and changes in the yield is discussed in each category below.



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Interest income on loans receivable decreased by \$8.0 million, or 2.4%, to \$320.9 million for the year ended December 31, 2011 from \$328.9 million for the year ended December 31, 2010. 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 0.18%, to 5.82% for the year ended December 31, 2011, from 6.00% for the year ended December 31, 2010. This decrease is primarily due to the re-pricing of variable rate loans and the origination of new loans in a lower interest rate environment. Average loans receivable increased by \$21.1 million, or 0.4%, to \$5.509 billion for the year ended December 31, 2011 from \$5.488 billion for the year ended December 31, 2010. This increase was attributable both to our efforts in attracting and maintaining quality personal and business loan relationships as well as increased loan demand in the fourth quarter.

Interest income on mortgage-backed securities decreased by \$1.8 million, or 7.2%, to \$23.5 million for the year ended December 31, 2011 from \$25.3 million for the year ended December 31, 2010. 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 0.42%, to 2.68% for the year ended December 31, 2011, from 3.10% for the year ended December 31, 2010. This decrease in yield is primarily the result of the continued low interest rate environment throughout 2011 which caused the rates on our variable rate securities to decrease. The average mortgage-backed securities balance increased by \$58.2 million, or 7.1%, to \$874.4 million for the year ended December 31, 2011 from \$816.2 million for the year ended December 31, 2010. The increase in the average balance of mortgage-backed securities was primarily the result of deploying excess funds which have resulted from lower net loan growth and an increase in deposits.

Interest income on investment securities decreased by \$286,000, or 2.0%, to \$14.0 million for the year ended December 31, 2011 from \$14.3 million for the year ended December 31, 2010. 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 0.22%, to 3.63% for the year ended December 31, 2011, from 3.85% for the year ended December 31, 2010. This decrease in yield resulted from the continuation of historically low market interest rates which caused a decrease in the rates on our variable rate securities and low yields on the securities that were purchased this year. The average balance of investment securities increased by \$14.5 million, or 3.9%, to \$384.4 million for the year ended December 31, 2011 from \$369.9 million for the year ended December 31, 2010. The increase in the average balance of investment securities was primarily the result of deploying excess funds which resulted from lower net loan growth and an increase in deposits.

Interest income on interest-earning deposits decreased by \$385,000, or 18.4%, to \$1.7 million for the year ended December 31, 2011 from \$2.1 million for the year ended December 31, 2010. This decrease is the result of a decrease in the average balance of interest-earning deposits of \$140.1 million, or 17.4%, to \$665.1 million for the year ended December 31, 2011 from \$805.2 million for the year ended December 31, 2010. This decrease is primarily the result of the use of cash to repurchase common stock during the year.

**Interest expense.** Interest expense decreased by \$20.1 million, or 17.8%, to \$92.8 million for the year ended December 31, 2011 from \$112.9 million for the year ended December 31, 2010. This decrease was primarily attributed to decreases in both the interest rate paid on and the average balance of deposits and borrowings. The average rate paid on all categories of deposit accounts decreased during the year ended December 31, 2011 due to a decrease in market interest rates. Rates on savings accounts decreased from 0.79% to 0.46%; interest-bearing demand deposit rates decreased from 0.16% to 0.12%; money market demand account rates decreased from 0.67% to 0.45% and certificates of deposit rates decreased from 2.41% to 2.14. 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 decreased by 0.44% to 3.13% for the year ended December 31, 2011, from 3.57% for the year ended December 31, 2010 as the average rate on repurchase agreements decreased from 1.01% for the year ended December 31, 2010 to 0.58% for the year ended December 31, 2011. We also made scheduled repayments of FHLB advances of \$50.0 million, which had an interest rate of 4.87%, and realized a full years effect of reduced interest rates due to our refinancing \$695.0 million of FHLB advances in September 2010.



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**Net interest income.** Net interest income increased by \$9.6 million, or 3.7%, to \$267.3 million for the year ended December 31, 2011 from \$257.6 million for the year ended December 31, 2010. This increase was a result of the factors previously discussed. Our net interest rate spread increased by 0.20% to 3.29% for the year ended December 31, 2011 from 3.09% for the year ended December 31, 2010 and our net interest margin increased by 0.15% to 3.57% for the year ended December 31, 2011 from 3.42% for the year ended December 31, 2010.

**Provision for loan losses.** We analyze the allowance for loan losses as described in the section Allowance for Loan Losses. The provision for loan losses decreased by \$6.3 million, or 15.6%, to \$34.2 million for year ended December 31, 2011 from \$40.5 million for the year ended December 31, 2010. Facilitating this decrease was an adjustment to the loss factors used to determine the reserve requirements for loans collectively evaluated for impairment. Additionally, nonperforming loans decreased by \$17.3 million, or 11.7%, and classified assets decreased by \$18.8 million, or 7.0%. These changes were partially offset by increases in historical charge-offs and an increase in our business banking portfolio.

In determining the amount of the current period provision, we considered the extended length of time of the current economic downturn and its impact on our markets, including unemployment levels, bankruptcy filings, and changes in real estate values which ultimately impact the quality of our loan portfolio. Net loan charge-offs increased by \$4.9 million, or 14.4%, to \$39.4 million for the year ended December 31, 2011 from \$34.4 million for the year ended December 31, 2010. Annual net charge-offs to average loans increased to 0.72% for the year ended December 31, 2011 from 0.63% for the year ended December 31, 2010. However, 17 loans comprised \$18.9 million, or 48.0% of the charge-offs during the current year. 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 decreased by \$2.3 million, or 3.7%, to \$58.1 million for the year ended December 31, 2011 from \$60.4 million for the year ended December 31, 2010. This decrease in noninterest income was due to a number of factors. Service charges and fees decreased by \$2.5 million, or 6.7%, to \$35.4 million for the year ended December 31, 2011 compared to last year. This decrease was primarily the result of lower deposit overdraft revenue due to the implementation of FDIC regulatory guidance. Gain on sale of investments decreased by \$1.9 million, or 83.8%, due to a gain of \$2.1 million recognized on the sale of \$55.0 million of securities during 2010. Mortgage banking income decreased by \$1.3 million, or 60.9%, as we retained most of the mortgage loans originated through wholesale lending in the current year rather than selling those loans into the secondary market. Partially offsetting these decreases was an increase in insurance commission income of \$1.3 million, or 26.2%, to \$6.5 million for the year ended December 31, 2011 from \$5.2 million for the year ended December 31, 2010. Trust and other financial services income increased by \$837,000, or 12.0%, over the prior year. Income from bank owned life insurance increased by \$939,000, or 18.5%, as a result of death benefits received from three policies.

**Noninterest expense.** Noninterest expense increased by \$3.7 million, or 1.9%, to \$200.2 million for the year ended December 31, 2011 from \$196.5 million for the year ended December 31, 2010. This increase is primarily the result of increases in compensation and employee benefits and professional services. Compensation and employee benefits increased by \$5.9 million, 5.8%, to \$106.6 million for the year ended December 31, 2011 compared to the prior year. This increase is primarily attributable to an increase in employee stock benefit plan expense, health insurance and an increase of 69 full-time equivalent employees since the beginning of the current year. These personnel increases have occurred primarily in commercial lending, loan servicing and regulatory compliance areas. As a result of outsourcing our internal audit function and the continued engagement of compliance consultants, professional services increased by \$2.5 million, or 91.5%, to \$5.2 million for the year ended December 31, 2011. Partially offsetting these increases were decreases in federal deposit insurance premiums, real estate owned expense and acquisition expense. Federal deposit insurance premiums decreased by \$2.0 million, or 21.6%, to \$7.1 million for the year ended December 31, 2011 as the assessment formula was changed to calculate premiums based on assets rather than deposits. Real estate owned expense decreased by \$1.3 million, or 44.0%, to \$1.6 million for the year ended December 31, 2011 as we paid delinquent real estate taxes due on an REO property we acquired during the prior year period. Acquisition expenses of \$1.2 million were recognized during the prior year with none incurred in the current year.



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**Income taxes.** Income tax expense increased by \$3.4 million, or 14.2%, to \$26.9 million for the year ended December 31, 2011 from \$23.5 million for the year ended December 31, 2010. This increase is due to an increase in income before income taxes of \$10.0 million, or 12.3%, and an increase in the effective tax rate from 29.0% to 29.5%. 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, 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 personal and business 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 re-pricing 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

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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 downturn in 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

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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



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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.

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**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 for personal loans 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 that 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.

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**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, real estate acquired or deemed acquired by foreclosure and troubled debt restructurings at the dates indicated. When a loan is delinquent 90 days or more, we fully reverse all accrued interest thereon and cease to accrue interest thereafter.

	2011	2010	At December 31 2009 (Dollars in thousands)	2008	2007
<b>Loans delinquent 30 days to 59 days:</b>					
Residential mortgage loans	\$ 33,671	35,329	27,913	32,852	27,081
Home equity loans	7,426	7,317	7,014	6,928	4,835
Other consumer loans	4,854	5,318	4,297	4,503	5,904
Commercial real estate loans	10,680	16,287	16,152	18,901	11,331
Commercial loans	2,027	6,590	3,293	7,700	9,947
<b>Total loans delinquent 30 days to 59 days</b>	<b>58,658</b>	<b>70,841</b>	<b>58,669</b>	<b>70,884</b>	<b>59,098</b>
<b>Loans delinquent 60 days to 89 days:</b>					
Residential mortgage loans	8,629	9,848	6,657	7,568	6,028
Home equity loans	1,953	3,249	1,719	1,639	923
Other consumer loans	1,787	1,331	1,425	1,228	1,802
Commercial real estate loans	3,122	14,365	5,811	8,432	4,984
Commercial loans	4,958	1,678	2,474	3,801	2,550
<b>Total loans delinquent 60 days to 89 days</b>	<b>20,449</b>	<b>30,471</b>	<b>18,086</b>	<b>22,668</b>	<b>16,287</b>
<b>Loans delinquent 90 days or more: (1)</b>					
Residential mortgage loans	28,221	29,751	29,134	20,309	12,333
Home equity loans	9,560	10,263	10,008	7,817	5,117
Other consumer loans	2,667	2,565	2,775	2,065	2,674
Commercial real estate loans	44,603	44,965	49,594	43,828	24,323
Commercial loans	10,785	12,877	18,269	25,184	5,163
<b>Total loans delinquent 90 days or more</b>	<b>95,836</b>	<b>100,421</b>	<b>109,780</b>	<b>99,203</b>	<b>49,610</b>
<b>Total loans 30 days or more delinquent</b>	<b>\$ 174,943</b>	<b>201,733</b>	<b>186,535</b>	<b>192,755</b>	<b>124,995</b>
<b>Total real estate owned</b>	<b>26,887</b>	<b>20,780</b>	<b>20,257</b>	<b>16,844</b>	<b>8,667</b>
<b>Total loans 90 days or more delinquent and real estate owned</b>	<b>122,723</b>	<b>121,201</b>	<b>130,037</b>	<b>116,047</b>	<b>58,277</b>
<b>Total loans 90 days or more delinquent to net loans receivable</b>	<b>2.24%</b>	<b>1.84%</b>	<b>2.10%</b>	<b>1.93%</b>	<b>1.03%</b>
<b>Total loans 90 days or more past due and real estate owned to total assets</b>	<b>1.54%</b>	<b>1.49%</b>	<b>1.63%</b>	<b>1.67%</b>	<b>0.87%</b>
Nonaccrual troubled debt restructuring	\$ 29,575	41,740	2,908		
Accruing troubled debt restructuring	39,854	10,865	18,177		
<b>Total troubled debt restructurings</b>	<b>\$ 69,429</b>	<b>52,605</b>	<b>21,085</b>		

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

During the year ended December 31, 2011, gross interest income of approximately \$17.3 million would have been recorded on loans accounted for on a nonaccrual basis if the loans had been current and in accordance with their original terms throughout the year. We recognized \$870,000 of interest income on nonaccrual loans during the year ended December 31, 2011.



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The following table sets forth loans 90 days or more days delinquent by state (based on borrowers' residence) at December 31, 2011.

(Dollars in thousands)	Residential		Home equity		Other		Commercial		Commercial		Total	(6)
	Mortgage	(1)	(2)	consumer	(3)	real estate	(4)	loans	(5)			
Pennsylvania	\$ 16,971	0.9%	6,559	0.7%	2,537	1.1%	17,753	2.1%	5,075	2.0%	48,895	1.2%
New York	1,358	0.9%	1,031	1.0%	54	0.5%	8,625	2.4%	281	0.5%	11,349	1.7%
Ohio	305	1.5%	23	0.2%	23	0.8%	88	0.2%		0.0%	439	0.5%
Maryland	4,436	2.6%	1,496	4.4%		0.0%	6,573	5.7%	2,514	9.7%	15,019	4.4%
Florida	4,312	15.7%	422	5.2%	53	3.6%	4,407	10.8%	2,915	16.8%	12,109	12.7%
All other	839	1.9%	29	1.7%		0.0%	7,157	19.0%		0.0%	8,025	7.6%
Total	\$ 28,221	1.2%	9,560	0.9%	2,667	1.1%	44,603	3.1%	10,785	2.8%	95,836	1.7%

(1) Percentage of total mortgage loans in that geographic area

(2) Percentage of total home equity loans in that geographic area

(3) Percentage of total other consumer loans in that geographic area

(4) Percentage of total commercial real estate loans in that geographic area

(5) Percentage of total commercial loans in that geographic area

(6) Percentage of total loans in that 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, 2011, we had 313 loans, with an aggregate principal balance of \$99.9 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,

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	2011	2010 (In Thousands)	2009
Substandard assets	\$ 242,015	263,131	206,629
Doubtful assets	5,941	3,838	2,258
Loss assets	1,237	1,048	473
Total classified assets	\$ 249,193	268,017	209,360

**Allowance for Loan Losses.** Our board of directors has approved 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

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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 our 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.

We acknowledge that this is a dynamic process and consists of factors, many of which are external and beyond our 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. We believe that all known losses as of December 31, 2011 and 2010 have been recorded.

We utilize 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, we considered the economic data in our markets such as the unemployment and bankruptcies levels as well as the changes in real estate collateral values. In addition, we considered the overall trend in asset quality, loan charge-offs and the allowance for loan losses as a



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percentage of nonperforming loans. We also consider the specific reserves already established for criticized loans based upon a three year average of historical charge-offs during a period of time in which we have experienced the highest amount of loan losses in our history. As a result, we decreased the allowance for loan losses during the year by \$5.3 million, or 6.9%, to \$71.1 million, or 1.28% of total loans, at December 31, 2011 from \$76.4 million, or 1.38% of total loans, at December 31, 2010. The decrease 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.

	2011	2010	Years Ended December 31,		2008	2007
			2009	(In Thousands)		
Net loans receivable	\$ 5,480,381	5,457,593	5,229,062		5,141,892	4,795,622
Average loans outstanding	5,508,790	5,487,645	5,199,829		5,016,694	4,660,693
Allowance for loan losses						
Balance at beginning of period	76,412	70,403	54,929		41,784	37,655
Provision for loan losses	34,170	40,486	41,847		22,851	8,743
Charge offs:						
Residential mortgage loans	(4,198)	(4,497)	(1,437)		(1,201)	(1,090)
Home equity loans	(4,734)	(4,104)	(1,525)		(629)	(178)
Other consumer loans	(5,283)	(6,390)	(5,520)		(6,290)	(5,175)
Commercial real estate loans	(12,508)	(12,576)	(3,723)		(2,132)	(774)
Commercial loans	(15,641)	(9,305)	(15,611)		(1,358)	(973)
Total charge-offs	(42,364)	(36,872)	(27,816)		(11,610)	(8,190)
Recoveries:						
Residential mortgage loans	308	176	14		3	190
Home equity loans	127	82	73		1	42
Other consumer loans	1,254	1,422	1,080		1,060	1,073
Commercial real estate loans	872	314	81		136	18
Commercial loans	359	401	195		704	134
Total recoveries	2,920	2,395	1,443		1,904	1,457
Acquired through acquisitions						2,119
Balance at end of period	\$ 71,138	76,412	70,403		54,929	41,784
Allowance for loan losses as a percentage of net loans receivable	1.30%	1.40%	1.35%		1.07%	0.87%
Net charge-offs as a percentage of average loans outstanding	0.72%	0.63%	0.51%		0.19%	0.14%
Allowance for loan losses as a percentage of nonperforming loans	54.26%	51.49%	56.49%		55.37%	84.22%
Allowance for loan losses as a percentage of nonperforming loans and real estate owned	45.03%	45.17%	54.14%		47.33%	71.70%

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**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.

	2011		At December 31, 2010		2009	
	Amount	% of Total Loans (1)	Amount	% of Total Loans (1)	Amount	% of Total Loans (1)
Balance at end of year applicable to:						
Residential mortgage loans	\$ 8,482	42.9%	6,854	42.9%	9,349	43.8%
Home equity loans	8,687	19.3	7,675	19.3	6,293	19.9
Other consumer loans	5,325	4.3	5,810	4.5	6,554	5.1
Commercial real estate loans	32,148	26.3	35,832	25.1	23,942	23.8
Commercial loans	12,080	7.2	15,770	8.2	20,073	7.4
Total allocated allowance	66,722		71,941		66,211	
Unallocated	4,416		4,471		4,192	
Total	\$ 71,138	100.0%	76,412	100.0%	70,403	100.0%

Balance at end of year applicable to:				
Residential mortgage loans	\$ 4,138	47.2%	6,623	48.9%
Home equity loans	4,476	19.6	3,014	20.0
Other consumer loans	6,125	5.1	6,645	5.4
Commercial real estate loans	20,501	20.8	19,217	18.3
Commercial loans	15,044	7.3	6,285	7.4
Total allocated allowance	50,284		41,784	
Unallocated	4,645			
Total	\$ 54,929	100.0%	41,784	100.0%

(1) Represents percentage of loans in each category to total loans.

**Liquidity and Capital Resources**

Northwest Savings Bank is required to maintain a sufficient level of liquid assets, as determined by management and defined and reviewed for adequacy by the Federal Deposit Insurance Corporation during their regular examinations. The Federal Deposit Insurance Corporation, however, does not prescribe by regulation a minimum amount or percentage of liquid assets. The Federal Deposit Insurance Corporation allows us to consider any marketable security, whose sale would not impair our capital adequacy, to be eligible for liquidity. Liquidity is monitored through the use of a standard liquidity ratio of liquid assets to borrowings plus deposits. Using this formula, Northwest Savings Bank's liquidity

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ratio was 22.1% as of December 31, 2011. We adjust our liquidity level in order to meet funding needs of deposit outflows, repayment of borrowings and loan commitments. We also adjust liquidity as appropriate to meet our asset and liability management objectives. Liquidity needs can also be met by temporarily drawing upon lines-of-credit established for such reasons. As of December 31, 2011, Northwest Savings Bank had \$1.737 billion of additional borrowing capacity available with the Federal Home Loan Bank of Pittsburgh, including a \$150.0 million overnight line of credit, as well as a \$197.8 million borrowing capacity available with the Federal Reserve Bank and \$80.0 million with two correspondent banks.

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In addition to deposits, our primary sources of funds are the amortization and repayment of loans and mortgage-backed securities, maturities of investment securities and other short-term investments, and earnings and funds provided from operations. While scheduled principal repayments on loans and mortgage-backed securities are a relatively predictable source of funds, deposit flows and loan prepayments are greatly influenced by general interest rate levels, economic conditions, and competition. We manage the pricing of our deposits to maintain a desired deposit balance. In addition, we invest excess funds in short-term interest earning and other assets, which provide liquidity to meet lending requirements. Short-term interest-earning deposits amounted to \$594.0 million at December 31, 2011. For additional information about our cash flows from operating, financing, and investing activities, see the Statements of Cash Flows included in the Consolidated Financial Statements.

A portion of our liquidity consists of cash and cash equivalents, which are a product of our operating, investing, and financing activities. The primary sources of cash during the current year were net income, principal repayments on loans and mortgage-backed securities and increases in deposit accounts.

Liquidity management is both a daily and long-term function of business management. If we require funds beyond our ability to generate them internally, borrowing agreements exist with the Federal Home Loan Bank of Pittsburgh and the Federal Reserve Bank of Cleveland, which provide an additional source of funds. At December 31, 2011 Northwest Savings Bank had advances of \$695.6 million from the Federal Home Loan Bank of Pittsburgh. We borrow from these sources to reduce interest rate risk and to provide liquidity when necessary.

At December 31, 2011, our customers had \$370.0 million of unused lines of credit available and \$162.9 million in loan commitments. This amount does not include the unfunded portion of loans in process. Certificates of deposit scheduled to mature in less than one year at December 31, 2011, totaled \$1.357 billion. We believe that a significant portion of such deposits will remain with us.

The major sources of our cash flows are in the areas of loans, marketable securities, deposits and borrowed funds.

Deposits are our primary source of externally generated funds. The level of deposit inflows during any given period is heavily influenced by factors outside of our control, such as consumer savings tendencies, the general level of short-term and long-term market interest rates, as well as higher alternative yields that investors may obtain on competing investments such as money market mutual funds. Financial institutions, such as Northwest Savings Bank, are also subject to deposit outflows. Our net deposits increased by \$16.0 million, \$139.9 million and \$586.2 million for the years ended December 31, 2011, 2010 and 2009, respectively.

Similarly, the amount of principal repayments on loans and the amount of new loan originations is heavily influenced by the general level of market interest rates. Funds received from loan maturities and principal payments on loans for the years ended December 31, 2011, 2010 and 2009 were \$1.766 billion, \$1.648 billion and \$1.650 billion, respectively. Loan originations for the years ended December 31, 2011, 2010 and 2009 were \$1.928 billion, \$2.137 billion and \$2.386 billion, respectively. We also sell a portion of the loans we originate, and the cash flows from such sales for the years ended December 31, 2011, 2010 and 2009 were \$88.2 million, \$205.3 million and \$595.3 million, respectively.

We experience significant cash flows from our portfolio of marketable securities as principal payments are received on mortgage-backed securities and as investment securities mature or are called. Cash flow from the repayment of principal and the maturity or call of marketable securities for the years ended December 31, 2011, 2010 and 2009 were \$423.3 million, \$482.0 million and \$297.8 million, respectively.

When necessary, we utilize borrowings as a source of liquidity and as a source of funds for long-term investment when market conditions permit. The net cash flow from the receipt and repayment of borrowings were net decreases of \$63.4 million, \$6.0 million and \$170.4 million for the years ended December 31, 2011, 2010 and 2009, respectively.

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Other activity with respect to cash flow was the payment of cash dividends on common stock in the amount of \$43.6 million, \$43.3 million and \$15.8 million for the ended December 31, 2011, 2010 and 2009, respectively.

At December 31, 2011, stockholders' equity totaled \$1.155 billion. During 2011 our Board of Directors declared regular quarterly dividends totaling \$0.43 per share of common stock.

We monitor the capital levels of Northwest Savings Bank to provide for current and future business opportunities and to meet regulatory guidelines for well capitalized institutions. Northwest Savings Bank is required by the Pennsylvania State Department of Banking and the FDIC to meet minimum capital adequacy requirements. At December 31, 2011, Northwest Savings Bank exceeded all regulatory minimum capital requirements and is considered to be well capitalized. In addition, as of December 31, 2011, we were not aware of any recommendation by a regulatory authority that, if it were implemented, would have a material effect on liquidity, capital resources or operations.

**Regulatory Capital Requirements.**

Northwest Savings Bank is subject to minimum capital requirements established by the Federal Deposit Insurance Corporation. See Supervision and Regulation - Capital Requirements and Prompt Corrective Action. The following table summarizes Northwest Savings Bank's total shareholder's equity, regulatory capital, total risk-based assets, and leverage and risk-based regulatory ratios at the dates indicated.

	At December 31,	
	2011	2010
	(Dollars in thousands)	
Total shareholder's equity (GAAP capital)	\$ 1,090,512	1,146,736
Add: accumulated other comprehensive loss	3,300	1,132
Less: non-qualifying intangible assets	(174,005)	(175,824)
Leverage or Tier 1 capital	919,807	972,044
Plus: Tier 2 capital (1)	62,349	61,406
Total risk-based capital	982,156	1,033,450
Average total assets for leverage ratio	7,785,762	7,975,485
Net risk-weighted assets including off-balance sheet items	\$ 4,966,270	4,897,447
Leverage capital ratio	11.81%	12.19%
Minimum requirement (2)	3.00% to 5.00%	3.00% to 5.00%
Risk-based capital ratio	19.78%	21.10%
Minimum requirement	8.00%	8.00%

(1) Tier 2 capital consists of the allowance for loan losses, which is limited to 1.25% of total risk-weighted assets as detailed under regulations of the FDIC, and 45% of pre-tax net unrealized gains on securities available-for-sale.

(2) The FDIC has indicated that the most highly rated institutions which meet certain criteria will be required to maintain a ratio of 3.00%, and all other institutions will be required to maintain an additional cushion of 100 to 200 basis points.

Northwest Savings Bank is also subject to capital guidelines of the Pennsylvania Department of Banking. Although not adopted in regulation form, the Department of Banking requires 6% leverage capital and 10% risk-based capital. See Item 1. Business Supervision and Regulation Capital Requirements and Prompt Corrective Action .

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We are obligated to make future payments according to various contracts. The following table presents the expected future payments of the contractual obligations aggregated by obligation type at December 31, 2011.

	Less than one year	One year to less than three years	Payments Due Three years to less than five years (In Thousands)	Five years or greater	Total
<b>Contractual Obligations at December 31, 2011</b>					
Long-term debt (1)	\$ 132,340	44	255,541	440,000	827,925
Junior subordinated debentures (2)				103,094	103,094
Operating leases (3)	3,957	6,033	3,924	8,400	22,314
Total	136,297	6,077	259,465	551,494	953,333
Commitments to extend credit	\$ 162,903				162,903

- (1) See Note 11 to the consolidated financial statements, Borrowed Funds, for additional information.
- (2) See Note 22 to the consolidated financial statements, Junior Subordinated Debentures/Trust Preferred Securities, for additional information.
- (3) See Note 8 to the consolidated financial statements, Premises and Equipment, for additional information.

**Impact of Inflation and Changing Prices**

The Consolidated Financial Statements and notes thereto, presented elsewhere herein, have been prepared in accordance with generally accepted accounting principles, which require the measurement of financial position and operating results in terms of historical dollars without considering the change in the relative purchasing power of money over time and due to inflation. The impact of inflation is reflected in the increased cost of our operations. Unlike most industrial companies, nearly all of our assets and liabilities are monetary. As a result, interest rates have a greater impact on our performance than do the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the price of goods and services.

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK****Market Risk Management**



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The matching of assets and liabilities may be analyzed by examining the extent to which such assets and liabilities are interest rate sensitive and by monitoring an institution's interest rate sensitivity gap. An asset or liability is said to be interest rate sensitive within a specific time period if it will mature or re-price within that time period. The interest rate sensitivity gap is defined as the difference between the amount of interest-earning assets maturing or re-pricing within a specific time period and the amount of interest-bearing liabilities maturing or re-pricing within that same time period. A gap is considered positive when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities. A gap is considered negative when the amount of interest rate sensitive liabilities exceeds the amount of interest rate sensitive assets. During a period of rising interest rates, a negative gap would tend to adversely affect net interest income while a positive gap would tend to positively affect net interest income. Similarly, during a period of falling interest rates, a negative gap would tend to positively affect net interest income while a positive gap would tend to adversely affect net interest income.

Our policy is to reduce our exposure to interest rate risk generally by better matching the maturities of our interest rate sensitive assets and liabilities and by increasing the interest rate sensitivity of our interest-earning assets. We purchase adjustable-rate investment securities and mortgage-backed securities which at December 31, 2011 totaled \$463.0 million, and originate adjustable-rate mortgage loans, adjustable-rate consumer loans, and adjustable-rate commercial loans, which at December 31, 2011, totaled \$1.745 billion or 31.0% of our gross loan portfolio. Of

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our \$7.290 billion of interest-earning assets at December 31, 2011, \$2.679 billion, or 36.7%, consisted of assets with adjustable rates of interest. When market conditions are favorable, we also attempt to reduce interest rate risk by lengthening the maturities of our interest-bearing liabilities by using FHLB advances as a source of long-term fixed-rate funds, and by promoting longer-term certificates of deposit.

At December 31, 2011, total interest-earning assets maturing or re-pricing within one year exceeded total interest-bearing liabilities maturing or re-pricing in the same period by \$100.0 million, representing a positive one-year gap ratio of 1.26%. We have an Asset/Liability Committee with members consisting of various individuals from Senior Management. This committee meets monthly in an effort to effectively manage our balance sheet and to monitor activity and set pricing. We also have a Risk Management Committee comprised of certain members of the Board of Directors, which among other things, is responsible for reviewing our level of interest rate risk. The Committee meets quarterly and, as part of their risk management assessment, reviews interest rate risks and trends, our interest sensitivity position and the liquidity and market value of our investment portfolio.

The following table sets forth, on a carrying value basis, the amounts of interest-earning assets and interest-bearing liabilities outstanding at December 31, 2011, which are expected to re-price or mature, based upon certain assumptions, in each of the future time periods shown. Except as stated below, the amounts of assets and liabilities shown that re-price or mature during a particular period were determined in accordance with the earlier of the term of re-pricing or the contractual term of the asset or liability. We believe that these assumptions approximate the standards used in the savings industry and consider them appropriate and reasonable.

	Within 1 Year	Over 1-3 Years	Amounts Maturing or Re-pricing			Over 20 Years	Total
			Over 3-5 Years	Over 5-10 Years	Over 10-20 Years		
(Dollars in Thousands)							
Rate-sensitive assets:							
Interest-earning deposits	\$ 594,021						594,021
Mortgage-backed securities:							
Fixed rate	117,487	128,802	71,031	59,395			376,715
Variable-rate	349,423	26,834	32,949				409,206
Investment securities	124,285	86,318	95,511	47,703			353,817
Mortgage loans:							
Adjustable rate	42,311	447					42,758
Fixed-rate	373,766	599,788	481,760	715,186	188,859		2,359,359
Home equity loans:							
Adjustable rate	224,155	74,718					298,873
Fixed-rate	122,034	352,327	221,974	89,578			785,913
Other consumer loans	223,184	22,505					245,689
Commercial real estate loans:							
Commercial real estate loans	734,850	513,656	182,730	4,531			1,435,767
Commercial loans	201,647	138,747	46,494	1,023			387,911
Total rate-sensitive assets	3,107,163	1,944,142	1,132,449	917,416	188,859		7,290,029
Rate-sensitive liabilities:							
Fixed maturity deposits	1,356,963	488,647	374,947	64,260			2,284,817
Money market deposit accounts:							
Savings accounts	944,484				19,510		963,994
Checking accounts	309,000	361,000			402,278		1,072,278
FHLB advances	261,152	216,235				981,849	1,459,236
Other borrowings	135	248	255,202	440,000			695,585
Trust preferred securities	132,340						132,340
Total rate-sensitive liabilities	3,007,168	1,091,130	655,149	554,260	421,788	981,849	6,711,344

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Interest sensitivity gap per period	\$	99,995	853,012	477,300	363,156	(232,929)	(981,849)	578,685
Cumulative interest sensitivity gap	\$	99,995	953,007	1,430,307	1,793,463	1,560,534	578,685	578,685
Cumulative interest sensitivity gap as a percentage of total assets		1.26%	11.98%	17.97%	22.54%	19.61%	7.27%	7.27%
Cumulative interest-earning assets as a percent of cumulative interest-bearing liabilities		103.33%	123.25%	130.09%	133.79%	127.24%	108.62%	108.62%

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We have an Asset/Liability Committee, consisting of several members of management, which meets monthly to review market interest rates, economic conditions, the pricing of interest earning assets and interest bearing liabilities and our balance sheet structure. On a quarterly basis, this committee also reviews our interest rate risk position and our cash flow projections.

Our Board of Directors has a Risk Management Committee, which meets quarterly and reviews interest rate risks and trends, our interest sensitivity position, our liquidity position and the market risk inherent in our investment portfolio.

In an effort to assess market risk, we use a simulation model to determine the effect of immediate incremental increases and decreases in interest rates on net income and the market value of our equity. Certain assumptions are made regarding loan prepayments and decay rates of passbook and NOW accounts. Because it is difficult to accurately project the market reaction of depositors and borrowers, the effect of actual changes in interest rates on these assumptions may differ from simulated results. We have established the following guidelines for assessing interest rate risk:

**Net income simulation.** Given a non-parallel shift of 2.0% in interest rates, the estimated net income may not decrease by more than 20% within a one-year period.

**Market value of equity simulation.** The market value of our equity is the present value of our assets and liabilities. Given a non-parallel shift of 2.0% in interest rates, the market value of equity may not decrease by more than 30% from the computed economic value at current interest rate levels.

The following table illustrates the simulated impact of a non-parallel 1% or 2% upward or 1% or 2% downward movement in interest rates on net income, return on average equity, earnings per share and market value of equity. These analyses were prepared assuming that total interest-earning asset levels at December 31, 2011 remain constant, while \$375.0 million of interest-earning overnight funds will be deployed to loans and investments over the next 12 months. The impact of the rate movements was computed by simulating the effect of an immediate and sustained shift in interest rates over a twelve-month period from December 31, 2011 levels.

#### Non-Parallel Shift in Interest Rates

	Increase		Decrease	
Shift in interest rates over the next 12 months	1.0%	2.0%	1.0%	2.0%
Projected percentage increase/(decrease) in net income	5.8%	7.7%	(9.7)%	(16.4)%
Projected increase/(decrease) in return on average equity	5.4%	7.4%	(9.4)%	(15.9)%
Projected increase/(decrease) in earnings per share	\$ 0.04	0.06	(0.08)	(0.13)
Projected percentage increase/(decrease) in market value of equity	(7.2)%	(14.7)%	(10.1)%	(10.9)%

The figures included in the tables above represent projections that were computed based upon certain assumptions including prepayment rates and decay rates. These assumptions are inherently uncertain and, as a result, we cannot precisely predict the impact of changes in interest rates. Actual results may differ significantly due to timing, magnitude and frequency of interest rate changes and changes in market conditions.

When assessing our interest rate sensitivity, analysis of historical trends indicates that loans will prepay at various speeds (or annual rates) depending on the variance between the weighted average portfolio rates and the current market rates. In preparing the table above, the following assumptions were used: (i) adjustable-rate mortgage loans will prepay at an annual rate of 7% to 12%; (ii) fixed-rate mortgage loans will prepay at an annual rate of 7% to 12%, depending on the type of loan; (iii) commercial loans will prepay at an annual rate of 10% to 30%; (iv) consumer loans held by Northwest Savings Bank will prepay at an annual rate of 18% to 24%; and (v) consumer loans held by NCDC will prepay at an annual rate of 55% to 70%. In regards to our deposits, it has been assumed that (i) fixed maturity deposits will not be withdrawn prior to maturity; (ii) the significant majority of money market accounts will re-price immediately; (iii) savings accounts will gradually re-price over three years; and (iv) checking accounts will re-price either when the rates on such accounts re-price as interest rate levels change, or

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when deposit holders withdraw funds from such accounts and select other types of deposit accounts, such as certificate accounts, which may have higher interest rates. For purposes of this analysis, management has estimated, based on historical trends, that \$261.2 million of our checking accounts and \$309.0 million of our savings accounts are interest sensitive and may re-price in one year or less, and that the remainder may re-price over longer time periods.

The above assumptions are annual percentages based on remaining balances and should not be regarded as indicative of the actual prepayments and withdrawals that we may experience. Moreover, certain shortcomings are inherent in the analysis presented by the foregoing table. For example, although certain assets and liabilities may have similar maturities or periods to re-pricing, they may react in different degrees to changes in market interest rates. Also, interest rates on certain types of assets and liabilities may fluctuate in advance of or lag behind changes in market interest rates. Additionally, certain assets, such as some adjustable-rate loans, have features that restrict changes in interest rates on a short-term basis and over the life of the asset. Moreover, in the event of a change in interest rates, prepayment and early withdrawal levels would likely deviate significantly from those assumed in calculating the table.

In addition, we regularly measure and monitor the market value of our net assets and the changes therein. While fluctuations are expected because of changes in interest rates, we have established policy limits for various interest rate scenarios. Given interest rate shocks of +/-100 to +/-300 basis points the market value of net assets is not expected to decrease by more than -15% to -35%.

**Off-Balance Sheet Arrangements**

As a financial services provider, we routinely are a party to various financial instruments with off-balance-sheet risks, such as commitments to extend credit and unused lines of credit. While these contractual obligations represent our future cash requirements, a significant portion of commitments to extend credit may expire without being drawn upon. Such commitments are subject to the same credit policies and approval process accorded to loans we make. In addition, we routinely enter into commitments to purchase and sell residential mortgage loans.

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**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

**Management's Report on Internal Control Over Financial Reporting**

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Securities Exchange Act of 1934.

Management, including the principal executive officer and principal financial officer, has assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2011. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal control - Integrated Framework*. Based on such assessment, management concluded that, as of December 31, 2011, the Company's internal control over financial reporting is effective based upon those criteria.

KPMG LLP, an independent registered public accounting firm, has audited the consolidated financial statements included in this Report and has issued a report with respect to the effectiveness of the Company's internal control over financial reporting.

/s/ William J. Wagner  
William J. Wagner  
Chief Executive Officer

/s/ William W. Harvey, Jr.  
William W. Harvey, Jr.  
Chief Financial Officer

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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders

Northwest Bancshares, Inc.:

We have audited Northwest Bancshares, Inc.'s (the Company) internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of financial condition of Northwest Bancshares, Inc. and subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2011,



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and our report dated February 29, 2012 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Pittsburgh, Pennsylvania  
February 29, 2012

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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders

Northwest Bancshares, Inc.:

We have audited the accompanying consolidated statements of financial condition of Northwest Bancshares, Inc. and subsidiaries (the Company) as of December 31, 2011 and 2010, and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2011. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Northwest Bancshares, Inc. and subsidiaries as of December 31, 2011 and 2010, and the results of its operations and their cash flows for each of the years in the three-year period then ended in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Northwest Bancshares, Inc.'s internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 29, 2012 expressed an unqualified opinion on the effectiveness of Northwest Bancshares, Inc.'s internal control over financial reporting.

/s/ KPMG LLP

Pittsburgh, Pennsylvania

February 29, 2012

Table of Contents**NORTHWEST BANCSHARES, INC.****CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION**

(amounts in thousands, excluding share data)

	<b>December 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>Assets</b>		
Cash and due from banks	\$ 94,276	40,708
Interest-earning deposits in other financial institutions	593,388	677,771
Federal funds sold and other short-term investments	633	632
Marketable securities available-for-sale (amortized cost of \$885,408 and \$945,571)	908,349	950,463
Marketable securities held-to-maturity (fair value of \$239,412 and \$354,126)	231,389	357,922
Loans receivable, net of allowance for loan losses of \$71,138 and \$76,412	5,480,381	5,457,593
Accrued interest receivable	24,599	26,216
Real estate owned, net	26,887	20,780
Federal Home Loan Bank stock, at cost	48,935	60,080
Premises and equipment, net	132,152	128,101
Bank owned life insurance	133,524	132,237
Goodwill	171,882	171,882
Other intangible assets	2,123	3,942
Other assets	109,187	119,828
<b>Total assets</b>	<b>7,957,705</b>	<b>8,148,155</b>
<b>Liabilities and Shareholders equity</b>		
<b>Liabilities:</b>		
Deposits	5,780,325	5,764,336
Borrowed funds	827,925	891,293
Advances by borrowers for taxes and insurance	23,571	22,868
Accrued interest payable	1,104	1,716
Other liabilities	66,782	57,398
Junior subordinated deferrable interest debentures held by trusts that issued guaranteed capital debt securities	103,094	103,094
<b>Total liabilities</b>	<b>6,802,801</b>	<b>6,840,705</b>
<b>Shareholders equity:</b>		
Preferred stock, \$0.01 par value: 50,000,000 authorized, no shares issued		
Common stock, \$0.01 par value: 500,000,000 shares authorized, 97,493,046 and 110,295,117 shares issued, respectively	975	1,103
Paid-in capital	659,523	824,164
Retained earnings	543,598	523,089
Unallocated common stock of employee stock ownership plan	(25,966)	(27,409)
Accumulated other comprehensive loss	(23,226)	(13,497)
	1,154,904	1,307,450
<b>Total liabilities and shareholders equity</b>	<b>\$ 7,957,705</b>	<b>8,148,155</b>

See accompanying notes to consolidated financial statements.



Table of Contents**NORTHWEST BANCSHARES, INC.****CONSOLIDATED STATEMENTS OF INCOME**

(amounts in thousands, excluding share data)

	Years ended December 31,		
	2011	2010	2009
<b>Interest income:</b>			
Loans receivable	\$ 320,942	328,948	320,121
Mortgage-backed securities	23,450	25,271	27,263
Taxable investment securities	2,452	2,514	5,384
Tax-free investment securities	11,514	11,738	11,054
Interest-earning deposits	1,712	2,097	641
<b>Total interest income</b>	<b>360,070</b>	<b>370,568</b>	<b>364,463</b>
<b>Interest expense:</b>			
Deposits	60,721	75,174	95,394
Borrowed funds	32,080	37,753	40,412
<b>Total interest expense</b>	<b>92,801</b>	<b>112,927</b>	<b>135,806</b>
<b>Net interest income</b>	<b>267,269</b>	<b>257,641</b>	<b>228,657</b>
Provision for loan losses	34,170	40,486	41,847
<b>Net interest income after provision for loan losses</b>	<b>233,099</b>	<b>217,155</b>	<b>186,810</b>
<b>Noninterest income:</b>			
Impairment losses on securities	(2,081)	(2,734)	(12,408)
Noncredit related losses on securities not expected to be sold (recognized in other comprehensive income)	1,144	1,193	6,311
Net impairment losses	(937)	(1,541)	(6,097)
Gain on sale of investments, net	358	2,201	403
Service charges and fees	35,378	37,921	34,811
Trust and other financial services income	8,125	7,252	6,307
Insurance commission income	6,548	5,190	2,658
Loss on real estate owned, net	(2,426)	(2,572)	(4,054)
Income from bank owned life insurance	6,019	5,080	4,791
Mortgage banking income	858	2,196	7,434
Gain on bargain purchase of Keystone State Savings Bank			3,503
Other operating income	4,213	4,671	3,581
<b>Total noninterest income</b>	<b>58,136</b>	<b>60,398</b>	<b>53,337</b>
<b>Noninterest expense:</b>			
Compensation and employee benefits	106,595	100,709	95,594
Premises and occupancy costs	23,055	22,665	21,963
Office operations	12,850	13,864	12,947
Processing expenses	23,332	23,152	21,312
Professional services	5,224	2,728	2,590
Amortization of other intangible assets	1,819	2,784	3,020
Marketing expenses	9,953	9,875	9,152
Real estate owned expense	1,625	2,901	2,461
Federal deposit insurance premiums	7,101	9,054	8,309
FDIC special assessment			3,288
Contribution to charitable foundation			13,822
Acquisition expense		1,229	
<b>Other expenses</b>	<b>8,673</b>	<b>7,547</b>	<b>6,036</b>

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Total noninterest expense	200,227	196,508	200,494
Income before income taxes	91,008	81,045	39,653
Provision for income taxes:			
Federal	22,623	20,267	5,468
State	4,234	3,255	1,532
Total provision for income taxes	26,857	23,522	7,000
Net income	\$ 64,151	57,523	32,653
Basic earnings per share	\$ 0.64	0.53	0.30
Diluted earnings per share	\$ 0.64	0.53	0.30

See accompanying notes to consolidated financial statements

Table of Contents**NORTHWEST BANCSHARES, INC.****CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY****For the years ended December 31, 2011, 2010 and 2009**

(amounts in thousands, excluding share data)

	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income/ (Loss)	Unallocated Common Stock of ESOP	Treasury Stock	Total Shareholders Equity
Balance at December 31, 2008	\$ 5,124	\$ 218,332	\$ 490,326	\$ (30,575)	\$	\$ (69,423)	\$ 613,784
Effect of adoption of investment impairment accounting rules, net of tax of \$903			1,676	(1,676)			
Comprehensive income:							
Net income			32,653				32,653
Other comprehensive income, net of tax of \$(11,696)				22,274			22,274
Total comprehensive income			32,653	22,274			54,927
Second-step conversion, including net proceeds	(4,021)	607,513				69,423	672,915
Exercise of stock options	3	210					213
Stock-based compensation expense		2,140					2,140
Purchase of common stock by ESOP					(11,651)		(11,651)
Dividends paid (\$0.40 per share)			(15,813)				(15,813)
Balance at December 31, 2009	1,106	828,195	508,842	(9,977)	(11,651)		1,316,515
Comprehensive income:							
Net income			57,523				57,523
Other comprehensive loss, net of tax of \$1,949				(3,520)			(3,520)
Total comprehensive income			57,523	(3,520)			54,003
Exercise of stock options	2	1,597					1,599
Share repurchases	(5)	(6,423)					(6,428)
Stock-based compensation expense		795			1,442		2,237
Purchase of common stock by ESOP					(17,200)		(17,200)
Dividends paid (\$0.40 per share)			(43,276)				(43,276)
Balance at December 31, 2010	1,103	824,164	523,089	(13,497)	(27,409)		1,307,450
Comprehensive income:							
Net income			64,151				64,151
Other comprehensive loss, net of tax of \$5,964				(9,729)			(9,729)
Total comprehensive income			64,151	(9,729)			54,422
Exercise of stock options	3	2,027					2,030
Share repurchases	(144)	(172,546)					(172,690)
Stock-based compensation expense	13	5,878			1,443		7,334
Dividends paid (\$0.43 per share)			(43,642)				(43,642)
Balance at December 31, 2011	\$ 975	\$ 659,523	\$ 543,598	\$ (23,226)	\$ (25,966)	\$	\$ 1,154,904

See accompanying notes to consolidated financial statements





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## NORTHWEST BANCSHARES, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)

	Years ended December 31,		
	2011	2010	2009
Operating activities:			
Net Income	\$ 64,151	57,523	32,653
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	34,170	40,486	41,847
Net loss/(gain) on sale of assets	2,999	810	(2,840)
Net depreciation, amortization and accretion	7,790	14,771	17,188
Decrease/(increase) in other assets	7,534	11,060	(43,483)
Increase/(decrease) in other liabilities	(24,967)	(5,241)	5,795
Net amortization of premium on marketable securities	(186)	(130)	(3,854)
Noncash compensation expense related to stock benefit plans	6,725	2,237	2,140
Noncash impairment losses on investment securities	937	1,541	6,097
Noncash impairment of real estate owned	1,449	1,338	3,862
Noncash charitable contribution			12,822
Noncash impairment recovery of mortgage servicing rights		(505)	(1,840)
FHLB prepayment penalty		(52,016)	
Deferred income tax expense/(benefit)	7,749	431	(8,763)
Gain on bargain purchase			(3,503)
Origination of loans held for sale	(77,887)	(207,272)	(574,789)
Proceeds from sale of loans held for sale	88,238	205,310	595,283
Net cash provided by operating activities	118,702	70,343	78,615
Investing activities:			
Purchase of marketable securities held-to-maturity		(485,995)	
Purchase of marketable securities available-for-sale	(237,058)	(296,576)	(222,905)
Proceeds from maturities and principal reductions of marketable securities held-to-maturity	126,012	126,766	
Proceeds from maturities and principal reductions of marketable securities available-for-sale	297,348	355,195	297,807
Proceeds from sale of marketable securities available-for-sale		56,865	22,346
Loan originations	(1,850,368)	(1,929,914)	(1,811,403)
Proceeds from loan maturities and principal reductions	1,766,191	1,648,005	1,650,273
Redemptions of Federal Home Loan Bank stock	11,145	3,162	
Proceeds from sale of real estate owned	10,648	12,026	8,044
Purchase of real estate owned for investment, net	(22)	(2,030)	(208)
Purchase of premises and equipment	(12,434)	(15,940)	(20,421)
Acquisitions, net of cash received			8,668
Net cash provided by/(used in) investing activities	111,462	(528,436)	(67,799)

(Continued)



Table of Contents**NORTHWEST BANCSHARES, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Amounts in thousands)

	2011	Years ended December 31,	
		2010	2009
<b>Financing activities:</b>			
Increase in deposits, net	\$ 15,989	139,912	565,388
Repayments of long-term borrowings	(50,066)	(36,564)	(39,598)
Net (decrease)/ increase in short-term borrowings	(13,302)	30,537	(130,831)
Increase/(decrease) in advances by borrowers for taxes and insurance	703	834	(4,161)
Share repurchases	(172,690)	(6,428)	
Repayment of junior subordinated debentures			(5,155)
Cash dividends paid on common stock	(43,642)	(43,276)	(15,813)
Net proceeds from common stock offering			658,660
Purchase of common stock for employee stock ownership plan		(17,200)	(11,651)
Proceeds from stock options exercised, including tax benefit realized	2,030	1,599	213
Net cash (used in)/ provided by financing activities	(260,978)	69,414	1,017,052
Net (decrease)/ increase in cash and cash equivalents	\$ (30,814)	(388,679)	1,027,868
<b>Cash and cash equivalents at beginning of period</b>			
	\$ 719,111	1,107,790	79,922
Net (decrease)/ increase in cash and cash equivalents	(30,814)	(388,679)	1,027,868
Cash and cash equivalents at end of period	\$ 688,297	719,111	1,107,790
<b>Cash and cash equivalents:</b>			
Cash and due from banks	\$ 94,276	40,708	69,265
Interest-earning deposits in other financial institutions	593,388	677,771	1,037,893
Federal funds sold and other short-term investments	633	632	632
Total cash and cash equivalents	\$ 688,297	719,111	1,107,790
<b>Cash paid during the period for:</b>			
Interest on deposits and borrowings (including interest credited to deposit accounts of \$51,591, \$65,481 and \$80,648, respectively)	\$ 93,413	115,704	136,507
Income taxes	23,916	19,715	20,833
<b>Noncash activities:</b>			
<b>Business acquisitions:</b>			
Fair value of assets acquired	\$		12,433
Net cash received			8,668
Liabilities assumed	\$		21,101
Loan foreclosures and repossessions	\$ 20,410	16,535	16,778
Sale of real estate owned financed by the Company	379	1,348	3,116

See accompanying notes to consolidated financial statements

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**NORTHWEST BANCSHARES, INC. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

December 31, 2011, 2010 and 2009

(All dollar amounts presented in tables are in thousands, except as indicated)

**(1) Summary of Significant Accounting Policies**

**(a) *Nature of Operations***

Northwest Bancshares, Inc. (Company) is a Maryland corporation that was incorporated in September 2009 to be the successor to Northwest Bancorp, Inc. upon completion of the mutual-to-stock conversion of Northwest Bancorp, MHC, Northwest Bancorp, Inc.'s mutual holding company parent. As a result of the conversion Northwest Bancorp, MHC and Northwest Bancorp, Inc. ceased to exist, and each share of Northwest Bancorp, Inc. common stock was exchanged for 2.25 shares of Company common stock. Share information prior to December 18, 2009 has been revised to reflect the 2.25 to 1 exchange rate. Northwest Bancshares, Inc., which is headquartered in Warren, Pennsylvania, is a federal savings and loan holding company for its wholly owned subsidiary, Northwest Savings Bank (Northwest). Northwest, a Pennsylvania chartered savings bank, offers personal and business deposit and loan products through its 168 banking locations in Pennsylvania, New York, Ohio and Maryland. Northwest, through its subsidiary Northwest Consumer Discount Company, also offers personal loan products through 52 consumer finance offices in Pennsylvania.

Financial information presented is derived in part from the consolidated financial statements of Northwest Bancshares, Inc. and subsidiaries after December 18, 2009, and from the consolidated financial statements of Northwest Bancorp, Inc. and subsidiaries prior to December 18, 2009.

**(b) *Principles of Consolidation***

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries after elimination of all intercompany accounts and transactions.

**(c) *Cash and Cash Equivalents***

For purposes of the statement of cash flows, cash and cash equivalents include cash and amounts due from depository institutions, interest-bearing deposits in other financial institutions, federal funds sold, and other short-term investments with original maturities of three months or less.

(d) *Investment Securities*

We classify marketable securities at the time of purchase as held-to-maturity, available-for-sale, or trading securities. Securities for which management has the intent and we have the ability to hold until their maturity are classified as held-to-maturity and are carried at cost, adjusted for amortization of premiums and accretion of discounts on a level yield basis. If it is management's intent at the time of purchase to hold securities for an indefinite period of time and/or to use such securities as part of its asset/liability management strategy, the securities are classified as available-for-sale and are carried at fair value, with unrealized gains and losses reported as accumulated other comprehensive income, a separate component of shareholders' equity, net of tax. Securities classified as available-for-sale include securities that may be sold in response to changes in interest rates, resultant prepayment risk, or other market factors. Securities that are bought and held principally for the purpose of selling them in the near term are classified as trading and are reported at fair value, with changes in fair value included in earnings. The cost of securities sold is determined on a specific identification basis. We held no securities classified as trading at or for the years ended December 31, 2011 and 2010.

We regularly review our investment securities for declines in value below amortized cost that might be considered other than temporary. We consider our intent to sell the investment securities and the likelihood that we will not have to sell the investment securities before recovery of their cost basis during our evaluation. Credit related impairment losses are recorded in earnings while noncredit related impairment losses are recorded in accumulated other comprehensive income, if we do not intend to sell and it is not more likely than not we will be

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**NORTHWEST BANCSHARES, INC. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

December 31, 2011, 2010 and 2009

(All dollar amounts presented in tables are in thousands, except as indicated)

required to sell. If we intend to sell the security or if it is more likely than not that we will be required to sell the security the entire unrealized loss is recorded in earnings.

Federal law requires a member institution of the Federal Home Loan Bank (FHLB) system to hold stock of its district FHLB according to a predetermined formula. This stock is recorded at cost and may be pledged to secure FHLB advances.

*(e) Loans Receivable*

Our loan portfolio segments consist of Personal Banking loans and Business Banking loans. Personal Banking loans include the following classes: residential mortgage loans, home equity loans and other consumer loans. Business Banking loans include 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.

All classes of loans are placed on nonaccrual 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 restructuring constitutes a concession and the borrower is experiencing financial difficulties. TDRs may include certain modifications of terms of loans, receipts of assets from borrowers in partial or full satisfaction of loans, or a combination thereof. TDRs are included in non-performing loans until returned to performing status through the fulfillment of contractual terms for a reasonable period of time (generally six months). A modified loan is determined to be a TDR based on the contractual terms as specified by the original loan agreement or the most recent modification.

For all classes of loans, delinquency is measured based on the number of days since the 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 December 31, 2011 and 2010 were \$967,000 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 can be reasonably estimated 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.

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**NORTHWEST BANCSHARES, INC. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

December 31, 2011, 2010 and 2009

(All dollar amounts presented in tables are in thousands, except as indicated)

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. Business Banking loans greater than or equal to \$1.0 million are evaluated individually for impairment. Smaller balance, homogeneous loans (e.g., primarily residential mortgage and consumer loans) 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.

For Business Banking loans the allowance for loan losses 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.



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The first element, impaired loans, is based on individual analysis of all nonperforming loans greater than or equal to \$1.0 million. The allowance is measured by the difference between the recorded value of impaired loans and their impaired value. The 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 estimated 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, not including loans evaluated in the first element.

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

For Personal Banking loans the allowance for loan losses 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.

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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 to homogeneous pools of loans that are 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, not including loans included in the first element.

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

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

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

(g) ***Real Estate Owned***

Real estate owned is comprised of property acquired through foreclosure or voluntarily conveyed by borrowers. These assets are recorded on the date acquired at the lower of the loan balance or fair value of the collateral less estimated disposition cost with the fair value being determined by an appraisal, any initial write-down is charged to the allowance for loan losses. Subsequently, foreclosed assets are valued at the lower of the amount recorded at acquisition date or the current fair value, less estimated disposition costs. Any subsequent write-down or gains or losses realized from the disposition of such property are credited or charged to noninterest income.

*(h) Premises and Equipment*

Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is accumulated on a straight-line basis over the estimated useful lives of the related assets. Estimated lives range from three to thirty years. Amortization of leasehold improvements is accumulated on a straight-line basis over the terms of the related leases or the useful lives of the related assets, whichever is shorter.

*(i) Goodwill*

Goodwill is generated from the premium paid for an acquisition and is allocated to reporting units, which are either the Company's reportable segments or one level below. Goodwill is not subject to amortization but is tested for impairment at least annually and possibly more frequently if certain events occur 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 individual operating segment. A reporting unit is defined as a distinct, separately identifiable component of an operating segment for which complete, discrete financial information is available that management regularly reviews. Determining the fair

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value of a reporting unit requires a high degree of subjective management judgment, including developing cash flow projections, selecting appropriate discount rates, identifying relevant market comparables, incorporating general economic and market conditions and selecting an appropriate control premium. The selection and weighting of the various fair value techniques may result in a higher or lower fair value. Judgment is applied in determining the weightings that are most representative of fair value. We conduct our annual goodwill impairment assessment as of June 30th. Through the assistance of an external third party, we performed an impairment test on goodwill. We valued each reporting unit by using a weighted average of four valuation methodologies; comparable transaction approach, control premium approach, public market peers approach and discounted cash flow approach. Declines in fair value could result in impairment being identified. At June 30, 2011, we did not identify any individual reporting unit where the fair value was less than the carrying value and no other events or changes have occurred since that date that would warrant an updated valuation. Future changes in the economic environment or the operations of the operating units could cause changes to the variables used, which could give rise to declines in the estimated fair value of the reporting units. There were no changes in our operations that would cause us to update the goodwill impairment test performed as of June 30, 2011. Accordingly, we have determined that goodwill is not impaired as of December 31, 2011 and 2010.

*(j) Core Deposit Intangibles*

Through the assistance of an independent third party, we analyze and prepare a core deposit study for all acquisitions. This study reflects the cumulative present value benefit of acquiring deposits versus an alternative source of funding. Based upon this analysis, the amount of the premium related to the core deposits of the business purchased is calculated along with the estimated life of the acquired deposits. The core deposit intangible, which is recorded in other intangible assets, is then amortized to expense on an accelerated basis over an approximate life of seven years.

*(k) Bank-Owned Life Insurance*

We own insurance on the lives of a certain group of key employees and directors. The policies were purchased to help offset the increase in the costs of various fringe benefit plans, including healthcare, as well as the directors deferred compensation plan. The cash surrender value of these policies is included as an asset on the consolidated statements of financial condition, and any increases in the cash surrender value are recorded as tax-free noninterest income on the consolidated statements of income. In the event of the death of an insured individual under these policies, after distribution to the insured's beneficiaries, the Company would receive a tax-free death benefit, which would be recorded as noninterest income.

*(l) Deposits*

Interest on deposits is accrued and charged to expense monthly and is paid or credited in accordance with the terms of the accounts.

*(m) Pension Plans*

We maintain multiple noncontributory defined benefit pension plans for substantially all of our employees. The net periodic pension cost has been calculated using service cost, interest cost, expected returns on plan assets and net amortization.

*(n) Income Taxes*

The Company joins with its wholly owned subsidiaries in filing a consolidated federal income tax return. In accordance with an intercompany tax allocation agreement, the applicable federal income tax expense or benefit is allocated to each subsidiary based upon taxable income or loss calculated on a separate company basis. Each

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subsidiary is responsible for payment of its own federal income tax liability or receives reimbursement of federal income tax benefit. In addition, deferred taxes are calculated and maintained on a separate company basis.

The Company accounts for income taxes using the asset and liability method. The objective of the asset and liability method is to establish deferred tax assets and liabilities for temporary differences between the financial reporting and tax basis of the Company's assets and liabilities based on the tax rates expected to be in effect when such amounts are realized or settled.

(o) ***Stock Related Compensation***

We determine the fair value of each option award, estimated on the grant date, using the Black-Scholes-Merton option-pricing model. During the year ended December 31, 2011 we awarded 2,847,191 stock options to employees and 360,000 stock options to directors. Option awards are generally granted with an exercise price equal to the market price of the Company's stock on the day before the grant date. The two option grants during 2011 vest over a seven-year and a ten-year period, respectively. Expected volatilities are based on historical volatility of the Company's stock. The expected term of options is based upon exercise and forfeiture experience in previous option grants. The risk-free rate is based on yields on U.S. Treasury securities of a similar maturity to the expected term of the options. New shares are issued when options are exercised. During the year ended December 31, 2011 we awarded 1,165,949 common shares to employees and 120,000 common shares to directors. Common share awards granted in 2011 vest over a ten-year period from the grant date, with the first vesting occurring on the grant date. For additional information regarding grants of stock options and common shares see Note 15.

Stock-based employee compensation expense related to common share awards of \$2.7 million, \$237,000 and \$911,000 was included in income before income taxes during the years ended December 31, 2011, 2010 and 2009, respectively. The effect on net income for the years ended December 31, 2011, 2010 and 2009 was a reduction of \$1.8 million, \$154,000 and \$592,000, respectively. Total compensation expense for unvested stock options of \$5.8 million has yet to be recognized as of December 31, 2011. The weighted average period over which this remaining stock option expense will be recognized is approximately 4.44 years.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes-Merton option-pricing model with the following weighted average assumptions: (1) dividend yields ranging from 1.6% to 5.1% based on historical dividends and market prices; (2) expected volatility of 17% to 33% based on historical volatility; (3) risk-free interest rates ranging from 2.2% to 6.5%; and (4) expected lives of seven to nine years based on previous grants.

(p) *Segment Reporting*

We have two reportable segments, Community Banking and Consumer Finance. See note 21 for related disclosures.

(q) *Derivative financial instruments interest rate swaps*

We recognize all derivative financial instruments as either assets or liabilities in the balance sheet and measure those instruments at fair value. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation. An entity that elects to use hedge accounting is required, at inception, to establish the method it will use for assessing the effectiveness of the hedging derivative and the measurement approach for determining the ineffective aspect of the hedge. Those methods must be consistent with the Company's approach to managing risk.

We utilize interest rate swap agreements as part of the management of interest rate risk to hedge the interest rate risk on our trust preferred debentures. Amounts receivable or payable are recognized as accrued under the

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terms of the agreements and the differential is recorded as an adjustment to interest expense. The interest rate swaps are designated as cash flow hedges, with the effective portion of the derivative's unrealized gain or loss recorded as a component of other comprehensive income. The ineffective portion of the unrealized gain or loss, if any, would be recorded in other expense. See note 22 for related disclosures.

*(r) Off-Balance-Sheet Instruments*

In the normal course of business, we extend credit in the form of loan commitments, undisbursed lines of credit, and standby letters of credit. These off-balance-sheet instruments involve, to various degrees, elements of credit and interest rate risk not reported in the consolidated statement of financial condition. We utilize the same underwriting standards for these instruments as other extensions of credit.

*(s) Use of Estimates*

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenses during the reporting period. The estimates and assumptions that we deem important to our financial statements relate to the allowance for loan losses, the accounting treatment and valuation of our investment securities portfolio, the analysis of the carrying value of goodwill and income taxes. These estimates and assumptions are based on management's best estimates and judgment and we evaluate them using historical experience and other factors, including the current economic environment. We adjust our estimates and assumptions when facts and circumstances dictate. As future events cannot be determined, actual results could differ significantly from our estimates.

*(t) Reclassification of Prior Years' Statements*

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



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**(2) Recent Accounting Pronouncements**

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 did not have a material impact on our Consolidated Financial Statements.

In May 2011, the 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, FASB issued ASU No. 2011-05, *Presentation of Comprehensive Income*. This guidance 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. This guidance should be applied retrospectively effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Early adoption is permitted. We will adopt the provisions of the standard beginning the first quarter of 2012.

In September 2011, the FASB issued ASU No. 2011-08, *Intangibles - Goodwill and Other (Topic 350) - Testing Goodwill for Impairment*. This guidance allows an entity the option to make a qualitative evaluation about the likelihood of goodwill impairment to determine whether it should calculate the fair value of the reporting unit. ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted. The adoption of the provisions of this standard is not expected to have a material impact on our Consolidated Financial Statements.



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**(3) Marketable Securities**

Marketable securities available-for-sale at December 31, 2011 are as follows:

	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	\$ 59			59
Debt issued by government sponsored enterprises:				
Due in one year - five years	36,295	134		36,429
Due in five years - ten years	29,557	638	(61)	30,134
Due after ten years	9,665		(49)	9,616
Equity securities	12,080	644	(259)	12,465
Municipal securities:				
Due in one year - five years	10,633	291		10,924
Due in five years - ten years	27,817	1,336		29,153
Due after ten years	124,041	5,350	(180)	129,211
Corporate debt issues:				
Due in one year or less	500			500
Due after ten years	25,036	233	(4,635)	20,634
Residential mortgage-backed securities:				
Fixed rate pass-through	110,364	8,201	(1)	118,564
Variable rate pass-through	135,103	6,679	(4)	141,778
Fixed rate non-agency CMOs	9,521	188	(735)	8,974
Fixed rate agency CMOs	112,670	3,466		116,136
Variable rate non-agency CMOs	1,104		(154)	950
Variable rate agency CMOs	240,963	1,991	(132)	242,822
Total residential mortgage-backed securities	609,725	20,525	(1,026)	629,224
Total marketable securities available-for-sale	\$ 885,408	29,151	(6,210)	908,349

Marketable securities held to maturity at December 31, 2011 are as follows:

	Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
Municipal securities:				
Due in five - ten years	\$ 3,677	174		3,851
Due after ten years	71,015	3,615		74,630
Residential mortgage-backed securities:				
Fixed rate pass-through	24,160	1,099		25,259
Variable rate pass-through	9,066	94		9,160
Fixed rate agency CMOs	108,881	2,761		111,642
Variable rate agency CMOs	14,590	280		14,870
Total residential mortgage-backed securities	156,697	4,234		160,931
Total marketable securities held-to-maturity	\$ 231,389	8,023		239,412

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Marketable securities available-for-sale at December 31, 2010 are as follows:

	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

Marketable securities held to maturity at December 31, 2010 are as follows:

Gross  
unrealized                  Gross  
unrealized

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

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The following table presents information regarding the issuers and the carrying values of our mortgage-backed securities at December 31, 2011 and 2010:

	December 31,	
	2011	2010
Residential mortgage backed securities:		
FNMA	\$ 333,188	355,727
GNMA	142,774	223,768
FHLMC	280,686	335,803
SBA	18,624	23,094
Other (including non-agency)	10,649	16,708
Total residential mortgage-backed securities	\$ 785,921	955,100

Marketable securities having a carrying value of \$729.5 million at December 31, 2011, were pledged under collateral agreements. During the years ended December 31, 2011, 2010 and 2009 we sold marketable securities classified as available-for-sale for \$0, \$56.9 million and \$22.3 million, respectively with gross realized gains of \$0, \$2.3 million and \$403,000, respectively and gross realized losses of \$0, \$147,000 and \$0, respectively. During the years ended December 31, 2011, 2010 and 2009 we recognized non-cash other-than-temporary credit related impairment in our investment portfolio resulting in write-downs of \$937,000, \$1.5 million and \$6.1 million, respectively.

The following table shows the fair value and gross unrealized losses on investment securities, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position at December 31, 2011:

	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
U.S. government and agencies	\$ 24,601	(61)	9,648	(49)	34,249	(110)
Municipal securities			2,317	(180)	2,317	(180)
Corporate debt issues	3,537	(219)	15,067	(4,416)	18,604	(4,635)
Equity securities	4,178	(258)	18	(1)	4,196	(259)
Residential mortgage-backed securities - non-agency			4,971	(889)	4,971	(889)
Residential mortgage-backed securities - agency	85,921	(100)	14,353	(37)	100,274	(137)

Total temporarily impaired securities	\$	118,237	(638)	46,374	(5,572)	164,611	(6,210)
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The decline in the fair value of securities primarily resulted from changes in interest rates and the illiquidity in the marketplace. Regularly, we perform an assessment to determine whether there have been any events or economic circumstances to indicate that a security which has an unrealized loss is impaired other-than-temporarily. The assessment considers many factors including the severity and duration of the impairment; recent events specific to the issuer or industry; and for debt securities, external credit ratings, underlying collateral position and recent downgrades. For asset backed securities, we evaluate current characteristics of each security such as delinquency and foreclosure levels, credit enhancement and projected losses and coverage. It is possible that the underlying collateral of these securities will perform worse than current expectations, which may lead to adverse changes in



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cash flows on these securities and potential future other-than-temporary impairment losses. Events that may trigger material declines in fair values for these securities in the future would be, but are not limited to; deterioration of credit metrics, significantly higher levels of default and severity of loss on the underlying collateral, deteriorating credit enhancement and loss coverage ratios, or further illiquidity. For debt securities, credit related other-than-temporary impairment is recognized in earnings, while noncredit related other-than-temporary impairment on securities not expected to be sold is recognized in other comprehensive income. We assert that we do not have the intent to sell these securities and it is more likely than not that we will not have to sell these securities before a recovery of our cost basis. For these reasons, we consider the unrealized losses to be temporary impairment losses. There are approximately 61 positions that are temporarily impaired at December 31, 2011. The aggregate carrying amount of cost-method investments, including both held-to-maturity and available-for-sale, at December 31, 2011 was \$1.140 billion of which all were evaluated for impairment.

As of December 31, 2011, we had six investments in corporate issues with total book value of \$19.5 million and total fair value of \$15.1 million, where book value exceeded carrying value for more than 12 months. These investments were two single issuer trust preferred investments and four 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 are projecting near-term cash flow disruptions, nor have any of the investments experienced a cash flow disruption.

We concluded, based on all facts evaluated, the impairment of these investments was considered temporary. 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 and ratings information for our portfolio of corporate investments that had an unrealized loss as of December 31, 2011:

Description	Class	Book Value	Total Fair Value	Unrealized Losses	Moody s/ Fitch Ratings
Bank Boston Capital Trust (1)	N/A	\$ 988	673	(315)	Ba1/ BBB-
Huntington Capital Trust	N/A	1,425	1,090	(335)	Baa3/ BBB-
Commercebank Capital Trust	N/A	886	880	(6)	Not rated
North Fork Capital Trust (2)	N/A	1,007	977	(30)	Baa3/ BBB

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Ocean Shore Capital Trust	N/A	863	700	(163)	Not rated
Reliance Capital Trust	N/A	1,000	980	(20)	Not rated
I-PreTSL I	Mezzanine	1,500	442	(1,058)	Not rated/ CCC
I-PreTSL II	Mezzanine	1,500	603	(897)	Not rated/ B
PreTSL XIX	Senior A-1	8,660	7,304	(1,356)	Baa2/ BBB
PreTSL XX	Senior A-1	5,410	4,955	(455)	Ba2/ BB
		\$ 23,239	18,604	(4,635)	

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- (1) Bank Boston was acquired by Bank of America
- (2) North Fork was acquired by Capital One

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The following table provides collateral information on the entire pool for trust preferred investments included in the previous table as of December 31, 2011:

Description	Total Collateral	Current deferrals and defaults	Performing Collateral	Additional Immediate defaults before causing an interest shortfall
I-PreTSL I	\$ 193,500	32,500	161,000	90,900
I-PreTSL II	343,500	17,500	326,000	153,395
PreTSL XIX	650,081	146,900	503,181	175,000
PreTSL XX	552,238	164,500	387,738	106,000

Mortgage-backed securities include agency (FNMA, FHLMC, GNMA and SBA) 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, 2011, we believe that the impairment within our portfolio of agency mortgage-backed securities is temporary. As of December 31, 2011, we had ten non-agency collateralized mortgage obligations with total book value of \$10.6 million and total fair value of \$9.9 million. During the year ended December 31, 2011, we recognized other-than-temporary credit related impairment of \$937,000 related to three of these investments. After recognizing the other-than-temporary impairment, our book value on these three investments was \$4.9 million, with a fair value of \$4.1 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 \$5.7 million and fair value of \$5.8 million, were also reviewed considering the severity and length of impairment. After this review, we determined that the impairment on these seven securities was temporary.

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, 2011:

Description	Book Value	Total Fair Value	Unrealized Loss	Cumulative impairment recorded in earnings
AMAC 2003-6 2A2	\$ 364	374		
AMAC 2003-6 2A8	753	775		
AMAC 2003-7 A3	461	466		
BOAMS 2005-11 1A8	1,938	2,069		(146)
CWALT 2005-J14 A3	4,756	4,021	(735)	(676)

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CFSB 2003-17 2A2	726	736		
WAMU 2003-S2 A4	523	533		
CMLTI 2005-10 1A5B	73	33	(40)	(3,531)
SARM 2005-21 4A2	53	22	(31)	(3,193)
WFMBS 2003-B A2	978	895	(83)	
	\$ 10,625	9,924	(889)	(7,546)

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As of December 31, 2011, we had four investments in municipal securities with a total book value of \$2.5 million and a total fair value of \$2.3 million, where book value exceeded fair value for more than 12 months. We review our portfolio of municipal securities quarterly for impairment. We initially evaluate investments in municipal securities for other-than-temporary impairment by comparing the fair value, provided to us by two third party pricing sources using quoted prices for similar assets that are actively traded, to the carrying value. When an investment's fair value is below 80% of the carrying value we then compare the stated interest rate to current market interest rates to determine if the decline in fair value is attributable to interest rates. If the stated interest rate approximates current interest rates for similar securities, we determine if the investment is rated and if so, if the rating has changed in the current period. If the rating has not changed during the current period, we review publicly available information to determine if there has been any negative change in the underlying municipality. As of December 31, 2011, we have determined that all of the impairment in our municipal securities portfolio is noncredit related and therefore temporary. The four investments in municipal securities discussed above were issued by two Pennsylvania municipalities.

The following table provides information for our portfolio of municipal securities that have been in an unrealized loss position for more than 12 months as of December 31, 2011:

Description	State	Book Value	Total Fair Value	Unrealized Loss	Rating
Cambridge Area JT Revenue	PA	\$ 595	544	(51)	Not rated
West Reading General Obligation	PA	424	411	(13)	BBB
West Reading General Obligation	PA	492	475	(17)	BBB
West Reading General Obligation	PA	986	887	(99)	BBB
		\$ 2,497	2,317	(180)	

The follow table sets forth the categories of investment securities at December 31, 2011 on which other-than-temporary impairment charges have been recorded in earnings:

Category	Book Value	Total Fair Value	Unrealized Gain/ (Loss)	Accumulated Impairment Charges
Freddie Mac preferred shares	\$ 76	284	208	(7,424)
Trust preferred investments	15,867	14,289	(1,578)	(8,836)
Non-agency CMOs	6,819	6,145	(674)	(7,546)
Equity securities	135	239	104	(94)
	\$ 22,897	20,957	(1,940)	(23,900)



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

		December 31,	
		2011	2010
Beginning balance as of January 1 (a)	\$	15,445	13,998
Credit losses on debt securities for which other-than-temporary impairment was not previously recognized			
Additional credit losses on debt securities for which other-than-temporary impairment was previously recognized		937	1,447
Ending balance as of December 31	\$	16,382	15,445

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

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

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





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

Description	Class	Book Value	Total Fair Value	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/ Not rated
Huntington Capital Trust	N/A	1,422	848	(574)	Ba1/ BBB-
MM Community Funding I	N/A	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 on the entire pool for trust preferred investments included in the previous table as of December 31, 2010:

Description *	Total Collateral	Current deferrals and defaults	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

\* - Similar information for the MM Community Funding I & II is not available.

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Effective April 1, 2009, we adopted recently issued accounting standards which require that credit related other-than-temporary impairment on debt securities be recognized in earnings while noncredit related other-than-temporary impairment on debt securities, not expected to be sold, be recognized in other comprehensive income.

Noncredit related other-than-temporary impairment losses recognized in prior periods have been reclassified as a cumulative effect adjustment that increased retained earnings and increased accumulated other comprehensive loss as of April 1, 2009. In 2008, \$16.0 million of other-than-temporary impairment charges were recognized, of which \$2.8 million related to noncredit impairment on debt securities. Therefore, the cumulative effect adjustment to retained earnings recorded April 1, 2009 totaled \$1.7 million, after tax.

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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 Gain/ (loss)	Cumulative impairment recorded in earnings
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)

The following table provides information for our portfolio of municipal securities that have been in an unrealized loss position for more than 12 months as of December 31, 2010:

Description	State	Book Value	Total Fair Value	Unrealized Losses	Rating
Cambria & Somerset County s General Obligation	PA	\$ 612	566	(46)	A
Ohio Township Sewer Revenue	PA	304	271	(33)	Not rated
Hamburg Sewer Revenue	PA	596	529	(67)	Not rated
Plum Boro Water Authority Revenue	PA	836	736	(100)	Not rated
Cambridge Area JT Revenue	PA	595	521	(74)	Not rated
Northwest Harris County Util Dist Revenue	TX	482	417	(65)	BBB+
Ohio Township Sewer Revenue	PA	490	423	(67)	Not rated
West Reading General Obligation	PA	424	366	(58)	BBB+
Cambria & Somerset County s General Obligation	PA	470	405	(65)	Not rated
West Reading General Obligation	PA	492	421	(71)	BBB+
Neshannock Township General Obligation	PA	2,170	1,842	(328)	A

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Kutztown General Obligation	PA	799	654	(145)	A
Ohio Township Sewer Revenue	PA	306	247	(59)	Not rated
West Reading General Obligation	PA	986	783	(203)	BBB+
		\$ 9,562	8,181	(1,381)	

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**(4) Loans Receivable**

Loans receivable at December 31, 2011 and 2010 are summarized in the table below:

	December 31,	
	2011	2010
<b>Personal Banking:</b>		
Residential mortgage loans	\$ 2,414,992	2,432,421
Home equity loans	1,084,786	1,095,953
Other consumer loans	245,689	255,776
<b>Total Personal banking</b>	<b>3,745,467</b>	<b>3,784,150</b>
<b>Business Banking:</b>		
Commercial real estate	1,481,127	1,423,021
Commercial loans	408,462	463,006
<b>Total Business Banking</b>	<b>1,889,589</b>	<b>1,886,027</b>
<b>Total loans receivable, gross</b>	<b>5,635,056</b>	<b>5,670,177</b>
Deferred loan fees	(4,752)	(7,165)
Allowance for loan losses	(71,138)	(76,412)
<b>Undisbursed loan proceeds:</b>		
Residential mortgage loans	(12,874)	(26,952)
Commercial real estate	(45,360)	(72,702)
Commercial loans	(20,551)	(29,353)
<b>Total loans receivable, net</b>	<b>\$ 5,480,381</b>	<b>5,457,593</b>

At December 31, 2011, 2010 and 2009, we serviced loans for others approximating \$1.150 billion, \$1.310 billion and \$1.401 billion, respectively. These loans serviced for others are not our assets and are not included in our financial statements.

At both December 31, 2011 and 2010, approximately 76% of our loan portfolio was secured by properties located in Pennsylvania. We do not believe we have significant concentrations of credit risk to any one group of borrowers given our underwriting and collateral requirements.

Loans receivable at December 31, 2011 and 2010 include \$1.745 billion and \$1.757 billion, respectively, of adjustable rate loans and \$3.890 billion and \$3.913 billion, respectively, of fixed rate loans.



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The following table provides information related to the loan portfolio by portfolio segment and by class of financing receivable as of December 31, 2011:

	Recorded investment in loans receivable	Allowance for loan losses	Recorded investment in loans on nonaccrual	Recorded investment in loans past due 90 days or more and still accruing	TDRs
<b>Personal Banking:</b>					
Residential mortgage loans	\$ 2,397,366	8,482	28,221	12	806
Home equity loans	1,084,786	8,687	9,560	221	
Other consumer loans	245,689	5,325	2,667	277	
<b>Total Personal Banking</b>	<b>3,727,841</b>	<b>22,494</b>	<b>40,448</b>	<b>510</b>	<b>806</b>
<b>Business Banking:</b>					
Commercial real estate loans	1,435,767	32,148	62,494		38,216
Commercial loans	387,911	12,080	28,163		30,407
<b>Total Business Banking</b>	<b>1,823,678</b>	<b>44,228</b>	<b>90,657</b>		<b>68,623</b>
<b>Total</b>	<b>\$ 5,551,519</b>	<b>66,722</b>	<b>131,105</b>	<b>510</b>	<b>69,429</b>

The following table provides information related to the loan portfolio by portfolio segment and by class of financing receivable as of December 31, 2010:

	Recorded investment in loans receivable	Allowance for loan losses	Recorded investment in loans on nonaccrual	Recorded investment in loans past due 90 days or more and still accruing	TDRs
<b>Personal Banking:</b>					
Residential mortgage loans	\$ 2,398,304	6,854	29,751		
Home equity loans	1,095,953	7,675	10,263		
Other consumer loans	255,776	5,810	2,565		
<b>Total Personal Banking</b>	<b>3,750,033</b>	<b>20,339</b>	<b>42,579</b>		
<b>Business Banking:</b>					
Commercial real estate loans	1,350,319	35,832	67,305	1,067	25,323
Commercial loans	433,653	15,770	38,507		27,282

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Total Business Banking		1,783,972	51,602	105,812	1,067	52,605
Total	\$	5,534,005	71,941	148,391	1,067	52,605



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Our loan portfolios include certain loans that have been modified in a troubled debt restructuring (TDR), where economic concessions have been granted to borrowers who have experienced financial difficulties. These concessions typically result from our loss mitigation activities and could include: extending the note's maturity date, permitting interest only payments, reducing the interest rate to a rate lower than current market rates for new debt with similar risk, reducing the principal payment, principal forbearance or other actions. These concessions are applicable to all loan segments and classes. Certain TDRs are classified as nonperforming at the time of restructuring and typically are returned to performing status after considering the borrower's sustained repayment performance for a reasonable period of at least six months.

When we modify loans in a TDR, we evaluate any possible impairment similar to other impaired loans based on the present value of expected future cash flows, discounted at the contractual interest rate of the original loan agreement, the loan's observable market price or use the current fair value of the collateral, less selling costs, for collateral dependent loans. If we determine that the value of the modified loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount), impairment is recognized through an allowance estimate or a charge-off to the allowance. In periods subsequent to modification, we evaluate all TDRs, including those that have payment defaults, for possible impairment. As a result, loans modified in a TDR may have the financial effect of increasing the specific allowance associated with the loan.

Loans modified in a TDR are closely monitored for delinquency as an early indicator of possible future default. If loans modified in a TDR subsequently default, we evaluate the loan for possible further impairment. The allowance may be increased, adjustments may be made in the allocation of the allowance, partial charge-offs may be taken to further write-down the carrying value of the loan, or the loan may be charged-off completely.

Of the 12 TDRs that subsequently defaulted during the year ended December 31, 2011, one commercial loan with a balance of \$7.1 million was moved to other real estate owned, one commercial real estate loan with a balance of \$307,000 was charged off and one commercial real estate loan with a balance of \$317,000 was paid off.

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The following table provides information related to troubled debt restructurings that occurred during the periods indicated by portfolio segment and by class of financing receivable for the periods indicated:

		<b>For the year ended December 31, 2011</b>		
	<b>Number of contracts</b>	<b>Recorded investment at the time of modification</b>	<b>Current recorded investment</b>	<b>Current allowance</b>
<b>Troubled debt restructurings:</b>				
<b>Personal Banking:</b>				
Residential mortgage loans	2	\$ 894	806	128
Home equity loans				
Other consumer loans				
<b>Total Personal Banking</b>	<b>2</b>	<b>894</b>	<b>806</b>	<b>128</b>
<b>Business Banking:</b>				
Commercial real estate loans	21	21,617	21,387	1,358
Commercial loans	21	17,673	16,011	646
<b>Total Business Banking</b>	<b>42</b>	<b>39,290</b>	<b>37,398</b>	<b>2,004</b>
<b>Total</b>	<b>44</b>	<b>\$ 40,184</b>	<b>38,204</b>	<b>2,132</b>

		<b>For the year ended December 31, 2011</b>		
	<b>Number of contracts</b>	<b>Recorded investment at the time of modification</b>	<b>Current recorded investment</b>	<b>Current allowance</b>
<b>Troubled debt restructurings that subsequently defaulted:</b>				
<b>Personal Banking:</b>				
Residential mortgage loans		\$		
Home equity loans				
Other consumer loans				
<b>Total Personal Banking</b>				
<b>Business Banking:</b>				
Commercial real estate loans	8	3,616	2,218	516
Commercial loans	4	10,864	1,385	277
<b>Total Business Banking</b>	<b>12</b>	<b>14,480</b>	<b>3,603</b>	<b>793</b>
<b>Total</b>	<b>12</b>	<b>\$ 14,480</b>	<b>3,603</b>	<b>793</b>



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		For the year ended December 31, 2010		
	Number of contracts	Recorded investment at the time of modification	Current recorded investment	Current allowance
Troubled debt restructurings:				
Personal Banking:				
Residential mortgage loans		\$		
Home equity loans				
Other consumer loans				
Total Personal Banking				
Business Banking:				
Commercial real estate loans	19	15,914	15,508	701
Commercial loans	8	16,106	16,106	3,495
Total Business Banking	27	32,020	31,614	4,196
Total	27	\$ 32,020	31,614	4,196

		For the year ended December 31, 2010		
	Number of contracts	Recorded investment at the time of modification	Current recorded investment	Current allowance
Troubled debt restructurings that subsequently defaulted:				
Personal Banking:				
Residential mortgage loans		\$		
Home equity loans				
Other consumer loans				
Total Personal Banking				
Business Banking:				
Commercial real estate loans	3	11,470	11,668	114
Commercial loans				
Total Business Banking	3	11,470	11,668	114
Total	3	\$ 11,470	11,668	114

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		<b>For the year ended December 31, 2009</b>		
	<b>Number of contracts</b>	<b>Recorded investment at the time of modification</b>	<b>Current recorded investment</b>	<b>Current allowance</b>
<b>Troubled debt restructurings:</b>				
<b>Personal Banking:</b>				
Residential mortgage loans		\$		
Home equity loans				
Other consumer loans				
<b>Total Personal Banking</b>				
<b>Business Banking:</b>				
Commercial real estate loans	9	9,785	9,782	1,461
Commercial loans	2	11,303	11,303	1,087
<b>Total Business Banking</b>	<b>11</b>	<b>21,088</b>	<b>21,085</b>	<b>2,548</b>
<b>Total</b>	<b>11</b>	<b>\$ 21,088</b>	<b>21,085</b>	<b>2,548</b>

A loan is considered to be 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. This includes non-accrual loans, loans more than 90 days delinquent and still accruing interest, loans for which we perform an impairment review and TDRs. The amount of impairment is required to be measured using 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 collateral if the loan is collateral dependent. If the measure of the impaired loan is less than the recorded investment in the loan, a specific allowance is allocated for the impairment. Total impaired loans at December 31, 2011 and 2010 were \$179.4 million and \$205.5 million, respectively.

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The following table provides information related to impaired loans by portfolio segment and by class of financing receivable as of and for the year ended December 31, 2011:

	Loans collectively evaluated for impairment	Loans individually evaluated for impairment	Loans individually evaluated for impairment for which there is a related impairment reserve	Related impairment reserve	Loans individually evaluated for impairment for which there is no related reserve	Average recorded investment in nonaccrual impaired loans	Interest income recognized on nonaccrual impaired loans
<b>Personal Banking:</b>							
Residential mortgage loans	\$ 2,397,366					30,310	
Home equity loans	1,084,786					9,574	
Other consumer loans	245,689					2,340	
<b>Total Personal Banking</b>	<b>3,727,841</b>					<b>42,224</b>	
<b>Business Banking:</b>							
Commercial real estate loans	1,395,634	40,133	15,576	3,025	24,557	72,852	309
Commercial loans	361,033	26,878	5,897	1,519	20,981	40,522	561
<b>Total Business Banking</b>	<b>1,756,667</b>	<b>67,011</b>	<b>21,473</b>	<b>4,544</b>	<b>45,538</b>	<b>113,374</b>	<b>870</b>
<b>Total</b>	<b>\$ 5,484,508</b>	<b>67,011</b>	<b>21,473</b>	<b>4,544</b>	<b>45,538</b>	<b>155,598</b>	<b>870</b>

The following table provides information related to impaired loans by portfolio segment and by class of financing receivable as of and for the year ended December 31, 2010:

	Loans collectively evaluated for impairment	Loans individually evaluated for impairment	Loans individually evaluated for impairment for which there is a related impairment reserve	Related impairment reserve	Loans individually evaluated for impairment for which there is no related reserve	Average recorded investment in nonaccrual impaired loans	Interest income recognized on nonaccrual impaired loans
<b>Personal Banking:</b>	\$ 2,398,304					27,544	

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Residential mortgage  
loans

Home equity loans	1,095,953					8,333	
Other consumer loans	255,776					4,543	
<b>Total Personal Banking</b>	<b>3,750,033</b>					<b>40,420</b>	

**Business Banking:**

Commercial real estate loans	1,286,398	63,921	37,336	9,186	26,585	60,923	171
Commercial loans	403,924	29,729	23,468	6,944	6,261	35,452	629
<b>Total Business Banking</b>	<b>1,690,322</b>	<b>93,650</b>	<b>60,804</b>	<b>16,130</b>	<b>32,846</b>	<b>96,375</b>	<b>800</b>
<b>Total</b>	<b>\$ 5,440,355</b>	<b>93,650</b>	<b>60,804</b>	<b>16,130</b>	<b>32,846</b>	<b>136,795</b>	<b>800</b>

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The following table provides information related to impaired loans by portfolio segment and by class of financing receivable as of and for the year ended December 31, 2009:

	Loans collectively evaluated for impairment	Loans individually evaluated for impairment	Loans individually evaluated for impairment for which there is a related impairment reserve	Related impairment reserve	Loans individually evaluated for impairment for which there is no related reserve	Average recorded investment in nonaccrual impaired loans	Interest income recognized on nonaccrual impaired loans
<b>Personal Banking:</b>							
Residential mortgage loans	\$ 2,335,703					26,250	
Home equity loans	1,080,011					8,722	
Other consumer loans	273,865					2,276	
<b>Total Personal Banking</b>	<b>3,689,579</b>					<b>37,248</b>	
<b>Business Banking:</b>							
Commercial real estate loans	1,212,168	26,048	17,075	5,016	8,973	51,282	329
Commercial loans	347,854	23,816	19,871	5,747	3,945	28,641	
<b>Total Business Banking</b>	<b>1,560,022</b>	<b>49,864</b>	<b>36,946</b>	<b>10,763</b>	<b>12,918</b>	<b>79,923</b>	<b>329</b>
<b>Total</b>	<b>\$ 5,249,601</b>	<b>49,864</b>	<b>36,946</b>	<b>10,763</b>	<b>12,918</b>	<b>117,171</b>	<b>329</b>

The following table provides information related to loan delinquencies as of December 31, 2011:

	30-59 Days Delinquent	60-89 Days Delinquent	90 Days or Greater Delinquent	Total Delinquency	Current	Total Loans
<b>Personal Banking:</b>						
Residential mortgage loans	\$ 33,671	8,629	28,221	70,521	2,326,845	2,397,366
Home equity loans	7,426	1,953	9,560	18,939	1,065,847	1,084,786
Other consumer loans	4,854	1,787	2,667	9,308	236,381	245,689
<b>Total Personal Banking</b>	<b>45,951</b>	<b>12,369</b>	<b>40,448</b>	<b>98,768</b>	<b>3,629,073</b>	<b>3,727,841</b>
<b>Business Banking:</b>						
Commercial real estate loans	10,680	3,122	44,603	58,405	1,377,362	1,435,767



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Commercial loans		2,027	4,958	10,785	17,770	370,141	387,911
Total Business Banking		12,707	8,080	55,388	76,175	1,747,503	1,823,678
Total	\$	58,658	20,449	95,836	174,943	5,376,576	5,551,519

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The following table provides information related to loan delinquencies as of December 31, 2010:

	30-59 Days Delinquent	60-89 Days Delinquent	90 Days or Greater Delinquent	Total Delinquency	Current	Total Loans
<b>Personal Banking:</b>						
Residential mortgage loans	\$ 35,329	9,848	29,751	74,928	2,323,376	2,398,304
Home equity loans	7,317	3,249	10,263	20,829	1,075,124	1,095,953
Other consumer loans	5,318	1,331	2,565	9,214	246,562	255,776
<b>Total Personal Banking</b>	<b>47,964</b>	<b>14,428</b>	<b>42,579</b>	<b>104,971</b>	<b>3,645,062</b>	<b>3,750,033</b>
<b>Business Banking:</b>						
Commercial real estate loans	16,287	14,365	44,965	75,617	1,274,702	1,350,319
Commercial loans	6,590	1,678	12,877	21,145	412,508	433,653
<b>Total Business Banking</b>	<b>22,877</b>	<b>16,043</b>	<b>57,842</b>	<b>96,762</b>	<b>1,687,210</b>	<b>1,783,972</b>
<b>Total</b>	<b>\$ 70,841</b>	<b>30,471</b>	<b>100,421</b>	<b>201,733</b>	<b>5,332,272</b>	<b>5,534,005</b>

Credit quality indicators: We categorize loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. We analyze business loans individually by classifying the loans by credit risk. Loans classified as special mention or substandard are reviewed quarterly for further deterioration or improvement to determine if the loan is appropriately classified. We use the following definitions for risk ratings other than pass:

**Special mention** Loans designated as special mention have specific, well-defined risk issues, which create a high level of uncertainty regarding the long-term viability of the business. Loans in this class are considered to have high-risk characteristics. A special mention loan exhibits material negative financial trends due to company-specific or systemic conditions. If these potential weaknesses are not mitigated, they threaten the borrower's capacity to meet its debt obligations. Special mention loans still demonstrate sufficient financial flexibility to react to and positively address the root cause of the adverse financial trends without significant deviations from their current business strategy. Their potential weaknesses deserve our close attention and warrant enhanced monitoring.

**Substandard** Loans classified as substandard are inadequately protected by the current net worth and payment capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that we will sustain some loss if the deficiencies are not corrected.

**Doubtful** Loans classified as doubtful have all the weaknesses inherent in those classified as substandard. In addition, those weaknesses make collection or liquidation in full highly questionable and improbable. A loan classified as doubtful exhibits discernible loss potential, but a complete loss seems very unlikely. The possibility of a loss on a doubtful loan is high, but because of certain important and reasonably specific pending factors that may strengthen the loan, its classification as an estimated loss is deferred until a more exact status can be determined.

**Loss** Loans classified as loss are considered uncollectible and of such value that the continuance as a loan is not warranted. A loss classification does not mean that the loan has no recovery or salvage value; instead, it means that it is not practical or desirable to defer writing off all or a portion of a basically worthless loan even though partial recovery may be affected in the future.

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The following table sets forth information about credit quality indicators as of December 31, 2011:

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
<b>Personal Banking:</b>						
Residential mortgage loans	\$ 2,373,275		22,843	11	1,237	2,397,366
Home equity loans	1,074,512		10,274			1,084,786
Other consumer loans	244,491		1,198			245,689
<b>Total Personal Banking</b>	<b>3,692,278</b>		<b>34,315</b>	<b>11</b>	<b>1,237</b>	<b>3,727,841</b>
<b>Business Banking:</b>						
Commercial real estate loans	1,211,583	75,981	144,947	3,256		1,435,767
Commercial loans	298,597	23,887	62,753	2,674		387,911
<b>Total Business Banking</b>	<b>1,510,180</b>	<b>99,868</b>	<b>207,700</b>	<b>5,930</b>		<b>1,823,678</b>
<b>Total</b>	<b>\$ 5,202,458</b>	<b>99,868</b>	<b>242,015</b>	<b>5,941</b>	<b>1,237</b>	<b>5,551,519</b>

The following table sets forth information about credit quality indicators as of December 31, 2010:

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
<b>Personal Banking:</b>						
Residential mortgage loans	\$ 2,368,776		28,763	56	709	2,398,304
Home equity loans	1,084,605		11,348			1,095,953
Other consumer loans	254,072		1,704			255,776
<b>Total Personal Banking</b>	<b>3,707,453</b>		<b>41,815</b>	<b>56</b>	<b>709</b>	<b>3,750,033</b>
<b>Business Banking:</b>						
Commercial real estate loans	1,112,955	70,638	163,050	3,346	330	1,350,319
Commercial loans	349,232	25,710	58,266	436	9	433,653
<b>Total Business Banking</b>	<b>1,462,187</b>	<b>96,348</b>	<b>221,316</b>	<b>3,782</b>	<b>339</b>	<b>1,783,972</b>
<b>Total</b>	<b>\$ 5,169,640</b>	<b>96,348</b>	<b>263,131</b>	<b>3,838</b>	<b>1,048</b>	<b>5,534,005</b>

Our exposure to credit loss in the event of nonperformance by the other party to off-balance-sheet financial instruments is represented by the contract amount of the financial instrument. We use the same credit policies in making commitments for off-balance-sheet financial instruments as we do for on-balance-sheet instruments. Financial instruments with off-balance-sheet risk as of December 31, 2011 and 2010 are presented in the following table:

	December 31,	
	2011	2010
Loan commitments	\$ 162,903	135,782
Undisbursed lines of credit	371,729	345,838
Standby letters of credit	63,942	61,485
	\$ 598,574	543,105

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Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. We evaluate each customer's creditworthiness on a case-by-case basis. The amount of collateral we obtain upon extension of credit is based on management's credit evaluation of the counterparty. Collateral held varies but generally may include cash, marketable securities, real estate and other property.

Outstanding loan commitments at December 31, 2011, for fixed rate loans, were \$52.4 million. The interest rates on these commitments approximate market rates at December 31, 2011. Outstanding loan commitments at December 31, 2011 for adjustable rate loans were \$110.5 million. The fair values of these commitments are affected by fluctuations in market rates of interest.

We issue standby letters of credit in the normal course of business. Standby letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. Standby letters of credit generally are contingent upon the failure of the customer to perform according to the terms of the underlying contract with the third party. We are required to perform under a standby letter of credit when drawn upon by the guaranteed third party in the case of nonperformance by our customer. The credit risk associated with standby letters of credit is essentially the same as that involved in extending loans to customers and is subject to normal credit policies. Collateral may be obtained based on management's credit assessment of the customer. As of December 31, 2011, the maximum potential amount of future payments we could be required to make under these standby letters of credit is \$63.9 million, of which \$62.8 million is fully collateralized. A liability (which represents deferred income) of \$815,000 and \$812,000 has been recognized for the obligations as of December 31, 2011 and 2010, respectively, and there are no recourse provisions that would enable us to recover any amounts from third parties.

Mortgage servicing assets are recorded in other assets on the balance sheet when the underlying loan is sold. Upon sale, the mortgage servicing right (MSR) is established, which represents the then fair value of future net cash flows expected to be realized for performing the servicing activities. The fair value of the MSRs are estimated by calculating the present value of estimated future net servicing cash flows, taking into consideration actual and expected mortgage loan prepayment rates, discount rates, servicing costs and other economic factors, which are determined based on current market conditions. In determining the fair value of the MSRs, mortgage interest rates, which are used to determine prepayment rates and discount rates, are held constant over the estimated life of the portfolio. MSRs are amortized against mortgage banking income in proportion to, and over the period of, the estimated future net servicing income of the underlying mortgage loans.

Capitalized MSRs are evaluated for impairment based on the estimated fair value of those rights. The MSRs are stratified by certain risk characteristics, primarily loan term and note rate. If temporary impairment exists within a risk stratification tranche, a valuation allowance is established through a charge to income equal to the amount by which the carrying value exceeds the fair value. If it is later determined all or a portion of the temporary impairment no longer exists for a particular tranche, the valuation allowance is reduced.



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The following table shows changes in MSRs as of and for the year ended December 31, 2011:

		Servicing Rights	Valuation Allowance	Net Carrying Value and Fair Value
Balance at December 31, 2010	\$	5,969		5,969
Additions/ (reductions)		1,091		1,091
Amortization		(3,405)		(3,405)
Balance at December 31, 2011	\$	3,655		3,655

The following table shows changes in MSRs as of and for the year ended December 31, 2010:

		Servicing Rights	Valuation Allowance	Net Carrying Value and Fair Value
Balance at December 31, 2009	\$	8,570	(540)	8,030
Additions/ (reductions)		1,783	540	2,323
Amortization		(4,384)		(4,384)
Balance at December 31, 2010	\$	5,969		5,969

**(5) Accrued Interest Receivable**

Accrued interest receivable as of December 31, 2011 and 2010 is presented in the following table:

		December 31,	
		2011	2010
Investment securities	\$	2,402	3,162
Mortgage-backed securities		1,777	2,438
Loans receivable		20,420	20,616
	\$	24,599	26,216





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**(6) Allowance for Loan Losses**

Changes in the allowance for losses on loans receivable for the years ended December 31, 2011, 2010 and 2009 are presented in the following tables:

	Balance December 31, 2010	Provision	Charge-offs	Recoveries	Balance December 31, 2011
<b>Personal Banking:</b>					
Residential mortgage loans	\$ 6,854	5,518	(4,198)	308	8,482
Home equity loans	7,675	5,619	(4,734)	127	8,687
Other consumer loans	5,810	3,544	(5,283)	1,254	5,325
<b>Total Personal Banking</b>	<b>20,339</b>	<b>14,681</b>	<b>(14,215)</b>	<b>1,689</b>	<b>22,494</b>
<b>Business Banking:</b>					
Commercial real estate loans	35,832	7,952	(12,508)	872	32,148
Commercial loans	15,770	11,592	(15,641)	359	12,080
<b>Total Business Banking</b>	<b>51,602</b>	<b>19,544</b>	<b>(28,149)</b>	<b>1,231</b>	<b>44,228</b>
Unallocated	4,471	(55)			4,416
<b>Total</b>	<b>\$ 76,412</b>	<b>34,170</b>	<b>(42,364)</b>	<b>2,920</b>	<b>71,138</b>

	Balance December 31, 2009	Provision	Charge-offs	Recoveries	Balance December 31, 2010
<b>Personal Banking:</b>					
Residential mortgage loans	\$ 9,349	1,826	(4,497)	176	6,854
Home equity loans	6,293	5,404	(4,104)	82	7,675
Other consumer loans	6,554	4,224	(6,390)	1,422	5,810
<b>Total Personal Banking</b>	<b>22,196</b>	<b>11,454</b>	<b>(14,991)</b>	<b>1,680</b>	<b>20,339</b>
<b>Business Banking:</b>					
Commercial real estate loans	23,942	24,152	(12,576)	314	35,832
Commercial loans	20,073	4,601	(9,305)	401	15,770
<b>Total Business Banking</b>	<b>44,015</b>	<b>28,753</b>	<b>(21,881)</b>	<b>715</b>	<b>51,602</b>
Unallocated	4,192	279			4,471

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Total	\$	70,403	40,486	(36,872)	2,395	76,412
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(All dollar amounts presented in tables are in thousands, except as indicated)

	Balance December 31, 2008	Provision	Charge-offs	Recoveries	Balance December 31, 2009
<b>Personal Banking:</b>					
Residential mortgage loans	\$ 4,138	6,634	(1,437)	14	9,349
Home equity loans	4,476	3,269	(1,525)	73	6,293
Other consumer loans	6,125	4,869	(5,520)	1,080	6,554
<b>Total Personal Banking</b>	<b>14,739</b>	<b>14,772</b>	<b>(8,482)</b>	<b>1,167</b>	<b>22,196</b>
<b>Business Banking:</b>					
Commercial real estate loans	20,501	7,083	(3,723)	81	23,942
Commercial loans	15,044	20,445	(15,611)	195	20,073
<b>Total Business Banking</b>	<b>35,545</b>	<b>27,528</b>	<b>(19,334)</b>	<b>276</b>	<b>44,015</b>
Unallocated	4,645	(453)			4,192
<b>Total</b>	<b>\$ 54,929</b>	<b>41,847</b>	<b>(27,816)</b>	<b>1,443</b>	<b>70,403</b>

While management uses available information to provide for losses, future additions to the allowance may be necessary based on changes in economic conditions. Current economic conditions have increased the uncertainty inherent in our estimates and assumptions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review our allowance for loan losses. Such agencies may require us to recognize additions to the allowance based on their judgments about information available to them at the time of their examination. Management believes, to the best of their knowledge, that all known losses as of the balance sheet dates have been recorded.

**(7) Federal Home Loan Bank Stock**

Our banking subsidiary is a member of the Federal Home Loan Bank system. As a member, we are required to maintain an investment in the capital stock of the FHLB of Pittsburgh, at cost, in an amount not less than 4.60% of borrowings outstanding plus 0.35% of member asset value, as defined by the FHLB of Pittsburgh and 1.60% of certain letters of credit. During the quarter ended December 31, 2008, the FHLB of Pittsburgh suspended the payment of dividends on its capital stock as well as the regular repurchase of excess stock owned by its members. The FHLB of Pittsburgh does not routinely repurchase excess stock, but they have repurchased \$11.1 million and \$3.2 million of our excess stock for the years ended December 31, 2011 and 2010, respectively.

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**(8) Premises and Equipment**

Premises and equipment at December 31, 2011 and 2010 are summarized by major classification in the following table:

		December 31,	
		2011	2010
Land and land improvements	\$	16,391	16,469
Office buildings and improvements		136,858	126,185
Furniture, fixtures and equipment		99,759	97,573
Leasehold improvements		10,734	11,080
Total, at cost		263,742	251,307
Less accumulated depreciation and amortization		(131,590)	(123,206)
Premises and equipment, net	\$	132,152	128,101

Depreciation and amortization expense for the years ended December 31, 2011, 2010 and 2009 was \$11.7 million, \$12.6 million and \$12.1 million, respectively.

Premises used by certain of our branches and offices are occupied under formal operating lease arrangements. The leases expire on various dates through 2027. Minimum annual rentals by fiscal year are summarized in the following table:

2012	\$	3,957
2014		2,686
2016		1,765
	\$	22,314

Rental expense for the years ended December 31, 2011, 2010 and 2009 was \$4.3 million, \$4.9 million and \$4.9 million, respectively.



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**(9) Goodwill and Other Intangible Assets**

The following table provides information for intangible assets subject to amortization for the years ended December 31, 2011 and 2010:

	December 31, 2011	December 31, 2010
Amortizable intangible assets:		
Core deposit intangibles gross	\$ 30,578	30,578
Acquisitions		
Less: accumulated amortization	(29,549)	(28,301)
Core deposit intangibles net	1,029	2,277
Customer and Contract intangible assets gross	3,779	1,731
Acquisitions - Veracity Benefits Design, Inc.		2,048