

Northwest Bancshares, Inc.  
Form 10-Q  
May 08, 2012  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-Q**

**x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

**For the quarterly period ended March 31, 2012**

**or**

**o Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

**For the transition period from to**

**Commission File Number 001-34582**

**Northwest Bancshares, Inc.**

(Exact name of registrant as specified in its charter)

**Maryland**

**27-0950358**

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(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

**100 Liberty Street, Warren, Pennsylvania**  
(Address of principal executive offices)

**16365**  
(Zip Code)

**(814) 726-2140**

(Registrant's telephone number, including area code)

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

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

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

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

Large Accelerated Filer ☒

Accelerated Filer ☐

Non-Accelerated Filer ☐

Smaller reporting company ☐

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Common Stock (\$0.01 par value) 97,602,357 shares outstanding as of April 30, 2012



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Table of Contents**ITEM 1. FINANCIAL STATEMENTS****NORTHWEST BANCSHARES, INC.****CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION****(in thousands, except share data)**

|                                                                                      | (Unaudited)<br>March 31,<br>2012 | December 31,<br>2011 |
|--------------------------------------------------------------------------------------|----------------------------------|----------------------|
| <b>Assets</b>                                                                        |                                  |                      |
| Cash and due from banks                                                              | \$ 85,050                        | 94,276               |
| Interest-earning deposits in other financial institutions                            | 672,887                          | 593,388              |
| Federal funds sold and other short-term investments                                  | 952                              | 633                  |
| Marketable securities available-for-sale (amortized cost of \$894,232 and \$885,408) | 919,578                          | 908,349              |
| Marketable securities held-to-maturity (fair value of \$224,630 and \$239,412)       | 216,956                          | 231,389              |
| Total cash and investments                                                           | 1,895,423                        | 1,828,035            |
| <b>Personal Banking:</b>                                                             |                                  |                      |
| Loans held for sale                                                                  | 14,222                           | 967                  |
| Residential mortgage loans                                                           | 2,412,711                        | 2,396,399            |
| Home equity loans                                                                    | 1,058,938                        | 1,084,786            |
| Other consumer loans                                                                 | 237,591                          | 245,689              |
| Total Personal Banking                                                               | 3,723,462                        | 3,727,841            |
| <b>Business Banking:</b>                                                             |                                  |                      |
| Commercial real estate loans                                                         | 1,475,576                        | 1,435,767            |
| Commercial loans                                                                     | 408,894                          | 387,911              |
| Total Business Banking                                                               | 1,884,470                        | 1,823,678            |
| Total loans                                                                          | 5,607,932                        | 5,551,519            |
| Allowance for loan losses                                                            | (72,941)                         | (71,138)             |
| Total loans, net                                                                     | 5,534,991                        | 5,480,381            |
| Federal Home Loan Bank stock, at cost                                                | 47,090                           | 48,935               |
| Accrued interest receivable                                                          | 25,072                           | 24,599               |
| Real estate owned, net                                                               | 28,895                           | 26,887               |
| Premises and equipment, net                                                          | 133,599                          | 132,152              |
| Bank owned life insurance                                                            | 134,615                          | 133,524              |
| Goodwill                                                                             | 171,882                          | 171,882              |
| Other intangible assets                                                              | 1,828                            | 2,123                |
| Other assets                                                                         | 95,613                           | 109,187              |
| Total assets                                                                         | \$ 8,069,008                     | 7,957,705            |
| <b>Liabilities and Shareholders' equity</b>                                          |                                  |                      |
| <b>Liabilities:</b>                                                                  |                                  |                      |
| Noninterest-bearing demand deposits                                                  | \$ 732,361                       | 658,560              |
| Interest-bearing demand deposits                                                     | 833,342                          | 800,676              |
| Savings deposits                                                                     | 2,124,269                        | 2,036,272            |
| Time deposits                                                                        | 2,179,789                        | 2,284,817            |
| Total deposits                                                                       | 5,869,761                        | 5,780,325            |

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|                                                                                                                      |              |           |
|----------------------------------------------------------------------------------------------------------------------|--------------|-----------|
| Borrowed funds                                                                                                       | 836,410      | 827,925   |
| Junior subordinated deferrable interest debentures held by trusts that issued guaranteed capital debt securities     | 103,094      | 103,094   |
| Advances by borrowers for taxes and insurance                                                                        | 27,683       | 23,571    |
| Accrued interest payable                                                                                             | 1,119        | 1,104     |
| Other liabilities                                                                                                    | 68,466       | 66,782    |
| Total liabilities                                                                                                    | 6,906,533    | 6,802,801 |
| Shareholders' equity:                                                                                                |              |           |
| Preferred stock, \$0.01 par value: 50,000,000 authorized, no shares issued                                           |              |           |
| Common stock, \$0.01 par value: 500,000,000 shares authorized, 97,593,396 and 97,493,046 shares issued, respectively | 976          | 975       |
| Paid-in capital                                                                                                      | 660,933      | 659,523   |
| Retained earnings                                                                                                    | 547,352      | 543,598   |
| Unallocated common stock of Employee Stock Ownership Plan                                                            | (25,568)     | (25,966)  |
| Accumulated other comprehensive loss                                                                                 | (21,218)     | (23,226)  |
| Total shareholders' equity                                                                                           | 1,162,475    | 1,154,904 |
| Total liabilities and shareholders' equity                                                                           | \$ 8,069,008 | 7,957,705 |

See accompanying notes to consolidated financial statements - unaudited

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

|                                                                                                           | <b>Three months ended<br/>March 31,</b> |             |
|-----------------------------------------------------------------------------------------------------------|-----------------------------------------|-------------|
|                                                                                                           | <b>2012</b>                             | <b>2011</b> |
| Interest income:                                                                                          |                                         |             |
| Loans receivable                                                                                          | \$ 78,159                               | 80,457      |
| Mortgage-backed securities                                                                                | 4,691                                   | 6,756       |
| Taxable investment securities                                                                             | 573                                     | 398         |
| Tax-free investment securities                                                                            | 2,446                                   | 3,074       |
| Interest-earning deposits                                                                                 | 380                                     | 407         |
| Total interest income                                                                                     | 86,249                                  | 91,092      |
| Interest expense:                                                                                         |                                         |             |
| Deposits                                                                                                  | 12,944                                  | 16,063      |
| Borrowed funds                                                                                            | 7,899                                   | 7,989       |
| Total interest expense                                                                                    | 20,843                                  | 24,052      |
| Net interest income                                                                                       | 65,406                                  | 67,040      |
| Provision for loan losses                                                                                 | 6,287                                   | 7,244       |
| Net interest income after provision for loan losses                                                       | 59,119                                  | 59,796      |
| Noninterest income:                                                                                       |                                         |             |
| Impairment losses on securities                                                                           | (545)                                   |             |
| Noncredit related losses on securities not expected to be sold (recognized in other comprehensive income) | 307                                     |             |
| Net impairment losses                                                                                     | (238)                                   |             |
| Gain on sale of investments, net                                                                          | 44                                      | 4           |
| Service charges and fees                                                                                  | 8,425                                   | 8,928       |
| Trust and other financial services income                                                                 | 2,116                                   | 1,910       |
| Insurance commission income                                                                               | 1,718                                   | 1,380       |
| Loss on real estate owned, net                                                                            | (1,070)                                 | (27)        |
| Income from bank owned life insurance                                                                     | 1,117                                   | 1,166       |
| Mortgage banking income                                                                                   | 531                                     | 197         |
| Other operating income                                                                                    | 997                                     | 768         |
| Total noninterest income                                                                                  | 13,640                                  | 14,326      |
| Noninterest expense:                                                                                      |                                         |             |
| Compensation and employee benefits                                                                        | 27,838                                  | 25,499      |
| Premises and occupancy costs                                                                              | 5,748                                   | 6,191       |
| Office operations                                                                                         | 3,324                                   | 3,100       |
| Processing expenses                                                                                       | 6,142                                   | 5,767       |
| Marketing expenses                                                                                        | 2,036                                   | 1,959       |
| Federal deposit insurance premiums                                                                        | 1,620                                   | 2,427       |
| Professional services                                                                                     | 1,697                                   | 1,256       |
| Amortization of intangible assets                                                                         | 295                                     | 491         |
| Real estate owned expense                                                                                 | 740                                     | 431         |
| Other expenses                                                                                            | 1,836                                   | 2,257       |
| Total noninterest expense                                                                                 | 51,276                                  | 49,378      |

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|                                |           |        |
|--------------------------------|-----------|--------|
| Income before income taxes     | 21,483    | 24,744 |
| Federal and state income taxes | 6,302     | 7,491  |
| Net income                     | \$ 15,181 | 17,253 |
| Basic earnings per share       | \$ 0.16   | 0.16   |
| Diluted earnings per share     | \$ 0.16   | 0.16   |

See accompanying notes to unaudited consolidated financial statements

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**NORTHWEST BANCSHARES, INC.**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)**

(in thousands)

|                                                                                                                  |    | Three months ended<br>March 31, |        |
|------------------------------------------------------------------------------------------------------------------|----|---------------------------------|--------|
|                                                                                                                  |    | 2012                            | 2011   |
| Net Income                                                                                                       | \$ | 15,181                          | 17,253 |
| Other comprehensive income net of tax:                                                                           |    |                                 |        |
| Net unrealized holding gains on marketable securities:                                                           |    |                                 |        |
| Unrealized holding gains net of tax of \$(870) and \$(1,131), respectively                                       |    | 1,361                           | 2,101  |
| Other-than-temporary impairment on securities included in net income, net of tax of \$(93) and \$0, respectively |    | 145                             |        |
| Reclassification adjustment for gains included in net income, net of tax of \$31 and \$8, respectively           |    | (49)                            | (16)   |
| Net unrealized holding gains on marketable securities                                                            |    | 1,457                           | 2,085  |
| Change in fair value of interest rate swaps, net of tax of \$(297) and \$(481), respectively                     |    | 551                             | 894    |
| Other comprehensive income                                                                                       |    | 2,008                           | 2,979  |
| Total comprehensive income                                                                                       | \$ | 17,189                          | 20,232 |

See accompanying notes to unaudited consolidated financial statements

Table of Contents**NORTHWEST BANCSHARES, INC.****CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (Unaudited)**

(dollars in thousands, except dividends per share data)

| Three months ended March 31,<br>2011                   | Common Stock |          | Paid-in  | Retained | Accumulated<br>Other<br>Comprehensive | Unallocated<br>common stock | Total<br>Shareholders |
|--------------------------------------------------------|--------------|----------|----------|----------|---------------------------------------|-----------------------------|-----------------------|
|                                                        | Shares       | Amount   | Capital  | Earnings | Income/ (loss)                        | of ESOP                     | Equity                |
| Beginning balance at<br>December 31, 2010              | 110,295,117  | \$ 1,103 | 824,164  | 523,089  | (13,497)                              | (27,409)                    | 1,307,450             |
| Comprehensive income:                                  |              |          |          |          |                                       |                             |                       |
| Net income                                             |              |          |          | 17,253   |                                       |                             | 17,253                |
| Other comprehensive income,<br>net of tax of \$(1,604) |              |          |          |          | 2,979                                 |                             | 2,979                 |
| Total comprehensive income                             |              |          |          | 17,253   | 2,979                                 |                             | 20,232                |
| Exercise of stock options                              | 56,738       | 1        | 352      |          |                                       |                             | 353                   |
| Stock compensation expense                             |              |          | 483      |          |                                       | 384                         | 867                   |
| Share repurchases                                      | (2,618,423)  | (26)     | (31,048) |          |                                       |                             | (31,074)              |
| Dividends paid (\$0.10 per<br>share)                   |              |          |          | (10,712) |                                       |                             | (10,712)              |
| Ending balance at March 31,<br>2011                    | 107,733,432  | \$ 1,078 | 793,951  | 529,630  | (10,518)                              | (27,025)                    | 1,287,116             |
| Three months ended March 31,<br>2012                   | Common Stock |          | Paid-in  | Retained | Accumulated<br>Other<br>Comprehensive | Unallocated<br>common stock | Total<br>Shareholders |
|                                                        | Shares       | Amount   | Capital  | Earnings | Income/ (loss)                        | of ESOP                     | Equity                |
| Beginning balance at<br>December 31, 2011              | 97,493,046   | \$ 975   | 659,523  | 543,598  | (23,226)                              | (25,966)                    | 1,154,904             |
| Comprehensive income:                                  |              |          |          |          |                                       |                             |                       |
| Net income                                             |              |          |          | 15,181   |                                       |                             | 15,181                |
| Other comprehensive income,<br>net of tax of \$(1,229) |              |          |          |          | 2,008                                 |                             | 2,008                 |
| Total comprehensive income                             |              |          |          | 15,181   | 2,008                                 |                             | 17,189                |
| Exercise of stock options                              | 100,350      | 1        | 785      |          |                                       |                             | 786                   |
| Stock compensation expense                             |              |          | 625      |          |                                       | 398                         | 1,023                 |
| Dividends paid (\$0.12 per<br>share)                   |              |          |          | (11,427) |                                       |                             | (11,427)              |

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|                                     |            |    |     |         |         |          |          |           |
|-------------------------------------|------------|----|-----|---------|---------|----------|----------|-----------|
| Ending balance at March 31,<br>2012 | 97,593,396 | \$ | 976 | 660,933 | 547,352 | (21,218) | (25,568) | 1,162,475 |
|-------------------------------------|------------|----|-----|---------|---------|----------|----------|-----------|

See accompanying notes to unaudited consolidated financial statements

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|                                                                                               | <b>Three months ended<br/>March 31,</b> |             |
|-----------------------------------------------------------------------------------------------|-----------------------------------------|-------------|
|                                                                                               | <b>2012</b>                             | <b>2011</b> |
| <b>OPERATING ACTIVITIES:</b>                                                                  |                                         |             |
| Net Income                                                                                    | \$ 15,181                               | 17,253      |
| Adjustments to reconcile net income to net cash provided by operating activities:             |                                         |             |
| Provision for loan losses                                                                     | 6,287                                   | 7,244       |
| Net loss on sale of assets                                                                    | 1,164                                   | 608         |
| Net depreciation, amortization and accretion                                                  | 2,467                                   | 4,108       |
| Decrease in other assets                                                                      | 9,896                                   | 8,358       |
| Increase / (decrease) in other liabilities                                                    | 2,547                                   | (4,045)     |
| Net amortization of premium on marketable securities                                          | (54)                                    | (344)       |
| Noncash impairment losses on investment securities                                            | 238                                     |             |
| Noncash write-down of real estate owned                                                       | 536                                     | 416         |
| Origination of loans held for sale                                                            | (50,110)                                | (15,385)    |
| Proceeds from sale of loans held for sale                                                     | 36,982                                  | 23,215      |
| Noncash compensation expense related to stock benefit plans                                   | 1,023                                   | 867         |
| Net cash provided by operating activities                                                     | 26,157                                  | 42,295      |
| <b>INVESTING ACTIVITIES:</b>                                                                  |                                         |             |
| Purchase of marketable securities available-for-sale                                          | (77,491)                                | (91,695)    |
| Purchase of marketable securities held-to-maturity                                            |                                         |             |
| Proceeds from maturities and principal reductions of marketable securities available-for-sale | 68,558                                  | 63,997      |
| Proceeds from maturities and principal reductions of marketable securities held-to-maturity   | 14,401                                  | 43,320      |
| Loan originations                                                                             | (480,303)                               | (375,303)   |
| Proceeds from loan maturities and principal reductions                                        | 427,002                                 | 405,521     |
| Proceeds from sale of Federal Home Loan Bank stock                                            | 1,845                                   | 3,004       |
| Proceeds from sale of real estate owned                                                       | 3,263                                   | 2,866       |
| Sale of real estate owned for investment, net                                                 | 114                                     | 102         |
| Purchase of premises and equipment                                                            | (4,346)                                 | (1,931)     |
| Net cash (used in)/ provided by investing activities                                          | (46,957)                                | 49,881      |

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

(in thousands)

|                                                                                                                              |                | Three months ended<br>March 31, |  |
|------------------------------------------------------------------------------------------------------------------------------|----------------|---------------------------------|--|
|                                                                                                                              | 2012           | 2011                            |  |
| <b>FINANCING ACTIVITIES:</b>                                                                                                 |                |                                 |  |
| Increase in deposits, net                                                                                                    | \$ 89,436      | 56,201                          |  |
| Repayments of long-term borrowings                                                                                           | (17)           | (50,017)                        |  |
| Net increase/ (decrease) in short-term borrowings                                                                            | 8,502          | (9,701)                         |  |
| Increase in advances by borrowers for taxes and insurance                                                                    | 4,112          | 3,323                           |  |
| Cash dividends paid                                                                                                          | (11,427)       | (10,712)                        |  |
| Purchase of common stock for retirement                                                                                      |                | (31,074)                        |  |
| Proceeds from stock options exercised                                                                                        | 786            | 353                             |  |
| Net cash (used in) / provided by financing activities                                                                        | 91,392         | (41,627)                        |  |
| <br>Net increase in cash and cash equivalents                                                                                | <br>\$ 70,592  | <br>50,549                      |  |
| <br>Cash and cash equivalents at beginning of period                                                                         | <br>\$ 688,297 | <br>719,111                     |  |
| Net increase in cash and cash equivalents                                                                                    | 70,592         | 50,549                          |  |
| Cash and cash equivalents at end of period                                                                                   | \$ 758,889     | 769,660                         |  |
| <br>Cash and cash equivalents:                                                                                               |                |                                 |  |
| Cash and due from banks                                                                                                      | \$ 85,050      | 78,446                          |  |
| Interest-earning deposits in other financial institutions                                                                    | 672,887        | 690,581                         |  |
| Federal funds sold and other short-term investments                                                                          | 952            | 633                             |  |
| Total cash and cash equivalents                                                                                              | \$ 758,889     | 769,660                         |  |
| <br>Cash paid during the period for:                                                                                         |                |                                 |  |
| Interest on deposits and borrowings (including interest credited to deposit accounts of \$11,065 and \$13,731, respectively) | \$ 20,828      | 24,598                          |  |
| Income taxes                                                                                                                 | \$ 955         | 917                             |  |
| <br>Non-cash activities:                                                                                                     |                |                                 |  |
| Loan foreclosures and repossessions                                                                                          | \$ 6,557       | 2,052                           |  |
| Sale of real estate owned financed by the Company                                                                            | \$ 100         | 140                             |  |

See accompanying notes to unaudited consolidated financial statements

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Unaudited**

**(1) Basis of Presentation and Informational Disclosures**

Northwest Bancshares, Inc. (the Company) or ( NWBI ), is a Maryland incorporated company headquartered in Warren, Pennsylvania, is a savings and loan holding company regulated by the Board of Governors of the Federal Reserve System. The Company was incorporated to be the successor to Northwest Bancorp, Inc. upon the completion of the mutual-to-stock conversion of Northwest Bancorp, MHC. The primary activity of the Company is the ownership of all of the issued and outstanding common stock of Northwest Savings Bank, a Pennsylvania-chartered savings bank ( Northwest ). Northwest is regulated by the FDIC and the Pennsylvania Department of Banking. At March 31, 2012, Northwest operated 168 community-banking offices throughout Pennsylvania, western New York, eastern Ohio and Maryland.

The accompanying unaudited consolidated financial statements include the accounts of the Company and its subsidiary, Northwest, and Northwest's subsidiaries Northwest Settlement Agency, LLC, Northwest Consumer Discount Company, Northwest Financial Services, Inc., Northwest Advisors, Inc., Northwest Capital Group, Inc., Boetger & Associates, Inc., Allegheny Services, Inc., Great Northwest Corporation and Veracity Benefits Design. The unaudited consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles for interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required for complete annual financial statements. In the opinion of management, all adjustments necessary for the fair presentation of the Company's financial position and results of operations have been included. The consolidated statements have been prepared using the accounting policies described in the financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011 updated, as required, for any new pronouncements or changes.

The results of operations for the three months ended March 31, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012.

Stock-Based Compensation

Stock-based compensation expense of \$1.0 million and \$867,000 for the three months ended March 31, 2012 and 2011, respectively, was recognized in compensation expense relating to our stock benefit plans. At March 31, 2012 there was compensation expense of \$5.6 million to be recognized for awarded but unvested stock options and \$12.8 million for unvested common shares.

Income Taxes- Uncertain Tax Positions

Accounting standards prescribe a comprehensive model for how a company should recognize, measure, present and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return. A tax benefit from an uncertain position may be recognized only if it is more likely than not that the position is sustainable, based on its technical merits. The tax benefit of a qualifying position is the largest amount of tax benefit that is greater than 50% likely of being realized upon ultimate settlement with a taxing authority having full knowledge of all relevant information. As of March 31, 2012 we had no liability for unrecognized tax benefits.

We recognize interest accrued related to: (1) unrecognized tax benefits in federal and state income taxes and (2) refund claims in other operating income. We recognize penalties (if any) in federal and state income taxes. There is no amount accrued for the payment of interest or penalties at March 31, 2012. We are subject to audit by the Internal Revenue Service and any state in which we conduct business for the tax periods ended December 31, 2010, 2009 and 2008.

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## (2) Business Segments

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

### At or for the three months ended:

| March 31, 2012 (\$ in 000 s) | Community<br>Banking | Consumer<br>Finance | All Other * | Consolidated |
|------------------------------|----------------------|---------------------|-------------|--------------|
| External interest income     | \$ 80,405            | 5,531               | 313         | 86,249       |
| Intersegment interest income | 748                  |                     | (748)       |              |
| Interest expense             | 19,540               | 748                 | 555         | 20,843       |
| Provision for loan losses    | 5,500                | 787                 |             | 6,287        |
| Noninterest income           | 13,082               | 511                 | 47          | 13,640       |
| Noninterest expense          | 47,878               | 3,196               | 202         | 51,276       |
| Income tax expense (benefit) | 6,221                | 504                 | (423)       | 6,302        |
| Net income                   | 15,096               | 807                 | (722)       | 15,181       |
| Total assets                 | \$ 7,917,340         | 113,271             | 38,397      | 8,069,008    |

| March 31, 2011 (\$ in 000 s) | Community<br>Banking | Consumer<br>Finance | All Other * | Consolidated |
|------------------------------|----------------------|---------------------|-------------|--------------|
| External interest income     | \$ 85,616            | 5,247               | 229         | 91,092       |
| Intersegment interest income | 770                  |                     | (770)       |              |
| Interest expense             | 22,960               | 770                 | 322         | 24,052       |
| Provision for loan losses    | 6,500                | 744                 |             | 7,244        |
| Noninterest income           | 13,860               | 453                 | 13          | 14,326       |
| Noninterest expense          | 46,101               | 3,037               | 240         | 49,378       |
| Income tax expense (benefit) | 7,396                | 477                 | (382)       | 7,491        |
| Net income                   | 17,289               | 672                 | (708)       | 17,253       |
| Total assets                 | \$ 7,986,834         | 112,716             | 22,654      | 8,122,204    |

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

Table of Contents**(3) Investment securities and impairment of investment securities**

The following table shows the portfolio of investment securities available-for-sale at March 31, 2012 (in thousands):

|                                                  | Amortized<br>cost | Gross<br>unrealized<br>holding<br>gains | Gross<br>unrealized<br>holding<br>losses | Fair<br>value |
|--------------------------------------------------|-------------------|-----------------------------------------|------------------------------------------|---------------|
| Debt issued by the U.S. government and agencies: |                   |                                         |                                          |               |
| Due in one year or less                          | \$ 56             |                                         |                                          | 56            |
| Debt issued by government sponsored enterprises: |                   |                                         |                                          |               |
| Due in one year - five years                     | 26,296            | 44                                      |                                          | 26,340        |
| Due in five years - ten years                    | 29,163            | 474                                     |                                          | 29,637        |
| Due after ten years                              | 9,125             |                                         | (35)                                     | 9,090         |
| Equity securities                                | 12,398            | 4,676                                   | (3)                                      | 17,071        |
| Municipal securities:                            |                   |                                         |                                          |               |
| Due in one year - five years                     | 8,880             | 245                                     |                                          | 9,125         |
| Due in five years - ten years                    | 26,427            | 1,093                                   |                                          | 27,520        |
| Due after ten years                              | 116,529           | 5,905                                   | (110)                                    | 122,324       |
| Corporate debt issues:                           |                   |                                         |                                          |               |
| Due in one year - five years                     | 500               |                                         |                                          | 500           |
| Due after ten years                              | 25,019            | 275                                     | (6,135)                                  | 19,159        |
| Residential mortgage-backed securities:          |                   |                                         |                                          |               |
| Fixed rate pass-through                          | 102,152           | 7,528                                   | (16)                                     | 109,664       |
| Variable rate pass-through                       | 129,112           | 6,636                                   | (4)                                      | 135,744       |
| Fixed rate non-agency CMOs                       | 8,280             | 178                                     | (307)                                    | 8,151         |
| Fixed rate agency CMOs                           | 143,158           | 3,126                                   |                                          | 146,284       |
| Variable rate non-agency CMOs                    | 1,023             |                                         | (135)                                    | 888           |
| Variable rate agency CMOs                        | 256,114           | 2,038                                   | (127)                                    | 258,025       |
| Total residential mortgage-backed securities     | 639,839           | 19,506                                  | (589)                                    | 658,756       |
| Total marketable securities available-for-sale   | \$ 894,232        | 32,218                                  | (6,872)                                  | 919,578       |

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The following table shows the portfolio of investment securities available-for-sale at December 31, 2011 (in thousands):

|                                                  | Amortized<br>cost | Gross<br>unrealized<br>holding<br>gains | Gross<br>unrealized<br>holding<br>losses | Fair<br>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 CMOs                                  | 112,670           | 3,466                                   |                                          | 116,136       |
| Variable rate non-agency CMOs                    | 1,104             |                                         | (154)                                    | 950           |
| Variable rate 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 table shows the portfolio of investment securities held-to-maturity at March 31, 2012 (in thousands):

|                                              | Amortized<br>cost | Gross<br>unrealized<br>holding<br>gains | Gross<br>unrealized<br>holding<br>losses | Fair<br>value |
|----------------------------------------------|-------------------|-----------------------------------------|------------------------------------------|---------------|
| Municipal securities:                        |                   |                                         |                                          |               |
| Due in Five years - ten years                | \$ 3,678          | 171                                     |                                          | 3,849         |
| Due after ten years                          | 69,592            | 3,649                                   |                                          | 73,241        |
| Residential mortgage-backed securities:      |                   |                                         |                                          |               |
| Fixed rate pass-through                      | 22,815            | 1,117                                   |                                          | 23,932        |
| Variable rate pass-through                   | 8,649             | 54                                      |                                          | 8,703         |
| Fixed rate agency CMOs                       | 100,008           | 2,436                                   |                                          | 102,444       |
| Variable rate agency CMOs                    | 12,214            | 247                                     |                                          | 12,461        |
| Total residential mortgage-backed securities | 143,686           | 3,854                                   |                                          | 147,540       |

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|                                              |    |         |       |         |
|----------------------------------------------|----|---------|-------|---------|
| Total marketable securities held-to-maturity | \$ | 216,956 | 7,674 | 224,630 |
|----------------------------------------------|----|---------|-------|---------|

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The following table shows the portfolio of investment securities held-to-maturity at December 31, 2011 (in thousands):

|                                              | Amortized<br>cost | Gross<br>unrealized<br>holding<br>gains | Gross<br>unrealized<br>holding<br>losses | Fair<br>value |
|----------------------------------------------|-------------------|-----------------------------------------|------------------------------------------|---------------|
| Municipal securities:                        |                   |                                         |                                          |               |
| Due in five years - 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       |

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 amortized cost, the financial condition and near-term prospects of the issuer, including any specific events which may influence the operations of the issuer, and the intent to hold the investments for a period of time sufficient to allow for a recovery in value. Other investments are evaluated using our best estimate of future cash flows. If the estimate of cash flows indicate that an adverse change has occurred, other-than-temporary impairment would be recognized for the amount of the loss that was deemed credit related.

The following table shows the fair value of 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 March 31, 2012 (in thousands):

|                                                         | Less than 12 months |                    | 12 months or more |                    | Total      |                    |
|---------------------------------------------------------|---------------------|--------------------|-------------------|--------------------|------------|--------------------|
|                                                         | Fair value          | Unrealized<br>loss | Fair value        | Unrealized<br>loss | Fair value | Unrealized<br>loss |
| U.S. government and agencies                            | \$                  |                    | 9,090             | (35)               | 9,090      | (35)               |
| Municipal securities                                    | 899                 | (17)               | 1,489             | (93)               | 2,388      | (110)              |
| Corporate issues                                        | 1,580               | (171)              | 13,479            | (5,964)            | 15,059     | (6,135)            |
| Equity securities                                       |                     |                    | 16                | (3)                | 16         | (3)                |
| Residential mortgage- backed<br>securities - non-agency |                     |                    | 4,899             | (442)              | 4,899      | (442)              |
| Residential mortgage- backed<br>securities - agency     | 80,745              | (128)              | 15,592            | (19)               | 96,337     | (147)              |
| Total temporarily impaired<br>securities                | \$ 83,224           | (316)              | 44,565            | (6,556)            | 127,789    | (6,872)            |

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The following table shows the fair value of 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 (in thousands):

|                                                      | Less than 12 months |                 | 12 months or more |                 | Total      |                 |
|------------------------------------------------------|---------------------|-----------------|-------------------|-----------------|------------|-----------------|
|                                                      | Fair value          | Unrealized loss | Fair value        | Unrealized loss | Fair value | Unrealized loss |
| U.S. government and agencies                         | \$ 24,601           | (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)         |
| Equities                                             | 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)         |

## Corporate issues

As of March 31, 2012, we had six investments with a total book value of \$19.4 million and total fair value of \$13.5 million, where the book value exceeded the 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 both cases, the underlying issuer was well-capitalized for regulatory purposes. Neither of the issuers have deferred interest payments or announced the intention to defer interest payments, nor have either been downgraded. We believe the decline in fair value is related to the spread over three month LIBOR, on which the quarterly interest payments are based, as the spread over LIBOR is significantly lower than current market spreads on similar investments. We concluded the impairment of these two investments was considered noncredit related and temporary. In making that determination, we also considered the duration and the severity of the losses and whether we intend to hold these securities until the value is recovered, the securities are redeemed or maturity. The pooled trust preferred investments were evaluated for other-than-temporary impairment by considering the duration and severity of the losses, actual cash flows, projected cash flows, performing collateral, the class of investment owned and the amount of additional defaults the structure could withstand prior to the investment experiencing a disruption in cash flows. None of these investments experienced a cash flow disruption or are projecting a cash flow disruption.

We concluded, based on all facts evaluated, the impairment of these investments was considered noncredit related and 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.

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The following table provides class, book value, fair value and ratings information for our portfolio of corporate securities that have an unrealized loss at March 31, 2012 (in thousands):

| Description                   | Class      | Book Value | Total Fair Value | Unrealized Losses | Moody's/ Fitch Ratings |
|-------------------------------|------------|------------|------------------|-------------------|------------------------|
| Bank Boston Capital Trust (1) | N/A        | \$ 989     | 694              | (295)             | Ba1/ BB                |
| Huntington Capital Trust      | N/A        | 1,425      | 1,038            | (387)             | Baa3/ BB               |
| Commercebank Capital Trust    | N/A        | 887        | 880              | (7)               | Not rated              |
| Ocean Shore Capital Trust     | N/A        | 864        | 700              | (164)             | Not rated              |
| I-PreTSL I                    | Mezzanine  | 1,500      | 443              | (1,057)           | Not rated/ CCC         |
| I-PreTSL II                   | Mezzanine  | 1,500      | 605              | (895)             | Not rated/ B           |
| PreTSL XIX                    | Senior A-1 | 8,626      | 6,365            | (2,261)           | Baa2/ BBB              |
| PreTSL XX                     | Senior A-1 | 5,403      | 4,334            | (1,069)           | Ba2/ BB                |
|                               |            | \$ 21,194  | 15,059           | (6,135)           |                        |

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

The following table provides collateral information on the entire pool for the trust preferred securities included in the previous table at March 31, 2012 (in thousands):

| Description * | Total Collateral | Current deferrals and defaults | Performing Collateral | Additional Immediate defaults before causing an interest shortfall |
|---------------|------------------|--------------------------------|-----------------------|--------------------------------------------------------------------|
| I-PreTSL I    | \$ 188,500       | 32,500                         | 156,000               | 93,251                                                             |
| I-PreTSL II   | 340,500          | 17,500                         | 323,000               | 156,787                                                            |
| PreTSL XIX    | 649,981          | 179,150                        | 470,831               | 146,000                                                            |
| PreTSL XX     | 552,238          | 174,500                        | 377,738               | 96,500                                                             |

## Mortgage-backed securities

Mortgage-backed securities include agency (FNMA, FHLMC and GNMA) mortgage-backed securities and non-agency collateralized mortgage obligations (CMOs). We review our portfolio of agency mortgage-backed securities quarterly for impairment. As of March 31, 2012, we believe that the impairment within our portfolio of agency mortgage-backed securities is noncredit related and temporary. As of March 31, 2012, we had ten non-agency CMOs with a total book value of \$9.3 million and a total fair value of \$9.0 million. During the three months ended March 31, 2012, we recognized other-than-temporary credit related impairment of \$238,000 related to one of these investments. After recognizing the other-than-temporary impairment, our book value on this investment was \$4.3 million, with a fair value of \$4.0 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 nine non-agency



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CMOs, with book value of \$5.0 million and fair value of \$5.0 million, were also reviewed considering the severity and length of impairment. After this review, we determined that the impairment on these securities was noncredit related and temporary.

The following table shows issuer specific information, book value, fair value, unrealized gain or loss and other-than-temporary impairment recorded in earnings for the portfolio of non-agency CMOs at March 31, 2012 (in thousands):

| Description        | Book Value | Fair Value | Unrealized Gain/ (loss) | Impairment recorded in current period earnings | Total impairment recorded in prior period earnings |
|--------------------|------------|------------|-------------------------|------------------------------------------------|----------------------------------------------------|
| AMAC 2003-6 2A2    | \$ 323     | 331        | 8                       |                                                |                                                    |
| AMAC 2003-6 2A8    | 667        | 686        | 19                      |                                                |                                                    |
| AMAC 2003-7 A3     | 395        | 399        | 4                       |                                                |                                                    |
| BOAMS 2005-11 1A8  | 1,501      | 1,629      | 128                     |                                                | (146)                                              |
| CWALT 2005-J14 A3  | 4,318      | 4,011      | (307)                   | (238)                                          | (676)                                              |
| CFSB 2003-17 2A2   | 615        | 625        | 10                      |                                                |                                                    |
| WAMU 2003-S2 A4    | 461        | 470        | 9                       |                                                |                                                    |
| CMLTI 2005-10 1A5B | 58         | 3          | (55)                    |                                                | (3,531)                                            |
| SARM 2005-21 4A2   | 23         | 16         | (7)                     |                                                | (3,193)                                            |
| WFMBS 2003-B A2    | 942        | 869        | (73)                    |                                                |                                                    |
|                    | \$ 9,303   | 9,039      | (264)                   | (238)                                          | (7,546)                                            |

## Municipal Securities

At March 31, 2012, we had two investments in municipal securities with a total book value of \$1.6 million and a total fair value of \$1.5 million, where book value exceeded fair value for more than 12 months. We initially evaluate 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 look at the stated interest rate and compare the stated interest rate to current market interest rates to determine if the decline in fair value is considered to be attributable to interest rates. If the interest rate approximates current interest rates for similar securities, we determine if the investment is rated and if so, if the rating has changed in the current period. If the rating has not changed during the current period, we review publicly available information to determine if there has been any negative change in the underlying municipality. As of March 31, 2012, we have determined that all of the impairment in our municipal securities portfolio is noncredit related and temporary. The two investments in municipal securities discussed above were issued by two Pennsylvania municipalities.

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The following table provides information for our portfolio of municipal securities that have unrealized losses for greater than 12 months at March 31, 2012 (in thousands):

| Description                     | State | Book Value | Total Fair Value | Unrealized Losses | Rating    |
|---------------------------------|-------|------------|------------------|-------------------|-----------|
| Cambridge Area JT Revenue       | PA    | \$ 595     | 566              | (29)              | Not rated |
| West Reading General Obligation | PA    | 987        | 923              | (64)              | BBB       |
|                                 |       | \$ 1,582   | 1,489            | (93)              |           |

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

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

|                                                                                                                 | 2012      | 2011   |
|-----------------------------------------------------------------------------------------------------------------|-----------|--------|
| Beginning balance at January 1, (a)                                                                             | \$ 16,382 | 15,445 |
| 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 | 238       |        |
| Ending balance at March 31,                                                                                     | \$ 16,620 | 15,445 |

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

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**(4) Loans receivable**

We have defined our portfolio segments as Personal Banking loans and Business Banking loans. Classes of Personal Banking loans are residential mortgage loans, home equity loans and other consumer loans. Classes of Business Banking loans are commercial real estate loans and commercial loans. The following table shows a summary of our loans receivable at March 31, 2012 and December 31, 2011 (in thousands):

|                               | March 31,<br>2012 | December 31,<br>2011 |
|-------------------------------|-------------------|----------------------|
| Personal Banking:             |                   |                      |
| Residential mortgage loans    | \$ 2,449,991      | 2,414,992            |
| Home equity loans             | 1,058,938         | 1,084,786            |
| Other consumer loans          | 237,591           | 245,689              |
| Total Personal Banking        | 3,746,520         | 3,745,467            |
| Business Banking:             |                   |                      |
| Commercial real estate        | 1,516,583         | 1,481,127            |
| Commercial loans              | 430,902           | 408,462              |
| Total Business Banking        | 1,947,485         | 1,889,589            |
| Total loans receivable, gross | 5,694,005         | 5,635,056            |
| Deferred loan fees            | (4,026)           | (4,752)              |
| Allowance for loan losses     | (72,941)          | (71,138)             |
| Undisbursed loan proceeds:    |                   |                      |
| Residential mortgage loans    | (19,032)          | (12,874)             |
| Commercial real estate        | (41,007)          | (45,360)             |
| Commercial loans              | (22,008)          | (20,551)             |
| Total loans receivable, net   | \$ 5,534,991      | 5,480,381            |

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The following table provides information related to the allowance for loan losses by portfolio segment and by class of financing receivable at March 31, 2012 (in thousands):

|                              | Balance<br>December 31,<br>2011 | Current<br>period<br>provision | Charge-offs | Recoveries | Balance<br>March 31,<br>2012 |
|------------------------------|---------------------------------|--------------------------------|-------------|------------|------------------------------|
| <b>Personal Banking:</b>     |                                 |                                |             |            |                              |
| Residential mortgage loans   | \$ 8,482                        | 327                            | (1,043)     | 98         | 7,864                        |
| Home equity loans            | 8,687                           | 128                            | (892)       | 24         | 7,947                        |
| Other consumer loans         | 5,325                           | 207                            | (1,287)     | 344        | 4,589                        |
| Total Personal Banking       | 22,494                          | 662                            | (3,222)     | 466        | 20,400                       |
| <b>Business Banking:</b>     |                                 |                                |             |            |                              |
| Commercial real estate loans | 32,148                          | 4,319                          | (1,473)     | 297        | 35,291                       |
| Commercial loans             | 12,080                          | 1,192                          | (649)       | 97         | 12,720                       |
| Total Business Banking       | 44,228                          | 5,511                          | (2,122)     | 394        | 48,011                       |
| Unallocated                  | 4,416                           | 114                            |             |            | 4,530                        |
| Total                        | \$ 71,138                       | 6,287                          | (5,344)     | 860        | 72,941                       |

The following table provides information related to the allowance for loan losses by portfolio segment and by class of financing receivable at March 31, 2011 (in thousands):

|                              | Balance<br>December 31,<br>2010 | Current<br>period<br>provision | Charge-offs | Recoveries | Balance<br>March 31,<br>2011 |
|------------------------------|---------------------------------|--------------------------------|-------------|------------|------------------------------|
| <b>Personal Banking:</b>     |                                 |                                |             |            |                              |
| Residential mortgage loans   | \$ 6,854                        | 2,286                          | (1,205)     | 71         | 8,006                        |
| Home equity loans            | 7,675                           | 1,403                          | (2,255)     | 17         | 6,840                        |
| Other consumer loans         | 5,810                           | 581                            | (1,232)     | 397        | 5,556                        |
| Total Personal Banking       | 20,339                          | 4,270                          | (4,692)     | 485        | 20,402                       |
| <b>Business Banking:</b>     |                                 |                                |             |            |                              |
| Commercial real estate loans | 35,832                          | 278                            | (2,276)     | 206        | 34,040                       |
| Commercial loans             | 15,770                          | 2,869                          | (1,041)     | 112        | 17,710                       |
| Total Business Banking       | 51,602                          | 3,147                          | (3,317)     | 318        | 51,750                       |
| Unallocated                  | 4,471                           | (173)                          |             |            | 4,298                        |
| Total                        | \$ 76,412                       | 7,244                          | (8,009)     | 803        | 76,450                       |

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The following table provides information related to the loan portfolio by portfolio segment and by class of financing receivable at March 31, 2012 (in thousands):

|                              | Recorded<br>investment in<br>loans<br>receivable | Allowance for<br>loan losses | Recorded<br>investment in<br>loans on<br>nonaccrual | Recorded<br>investment in<br>loans past<br>due 90 days<br>or more and<br>still accruing | TDRs   |
|------------------------------|--------------------------------------------------|------------------------------|-----------------------------------------------------|-----------------------------------------------------------------------------------------|--------|
| <b>Personal Banking:</b>     |                                                  |                              |                                                     |                                                                                         |        |
| Residential mortgage loans   | \$ 2,426,933                                     | 7,864                        | 28,696                                              | 11                                                                                      | 806    |
| Home equity loans            | 1,058,938                                        | 7,947                        | 9,100                                               | 342                                                                                     |        |
| Other consumer loans         | 237,591                                          | 4,589                        | 1,983                                               | 423                                                                                     |        |
| Total Personal Banking       | 3,723,462                                        | 20,400                       | 39,779                                              | 776                                                                                     | 806    |
| <b>Business Banking:</b>     |                                                  |                              |                                                     |                                                                                         |        |
| Commercial real estate loans | 1,475,576                                        | 35,291                       | 58,400                                              |                                                                                         | 38,995 |
| Commercial loans             | 408,894                                          | 12,720                       | 26,834                                              | 24                                                                                      | 27,502 |
| Total Business Banking       | 1,884,470                                        | 48,011                       | 85,234                                              | 24                                                                                      | 66,497 |
| Total                        | \$ 5,607,932                                     | 68,411                       | 125,013                                             | 800                                                                                     | 67,303 |

The following table provides information related to the loan portfolio by portfolio segment and by class of financing receivable at December 31, 2011 (in thousands):

|                              | Recorded<br>investment in<br>loans<br>receivable | Allowance for<br>loan losses | Recorded<br>investment in<br>loans on<br>nonaccrual | Recorded<br>investment in<br>loans past<br>due 90 days<br>or more and<br>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                                                                                     |        |
| Total Personal Banking       | 3,727,841                                        | 22,494                       | 40,448                                              | 510                                                                                     | 806    |
| <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 |
| Total Business Banking       | 1,823,678                                        | 44,228                       | 90,657                                              |                                                                                         | 68,623 |
| Total                        | \$ 5,551,519                                     | 66,722                       | 131,105                                             | 510                                                                                     | 69,429 |

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The following table provides information related to the composition of impaired loans by portfolio segment and by class of financing receivable at and for the quarter ended March 31, 2012 (in thousands):

|                              | Nonaccrual<br>loans 90 or<br>more days<br>delinquent | Nonaccrual<br>loans less<br>than 90<br>days<br>delinquent | Loans less<br>than 90<br>days<br>delinquent<br>reviewed for<br>impairment | TDRs less<br>than 90<br>days<br>delinquent<br>not included<br>elsewhere | Total<br>impaired<br>loans | Average<br>recorded<br>investment<br>in impaired<br>loans | Interest<br>income<br>recognized<br>on impaired<br>loans |
|------------------------------|------------------------------------------------------|-----------------------------------------------------------|---------------------------------------------------------------------------|-------------------------------------------------------------------------|----------------------------|-----------------------------------------------------------|----------------------------------------------------------|
| <b>Personal Banking:</b>     |                                                      |                                                           |                                                                           |                                                                         |                            |                                                           |                                                          |
| Residential mortgage loans   | \$ 28,696                                            |                                                           |                                                                           |                                                                         | 28,696                     | 29,327                                                    | 170                                                      |
| Home equity loans            | 9,100                                                |                                                           |                                                                           |                                                                         | 9,100                      | 9,545                                                     | 68                                                       |
| Other consumer loans         | 1,983                                                |                                                           |                                                                           |                                                                         | 1,983                      | 2,499                                                     | 13                                                       |
| Total Personal Banking       | 39,779                                               |                                                           |                                                                           |                                                                         | 39,779                     | 41,371                                                    | 251                                                      |
| <b>Business Banking:</b>     |                                                      |                                                           |                                                                           |                                                                         |                            |                                                           |                                                          |
| Commercial real estate loans | 34,601                                               | 23,799                                                    | 24,012                                                                    | 9,218                                                                   | 91,630                     | 91,747                                                    | 878                                                      |
| Commercial loans             | 15,810                                               | 11,024                                                    | 8,332                                                                     | 8,744                                                                   | 43,910                     | 45,802                                                    | 369                                                      |
| Total Business Banking       | 50,411                                               | 34,823                                                    | 32,344                                                                    | 17,962                                                                  | 135,540                    | 137,549                                                   | 1,247                                                    |
| Total                        | \$ 90,190                                            | 34,823                                                    | 32,344                                                                    | 17,962                                                                  | 175,319                    | 178,920                                                   | 1,498                                                    |

The following table provides information related to the composition of impaired loans by portfolio segment and by class of financing receivable at and for the year ended December 31, 2011 (in thousands):

|                              | Nonaccrual<br>loans 90 or<br>more days<br>delinquent | Nonaccrual<br>loans less<br>than 90<br>days<br>delinquent | Loans less<br>than 90<br>days<br>delinquent<br>reviewed for<br>impairment | TDRs less<br>than 90<br>days<br>delinquent<br>not included<br>elsewhere | Total<br>impaired<br>loans | Average<br>recorded<br>investment<br>in impaired<br>loans | Interest<br>income<br>recognized<br>on impaired<br>loans |
|------------------------------|------------------------------------------------------|-----------------------------------------------------------|---------------------------------------------------------------------------|-------------------------------------------------------------------------|----------------------------|-----------------------------------------------------------|----------------------------------------------------------|
| <b>Personal Banking:</b>     |                                                      |                                                           |                                                                           |                                                                         |                            |                                                           |                                                          |
| Residential mortgage loans   | \$ 28,221                                            |                                                           |                                                                           | 361                                                                     | 28,582                     | 30,731                                                    | 538                                                      |
| Home equity loans            | 9,560                                                |                                                           |                                                                           |                                                                         | 9,560                      | 9,574                                                     | 182                                                      |
| Other consumer loans         | 2,667                                                |                                                           |                                                                           |                                                                         | 2,667                      | 2,340                                                     | 34                                                       |
| Total Personal Banking       | 40,448                                               |                                                           |                                                                           | 361                                                                     | 40,809                     | 42,645                                                    | 754                                                      |
| <b>Business Banking:</b>     |                                                      |                                                           |                                                                           |                                                                         |                            |                                                           |                                                          |
| Commercial real estate loans | 44,603                                               | 17,891                                                    | 15,467                                                                    | 16,097                                                                  | 94,058                     | 101,731                                                   | 3,640                                                    |
| Commercial loans             | 10,785                                               | 17,378                                                    | 7,337                                                                     | 8,991                                                                   | 44,491                     | 59,897                                                    | 1,642                                                    |
| Total Business Banking       | 55,388                                               | 35,269                                                    | 22,804                                                                    | 25,088                                                                  | 138,549                    | 161,628                                                   | 5,282                                                    |
| Total                        | \$ 95,836                                            | 35,269                                                    | 22,804                                                                    | 25,449                                                                  | 179,358                    | 204,273                                                   | 6,036                                                    |

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The following table provides information related to the evaluation of impaired loans by portfolio segment and by class of financing receivable at March 31, 2012 (in thousands):

|                              | Loans<br>collectively<br>evaluated for<br>impairment | Loans<br>individually<br>evaluated for<br>impairment | Loans<br>individually<br>evaluated for<br>impairment<br>for which<br>there is a<br>related<br>impairment<br>reserve | Related<br>impairment<br>reserve | Loans<br>individually<br>evaluated for<br>impairment<br>for which<br>there is no<br>related<br>reserve |
|------------------------------|------------------------------------------------------|------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------|----------------------------------|--------------------------------------------------------------------------------------------------------|
| Personal Banking:            |                                                      |                                                      |                                                                                                                     |                                  |                                                                                                        |
| Residential mortgage loans   | \$ 2,426,933                                         |                                                      |                                                                                                                     |                                  |                                                                                                        |
| Home equity loans            | 1,058,938                                            |                                                      |                                                                                                                     |                                  |                                                                                                        |
| Other consumer loans         | 237,591                                              |                                                      |                                                                                                                     |                                  |                                                                                                        |
| Total Personal Banking       | 3,723,462                                            |                                                      |                                                                                                                     |                                  |                                                                                                        |
| Business Banking:            |                                                      |                                                      |                                                                                                                     |                                  |                                                                                                        |
| Commercial real estate loans | 1,432,081                                            | 43,495                                               | 16,334                                                                                                              | 4,918                            | 27,161                                                                                                 |
| Commercial loans             | 384,711                                              | 24,183                                               | 4,614                                                                                                               | 1,114                            | 19,569                                                                                                 |
| Total Business Banking       | 1,816,792                                            | 67,678                                               | 20,948                                                                                                              | 6,032                            | 46,730                                                                                                 |
| Total                        | \$ 5,540,254                                         | 67,678                                               | 20,948                                                                                                              | 6,032                            | 46,730                                                                                                 |

The following table provides information related to the evaluation of impaired loans by portfolio segment and by class of financing receivable at December 31, 2011 (in thousands):

|                              | Loans<br>collectively<br>evaluated for<br>impairment | Loans<br>individually<br>evaluated for<br>impairment | Loans<br>individually<br>evaluated for<br>impairment<br>for which<br>there is a<br>related<br>impairment<br>reserve | Related<br>impairment<br>reserve | Loans<br>individually<br>evaluated for<br>impairment<br>for which<br>there is no<br>related<br>reserve |
|------------------------------|------------------------------------------------------|------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------|----------------------------------|--------------------------------------------------------------------------------------------------------|
| Personal Banking:            |                                                      |                                                      |                                                                                                                     |                                  |                                                                                                        |
| Residential mortgage loans   | \$ 2,397,366                                         |                                                      |                                                                                                                     |                                  |                                                                                                        |
| Home equity loans            | 1,084,786                                            |                                                      |                                                                                                                     |                                  |                                                                                                        |
| Other consumer loans         | 245,689                                              |                                                      |                                                                                                                     |                                  |                                                                                                        |
| Total Personal Banking       | 3,727,841                                            |                                                      |                                                                                                                     |                                  |                                                                                                        |
| Business Banking:            |                                                      |                                                      |                                                                                                                     |                                  |                                                                                                        |
| Commercial real estate loans | 1,395,634                                            | 40,133                                               | 15,576                                                                                                              | 3,025                            | 24,557                                                                                                 |
| Commercial loans             | 361,033                                              | 26,878                                               | 5,897                                                                                                               | 1,519                            | 20,981                                                                                                 |
| Total Business Banking       | 1,756,667                                            | 67,011                                               | 21,473                                                                                                              | 4,544                            | 45,538                                                                                                 |
| Total                        | \$ 5,484,508                                         | 67,011                                               | 21,473                                                                                                              | 4,544                            | 45,538                                                                                                 |



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Our loan portfolios include certain loans that have been modified in a troubled debt restructuring (TDR), where 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 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.

During the three months ended March 31, 2012, one commercial real estate loan TDR with a balance of \$282,000 was charged off and one commercial loan TDR with a balance of \$213,000 was paid off.

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The following table provides information related to troubled debt restructurings by portfolio segment and by class of financing receivable for the periods indicated (dollars in thousands):

|                                                           |                           | For the three months ended<br>March 31, 2012             |                                   |                      |
|-----------------------------------------------------------|---------------------------|----------------------------------------------------------|-----------------------------------|----------------------|
|                                                           | Number<br>of<br>contracts | Recorded<br>investment<br>at the time of<br>modification | Current<br>recorded<br>investment | Current<br>allowance |
| Troubled debt restructurings:                             |                           |                                                          |                                   |                      |
| Personal Banking:                                         |                           |                                                          |                                   |                      |
| Residential mortgage loans                                |                           | \$                                                       |                                   |                      |
| Home equity loans                                         |                           |                                                          |                                   |                      |
| Other consumer loans                                      |                           |                                                          |                                   |                      |
| Total Personal Banking                                    |                           |                                                          |                                   |                      |
| Business Banking:                                         |                           |                                                          |                                   |                      |
| Commercial real estate loans                              | 3                         | 1,400                                                    | 1,391                             | 636                  |
| Commercial loans                                          | 3                         | 1,645                                                    | 1,446                             | 84                   |
| Total Business Banking                                    | 6                         | 3,045                                                    | 2,837                             | 720                  |
| Total                                                     | 6                         | \$ 3,045                                                 | 2,837                             | 720                  |
| Troubled debt restructurings that subsequently defaulted: |                           |                                                          |                                   |                      |
| Personal Banking:                                         |                           |                                                          |                                   |                      |
| Residential mortgage loans                                | 1                         | \$ 449                                                   | 361                               | 470                  |
| Home equity loans                                         |                           |                                                          |                                   |                      |
| Other consumer loans                                      |                           |                                                          |                                   |                      |
| Total Personal Banking                                    | 1                         | 449                                                      | 361                               | 470                  |
| Business Banking:                                         |                           |                                                          |                                   |                      |
| Commercial real estate loans                              | 1                         | 575                                                      | 520                               |                      |
| Commercial loans                                          |                           |                                                          |                                   |                      |
| Total Business Banking                                    | 1                         | 575                                                      | 520                               |                      |
| Total                                                     | 2                         | \$ 1,024                                                 | 881                               | 470                  |

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The following table provides information related to troubled debt restructurings by portfolio segment and by class of financing receivable for the periods indicated (dollars in thousands):

|                                                           |                           | For the three months ended<br>March 31, 2011             |                                   |                      |
|-----------------------------------------------------------|---------------------------|----------------------------------------------------------|-----------------------------------|----------------------|
|                                                           | Number<br>of<br>contracts | Recorded<br>investment<br>at the time of<br>modification | Current<br>recorded<br>investment | Current<br>allowance |
| Troubled debt restructurings:                             |                           |                                                          |                                   |                      |
| Personal Banking:                                         |                           |                                                          |                                   |                      |
| Residential mortgage loans                                | 1                         | \$ 449                                                   | 363                               | 1                    |
| Home equity loans                                         |                           |                                                          |                                   |                      |
| Other consumer loans                                      |                           |                                                          |                                   |                      |
| Total Personal Banking                                    | 1                         | 449                                                      | 363                               | 1                    |
| Business Banking:                                         |                           |                                                          |                                   |                      |
| Commercial real estate loans                              | 3                         | 1,758                                                    | 1,734                             | 129                  |
| Commercial loans                                          | 5                         | 12,934                                                   | 11,684                            | 3,754                |
| Total Business Banking                                    | 8                         | 14,692                                                   | 13,418                            | 3,883                |
| Total                                                     | 9                         | \$ 15,141                                                | 13,781                            | 3,884                |
| 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                              |                           |                                                          |                                   |                      |
| Commercial loans                                          | 1                         | 9,303                                                    | 9,180                             | 918                  |
| Total Business Banking                                    | 1                         | 9,303                                                    | 9,180                             | 918                  |
| Total                                                     | 1                         | \$ 9,303                                                 | 9,180                             | 918                  |

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The following table provides information related to loan delinquencies at March 31, 2012 (in thousands):

|                              | 30-59 Days<br>Delinquent | 60-89 Days<br>Delinquent | 90 Days or<br>Greater<br>Delinquent | Total<br>Delinquency | Current   | Total Loans |
|------------------------------|--------------------------|--------------------------|-------------------------------------|----------------------|-----------|-------------|
| <b>Personal Banking:</b>     |                          |                          |                                     |                      |           |             |
| Residential mortgage loans   | \$ 29,414                | 1,466                    | 28,696                              | 59,576               | 2,367,357 | 2,426,933   |
| Home equity loans            | 7,086                    | 2,313                    | 9,100                               | 18,499               | 1,040,439 | 1,058,938   |
| Other consumer loans         | 2,854                    | 1,083                    | 1,983                               | 5,920                | 231,671   | 237,591     |
| Total Personal Banking       | 39,354                   | 4,862                    | 39,779                              | 83,995               | 3,639,467 | 3,723,462   |
| <b>Business Banking:</b>     |                          |                          |                                     |                      |           |             |
| Commercial real estate loans | 9,275                    | 3,203                    | 34,601                              | 47,079               | 1,428,497 | 1,475,576   |
| Commercial loans             | 7,069                    | 1,376                    | 15,810                              | 24,255               | 384,639   | 408,894     |
| Total Business Banking       | 16,344                   | 4,579                    | 50,411                              | 71,334               | 1,813,136 | 1,884,470   |
| Total                        | \$ 55,698                | 9,441                    | 90,190                              | 155,329              | 5,452,603 | 5,607,932   |

The following table provides information related to loan delinquencies at December 31, 2011 (in thousands):

|                              | 30-59 Days<br>Delinquent | 60-89 Days<br>Delinquent | 90 Days or<br>Greater<br>Delinquent | Total<br>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     |
| Total Personal Banking       | 45,951                   | 12,369                   | 40,448                              | 98,768               | 3,629,073 | 3,727,841   |
| <b>Business Banking:</b>     |                          |                          |                                     |                      |           |             |
| Commercial real estate loans | 10,680                   | 3,122                    | 44,603                              | 58,405               | 1,377,362 | 1,435,767   |
| 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   |

**Credit quality indicators:** We categorize Business Banking 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 Banking loans individually by classifying the loans by credit risk. Loans designated as special mention or classified 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



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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.

The following table sets forth information about credit quality indicators, which were updated during the quarter ended March 31, 2012 (in thousands):

|                              | Pass         | Special<br>Mention | Substandard | Doubtful | Loss  | Total     |
|------------------------------|--------------|--------------------|-------------|----------|-------|-----------|
| <b>Personal Banking:</b>     |              |                    |             |          |       |           |
| Residential mortgage loans   | \$ 2,403,635 |                    | 21,989      | 23       | 1,286 | 2,426,933 |
| Home equity loans            | 1,049,352    |                    | 9,586       |          |       | 1,058,938 |
| Other consumer loans         | 236,817      |                    | 774         |          |       | 237,591   |
| Total Personal Banking       | 3,689,804    |                    | 32,349      | 23       | 1,286 | 3,723,462 |
| <b>Business Banking:</b>     |              |                    |             |          |       |           |
| Commercial real estate loans | 1,259,031    | 78,960             | 132,711     | 4,874    |       | 1,475,576 |
| Commercial loans             | 319,677      | 27,053             | 59,376      | 2,788    |       | 408,894   |
| Total Business Banking       | 1,578,708    | 106,013            | 192,087     | 7,662    |       | 1,884,470 |
| Total                        | \$ 5,268,512 | 106,013            | 224,436     | 7,685    | 1,286 | 5,607,932 |

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The following table sets forth information about credit quality indicators, which were updated during the year ended December 31, 2011 (in thousands):

|                              | Pass         | Special<br>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   |
| Total Personal Banking       | 3,692,278    |                    | 34,315      | 11       | 1,237 | 3,727,841 |
| <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   |
| Total Business Banking       | 1,510,180    | 99,868             | 207,700     | 5,930    |       | 1,823,678 |
| Total                        | \$ 5,202,458 | 99,868             | 242,015     | 5,941    | 1,237 | 5,551,519 |

## (5) Goodwill and Other Intangible Assets

The following table provides information for intangible assets subject to amortization at the dates indicated (in thousands):

|                                               | March 31,<br>2012 | December 31,<br>2011 |
|-----------------------------------------------|-------------------|----------------------|
| <b>Amortizable intangible assets:</b>         |                   |                      |
| Core deposit intangibles gross                | \$ 30,578         | 30,578               |
| <b>Acquisitions</b>                           |                   |                      |
| Less: accumulated amortization                | (29,748)          | (29,549)             |
| Core deposit intangibles net                  | 830               | 1,029                |
| Customer and Contract intangible assets gross | 3,779             | 3,779                |
| Less: accumulated amortization                | (2,781)           | (2,685)              |
| Customer and Contract intangible assets net   | \$ 998            | 1,094                |

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The following table shows the actual aggregate amortization expense for the current quarter and prior year's same quarter, as well as the estimated aggregate amortization expense, based upon current levels of intangible assets, for the current fiscal year and each of the five succeeding fiscal years (in thousands):

|                                           |    |       |
|-------------------------------------------|----|-------|
| For the three months ended March 31, 2012 | \$ | 295   |
| For the three months ended March 31, 2011 |    | 491   |
| For the year ending December 31, 2012     |    | 1,013 |
| For the year ending December 31, 2013     |    | 605   |
| For the year ending December 31, 2014     |    | 296   |
| For the year ending December 31, 2015     |    | 140   |
| For the year ending December 31, 2016     |    | 70    |
| For the year ending December 31, 2017     |    |       |

The following table provides information for the changes in the carrying amount of goodwill (in thousands):

|                              | Community<br>Banks | Consumer<br>Finance | Total   |
|------------------------------|--------------------|---------------------|---------|
| Balance at December 31, 2010 | \$ 170,269         | 1,613               | 171,882 |
| Goodwill acquired            |                    |                     |         |
| Impairment losses            |                    |                     |         |
| Balance at December 31, 2011 | 170,269            | 1,613               | 171,882 |
| Goodwill acquired            |                    |                     |         |
| Impairment losses            |                    |                     |         |
| Balance at March 31, 2012    | \$ 170,269         | 1,613               | 171,882 |

We performed our annual goodwill impairment test as of June 30, 2011 and concluded that goodwill was not impaired. At March 31, 2012, there were no changes in our operations that would cause us to update the goodwill impairment test performed as of June 30, 2011.

## (6) Guarantees

We issue standby letters of credit in the normal course of business. Standby letters of credit are conditional commitments issued by the Company 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 loan underwriting procedures. Collateral may be obtained based on management's credit assessment of the customer. At March 31, 2012, the maximum potential amount of future payments we could be required to make under these standby letters of credit was \$63.2 million, of which \$62.0 million is fully collateralized. At March 31, 2012, we had a liability, which represents deferred income, of \$701,000 related to the standby letters of credit. There are no recourse provisions that would enable us to recover any amounts from third parties.

Table of Contents(7) Earnings Per Share

Basic earnings per common share (EPS) is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period, without considering any dilutive items. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company. All shares outstanding during the three months ended March 31, 2012 were included in the computation of diluted earnings per share for this period because the options' exercise price was not greater than the average market price of the common shares of \$12.63. Stock options to purchase 579,793 shares of common stock with a weighted average exercise price of \$12.12 per share were outstanding during the three months ended March 31, 2011 but were not included in the computation of diluted earnings per share for this period because the options' exercise price was greater than the average market price of the common shares of \$12.10.

The computation of basic and diluted earnings per share follows (in thousands, except share data and per share amounts):

|                                                                    |            | Quarter ended<br>March 31, |  |
|--------------------------------------------------------------------|------------|----------------------------|--|
|                                                                    | 2012       | 2011                       |  |
| Reported net income                                                | \$ 15,181  | 17,253                     |  |
| Weighted average common shares outstanding                         | 94,115,522 | 106,571,262                |  |
| Dilutive potential shares due to effect of stock options           | 549,811    | 687,058                    |  |
| Total weighted average common shares and dilutive potential shares | 94,665,333 | 107,258,320                |  |
| Basic earnings per share:                                          | \$ 0.16    | 0.16                       |  |
| Diluted earnings per share:                                        | \$ 0.16    | 0.16                       |  |

(8) Pension and Other Post-retirement Benefits (in thousands):**Components of Net Periodic Benefit Cost**

|                                    |          | Quarter ended March 31, |      |                                |  |
|------------------------------------|----------|-------------------------|------|--------------------------------|--|
|                                    |          | Pension Benefits        |      | Other Post-retirement Benefits |  |
|                                    | 2012     | 2011                    | 2012 | 2011                           |  |
| Service cost                       | \$ 1,858 | 1,428                   |      |                                |  |
| Interest cost                      | 1,432    | 1,363                   | 17   | 21                             |  |
| Expected return on plan assets     | (1,948)  | (1,502)                 |      |                                |  |
| Amortization of prior service cost | (40)     | (40)                    |      |                                |  |
| Amortization of the net loss       | 690      | 169                     | 12   | 13                             |  |
| Net periodic benefit cost          | \$ 1,992 | 1,418                   | 29   | 34                             |  |

We made no contribution to our pension or other post-retirement benefit plans during the three month period ended March 31, 2012. Once determined, we anticipate making a tax-deductible contribution to our defined benefit pension plan for the year ending December 31, 2012.



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**(9) Disclosures About Fair Value of Financial Instruments**

Fair value information about financial instruments, whether or not recognized in the consolidated statement of financial condition, is required to be disclosed. These requirements exclude certain financial instruments and all nonfinancial instruments. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

Financial assets and liabilities recognized or disclosed at fair value on a recurring basis and certain financial assets and liabilities on a non-recurring basis are accounted for using a three-level hierarchy of valuation technique based on whether the inputs to those valuation techniques are observable or unobservable. This hierarchy gives the highest priority to quoted prices with readily available independent data in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable market inputs (Level 3). When various inputs for measurement fall within different levels of the fair value hierarchy, the lowest level input that has a significant impact on fair value measurement is used.

Financial assets and liabilities are categorized based upon the following characteristics or inputs to the valuation techniques:

- Level 1 Financial assets and liabilities for which inputs are observable and are obtained from reliable quoted prices for identical assets or liabilities in actively traded markets. This is the most reliable fair value measurement and includes, for example, active exchange-traded equity securities.
- Level 2 Financial assets and liabilities for which values are based on quoted prices in markets that are not active or for which values are based on similar assets or liabilities that are actively traded. Level 2 also includes pricing models in which the inputs are corroborated by market data, for example, matrix pricing.
- Level 3 Financial assets and liabilities for which values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. Level 3 inputs include the following:
  - Quotes from brokers or other external sources that are not considered binding;
  - Quotes from brokers or other external sources where it cannot be determined that market participants would in fact transact for the asset or liability at the quoted price;
  - Quotes and other information from brokers or other external sources where the inputs are not deemed observable.

We are responsible for the valuation process and as part of this process may use data from outside sources in establishing fair value. We perform due diligence to understand the inputs used or how the data was calculated or derived. We also corroborate the reasonableness of external inputs in the valuation process.

The carrying amounts reported in the consolidated statement of financial condition approximate fair value for the following financial instruments: cash on hand, interest-earning deposits in other institutions, federal funds sold and other short-term investments, accrued interest

receivable, accrued interest payable, and marketable securities available-for-sale.

***Marketable Securities***

Where available, market values are based on quoted market prices, dealer quotes, and prices obtained from independent pricing services.

***Debt securities available for sale*** - Generally, debt securities are valued using pricing for similar securities, recently executed transactions and other pricing models utilizing observable inputs. The valuation for most debt securities is classified as level 2. Securities within level 2 include corporate bonds,

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municipal bonds, mortgage-backed securities and US government obligations. Certain corporate debt securities do not have an active market and as such the broker pricing received uses alternative methods. The fair value of these corporate debt securities is determined by using a discounted cash flow model using market assumptions, which generally include cash flow, collateral and other market assumptions. As such, these securities are included herein as level 3 assets.

**Equity securities available for sale** - Level 1 securities include publicly traded securities valued using quoted market prices. We consider the financial condition of the issuer to determine if the securities have indicators of impairment.

**Debt securities held to maturity** The fair value of debt securities held to maturity is determined in the same manner as debt securities available for sale.

**Loans Receivable**

Loans with comparable characteristics including collateral and re-pricing structures were segregated for valuation purposes. Each loan pool was separately valued utilizing a discounted cash flow analysis. Projected monthly cash flows were discounted to present value using a market rate for comparable loans, which is not considered an exit price. Characteristics of comparable loans included remaining term, coupon interest, and estimated prepayment speeds. Delinquent loans were separately evaluated given the impact delinquency has on the projected future cash flow of the loan and the approximate discount or market rate.

**FHLB Stock**

Due to the restrictions placed on the transferability of FHLB stock it is not practical to determine the fair value.

**Deposit Liabilities**

The estimated fair value of deposits with no stated maturity, which includes demand deposits, money market, and other savings accounts, is the amount payable on demand. Although market premiums paid for depository institutions reflect an additional value for these low-cost deposits, adjusting fair value for any value expected to be derived from retaining those deposits for a future period of time or from the benefit that results from the ability to fund interest-earning assets with these deposit liabilities is prohibited. The fair value estimates of deposit liabilities do not include the benefit that results from the low-cost funding provided by these deposits compared to the cost of borrowing funds in the market. Fair values for time deposits are estimated using a discounted cash flow calculation that applies contractual cost currently being offered in the existing portfolio to current market rates being offered locally for deposits of similar remaining maturities. The valuation adjustment for the portfolio consists of the present value of the difference of these two cash flows, discounted at the assumed market rate of the corresponding maturity.

***Borrowed Funds***

The fixed rate advances were valued by comparing their contractual cost to the prevailing market cost. The carrying amount of repurchase agreements approximates the fair value.

***Junior Subordinated Debentures***

The fair value of junior subordinated debentures is calculated using the discounted cash flows at the prevailing rate of interest.

Table of Contents**Cash flow hedges   Interest rate swap agreements ( swaps )**

The fair value of the swaps is the amount we would have expected to pay to terminate the agreements and is based upon the present value of the expected future cash flows using the LIBOR swap curve, the basis for the underlying interest rate.

**Off-Balance Sheet Financial Instruments**

These financial instruments generally are not sold or traded, and estimated fair values are not readily available. However, the fair value of commitments to extend credit and standby letters of credit is estimated using the fees currently charged to enter into similar agreements. Commitments to extend credit are generally short-term in nature and, if drawn upon, are issued under current market terms. At March 31, 2012 and December 31, 2011, there was no significant unrealized appreciation or depreciation on these financial instruments.

The following table sets forth the carrying amount and estimated fair value of our financial instruments included in the consolidated statement of financial condition at March 31, 2012 and December 31, 2011:

|                                |                    | March 31, 2012          |           |           |           | December 31, 2011  |                         |
|--------------------------------|--------------------|-------------------------|-----------|-----------|-----------|--------------------|-------------------------|
|                                | Carrying<br>amount | Estimated<br>fair value | Level 1   | Level 2   | Level 3   | Carrying<br>amount | Estimated<br>fair value |
| Financial assets:              |                    |                         |           |           |           |                    |                         |
| Cash and cash equivalents      | \$ 758,889         | 758,889                 | 758,889   |           |           | 688,297            | 688,297                 |
| Securities available-for-sale  | 919,578            | 919,578                 | 17,071    | 894,217   | 8,290     | 908,349            | 908,349                 |
| Securities held-to-maturity    | 216,956            | 224,630                 |           | 224,630   |           | 231,389            | 239,412                 |
| Loans receivable, net          | 5,534,991          | 5,885,894               | 14,222    |           | 5,871,672 | 5,480,381          | 5,839,674               |
| Accrued interest receivable    | 25,072             | 25,072                  | 25,072    |           |           | 24,599             | 24,599                  |
| FHLB Stock                     | 47,090             | 47,090                  |           |           |           | 48,935             | 48,935                  |
| Total financial assets         | \$ 7,502,576       | 7,861,153               | 815,254   | 1,118,847 | 5,879,962 | 7,381,950          | 7,749,266               |
| Financial liabilities:         |                    |                         |           |           |           |                    |                         |
| Savings and checking accounts  | \$ 3,689,972       | 3,689,972               | 3,689,972 |           |           | 3,495,508          | 3,495,508               |
| Time deposits                  | 2,179,789          | 2,226,527               |           |           | 2,226,527 | 2,284,817          | 2,329,451               |
| Borrowed funds                 | 836,410            | 900,260                 | 140,843   |           | 759,417   | 827,925            | 899,547                 |
| Junior subordinated debentures | 103,094            | 115,940                 |           |           | 115,940   | 103,094            | 116,725                 |
| Cash flow hedges - swaps       | 12,789             | 12,789                  |           | 12,789    |           | 13,637             | 13,637                  |
| Accrued interest payable       | 1,119              | 1,119                   | 1,119     |           |           | 1,104              | 1,104                   |
| Total financial liabilities    | \$ 6,823,173       | 6,946,607               | 3,831,934 | 12,789    | 3,101,884 | 6,726,085          | 6,855,972               |

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Fair value estimates are made at a point-in-time, based on relevant market data and information about the instrument. The methods and assumptions detailed above were used in estimating the fair value of financial instruments at both March 31, 2012 and December 31, 2011. There were no transfers of financial instruments between Level 1 and Level 2 during the quarter ended March 31, 2012.

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The following table represents assets measured at fair value on a recurring basis at March 31, 2012 (in thousands):

|                                         | Level 1   | Level 2  | Level 3 | Total<br>assets at<br>fair value |
|-----------------------------------------|-----------|----------|---------|----------------------------------|
| Equity securities                       | \$ 17,071 |          |         | 17,071                           |
| Debt securities:                        |           |          |         |                                  |
| U.S. government and agencies            |           | 56       |         | 56                               |
| Government sponsored enterprises        |           | 65,067   |         | 65,067                           |
| States and political subdivisions       |           | 158,969  |         | 158,969                          |
| Corporate                               |           | 11,369   | 8,290   | 19,659                           |
| Total debt securities                   |           | 235,461  | 8,290   | 243,751                          |
| Residential mortgage-backed securities: |           |          |         |                                  |
| GNMA                                    |           | 46,572   |         | 46,572                           |
| FNMA                                    |           | 128,839  |         | 128,839                          |
| FHLMC                                   |           | 69,283   |         | 69,283                           |
| Non-agency                              |           | 715      |         | 715                              |
| Collateralized mortgage obligations:    |           |          |         |                                  |
| GNMA                                    |           | 27,770   |         | 27,770                           |
| FNMA                                    |           | 137,805  |         | 137,805                          |
| FHLMC                                   |           | 221,023  |         | 221,023                          |
| SBA                                     |           | 17,710   |         | 17,710                           |
| Non-agency                              |           | 9,039    |         | 9,039                            |
| Total mortgage-backed securities        |           | 658,756  |         | 658,756                          |
| Interest rate swaps                     |           | (12,789) |         | (12,789)                         |
| Total assets                            | \$ 17,071 | 881,428  | 8,290   | 906,789                          |

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The following table represents assets measured at fair value on a recurring basis at December 31, 2011 (in thousands):

|                                         | Level 1   | Level 2  | Level 3 | Total<br>assets at<br>fair value |
|-----------------------------------------|-----------|----------|---------|----------------------------------|
| Equity securities                       | \$ 12,465 |          |         | 12,465                           |
| Debt securities:                        |           |          |         |                                  |
| U.S. government and agencies            |           | 59       |         | 59                               |
| Government sponsored enterprises        |           | 76,179   |         | 76,179                           |
| States and political subdivisions       |           | 169,288  |         | 169,288                          |
| Corporate                               |           | 11,477   | 9,657   | 21,134                           |
| Total debt securities                   |           | 257,003  | 9,657   | 266,660                          |
| Residential mortgage-backed securities: |           |          |         |                                  |
| GNMA                                    |           | 48,297   |         | 48,297                           |
| FNMA                                    |           | 138,340  |         | 138,340                          |
| FHLMC                                   |           | 72,980   |         | 72,980                           |
| Non-agency                              |           | 725      |         | 725                              |
| Collateralized mortgage obligations:    |           |          |         |                                  |
| GNMA                                    |           | 30,759   |         | 30,759                           |
| FNMA                                    |           | 118,526  |         | 118,526                          |
| FHLMC                                   |           | 191,049  |         | 191,049                          |
| SBA                                     |           | 18,624   |         | 18,624                           |
| Non-agency                              |           | 9,924    |         | 9,924                            |
| Total mortgage-backed securities        |           | 629,224  |         | 629,224                          |
| Interest rate swaps                     |           | (13,637) |         | (13,637)                         |
| Total assets                            | \$ 12,465 | 872,590  | 9,657   | 894,712                          |

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The table below presents a reconciliation of all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the quarter ended March 31, 2012 (in thousands):

|                                                                                                          |    | <b>Debt<br/>securities</b> |
|----------------------------------------------------------------------------------------------------------|----|----------------------------|
| Balance at December 31, 2011                                                                             | \$ | 9,657                      |
| Total net realized investment gains/ (losses) and net change in unrealized appreciation/ (depreciation): |    |                            |
| Included in net income as OTTI                                                                           |    |                            |
| Included in other comprehensive income                                                                   |    | (1,367)                    |
| Purchases                                                                                                |    |                            |
| Sales                                                                                                    |    |                            |
| Transfers in to Level 3                                                                                  |    |                            |
| Transfers out of Level 3                                                                                 |    |                            |
| Balance at March 31, 2012                                                                                | \$ | 8,290                      |

The table below presents a reconciliation of all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the quarter ended March 31, 2011 (in thousands):

|                                                                                                          |    | <b>Debt<br/>securities</b> |
|----------------------------------------------------------------------------------------------------------|----|----------------------------|
| Balance at December 31, 2010                                                                             | \$ | 9,209                      |
| Total net realized investment gains/ (losses) and net change in unrealized appreciation/ (depreciation): |    |                            |
| Included in net income as OTTI                                                                           |    |                            |
| Included in other comprehensive income                                                                   |    | 102                        |
| Purchases                                                                                                |    |                            |
| Sales                                                                                                    |    |                            |
| Transfers in to of Level 3                                                                               |    |                            |
| Transfers out of of Level 3                                                                              |    |                            |
| Balance at March 31, 2011                                                                                | \$ | 9,311                      |

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Certain assets and liabilities are measured at fair value on a nonrecurring basis after initial recognition such as loans measured for impairment, loans held for sale and real estate owned. The following table represents the fair value measurement for nonrecurring assets at March 31, 2012 (in thousands):

|                               | Level 1   | Level 2 | Level 3 | Total assets at fair value |
|-------------------------------|-----------|---------|---------|----------------------------|
| Loans measured for impairment | \$        |         | 14,916  | 14,916                     |
| Loans held for sale           | 14,222    |         |         | 14,222                     |
| Real estate owned             |           |         | 28,895  | 28,895                     |
| Total assets                  | \$ 14,222 |         | 43,811  | 58,033                     |

Certain assets and liabilities are measured at fair value on a nonrecurring basis after initial recognition such as loans measured for impairment and real estate owned. The following table represents the fair value measurement for nonrecurring assets at December 31, 2011 (in thousands):

|                               | Level 1 | Level 2 | Level 3 | Total assets at fair value |
|-------------------------------|---------|---------|---------|----------------------------|
| Loans measured for impairment | \$      |         | 16,929  | 16,929                     |
| Real estate owned             |         |         | 26,887  | 26,887                     |
| Total assets                  | \$      |         | 43,816  | 43,816                     |

**Impaired loans** A loan is considered to be impaired when it is probable that all of the principal and interest due under the original terms of the loan may not be collected. Impairment is measured based on the fair value of the underlying collateral or discounted cash flows when collateral does not exist. We measure impairment on all nonaccrual commercial and commercial real estate loans for which we have established specific reserves as part of the specific allocated allowance component of the allowance for loan losses. We classify loans individually evaluated for impairment that require a specific reserve as nonrecurring Level 3.

**Real Estate Owned** Real estate owned is comprised of property acquired through foreclosure or voluntarily conveyed by delinquent borrowers. These assets are recorded on the date acquired at the lower of the related loan balance or fair value, less estimated disposition costs, with the fair value being determined by appraisal. Subsequently, foreclosed assets are valued at the lower of the amount recorded at acquisition date or fair value, less estimated disposition costs. We classify all real estate owned as nonrecurring Level 3.

**Loans held for sale** Mortgage loans held for sale are recorded at the lower of carrying value or fair value. The fair value is based on what secondary markets are currently offering. As the fair value is determined by a quoted price from FHLMC, and we only have open delivery contracts with FHLMC, we classify loans held for sale as nonrecurring Level 1.



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The table below presents additional quantitative information about assets measured at fair value on a recurring and nonrecurring basis and for which we have utilized Level 3 inputs to determine fair value at March 31, 2012 (dollar amounts in thousands):

|                               | <b>Fair value</b> | <b>Valuation techniques</b> | <b>Significant unobservable inputs</b>                | <b>Range (weighted average)</b>                  |
|-------------------------------|-------------------|-----------------------------|-------------------------------------------------------|--------------------------------------------------|
| Debt securities               | \$ 8,290          | Discounted cash flow        | Discount margin<br>Default rates<br>Prepayment speeds | 0.35% to 2.1% (0.72)%<br>2.00%<br>1.00% annually |
| Loans measured for impairment | 14,916            | Appraisal value (1)         | N/A                                                   | N/A                                              |
| Real estate owned             | 28,895            | Appraisal value (1)         | N/A                                                   | N/A                                              |

(1) Fair value is generally determined through independent appraisals of the underlying collateral, which may include level 3 inputs that are not identifiable, or by using the discounted cash flow method if the loan is not collateral dependent.

The significant unobservable inputs used in the fair value measurement of our debt securities are discount margins, default rates and prepayment speeds. Significant increases in any of those rates would result in a significantly lower fair value measurement.

## (10) Mortgage Loan Servicing

Mortgage servicing assets are recognized as separate assets when servicing rights are acquired through loan originations and 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 into 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 at and for the three months ended March 31, 2012 (in thousands):

|                              | Servicing<br>Rights | Valuation<br>Allowance | Net<br>Carrying<br>Value and<br>Fair Value |
|------------------------------|---------------------|------------------------|--------------------------------------------|
| Balance at December 31, 2011 | 3,655               |                        | 3,655                                      |
| Additions/ (reductions)      | 513                 |                        | 513                                        |
| Amortization                 | (734)               |                        | (734)                                      |
| Balance at March 31, 2012    | 3,434               |                        | 3,434                                      |

The following table shows changes in MSRs at and for the three months ended March 31, 2011 (in thousands):

|                              | Servicing<br>Rights | Valuation<br>Allowance | Net<br>Carrying<br>Value and<br>Fair Value |
|------------------------------|---------------------|------------------------|--------------------------------------------|
| Balance at December 31, 2010 | \$ 5,969            |                        | 5,969                                      |
| Additions/ (reductions)      | 285                 |                        | 285                                        |
| Amortization                 | (922)               |                        | (922)                                      |
| Balance at March 31, 2011    | \$ 5,332            |                        | 5,332                                      |

## **(11) Guaranteed Preferred Beneficial Interests in the Company's Junior Subordinated Deferrable Interest Debentures (Trust Preferred Securities) and Interest Rate Swaps**

We have two statutory business trusts: Northwest Bancorp Capital Trust III, a Delaware statutory business trust and Northwest Bancorp Statutory Trust IV, a Connecticut statutory business trust ( "Trusts" ). These trusts exist solely to issue preferred securities to third parties for cash, issue common securities to the Company in exchange for capitalization of the Trusts, invest the proceeds from the sale of the trust securities in an equivalent amount of debentures of the Company, and engage in other activities that are incidental to those previously listed.

Northwest Bancorp Capital Trust III (Trust III) issued 50,000 cumulative trust preferred securities in a private transaction to a pooled investment vehicle on December 5, 2006 (liquidation value of \$1,000 per preferred security or \$50,000,000) with a stated maturity of December 30, 2035. These securities carry a floating interest rate, which is reset quarterly, equal to three-month LIBOR plus 1.38%. Northwest Bancorp Statutory Trust IV (Trust IV) issued 50,000 cumulative trust preferred securities in a private transaction to a pooled investment vehicle on December 15, 2006 (liquidation value of \$1,000 per preferred security or \$50,000,000) with a stated maturity of December 15, 2035. These securities carry a floating interest rate, which is reset quarterly, equal to three-month LIBOR plus 1.38%. The Trusts have invested the proceeds of the offerings in junior subordinated deferrable interest debentures issued by the Company. The structure of these debentures mirrors the structure of the trust-preferred securities. Trust III holds \$51,547,000 of the Company's junior subordinated debentures and Trust IV holds \$51,547,000 of the Company's junior subordinated debentures. These subordinated debentures are the sole assets of the Trusts. Cash distributions on the trust securities are made on a quarterly basis to the extent interest on the debentures is



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received by the Trusts. We have the right to defer payment of interest on the subordinated debentures at any time, or from time-to-time, for periods not exceeding five years. If interest payments on the subordinated debentures are deferred, the distributions on the trust preferred securities are also deferred. Interest on the subordinated debentures and distributions on the trust securities is cumulative. Our obligation constitutes a full, irrevocable, and unconditional guarantee on a subordinated basis of the obligations of the trust under the preferred securities.

We entered into four interest rate swap agreements (swaps), designating the swaps as cash flow hedges. The swaps are intended to protect against the variability of cash flows associated with Trust III and Trust IV. The first two swaps modify the re-pricing characteristics of Trust III, wherein (i) the Company receives interest of three-month LIBOR from a counterparty and pays a fixed rate of 4.20% to the same counterparty calculated on a notional amount of \$25.0 million and (ii) the Company receives interest of three-month LIBOR from a counterparty and pays a fixed rate of 4.61% to the same counterparty calculated on a notional amount of \$25.0 million. The terms of these two swaps are five years and ten years, which expire September 2013 and September 2018, respectively. The second two swaps modify the re-pricing characteristics of Trust IV, wherein (i) the Company receives interest of three-month LIBOR from a counterparty and pays a fixed rate of 3.85% to the same counterparty calculated on a notional amount of \$25.0 million and (ii) the Company receives interest of three-month LIBOR from a counterparty and pays a fixed rate of 4.09% to the same counterparty calculated on a notional amount of \$25.0 million. The terms of these two swaps are seven years and ten years, which expire September 2015 and September 2018, respectively. The swap agreements were entered into with a counterparty that met our credit standards and the agreements contain collateral provisions protecting the at-risk party. We believe that the credit risk inherent in the contracts is not significant. At March 31, 2012, \$12.8 million was pledged as collateral to the counterparty.

At March 31, 2012, the fair value of the swap agreements was \$(12.8) million and was the amount we would have expected to pay if the contracts were terminated. There was no material hedge ineffectiveness for these swaps.

The following table shows liability derivatives, included in other liabilities, at March 31, 2012 and December 31, 2011 (in thousands):

|                   | March 31,<br>2012 | December 31,<br>2011 |
|-------------------|-------------------|----------------------|
| Fair value        | \$ 12,789         | 13,637               |
| Notional amount   | 100,000           | 100,000              |
| Collateral posted | 12,789            | 13,637               |

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**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**Forward-Looking Statements:**

In addition to historical information, this document may contain certain forward-looking statements, as defined in the Private Securities Litigation Reform Act of 1995. These forward-looking statements contained herein are subject to certain risks and uncertainties that could cause actual results to differ materially from those expressed or implied in the forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, as they reflect management's analysis only as of the date of this report. We have no obligation to revise or update these forward-looking statements to reflect events or circumstances that arise after the date of this report.

Important factors that might cause such a difference include, but are not limited to:

- Changes in interest rates which could impact our net interest margin;
- Adverse changes in our loan portfolio or investment securities portfolio and the resulting credit risk-related losses and/ or market value adjustments;
- The impact of the uncertain economic environment on our loan portfolio (including cash flow and collateral values), investment portfolio, customers and capital market activities;
- Possible impairments of securities held by us, including those issued by government entities and government sponsored enterprises;
- Our ability to continue to increase and manage our commercial and residential real estate, multifamily and commercial and industrial loans;
- The adequacy of the allowance for loan losses;
- Changes in the financial performance and/ or condition of our borrowers;
- Changes in general economic or business conditions resulting in changes in demand for credit and other services, among other things;
- Changes in consumer confidence, spending and savings habits relative to the bank and non-bank financial services we provide;
- Compliance with laws and regulatory requirements of federal and state agencies;
- New legislation affecting the financial services industry;
- The impact of the current governmental effort to restructure the U.S. financial and regulatory system;
- The level of future deposit premium assessments;

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- Competition from other financial institutions in originating loans and attracting deposits;
- The effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the SEC, Public Company Accounting Oversight Board, the Financial Accounting Standards Board and other accounting standards setters;
- Our ability to effectively implement technology driven products and services;
- Sources of liquidity; and
- Our success in managing the risks involved in the foregoing.

### Overview of Critical Accounting Policies Involving Estimates

Critical accounting policies involve accounting estimates that: a) require assumptions about highly uncertain matters, and b) could vary sufficiently enough to have a material effect on our financial condition and/ or results of operations.

**Allowance for Loan Losses.** Provisions for estimated loan losses and the amount of the allowance for loan losses are based on losses inherent in the loan portfolio that are both probable and reasonably estimable at the date of the financial statements. Management believes, to the best of their knowledge, that all known losses as of the statement of condition dates have been recorded.

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For all classes of loans, management considers 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, management considers 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 consumer and residential mortgages) are evaluated collectively for impairment. Impairment losses are included in the allowance for loan losses. Impaired loans are charged-off or charged down when we believe that the ultimate collectability of a loan is not likely or the collateral value no longer supports the carrying value of the loan.

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

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

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

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

The first element, impaired loans, is based on individual analysis of all nonperforming loans 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. Impaired value is either the present value of the expected future cash flows from the borrower, the market value of the loan, or the fair value of the collateral, less cost to sell if the loan is collateral dependent.

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.

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

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

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

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

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

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

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

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

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

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

**Valuation of Investment Securities.** Unrealized gains or losses, net of deferred taxes, on available for sale securities are reported in other comprehensive income and as a separate component of shareholders' equity and on the statement of comprehensive income. In general, fair value is based upon quoted market prices of identical assets, when available. Semi-annually (as of June 30 and December 31) we receive quoted market prices from a second independent pricing service. 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

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value is based on broker quotes for similar assets. Broker quotes may be adjusted to ensure that financial instruments are recorded at fair value. Adjustments may include unobservable parameters, among other things.

We conduct a quarterly review and evaluation of our 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. In addition, we consider our intent to sell the investment securities currently in an

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unrealized loss position and whether it is more likely than not that we will be required to sell the security before recovery of its cost basis. Any valuation decline that we determine to be other than temporary would require us to write down the security to fair value through a charge to earnings for the credit loss component.

**Goodwill.** Goodwill is not subject to amortization but must be evaluated for impairment at least annually and possibly more frequently if certain events or changes in circumstances arise. Under a quantitative approach, 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. Determining the fair value of a reporting unit requires a high degree of subjective management judgment. We have established June 30th of each year as the date for conducting the annual goodwill impairment assessment. As of June 30, 2011, we, through the assistance of an external third party, 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. No material changes have occurred since that date that would lead us to any other conclusions. 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.

**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. Management exercises 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 made 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.

**Other Intangible Assets.** Using the purchase method of accounting for acquisitions, we are required to record the assets acquired, including identified intangible assets, and liabilities assumed at their fair values. These fair values often involve estimates based on third party valuations, including appraisals, or internal valuations based on discounted cash flow analyses or other valuation techniques, which are inherently subjective. Core deposit and other intangible assets are recorded in purchase accounting. Intangible assets, which are determined to have finite lives, are amortized based on the period of estimated economic benefits received, primarily on an accelerated basis. If it is subsequently determined that the period of economic benefit has decreased or no longer exists, accelerated amortization or impairment may occur.

Executive Summary and Comparison of Financial Condition

Total assets at March 31, 2012 were \$8.069 billion, an increase of \$111.3 million, or 1.4%, from \$7.958 billion at December 31, 2011. This increase in assets was due to increases in loans receivable of



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\$56.4 million and cash and cash equivalents of \$70.6 million, which were partially offset by a decrease in other assets of \$13.6 million. The net increase in total assets resulted from a net increase in funding sources as deposits and borrowed funds increased by \$89.4 million and \$8.5 million, respectively.

Loans receivable increased by \$56.4 million, or 1.0%, to \$5.608 billion at March 31, 2012, from \$5.552 billion at December 31, 2011. Loan demand was strong during the three months ended March 31, 2012, with originations of \$530.4 million. Due to our continued efforts to expand business banking relationships our business banking loan portfolio increased by \$60.8 million, or 3.3%, to \$1.884 billion at March 31, 2012 from \$1.824 billion at December 31, 2011, led by commercial real estate loans which increased \$39.8 million, or 2.8% during the quarter. Additionally, commercial loans increased by \$21.0 million, or 5.4%. Our personal banking loan portfolio decreased by \$4.4 million, or 0.1%, to \$3.723 billion at March 31, 2012 from \$3.728 billion at December 31, 2011. With consumers continuing their propensity to pay down debt, home equity loans decreased by \$25.8 million, or 2.4%, and consumer loans decreased by \$8.1 million, or 3.3% during the quarter. These decreases were partially offset by an increase in mortgage loans of \$29.6 million, or 1.2%.

Deposit balances increased across all product types with the exception of time deposits. Total deposits increased by \$89.4 million, or 1.5%, to \$5.870 billion at March 31, 2012 from \$5.780 billion at December 31, 2011. Noninterest-bearing demand deposits increased by \$73.8 million, or 11.2%, to \$732.4 million at March 31, 2012 from \$658.6 million at December 31, 2011. Interest-bearing demand deposits increased by \$32.6 million, or 4.1%, to \$833.3 million at March 31, 2012 from \$800.7 million at December 31, 2011. Savings deposits, including insured money fund accounts, increased by \$88.0 million, or 4.3%, to \$2.124 billion at March 31, 2012 from \$2.036 billion at December 31, 2011. Time deposits decreased by \$105.0 million, or 4.6%, to \$2.180 billion at March 31, 2012 from \$2.285 billion at December 31, 2011. We believe this continued movement of funds from time deposits to more liquid types of deposit accounts reflects our depositors concerns regarding potentially higher interest rates.

Borrowed funds increased by \$8.5 million, or 1.0%, to \$836.4 million at March 31, 2012, from \$827.9 million at December 31, 2011 due to an increase in repurchase agreements. None of our FHLB advances matured during the quarter and the next scheduled maturity is in 2015.

Total shareholders' equity at March 31, 2012 was \$1.162 billion, or \$11.91 per share, an increase of \$7.6 million, or 0.7%, from \$1.155 billion, or \$11.85 per share, at December 31, 2011. This increase was primarily attributable to net income of \$15.2 million and other comprehensive income of \$2.0 million, which was partially offset by cash dividends paid of \$11.4 million.

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Financial institutions and their holding companies are subject to various regulatory capital requirements administered by state and federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary, actions by the regulators that, if undertaken, could have a direct material effect on a company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, financial institutions must meet specific capital guidelines that involve quantitative measures of its assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments made by the regulators about components, risk-weighting and other factors.

Quantitative measures, established by regulation to ensure capital adequacy, require financial institutions to maintain minimum amounts and ratios (set forth in the table below) of Total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital to average assets (as defined). Capital ratios are presented in the tables below. Dollar amounts in the accompanying tables are in thousands.

At March 31, 2012

|                                               | Actual       |        | Minimum capital Requirements |         | Well capitalized Requirements |        |
|-----------------------------------------------|--------------|--------|------------------------------|---------|-------------------------------|--------|
|                                               | Amount       | Ratio  | Amount                       | Ratio   | Amount                        | Ratio  |
| Total capital (to risk weighted assts)        |              |        |                              |         |                               |        |
| Northwest Bancshares, Inc.                    | \$ 1,161,927 | 23.16% | 401,391                      | 8.00%   | 501,739                       | 10.00% |
| Northwest Savings Bank                        | 999,865      | 20.01% | 399,685                      | 8.00%   | 499,606                       | 10.00% |
| Tier I capital (to risk weighted assets)      |              |        |                              |         |                               |        |
| Northwest Bancshares, Inc.                    | 1,098,971    | 21.90% | 200,696                      | 4.00%   | 301,044                       | 6.00%  |
| Northwest Savings Bank                        | 937,096      | 18.76% | 199,842                      | 4.00%   | 299,764                       | 6.00%  |
| Tier I capital (leverage) (to average assets) |              |        |                              |         |                               |        |
| Northwest Bancshares, Inc.                    | 1,098,971    | 14.03% | 235,070                      | 3.00%   | 391,784                       | 5.00%  |
| Northwest Savings Bank                        | 937,096      | 12.01% | 234,099                      | 3.00% * | 390,165                       | 5.00%  |

At December 31, 2011

|                                          | Actual       |        | Minimum capital Requirements |       | Well capitalized Requirements |        |
|------------------------------------------|--------------|--------|------------------------------|-------|-------------------------------|--------|
|                                          | Amount       | Ratio  | Amount                       | Ratio | Amount                        | Ratio  |
| Total capital (to risk weighted assts)   |              |        |                              |       |                               |        |
| Northwest Bancshares, Inc.               | \$ 1,155,490 | 23.14% | 399,503                      | 8.00% | 499,378                       | 10.00% |
| Northwest Savings Bank                   | 982,156      | 19.78% | 397,302                      | 8.00% | 496,627                       | 10.00% |
| Tier I capital (to risk weighted assets) |              |        |                              |       |                               |        |
| Northwest Bancshares, Inc.               | 1,092,787    | 21.88% | 199,751                      | 4.00% | 299,627                       | 6.00%  |
| Northwest Savings Bank                   | 919,807      | 18.52% | 198,651                      | 4.00% | 297,976                       | 6.00%  |

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Tier I capital (leverage) (to average assets)

|                            |           |        |         |         |         |       |
|----------------------------|-----------|--------|---------|---------|---------|-------|
| Northwest Bancshares, Inc. | 1,092,787 | 13.98% | 234,551 | 3.00%   | 390,918 | 5.00% |
| Northwest Savings Bank     | 919,807   | 11.81% | 233,573 | 3.00% * | 389,288 | 5.00% |

\* The FDIC has indicated that the most highly rated institutions which meet certain criteria will be required to maintain a ratio of 3%, and all other institutions will be required to maintain an additional capital cushion of 100 to 200 basis points. As of March 31, 2012, Northwest Savings Bank has not been advised of any additional requirements in this regard.

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We are required to maintain a sufficient level of liquid assets, as determined by management and reviewed for adequacy by the FDIC and the Pennsylvania Department of Banking during their regular examinations. Northwest monitors its liquidity position primarily using the ratio of unencumbered available-for-sale liquid assets as a percentage of deposits and borrowings ( liquidity ratio ). Northwest's liquidity ratio at March 31, 2012 was 23.3%. We adjust liquidity levels in order to meet funding needs for deposit outflows, payment of real estate taxes and insurance on mortgage loan escrow accounts, repayment of borrowings and loan commitments. As of March 31, 2012 Northwest had \$1.795 billion of additional borrowing capacity available with the FHLB, including \$150.0 million on an overnight line of credit, as well as \$193.6 million of borrowing capacity available with the Federal Reserve Bank and \$80.0 million with two correspondent banks.

We paid \$11.4 million and \$10.7 million in cash dividends during the quarters ended March 31, 2012 and 2011, respectively. The increase is the result of an increase of \$0.02 per share in the dividends paid. The common stock dividend payout ratio (dividends declared per share divided by net income per share) was 74.4% and 62.5% for the quarters ended March 31, 2012 and 2011, respectively, on dividends of \$0.12 per share and \$0.10 per share, respectively. The Board of Directors declared a dividend of \$0.12 per share payable on May 17, 2012 to shareholders of record as of May 3, 2012. This represents the 70th consecutive quarter we have paid a cash dividend.

Nonperforming Assets

The following table sets forth information with respect to the Company's nonperforming assets. Nonaccrual loans are those loans on which the accrual of interest has ceased. Loans are automatically placed on nonaccrual status when they are 90 days or more contractually delinquent and may also be placed on nonaccrual status even if not 90 days or more delinquent but other conditions exist. Other nonperforming assets represent property acquired by the Company through foreclosure or repossession. Foreclosed property is carried at the lower of its fair value less estimated costs to sell, or the principal balance of the related loan.

|                                                                                    | March 31, 2012         | December 31, 2011 |
|------------------------------------------------------------------------------------|------------------------|-------------------|
|                                                                                    | (Dollars in Thousands) |                   |
| Loans accounted for on a nonaccrual basis                                          |                        |                   |
| Personal Banking:                                                                  |                        |                   |
| Residential mortgage loans                                                         | \$ 28,696              | 28,221            |
| Home equity loans                                                                  | 9,100                  | 9,560             |
| Other consumer loans                                                               | 1,983                  | 2,667             |
| Total Personal Banking                                                             | 39,779                 | 40,448            |
| Business Banking:                                                                  |                        |                   |
| Commercial real estate loans                                                       | 58,400                 | 62,494            |
| Commercial loans                                                                   | 26,834                 | 28,163            |
| Total Business Banking                                                             | 85,234                 | 90,657            |
| Total                                                                              | 125,013                | 131,105           |
| Total nonaccrual loans as a percentage of total loans                              | 2.23%                  | 2.36%             |
| Total real estate acquired through foreclosure and other real estate owned ( REO ) | 28,895                 | 26,887            |
| Total nonperforming assets                                                         | \$ 153,908             | 157,992           |
| Total nonperforming assets as a percentage of total assets                         | 1.91%                  | 1.99%             |

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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. 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. Impaired loans at March 31, 2012 and December 31, 2011 were \$175.3 million and \$179.4 million, respectively.

**Allowance for Loan Losses**

Our Board of Directors has adopted an Allowance for Loan Losses (ALL) policy designed to provide management with a systematic methodology for determining and documenting the ALL each reporting period. This methodology was developed to provide a consistent process and review procedure to ensure that the ALL is in conformity with GAAP, our policies and procedures and other supervisory and regulatory guidelines.

On an ongoing basis, the Credit Administration department, as well as loan officers, branch managers and department heads, review and monitor the loan portfolio for problem loans. This portfolio monitoring includes a review of the monthly delinquency reports as well as historical comparisons and trend analysis. In addition, a meeting is held every quarter with each of our seven regions to monitor the performance and status of loans on an internal watch list. On an on-going basis the loan officer along with the Loan Review department grades or classifies problem loans or potential problem loans based upon their knowledge of the lending relationship and other information previously accumulated. Our loan grading system for problem loans is consistent with industry regulatory guidelines which classify loans as substandard, doubtful or loss. Loans that do not expose us to risk sufficient to warrant classification in one of the subsequent categories, but which possess some weaknesses, are designated as special mention. A substandard loan is any loan that is more than 90 days contractually delinquent or is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified as doubtful have all the weaknesses inherent in those classified as substandard with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, conditions or values, highly questionable and improbable. Loans classified as loss are considered uncollectible so that their continuance as assets without the establishment of a specific loss allowance is not warranted.

The 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.

If an individual loan is deemed to be impaired, the Credit Administration department determines the proper measure 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 measurement of the impaired loan is more or less than the recorded investment in the loan, the Credit Administration department adjusts 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. Historical loss ratios are analyzed and adjusted based on



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delinquency trends as well as the current economic, political, regulatory and interest rate environment and used to estimate the current measure of impairment.

The individual impairment measures along with the estimated loss for each homogeneous pool are consolidated into one summary document. This summary schedule along with the support documentation used to establish this schedule is presented to the Credit Committee on a quarterly basis. The Credit Committee reviews the processes and documentation presented, reviews the concentration of credit by industry and customer, 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 amount of ALL is estimated and any adjustments to reconcile the actual ALL with this estimate are determined. In addition, the Credit Committee considers if any changes to the methodology are needed. The Credit Committee also reviews and discusses delinquency trends, nonperforming asset amounts and ALL levels and ratios compared to our peer group as well as state and national statistics. Similarly, following the Credit Committee's review and approval, a review is performed by the Risk Management Committee of the Board of Directors on a quarterly basis.

In addition to the reviews by management's Credit Committee and the Board of Directors Risk Management Committee, regulators from either the FDIC or the Pennsylvania Department of Banking perform an extensive review on an annual basis for the adequacy of the ALL and its conformity with regulatory guidelines and pronouncements. 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 out of our control that can change often, rapidly and substantially. The adequacy of the ALL 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 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 as of March 31, 2012, we considered the economic conditions in our markets, such as the unemployment and bankruptcy levels as well as changes in real estate collateral values. In addition, we considered the overall trends in asset quality, specific reserves already established for criticized loans, historical loss rates and collateral valuations. As a result of this analysis, the allowance for loan losses increased \$1.8 million to \$72.9 million, or 1.30% of total loans, at March 31, 2012 from \$71.1 million, or 1.28% of total loans, at December 31, 2011. The increase is primarily attributable to the increase in our business banking loan portfolio as business banking loans typically have the highest reserve factors and historical loss ratios.

We also consider how the level of nonperforming loans and historical charge-offs have influenced the required amount of allowance for loan losses. Nonperforming loans of \$125.0 million or 2.23% of total loans, at March 31, 2012 decreased by \$6.1 million, or 4.7%, from \$131.1 million, or 2.36% of total loans, at December 31, 2011. As a percentage of average loans, annualized net charge-offs decreased to 0.32% for the quarter ended March 31, 2012 compared to 0.52% for the quarter ended March 31, 2011. We believe all known losses as of the balance sheet dates have been recorded.

**Comparison of Operating Results for the Quarters Ended March 31, 2012 and 2011**

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Net income for the quarter ended March 31, 2012 was \$15.2 million, or \$0.16 per diluted share, a decrease of \$2.1 million, or 12.0%, from \$17.3 million, or \$0.16 per diluted share, for the same quarter last year. The decrease in net income resulted primarily from a decrease in net interest income of \$1.6 million,

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a decrease in noninterest income of \$686,000 as well as an increase in noninterest expense of \$1.9 million. Partially offsetting these items were decreases in the provision for loan losses of \$957,000 and income tax expense of \$1.2 million. A discussion of significant changes follows. Annualized, net income for the quarter ended March 31, 2012 represents a 5.29% and 0.76% return on average equity and return on average assets, respectively, compared to 5.39% and 0.86% for the same quarter last year.

Interest Income

Total interest income decreased by \$4.8 million, or 5.3%, to \$86.2 million for the quarter ended March 31, 2012 due to both a decrease in the average yield earned on interest earning assets and a decrease in the average balance of interest earning assets. The average yield on interest earning assets decreased to 4.70% for the quarter ended March 31, 2012 from 4.83% for the quarter ended March 31, 2011. The average yield on all categories of interest earning assets decreased when compared to the prior year period. Average interest earning assets decreased by \$166.0 million, or 2.2%, to \$7.376 billion for the quarter ended March 31, 2012 from \$7.542 billion for the quarter ended March 31, 2011.

Interest income on loans decreased \$2.3 million, or 2.9%, to \$78.2 million for the quarter ended March 31, 2012 compared to \$80.5 for the quarter ended March 31, 2011. The average yield on loans receivable decreased to 5.63% for the quarter ended March 31, 2012 from 5.87% for the quarter ended March 31, 2011. The decrease in average yield is primarily attributable to our variable rate loans adjusting downward as re-pricing dates occur, as well as increased competition for credit relationships. This decrease in average yield was partially offset by an increase in the average balance of loans receivable. The balance of average loans receivable increased by \$62.8 million, or 1.1%, to \$5.579 billion for the quarter ended March 31, 2012 from \$5.516 billion for the quarter ended March 31, 2011. Leading this increase was growth in our business banking loan portfolio which was facilitated by our emphasis on building quality business banking relationships and modest improvements in economic conditions. The growth in our mortgage loan portfolio was primarily the result of consumers taking advantage of historically low interest rates to refinance and consolidate other debt.

Interest income on mortgage-backed securities decreased by \$2.1 million, or 30.6%, to \$4.7 million for the quarter ended March 31, 2012 from \$6.8 million for the quarter ended March 31, 2011. This decrease is the result of decreases in both the average balance and average yield. The average balance of mortgage-backed securities decreased by \$179.3, or 19.4%, to \$747.0 million for the quarter ended March 31, 2012 from \$926.3 for the quarter ended March 31, 2011 due primarily to redirecting cash flows to fund increased loan demand and the repurchase of common stock shares during 2011. The average yield on mortgage-backed securities decreased to 2.51% for the quarter ending March 31, 2012 from 2.92% for the quarter ending March 31, 2011. The decrease in average yield resulted from variable rate securities continuing to re-price downward and the purchase of mortgage-backed securities at generally lower interest rates than the existing portfolio yield.

Interest income on investment securities decreased by \$453,000, or 13.0%, to \$3.0 million for the quarter ended March 31, 2012 from \$3.5 million for the quarter ended March 31, 2011. This decrease is due to decreases in both the average balance and the average yield. The average balance of investment securities decreased by \$11.7 million, or 3.3%, to \$343.1 million for the quarter ended March 31, 2012 from \$354.8 million for the quarter ended March 31, 2011 due primarily to called or maturing bonds. The average yield on investment securities decreased to 3.52% for the quarter ended March 31, 2012 from 3.91% for the quarter ended March 31, 2011, as a result of higher rate municipal and government agency securities maturing or being called.

Interest income on interest-earning deposits decreased by \$27,000, or 6.6%, to \$380,000 for the quarter ended March 31, 2012 from \$407,000 for the quarter ended March 31, 2011. This decrease is due



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to the use of cash to fund loan demand causing the average balance of interest-earning deposits to decrease by \$27.2 million, or 4.0%, to \$658.7 million for the quarter ended March 31, 2012 from \$685.9 million for the quarter ended March 31, 2011. The average yield on interest-earning deposits decreased to 0.23% for the quarter ended March 31, 2012 from 0.24% for the quarter ended March 31, 2011.

Interest Expense

Interest expense decreased by \$3.3 million, or 13.3%, to \$20.8 million for the quarter ended March 31, 2012 from \$24.1 million for the quarter ended March 31, 2011. This decrease in interest expense was due to a decrease in the average cost of interest-bearing liabilities, which decreased to 1.38% from 1.59%, and a decrease in the average balance of interest-bearing liabilities. Average interest-bearing liabilities decreased by \$99.7 million, or 1.6%, to \$6.036 billion for the quarter ended March 31, 2012 from \$6.136 billion for the quarter ended March 31, 2011. The decrease in the cost of funds resulted primarily from a decrease in the level of market interest rates which enabled us to reduce the rate of interest paid on all deposit products. In addition, we continue to grow low cost checking, savings and insured money market accounts. The decrease in interest-bearing liabilities resulted primarily from a reduction in time deposits.

Net Interest Income

Net interest income decreased by \$1.6 million, or 2.4%, to \$65.4 million for the quarter ended March 31, 2012 from \$67.0 million for the quarter ended March 31, 2011. This decrease is attributable to the factors discussed above. Despite a slight improvement in our interest rate spread to 3.31% for the quarter ended March 31, 2012 from 3.24% for the quarter ended March 31, 2011, our net interest margin decreased 0.01% to 3.55% at March 31, 2012 which resulted from a decrease in total interest-earning assets of \$166.0 million, or 2.2%.

Provision for Loan Losses

The provision for loan losses decreased by \$957,000, or 13.2%, to \$6.3 million for the quarter ended March 31, 2012 from \$7.2 million for the quarter ended March 31, 2011. This decrease is primarily due to reductions in some of the loss factors used to determine the reserve requirement for loans collectively evaluated for impairment and improved credit quality. At March 31, 2012, classified assets decreased \$12.5 million, or 4.5%, and loans 90 days or more delinquent decreased \$34.6 million, or 27.8%, compared to March 31, 2011. Partially offsetting these factors was an increase in loans receivable of \$56.4 million, or 1.0%, and the downgrade of a Maryland commercial real estate loan requiring a \$1.9 million specific reserve.

In determining the amount of the current period provision, we considered the current economic conditions, including unemployment levels and bankruptcy filings, and changes in real estate values, the impact of these factors on the quality of our loan portfolio and historical loss factors. Net charge-offs for the quarter ended March 31, 2012 were \$4.5 million compared to \$7.2 million for the quarter ended March 31, 2011. Annualized net charge-offs to average loans decreased to 0.32% for the quarter ended March 31, 2012 from 0.52% for the quarter ended March 31, 2011. We analyze the allowance for loan losses as described in the section entitled Allowance for Loan Losses. The provision that is recorded is sufficient, in our judgment, to bring this reserve to a level that reflects the losses inherent in our loan portfolio relative to loan mix, economic conditions and historical loss experience. We believe, to the best of our knowledge, that all known losses as of the balance sheet dates have been recorded.

**Noninterest Income**

Noninterest income decreased by \$686,000, or 4.8%, to \$13.6 million for the quarter ended March 31, 2012 from \$14.3 million for the quarter ended March 31, 2011. The decrease is primarily attributable an increase on the loss of real estate owned and a decrease in service charges and fees. Loss on real estate owned increased by \$1.0 million, to \$1.1 million for the quarter ended March 31, 2012 due to the

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management of our inventory of foreclosed properties, resulting in losses on the sale of properties and write-downs on some of the remaining properties. Service charges and fees decreased by \$503,000, or 5.6%, to \$8.4 million for the quarter ended March 31, 2012 from \$8.9 million for the quarter ended March 31, 2011 due to lower NSF and overdraft income. Partially offsetting these decreases were increases in insurance commission income and mortgage banking income. Insurance commission income increased by \$338,000, or 24.5%, to \$1.7 million for the quarter ended March 31, 2012 from \$1.4 million for the quarter ended March 31, 2011 due to the growth of our employee benefits subsidiary. Mortgage banking income increased by \$334,000, or 169.5%, to \$531,000 for the quarter ended March 31, 2012 from \$197,000 for the quarter ended March 31, 2011. This increase is due to increased sales of residential mortgage loans into the secondary market.

**Noninterest Expense**

Noninterest expense increased by \$1.9 million, or 3.8%, to \$51.3 million for the quarter ended March 31, 2012 from \$49.4 million for the quarter ended March 31, 2011. This increase is primarily the result of increases in compensation and employee benefits expense and professional services. Compensation and employee benefits expense increased by \$2.3 million, or 9.2%, to \$27.8 million for the quarter ended March 31, 2012 from \$25.5 million for the quarter ended March 31, 2011. This increase is primarily attributable to increased staffing levels and increases in pension expense and health insurance costs. We have added 77 full-time equivalent employees compared to last year primarily in the areas of commercial lending, loan servicing, credit review and regulatory compliance. Professional services increased by \$441,000, or 35.1%, to \$1.7 million for the quarter ended March 31, 2012 from \$1.3 million for the quarter ended March 31, 2011 primarily due to our ongoing efforts to improve compliance and satisfy the conditions of the FDIC Consent Order. These increases were partially offset by decreases in federal deposit insurance premiums and premises and occupancy costs. Federal deposit insurance premiums decreased by \$807,000, or 33.3%, to \$1.6 million for the quarter ended March 31, 2012 from \$2.4 million for the quarter ended March 31, 2011. This decrease was due to the new assessment formula which calculates premiums based on assets rather than deposits. Premises and occupancy costs decreased by \$443,000, or 7.2%, to \$5.7 million for the quarter ended March 31, 2012 from \$6.2 million for the quarter ended March 31, 2011 primarily due to lower utility and snow removal costs because of the mild winter.

**Income Taxes**

The provision for income taxes for the quarter ended March 31, 2012 decreased by \$1.2 million, or 15.9%, to \$6.3 million, compared to the same period last year. This decrease in income tax is primarily a result of a decrease in income before income taxes of \$3.3 million, or 13.2%. Our effective tax rate for the quarter ended March 31, 2012 was 29.3% compared to 30.3% for the prior year period. We do not anticipate our effective tax rate to change substantially during the year.

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### Average Balance Sheet

(Dollars in thousands)

The following table sets forth certain information relating to the Company's average balance sheet and reflects the average yield on assets and average cost of liabilities for the periods indicated. Such yields and costs are derived by dividing income or expense by the average balance of assets or liabilities, respectively, for the periods presented. Average balances are calculated using daily averages.

|                                                                                               | 2012            |          |                     | Quarter ended March 31, 2011 |          |                     |
|-----------------------------------------------------------------------------------------------|-----------------|----------|---------------------|------------------------------|----------|---------------------|
|                                                                                               | Average Balance | Interest | Avg. Yield/Cost (g) | Average Balance              | Interest | Avg. Yield/Cost (g) |
| <b>Assets:</b>                                                                                |                 |          |                     |                              |          |                     |
| Interest-earning assets:                                                                      |                 |          |                     |                              |          |                     |
| Loans receivable (a) (b) (includes FTE adjustments of \$532 and \$390, respectively)          | \$ 5,579,071    | 78,691   | 5.67%               | \$ 5,516,254                 | 80,847   | 5.89%               |
| Mortgage-backed securities (c)                                                                | 746,954         | 4,691    | 2.51%               | 926,349                      | 6,756    | 2.92%               |
| Investment securities (c) (includes FTE adjustments of \$1,317 and \$1,665, respectively)     | 343,059         | 4,336    | 5.06%               | 354,786                      | 5,128    | 5.78%               |
| FHLB stock                                                                                    | 48,246          |          |                     | 58,845                       |          |                     |
| Other interest-earning deposits                                                               | 658,747         | 380      | 0.23%               | 685,864                      | 407      | 0.24%               |
| Total interest-earning assets (includes FTE adjustments of \$1,849 and \$2,045, respectively) | 7,376,077       | 88,098   | 4.80%               | 7,542,098                    | 93,138   | 4.96%               |
| Noninterest earning assets (d)                                                                | 615,734         |          |                     | 592,981                      |          |                     |
| Total assets                                                                                  | \$ 7,991,811    |          |                     | \$ 8,135,079                 |          |                     |
| <b>Liabilities and shareholders' equity:</b>                                                  |                 |          |                     |                              |          |                     |
| Interest-bearing liabilities:                                                                 |                 |          |                     |                              |          |                     |
| Savings accounts                                                                              | \$ 1,100,312    | 1,106    | 0.40%               | \$ 1,063,696                 | 1,429    | 0.55%               |
| Interest-bearing demand accounts                                                              | 785,935         | 227      | 0.12%               | 773,633                      | 232      | 0.12%               |
| Money market accounts                                                                         | 976,194         | 965      | 0.40%               | 915,768                      | 1,155    | 0.51%               |
| Certificate accounts                                                                          | 2,236,823       | 10,646   | 1.91%               | 2,431,952                    | 13,247   | 2.21%               |
| Borrowed funds (e)                                                                            | 833,843         | 6,477    | 3.12%               | 847,784                      | 6,584    | 3.15%               |
| Junior subordinated debentures                                                                | 103,094         | 1,422    | 5.46%               | 103,094                      | 1,405    | 5.45%               |
| Total interest-bearing liabilities (f)                                                        | 6,036,201       | 20,843   | 1.38%               | 6,135,927                    | 24,052   | 1.59%               |
| Noninterest bearing liabilities                                                               | 801,157         |          |                     | 701,633                      |          |                     |
| Total liabilities                                                                             | 6,837,358       |          |                     | 6,837,560                    |          |                     |
| Shareholders' equity                                                                          | 1,154,453       |          |                     | 1,297,519                    |          |                     |
| Total liabilities and shareholders' equity                                                    | \$ 7,991,811    |          |                     | \$ 8,135,079                 |          |                     |

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|                                                                  |              |       |              |       |
|------------------------------------------------------------------|--------------|-------|--------------|-------|
| Net interest income/ Interest rate spread                        | 67,255       | 3.42% | 69,086       | 3.37% |
| Net interest-earning assets/ Net interest margin                 | \$ 1,339,876 | 3.65% | \$ 1,406,171 | 3.66% |
| Ratio of interest-earning assets to interest-bearing liabilities | 1.22X        |       | 1.23X        |       |

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

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

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

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

(e) Average balances include FHLB borrowings, securities sold under agreements to repurchase and other borrowings.

(f) Balances include noninterest-bearing checking accounts.

(g) Annualized. Shown on a fully tax-equivalent basis ( FTE ). The FTE basis adjusts for the tax benefit of income on certain tax exempt loans and investments using the federal statutory rate of 35% for each period presented. We believe this measure to be the preferred industry measurement of net interest income and provides relevant comparison between taxable and non-taxable amounts. GAAP basis yields were: Loans 5.63% and 5.87%; respectively, Investment securities 3.52% and 3.91%; respectively, interest-earning assets 4.70% and 4.83%; respectively. GAAP basis net interest rate spreads were 3.31% and 3.24%, respectively and GAAP basis net interest margins were 3.55% and 3.56%, respectively.

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(Dollars in Thousands)

The following table represents the extent to which changes in interest rates and changes in the volume of interest-earning assets and interest-bearing liabilities have affected interest income and interest expense during the periods indicated. Information is provided in each category with respect to (i) changes attributable to changes in volume (changes in volume multiplied by prior rate), (ii) changes attributable to changes in rate (changes in rate multiplied by prior volume), and (iii) net change. Changes that cannot be attributed to either rate or volume have been allocated to both rate and volume.

Quarter ended March 31, 2012 and 2011

|                                      | <b>Rate</b> | <b>Volume</b> | <b>Net<br/>Change</b> |
|--------------------------------------|-------------|---------------|-----------------------|
| <b>Interest earning assets:</b>      |             |               |                       |
| Loans                                | \$ (3,081)  | 925           | (2,156)               |
| Mortgage-backed securities           | (848)       | (1,217)       | (2,065)               |
| Investment securities                | (624)       | (168)         | (792)                 |
| FHLB stock                           |             |               |                       |
| Other interest-earning deposits      | (11)        | (16)          | (27)                  |
| Total interest-earning assets        | (4,564)     | (476)         | (5,040)               |
| <b>Interest-bearing liabilities:</b> |             |               |                       |
| Savings accounts                     | (373)       | 50            | (323)                 |
| Now accounts                         | (10)        | 5             | (5)                   |
| Money market demand accounts         | (266)       | 76            | (190)                 |
| Certificate accounts                 | (1,633)     | (968)         | (2,601)               |
| Borrowed funds                       | (34)        | (73)          | (107)                 |
| Debentures                           | 17          |               | 17                    |
| Total interest-bearing liabilities   | (2,299)     | (910)         | (3,209)               |
| Net change in net interest income    | \$ (2,265)  | 434           | (1,831)               |

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**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

As the holding company for a savings bank, one of our primary market risks is interest rate risk. Interest rate risk is the sensitivity of net interest income to variations in interest rates over a specified time period. The sensitivity results from differences in the time periods in which interest rate sensitive assets and liabilities mature or re-price. We attempt to control interest rate risk by matching, within acceptable limits, the re-pricing periods of assets and liabilities. We have attempted to limit our exposure to interest sensitivity by increasing core deposits, enticing customers to extend certificates of deposit maturities, borrowing funds with fixed-rates and longer maturities and by shortening the maturities of our assets by emphasizing the origination of more short-term fixed rate loans and adjustable rate loans. We also continue to sell a portion of the long-term, fixed-rate mortgage loans that we originate. In addition, we purchase shorter term or adjustable-rate investment securities and adjustable-rate mortgage-backed securities.

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 the balance sheet structure. On a quarterly basis, this Committee also reviews the interest rate risk position and cash flow projections.

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

In an effort to assess market risk, we utilize a simulation model to determine the effect of immediate incremental increases and decreases in interest rates on net income and the market value of 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 parallel shift of 2% 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 equity is the present value of assets and liabilities. Given a parallel shift of 2% in interest rates, the market value of equity may not decrease by more than 30% of total shareholders' equity.

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The following table illustrates the simulated impact of a 1%, 2% or 3% upward or 1% downward movement in interest rates on net income, return on average equity, earnings per share and market value of equity. This analysis was prepared assuming that interest-earning asset and interest-earning liability levels at March 31, 2012 remain constant. 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 March 31, 2012 levels.

|                                                                     | Increase |         |         | Decrease  |  |
|---------------------------------------------------------------------|----------|---------|---------|-----------|--|
| Parallel shift in interest rates over the next 12 months            | 1.0%     | 2.0%    | 3.0%    | 1.0%      |  |
| Projected percentage increase/ (decrease) in net income             | 5.5%     | 7.4%    | 5.7%    | (3.0)%    |  |
| Projected increase/ (decrease) in return on average equity          | 5.3%     | 7.1%    | 4.8%    | (3.0)%    |  |
| Projected increase/ (decrease) in earnings per share                | \$ 0.04  | \$ 0.06 | \$ 0.04 | \$ (0.02) |  |
| Projected percentage increase/ (decrease) in market value of equity | (6.8)%   | (15.1)% | (23.0)% | (4.6)%    |  |

The figures included in the table 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, 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.

**ITEM 4. CONTROLS AND PROCEDURES**

Under the supervision of and with the participation of management, including the Principal Executive Officer and Principal Financial Officer, we evaluated the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this quarterly report (the Evaluation Date). Based upon that evaluation, the Principal Executive Officer and Principal Financial Officer concluded that, as of the Evaluation Date, these disclosure controls and procedures were effective.

There were no changes in the internal controls over financial reporting during the period covered by this report or in other factors that have materially affected, or are reasonably likely to materially affect the internal control over financial reporting.

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

We are subject to a number of asserted and unasserted claims encountered in the normal course of business. Management believes that the aggregate liability, if any, that may result from such potential litigation will not have a material adverse effect on the financial statements.



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**Item 1A. Risk Factors**

There are no material changes to the risk factors as previously discussed in Item 1A, to Part I of our 2011 Annual report on Form 10-K.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

a.) Not applicable.

b.) Not applicable.

c.) The following table discloses information regarding the repurchase of shares of common stock during the quarter ending March 31, 2012:

| Month    | Number of<br>shares<br>purchased | Average price<br>paid per<br>share | Total number of shares<br>purchased as part of a<br>publicly announced<br>repurchase plan (1) | Maximum number of<br>shares yet to be<br>purchased under the<br>plan (1) |
|----------|----------------------------------|------------------------------------|-----------------------------------------------------------------------------------------------|--------------------------------------------------------------------------|
| January  |                                  | \$                                 |                                                                                               | 1,157,747                                                                |
| February |                                  |                                    |                                                                                               | 1,157,747                                                                |
| March    |                                  |                                    |                                                                                               | 1,157,747                                                                |
|          |                                  | \$                                 |                                                                                               |                                                                          |

| Month    | Number of<br>shares<br>purchased | Average price<br>paid per<br>share | Total number of shares<br>purchased as part of a<br>publicly announced<br>repurchase plan (2) | Maximum number of<br>shares yet to be<br>purchased under the<br>plan (2) |
|----------|----------------------------------|------------------------------------|-----------------------------------------------------------------------------------------------|--------------------------------------------------------------------------|
| January  |                                  | \$                                 |                                                                                               | 4,750,000                                                                |
| February |                                  |                                    |                                                                                               | 4,750,000                                                                |
| March    |                                  |                                    |                                                                                               | 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.

**Item 3. Defaults Upon Senior Securities**

Not applicable.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

Not applicable.

**Item 6. Exhibits**

31.1 Certification of the Chief Executive Officer pursuant to Rule 13a-15 or 15d-15 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

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31.2 Certification of the Chief Financial Officer pursuant to Rule 13a-15 or 15d-15 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

|         |                                                        |
|---------|--------------------------------------------------------|
| 101.INS | XBRL Instance Document                                 |
| 101.SCH | XBRL Taxonomy Extension Schema Document                |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document  |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document   |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase                 |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |

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**Signature**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed by the undersigned thereunto duly authorized.

**NORTHWEST BANCSHARES, INC.**  
*(Registrant)*

Date: May 8, 2012

By: /s/ William J. Wagner  
William J. Wagner  
President and Chief Executive Officer  
*(Duly Authorized Officer)*

Date: May 8, 2012

By: /s/ Gerald J. Ritzert  
Gerald J. Ritzert  
Controller  
*(Principal Accounting Officer of the Registrant)*