

Northwest Bancshares, Inc.  
Form 10-Q  
May 10, 2010

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q**

☐ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
**For the quarterly period ended March 31, 2010**

**or**

☐ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number 001-34582**

**Northwest Bancshares, Inc.**

(Exact name of registrant as specified in its charter)

Maryland

27-0950358

(State or other jurisdiction of incorporation or organization)

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

100 Liberty Street, Warren, Pennsylvania

16365

(Address of principal executive offices)

(Zip Code)

(814) 726-2140

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☐ 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 ☐

(Do not check if a 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) 110,703,901 shares outstanding as of April 30, 2010



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

	<i>(Unaudited)</i>	December
	March 31,	31,
	2010	2009
Assets		
Cash and due from banks	\$ 66,351	69,265
Interest-earning deposits in other financial institutions	868,361	1,037,893
Federal funds sold and other short-term investments	683	632
Marketable securities available-for-sale (amortized cost of \$901,441 and \$1,059,177)	911,231	1,067,089
Marketable securities held-to-maturity (fair value of \$275,114 and \$0)	275,956	
Total cash and investments	2,122,582	2,174,879
Loans held for sale	181	1,164
Mortgage loans one- to four- family	2,392,899	2,334,538
Home equity loans	1,073,925	1,067,584
Consumer loans	282,631	286,292
Commercial real estate loans	1,288,584	1,238,217
Commercial business loans	385,455	371,670
Total loans	5,423,675	5,299,465
Allowance for loan losses	(74,836)	(70,403)
Total loans, net	5,348,839	5,229,062
Federal Home Loan Bank stock, at cost	63,242	63,242
Accrued interest receivable	27,209	25,780
Real estate owned, net	22,182	20,257
Premises and equipment, net	123,274	124,316
Bank owned life insurance	129,436	128,270
Goodwill	171,682	171,363
Other intangible assets	5,900	4,678
Other assets	70,284	83,451
Total assets	\$ 8,084,630	8,025,298
Liabilities and Shareholders' equity		
Liabilities:		
Noninterest-bearing demand deposits	\$ 514,487	487,036
Interest-bearing demand deposits	773,613	768,110
Savings deposits	1,881,216	1,744,537
Time deposits	2,524,132	2,624,741

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Total deposits	5,693,448	5,624,424
Borrowed funds	903,905	897,326
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	25,033	22,034
Accrued interest payable	4,559	4,493
Other liabilities	52,511	57,412
Total liabilities	6,782,550	6,708,783
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, 110,680,962 and 110,641,858 shares issued, respectively	1,107	1,106
Paid-in capital	828,623	828,195
Retained earnings	510,932	508,842
Unallocated common stock of employee stock ownership plan	(28,851)	(11,651)
Accumulated other comprehensive loss	(9,731)	(9,977)
	1,302,080	1,316,515
Total liabilities and shareholders' equity	\$ 8,084,630	8,025,298

See accompanying notes to consolidated financial statements — unaudited

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

	Three months ended March 31,	
	2010	2009
Interest income:		
Loans receivable	80,746	80,708
Mortgage-backed securities	6,145	7,405
Taxable investment securities	998	1,546
Tax-free investment securities	2,684	2,932
Interest-earning deposits	565	39
Total interest income	91,138	92,630
Interest expense:		
Deposits	21,404	24,637
Borrowed funds	9,700	10,189
Total interest expense	31,104	34,826
Net interest income	60,034	57,804
Provision for loan losses	8,801	5,781
Net interest income after provision for loan losses	51,233	52,023
Noninterest income:		
Impairment losses on securities	(437)	
Noncredit related losses on securities not expected to be sold (recognized in other comprehensive income)	340	
Net impairment losses	(97)	
Gain on sale of investments, net	2,083	42
Service charges and fees	8,902	7,871
Trust and other financial services income	1,833	1,348
Insurance commission income	1,142	549
Loss on real estate owned, net	(24)	(3,879)
Income from bank owned life insurance	1,166	1,187
Mortgage banking (loss)/ income	(8)	1,814
Other operating income	860	705
Total noninterest income	15,857	9,637
Noninterest expense:		
Compensation and employee benefits	25,856	23,926
Premises and occupancy costs	6,002	5,978
Office operations	3,237	3,013
Processing expenses	5,696	5,308

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Marketing expenses	1,443	929
Federal deposit insurance premiums	2,148	1,890
Professional services	728	641
Amortization of other intangible assets	782	844
Real estate owned expense	899	433
Other expenses	1,813	1,304
Total noninterest expense	48,604	44,266
Income before income taxes	18,486	17,394
Federal and state income taxes	5,333	5,092
Net income	13,153	12,302
Basic earnings per share	0.12	0.11
Diluted earnings per share	0.12	0.11
See accompanying notes to unaudited consolidated financial statements		



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

	Common Stock		Paid-in	Retained	Accumulated Other Comprehensive Income/ (loss)	Treasury Stock	Total Shareholders' Equity
	Shares	Amount	Capital	Earnings			
<b>Three months ended March 31, 2009</b>							
Beginning balance at December 31, 2008	109,052,887	\$ 5,124	218,332	490,326	(30,575)	(69,423)	613,784
Comprehensive income:							
Net income				12,302			12,302
Change in fair value of interest rate swaps, net of tax of \$(613)					1,138		1,138
Change in unrealized loss on securities, net of tax of \$(405)					633		633
Total comprehensive income				12,302	1,771		14,073
Exercise of stock options	14,274	1	57				58
Stock compensation expense			441				441
Dividends paid (\$0.10 per share)				(3,951)			(3,951)
Ending balance at March 31, 2009	109,067,161	\$ 5,125	218,830	498,677	(28,804)	(69,423)	624,405

	Common Stock		Paid-in	Retained	Accumulated Other Comprehensive Income/ (loss)	Unallocated common stock of ESOP	Total Shareholders' Equity
	Shares	Amount	Capital	Earnings			
<b>Three months ended March 31, 2010</b>							
Beginning balance at December 31, 2009	110,641,858	\$ 1,106	828,195	508,842	(9,977)	(11,651)	1,316,515
Comprehensive income:							
Net income				13,153			13,153
Change in fair value of interest rate swaps, net of tax of \$539					(842)		(842)
					1,146		1,146

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Change in unrealized loss on securities, net of tax of \$(732)								
Reclassification of previously recognized								
OTTI on investment securities recorded in OCI to net income, net of tax of \$39					(58)		(58)	
Total comprehensive income				13,153	246			13,399
Exercise of stock options	39,104	1	328					329
Stock compensation expense			803					803
Additional costs associated with common stock offering			(703)				(703)	
Purchase of common stock by ESOP					(17,200)		(17,200)	
Dividends paid (\$0.10 per share)				(11,063)				(11,063)
Ending balance at March 31, 2010	110,680,962	\$ 1,107	828,623	510,932	(9,731)	(28,851)		1,302,080

See accompanying notes to unaudited consolidated financial statements

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

	Three months ended March 31,	
	2010	2009
<b>OPERATING ACTIVITIES:</b>		
Net Income	\$ 13,153	12,302
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	8,801	5,781
Net gain on sale of assets	(1,230)	(1,102)
Net depreciation, amortization and accretion	3,639	4,718
Decrease in other assets	6,288	4,082
(Decrease)/ increase in other liabilities	(6,216)	3,415
Net amortization of premium/ (discount) on marketable securities	(747)	(933)
Deferred income tax expense	252	(75)
Noncash impairment losses on investment securities	97	
Noncash impairment of REO		3,862
Origination of loans held for sale	(6,944)	(183,054)
Proceeds from sale of loans held for sale	2,785	159,697
Noncash compensation expense related to stock benefit plans	803	441
Net cash provided by operating activities	20,681	9,134
<b>INVESTING ACTIVITIES:</b>		
Purchase of marketable securities held-to-maturity	(283,429)	
Proceeds from maturities and principal reductions of marketable securities available-for-sale	103,611	66,854
Proceeds from maturities and principal reductions of marketable securities held-to-maturity	7,467	
Proceeds from sale of marketable securities available-for-sale	56,865	
Loan originations	(497,200)	(332,029)
Proceeds from loan maturities and principal reductions	368,567	349,299
Proceeds from sale of real estate owned	2,360	1,447
Sale of real estate owned for investment, net	39	38
Purchase of premises and equipment	(2,030)	(4,442)
Net cash (used in)/ provided by investing activities	(243,750)	81,167

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

	Three months ended March 31,	
	2010	2009
<b>FINANCING ACTIVITIES:</b>		
Increase in deposits, net	\$ 69,024	172,803
Repayments of long-term borrowings	(1,516)	(69)
Net (decrease) /increase in short-term borrowings	8,101	(73,014)
Increase/ (decrease) in advances by borrowers for taxes and insurance	2,999	(330)
Cash dividends paid	(11,063)	(3,951)
Purchase of common stock for employee stock ownership plan	(17,200)	
Proceeds from stock options exercised	329	58
Net cash provided by financing activities	50,674	95,497
Net increase/ (decrease) in cash and cash equivalents	\$ (172,395)	185,798
Cash and cash equivalents at beginning of period	\$ 1,107,790	79,922
Net increase/ (decrease) in cash and cash equivalents	(172,395)	185,798
Cash and cash equivalents at end of period	\$ 935,395	265,720
Cash and cash equivalents:		
Cash and due from banks	\$ 66,351	40,963
Interest-earning deposits in other financial institutions	868,361	223,714
Federal funds sold and other short-term investments	683	1,043
Total cash and cash equivalents	\$ 935,395	265,720
Cash paid during the period for:		
Interest on deposits and borrowings (including interest credited to deposit accounts of \$18,439 and \$20,769, respectively)	\$ 31,038	34,961
Income taxes	\$ 532	1,707
Non-cash activities:		
Loans transferred to real estate owned	\$ 4,309	2,330
Sale of real estate owned financed by the Company	\$	129
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), a Maryland corporation headquartered in Warren, Pennsylvania, is a Federally-chartered savings and loan holding company regulated by the Office of Thrift Supervision (OTS). 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. As a result of the conversion, all share information for periods prior to December 31, 2009, has been revised to reflect the 2.25 to one conversion rate. The primary activity of the Company is the ownership of all of the issued and outstanding common stock of Northwest Savings Bank, a Pennsylvania-chartered savings bank (Northwest). Northwest is regulated by the FDIC and the Pennsylvania Department of Banking. At March 31, 2010, Northwest operated 171 community-banking offices throughout Pennsylvania, western New York, eastern Ohio, Maryland and southern Florida.

The accompanying unaudited consolidated financial statements include the accounts of the Company and its subsidiary, Northwest, and Northwest's subsidiaries Northwest Settlement Agency, LLC, Northwest Consumer Discount Company, Northwest Financial Services, Inc., Northwest Capital Group, Inc., Boetger & Associates, Inc., Allegheny Services, Inc., Great Northwest Corporation and Veracity Benefits Design. The unaudited consolidated financial statements of the Company 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, 2009 updated, as required, for any new pronouncements or changes.

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

The results of operations for the three months ended March 31, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010.

**Stock-Based Compensation**

On January 20, 2010, the Company awarded employees 484,576 stock options and directors 54,000 stock options with an exercise price of \$11.49 and a grant date fair value of \$1.95 per stock option. Awarded stock options vest over a seven-year period beginning with the date of issuance. Stock-based compensation expense of \$803,000 and \$441,000 for the three months ended March 31, 2010 and 2009, respectively, was recognized in compensation expense relating to the Company's Recognition and Retention Plan (RRP) and stock option plans. At March 31, 2010 there was compensation expense of \$1.8 million to be recognized for awarded but unvested stock options.

**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

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upon ultimate settlement with a taxing authority having full knowledge of all relevant information. As of March 31, 2010 the Company had no liability for unrecognized tax benefits.

The Company recognizes interest accrued related to: (1) unrecognized tax benefits in federal and state income taxes and (2) refund claims in other operating income. The Company recognizes penalties (if any) in federal and state income taxes. There is no amount accrued for the payment of interest or penalties at March 31, 2010. With few exceptions, the Company is no longer subject to examinations by the Internal Revenue Service, or the Department of Revenue and Taxation in the states in which it conducts business for the tax years ended prior to December 31, 2006.

### **Recently Issued Accounting Standards to be Adopted in Future Periods**

In June 2009, the Financial Accounting Standards Board (the FASB) released new guidance which addresses the effects on certain provisions of current accounting guidance relating to the consolidation of variable interest entities, as a result of the elimination of the qualifying special-purpose entity concept. It addresses concerns about the application of certain key provisions of current accounting guidance, including those in which the accounting and disclosures do not always provide timely and useful information about a company's involvement in a variable interest entity. This guidance requires us to perform an analysis to determine whether any of our variable interests give us a controlling financial interest in a variable interest entity. In addition, this guidance requires ongoing assessments of whether we are the primary beneficiary of a variable interest entity. As this guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after November 15, 2009, we were required to evaluate all variable interest entities to determine whether or not they should be consolidated in our first quarter 2010 results. This new guidance did not impact our Consolidated Financial Statements.

In June 2009, the FASB released new guidance to improve the information that we provide in our financial statements about a transfer of financial assets; the effects of a transfer on our financial position, financial performance, and cash flows; and our continuing involvement, if any, in transferred financial assets. Additionally, this guidance eliminates the concept of a qualifying special-purpose entity. As this new guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after November 15, 2009, we were required to apply this guidance prospectively to transfers of financial assets beginning January 1, 2010. This new guidance did not impact our Consolidated Financial Statements.

In January 2010, the FASB issued guidance on improving disclosures about fair value of instruments, to require additional disclosures regarding fair value measurements. Specifically, the guidance requires entities to disclose the amounts and reasons for significant transfers between Level 1 and Level 2 of the fair value hierarchy, to disclose reasons for any transfers in or out of Level 3 and to separately disclose information in the reconciliation of recurring Level 3 measurements about purchases, sales, issuances and settlements. In addition, the guidance also clarifies certain existing fair value measurement disclosure requirements. Except for the requirement to disclose information about purchases, sales, issuances and settlements in the reconciliation of recurring Level 3 measurements separately, the amendments are effective for interim and annual reporting periods beginning after December 15, 2009. The adoption of these provisions did not have a material impact on the Company's consolidated financial statements. The requirement to separately disclose purchases, sales, issuances and settlements of recurring Level 3 measurements is effective for interim and annual reporting periods beginning after December 15, 2010. The Company does not expect the adoption of the remaining provisions to have a material impact on the Company's consolidated financial statements.

**Table of Contents****(2) Business Segments**

The Company operates in two reportable business segments: Community Banking and Consumer Finance. The Community Banking segment provides services traditionally offered by full-service community banks, including commercial and individual demand, savings and time deposit accounts and commercial, mortgage and consumer loans, as well as insurance, brokerage and investment management and trust services. The Consumer Finance segment, which is comprised of Northwest Consumer Discount Company, a subsidiary of Northwest, operates 51 offices in Pennsylvania and offers personal installment loans for a variety of consumer and real estate products. This activity is funded primarily through an intercompany borrowing relationship with Allegheny Services, Inc., a subsidiary of Northwest. Net income is the primary measure used by management to measure segment performance. The following tables provide financial information for these reportable segments. The All Other column represents the parent company and elimination entries necessary to reconcile to the consolidated amounts presented in the financial statements.

**As of or for the three months ended:**

	Community	Consumer	All Other	
	Banking	Finance	*	Consolidated
<b>March 31, 2010 (\$ in 000 s)</b>				
External interest income	\$ 85,966	5,167	5	91,138
Intersegment interest income	807		(807)	
Interest expense	30,445	807	(148)	31,104
Provision for loan losses	8,000	801		8,801
Noninterest income	15,447	397	13	15,857
Noninterest expense	45,466	3,025	113	48,604
Income tax expense (benefit)	5,211	387	(265)	5,333
Net income	13,098	544	(489)	13,153
 Total assets	 \$ 7,950,616	 115,574	 18,440	 8,084,630

	Community	Consumer	All Other	
	Banking	Finance	*	Consolidated
<b>March 31, 2009 (\$ in 000 s)</b>				
External interest income	\$ 87,621	5,000	9	92,630
Intersegment interest income	751		(751)	
Interest expense	33,300	806	720	34,826
Provision for loan losses	5,000	781		5,781
Noninterest income	9,120	493	24	9,637
Noninterest expense	41,117	3,010	139	44,266
Income tax expense (benefit)	5,273	372	(553)	5,092
Net income	12,802	524	(1,024)	12,302
 Total assets	 \$ 6,908,912	 113,402	 19,537	 7,041,851

\* 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 Company's portfolio of investment securities available-for-sale at March 31, 2010 (in thousands):

	Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
Debt issued by the U.S. government and agencies:				
Due in one year or less	\$ 74		(1)	73
Debt issued by government sponsored enterprises:				
Due in one year five years	1,980	142		2,122
Due in five years ten years	8,572	120		8,692
Due after ten years	1,216	5	(5)	1,216
Equity securities	954	208	(112)	1,050
Municipal securities:				
Due in one year five years	1,866	59		1,925
Due in five years ten years	37,295	1,103		38,398
Due after ten years	187,570	2,420	(1,915)	188,075
Corporate debt issues:				
Due in one year five years	600			600
Due after ten years	26,783	218	(8,189)	18,812
Residential mortgage-backed securities:				
Fixed rate pass-through	134,331	6,817	(26)	141,122
Variable rate pass-through	218,684	7,089	(68)	225,705
Fixed rate non-agency CMOs	17,910	61	(1,770)	16,201
Fixed rate agency CMOs	17,730	1,048		18,778
Variable rate non-agency CMOs	8,182		(919)	7,263
Variable rate agency CMOs	237,694	3,648	(143)	241,199
Total residential mortgage-backed securities	634,531	18,663	(2,926)	650,268
Total marketable securities available-for-sale	\$ 901,441	22,938	(13,148)	911,231

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The following table shows the Company's portfolio of investment securities available-for-sale at December 31, 2009 (in thousands):

	Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
Debt issued by the U.S. government and agencies:				
Due in one year or less	\$ 76		(1)	75
Debt issued by government sponsored enterprises:				
Due in one year five years	1,977	153		2,130
Due in five years ten years	21,912	524		22,436
Due after ten years	52,667	1,128	(498)	53,297
Equity securities	1,054	191	(118)	1,127
Municipal securities:				
Due in one year five years	3,146	68		3,214
Due in five years ten years	41,170	1,163		42,333
Due after ten years	190,812	2,774	(1,677)	191,909
Corporate debt issues:				
Due in one year five years	500			500
Due after ten years	26,882	168	(10,549)	16,501
Residential mortgage-backed securities:				
Fixed rate pass-through	145,363	6,440	(47)	151,756
Variable rate pass-through	231,232	7,894	(85)	239,041
Fixed rate non-agency CMOs	18,919	48	(1,788)	17,179
Fixed rate CMOs	19,994	982		20,976
Variable rate non-agency CMOs	9,075		(1,170)	7,905
Variable rate CMOs	294,398	2,642	(330)	296,710
Total residential mortgage-backed securities	718,981	18,006	(3,420)	733,567
Total marketable securities available-for-sale	\$ 1,059,177	24,175	(16,263)	1,067,089

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

	Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
Debt issued by government sponsored enterprises:				
Due in one year five years	80,905	14	(83)	80,836

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Municipal securities:				
Due after ten years	32,085	65	(84)	32,066
Residential mortgage-backed securities:				
Fixed rate pass-through	15,147		(42)	15,105
Variable rate pass-through	10,149		(98)	10,051
Fixed rate agency CMOs	99,192		(955)	98,237
Variable rate agency CMOs	38,478	341		38,819
Total residential mortgage-backed securities	162,966	341	(1,095)	162,212
Total marketable securities held-to-maturity	\$ 275,956	420	(1,262)	275,114

The Company had no investments classified as held-to-maturity at December 31, 2009.

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The Company reviews its investment portfolio on a quarterly basis for indications of impairment. This review includes analyzing the length of time and the extent to which the fair value has been lower than the cost, the financial condition and near-term prospects of the issuer, including any specific events which may influence the operations of the issuer, 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 the Company's best estimate of future cash flows. If the Company's estimate of cash flows determines that it is expected an adverse change has occurred, other-than-temporary impairment would be recognized for the credit loss.

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

	Less than 12 months Unrealized		12 months or more Unrealized		Total Unrealized	
	Fair value	loss	Fair value	loss	Fair value	loss
U.S. government and agencies	\$ 31,712	(86)	170	(3)	31,882	(89)
Municipal securities	68,098	(859)	10,443	(1,140)	78,541	(1,999)
Corporate issues			14,300	(8,189)	14,300	(8,189)
Equity securities	117	(112)			117	(112)
Residential mortgage-backed securities non-agency			18,243	(2,689)	18,243	(2,689)
Residential mortgage-backed securities agency	123,724	(1,268)	10,094	(64)	133,818	(1,332)
Total temporarily impaired securities	\$ 223,651	(2,325)	53,250	(12,085)	276,901	(14,410)

The following table shows the fair value and gross unrealized losses on investment securities, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position at December 31, 2009 (in thousands):

	Less than 12 months Unrealized		12 months or more Unrealized		Total Unrealized	
	Fair value	loss	Fair value	loss	Fair value	loss
U.S. government and agencies	\$ 17,051	(490)	266	(8)	17,317	(498)
Municipal securities	43,897	(598)	10,505	(1,079)	54,402	(1,677)
Corporate issues			12,058	(10,549)	12,058	(10,549)
Equities	452	(118)			452	(118)
Residential mortgage-backed securities non-agency	1,194	(2)	19,451	(2,957)	20,645	(2,959)
Residential mortgage-backed securities agency	25,752	(181)	43,067	(281)	68,819	(462)

Total temporarily impaired securities	\$ 88,346	(1,389)	85,347	(14,874)	173,693	(16,263)
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**Corporate issues**

As of March 31, 2010, the Company had ten investments with a total book value of \$22.5 million and total fair value of \$14.3 million, where the book value exceeded the carrying value for more than 12 months. These investments were four single issuer trust preferred investments and six pooled trust preferred investments. The single issuer trust preferred investments were evaluated for other-than-

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temporary impairment by determining the strength of the underlying issuer. In each case, the underlying issuer was well-capitalized for regulatory purposes. None of the issuers have deferred interest payments or announced the intention to defer interest payments, nor have any been downgraded. The Company believes 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. The Company concluded the impairment of these investments was considered temporary. In making that determination, the Company also considered the duration and the severity of the losses. 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 by the Company and the amount of additional defaults the structure could withstand prior to the investment experiencing a disruption in cash flows. None of these investments are projecting a cash flow disruption, nor have any of the securities experienced a cash flow disruption. After evaluation, the impairment in five investments was considered temporary, while the impairment in one investment was considered other-than-temporary. Accordingly, the Company further evaluated this investment determining that \$97,000 of the impairment was credit related impairment and \$340,000 of the impairment was deemed non-credit related impairment.

The following table provides class, book value, fair value and ratings information for the Company's portfolio of corporate securities that have an unrealized loss as of March 31, 2010 (in thousands):

Description	Class	Book Value	Total Fair Value	Unrealized Losses	Moody's/Fitch Ratings
North Fork Capital (1)	N/A	\$ 1,008	887	(121)	Baa3/ BBB
Bank Boston Capital Trust (2)	N/A	988	663	(325)	Baa3/ BB
Reliance Capital Trust	N/A	1,000	810	(190)	Not rated
Huntington Capital Trust	N/A	1,421	829	(592)	BB+/ Ca
MM Community Funding I	Mezzanine	370	30	(340)	Ca/ C
MM Community Funding II	Mezzanine	385	34	(351)	Baa2/ BB
I-PreTSL I	Mezzanine	1,500	187	(1,313)	Not rated/ BB
I-PreTSL II	Mezzanine	1,500	187	(1,313)	Not rated/ BB
PreTSL XIX	Senior A-1	8,830	6,372	(2,458)	A3/ A
PreTSL XX	Senior A-1	5,487	4,301	(1,186)	Baa1/ A
		\$ 22,489	14,300	(8,189)	

(1) North Fork Bank was acquired by Capital One Financial Corporation.

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

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The following table provides collateral information on pooled trust preferred securities included in the previous table as of March 31, 2010 (in thousands):

Description *	Total Collateral	Current deferrals and defaults	Performing &nb	Additional Immediate defaults before causing an interest
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