Northwest Bancshares, Inc.
Form 10-Q
August 09, 2016
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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 June 30, 2016

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

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

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

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

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

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

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

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

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

Common Stock ($0.01 par value) 102,518,588 shares outstanding as of July 31, 2016

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NORTHWEST BANCSHARES, INC.
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ITEM 1. FINANCIAL STATEMENTS

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

	June 30, 2016	December 31, 2015
Assets		
Cash and due from banks	$87,711	92,263
Interest-earning deposits in other financial institutions	223,084	74,510
Federal funds sold and other short-term investments	636	635
Marketable securities available-for-sale (amortized cost of $692,403 and $868,956)	705,297	874,405
Marketable securities held-to-maturity (fair value of $25,978 and $32,552)	25,144	31,689
Total cash and investments	1,041,872	1,073,502
Personal Banking loans:		
Residential mortgage loans held for sale	39,942	—
Residential mortgage loans	2,717,656	2,750,564
Home equity loans	1,162,174	1,187,106
Consumer loans	546,550	510,617
Total Personal Banking loans	4,466,322	4,448,287
Commercial Banking loans:		
Commercial real estate loans	2,363,376	2,351,434
Commercial loans	465,223	422,400
Total Business Banking loans	2,828,599	2,773,834
Total loans	7,294,921	7,222,121
Allowance for loan losses	(60,781)	(62,672)
Total loans, net	7,234,140	7,159,449
Federal Home Loan Bank stock, at cost	40,321	40,903
Accrued interest receivable	20,713	21,072
Real estate owned, net	4,950	8,725
Premises and equipment, net	151,643	154,351
Bank owned life insurance	169,616	168,509
Goodwill	262,140	261,736
Other intangible assets	8,095	8,982
Other assets	30,485	54,670
Total assets	$8,963,975	8,951,899
Liabilities and Shareholders’ Equity		
Liabilities:		
Noninterest-bearing checking deposits	$1,189,032	1,177,256
Interest-bearing checking deposits	1,110,607	1,080,086
Money market deposit accounts	1,295,127	1,274,504
Savings deposits	1,444,947	1,386,017
Time deposits	1,596,288	1,694,718
Total deposits	6,636,001	6,612,581
Borrowed funds	959,969	975,007

Junior subordinated deferrable interest debentures held by trusts that issued guaranteed capital debt securities	111,213	111,213
Advances by borrowers for taxes and insurance	45,288	33,735
Accrued interest payable	737	1,993
Other liabilities	55,312	54,207
Total liabilities	7,808,520	7,788,736
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, 102,472,947 and 101,871,737 shares issued, respectively	1,025	1,019
Paid-in capital	722,980	717,603
Retained earnings	470,337	489,292
Unallocated common stock of employee stock ownership plan	(19,370)	(20,216)
Accumulated other comprehensive loss	(19,517)	(24,535)
Total shareholders' equity	1,155,455	1,163,163
Total liabilities and shareholders' equity	$8,963,975	8,951,899

See accompanying notes to unaudited consolidated financial statements

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

	Quarter ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Interest income:				
Loans receivable	$82,645	70,985	163,426	141,696
Mortgage-backed securities	2,115	2,058	4,344	4,292
Taxable investment securities	756	1,129	1,794	2,174
Tax-free investment securities	707	1,143	1,431	2,491
FHLB dividends	401	475	868	1,878
Interest-earning deposits	70	180	129	319
Total interest income	86,694	75,970	171,992	152,850
Interest expense:				
Deposits	5,865	5,691	11,953	11,457
Borrowed funds	4,143	8,101	11,801	16,234
Total interest expense	10,008	13,792	23,754	27,691
Net interest income	76,686	62,178	148,238	125,159
Provision for loan losses	4,199	1,050	5,859	1,950
Net interest income after provision for loan losses	72,487	61,128	142,379	123,209
Noninterest income:				
Gain on sale/ call of investments	227	566	354	661
Service charges and fees	10,630	9,228	20,695	17,887
Trust and other financial services income	3,277	3,094	6,538	5,870
Insurance commission income	2,768	2,210	5,482	4,638
Gain/ (loss) on real estate owned, net	111	(541)	360	(1,587)
Income from bank owned life insurance	1,105	1,008	2,700	1,921
Mortgage banking income	446	218	664	458
Other operating income	1,711	742	2,930	1,302
Total noninterest income	20,275	16,525	39,723	31,150
Noninterest expense:				
Compensation and employee benefits	34,349	28,920	67,382	56,815
Premises and occupancy costs	6,275	5,899	12,812	12,166
Office operations	3,343	2,905	6,803	5,817
Collections expense	729	603	1,405	1,371
Processing expenses	8,172	7,392	16,586	14,597
Marketing expenses	2,541	3,190	4,432	5,166
Federal deposit insurance premiums	1,442	1,286	2,945	2,633
Professional services	2,129	1,652	3,962	3,444
Amortization of intangible assets	710	269	1,385	537
Real estate owned expense	295	514	606	1,206
Restructuring/ acquisition expense	3,386	467	4,021	814
FHLB prepayment penalty	36,978	—	36,978	—
Other expenses	2,912	2,038	7,219	4,280
Total noninterest expense	103,261	55,135	166,536	108,846

Income/ (loss) before income taxes	(10,499)	22,518	15,566	45,513
Federal and state income taxes expense/ (benefit)	(3,491)	7,213	4,590	14,038
Net income/ (loss)	$(7,008)	15,305	10,976	31,475
Basic earnings/ (loss) per share	$(0.07)	0.17	0.11	0.34
Diluted earnings per share	$(0.07)	0.17	0.11	0.34

See accompanying notes to unaudited consolidated financial statements

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NORTHWEST BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)
(in thousands)

	Quarter ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Net income/ (loss)	$(7,008)	15,305	10,976	31,475
Other comprehensive income net of tax:				
Net unrealized holding gains/ (losses) on marketable securities:				
Unrealized holding gains/ (losses) net of tax of $(659), $1,139, $(2,879) and $(746), respectively	1,027	(1,788)	4,502	1,164
Reclassification adjustment for (gains)/ losses included in net income, net of tax of $(14), $179, $(25) and $222 respectively	22	(279)	39	(347)
Net unrealized holding gains on marketable securities	1,049	(2,067)	4,541	817
Change in fair value of interest rate swaps, net of tax of $(90), $(263), $(14) and $(287), respectively	166	488	26	532
Defined benefit plan:				
Reclassification adjustments for prior period service costs and net losses included in net income, net of tax of $(144), $(140), $(288) and $(280), respectively	226	219	451	438
Other comprehensive income/ (loss)	1,441	(1,360)	5,018	1,787
Total comprehensive income/ (loss)	$(5,567)	13,945	15,994	33,262

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, expect share data)

Quarter ended June 30, 2015

	Common Stock Shares	Amount	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Unallocated common stock of ESOP	Total Shareholders' Equity
Beginning balance at March 31, 2015	94,553,350	$ 946	624,584	484,774	(21,223)	(21,565)	1,067,516
Comprehensive income:							
Net income	—	—	—	15,305	—	—	15,305
Other comprehensive loss, net of tax of $915	—	—	—	—	(1,360)	—	(1,360)
Total comprehensive income/ (loss)	—	—	—	15,305	(1,360)	—	13,945
Exercise of stock options	60,849	—	632	—	—	—	632
Stock-based compensation expense, including tax benefit of $6	306,350	3	1,316	—	—	80	1,399
Share repurchases	(179,800)	(2)	(2,211)	—	—	—	(2,213)
Dividends paid ($0.14 per share)	—	—	—	(12,929)	—	—	(12,929)
Ending balance at June 30, 2015	94,740,749	$ 947	624,321	487,150	(22,583)	(21,485)	1,068,350

Quarter ended June 30, 2016

	Common Stock Shares	Amount	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income/ (loss)	Unallocated common stock of ESOP	Total Shareholders' Equity
Beginning balance at March 31, 2016	101,848,509	$ 1,018	718,027	492,316	(20,958)	(19,815)	1,170,588
Comprehensive income:							
Net loss	—	—	—	(7,008)	—	—	(7,008)
	—	—	—	—	1,441	—	1,441

Other comprehensive income, net of tax of $(907)							
Total comprehensive income/ (loss)	—	—	—	(7,008)	1,441	—	(5,567)
Exercise of stock options	300,721	4	3,262	—	—	—	3,266
Stock-based compensation expense, including tax benefit of $187	323,717	3	1,691	—	—	445	2,139
Dividends paid ($0.15 per share)	—	—	—	(14,971)	—	—	(14,971)
Ending Balance at June 30, 2016	102,472,947	$ 1,025	722,980	470,337	(19,517)	(19,370)	1,155,455

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, expect share data)

Six months ended June 30, 2015

	Common Stock Shares	Amount	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income/ (loss)	Unallocated common stock of ESOP	Total Shareholders' Equity
Beginning balance at December 31, 2014	94,721,453	$ 947	626,134	481,577	(24,370)	(21,641)	1,062,647
Comprehensive income:							
Net income	—	—	—	31,475	—	—	31,475
Other comprehensive income, net of tax of $(1,091)	—	—	—	—	1,787	—	1,787
Total comprehensive income	—	—	—	31,475	1,787	—	33,262
Exercise of stock options	210,746	2	2,065	—	—	—	2,067
Stock-based compensation expense, including tax benefit of $23	306,350	3	2,120	—	—	156	2,279
Share repurchases	(497,800)	(5)	(5,998)	—	—	—	(6,003)
Dividends paid ($0.28 per share)	—	—	—	(25,902)	—	—	(25,902)
Ending balance at June 30, 2015	94,740,749	$ 947	624,321	487,150	(22,583)	(21,485)	1,068,350

Six months ended June 30, 2016

	Common Stock Shares	Amount	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income/ (loss)	Unallocated common stock of ESOP	Total Shareholders' Equity
Beginning balance at December 31, 2015	101,871,737	$ 1,019	717,603	489,292	(24,535)	(20,216)	1,163,163
Comprehensive income:							
Net income	—	—	—	10,976	—	—	10,976
Other comprehensive income, net of tax of $(3,206)	—	—	—	—	5,018	—	5,018

Total comprehensive income	—	—	—	10,976	5,018	—	15,994
Exercise of stock options	423,393	5	4,578	—	—	—	4,583
Stock-based compensation expense, including tax benefit of $206	323,717	3	2,549	—	—	846	3,398
Share repurchases	(145,900)	(2)	(1,750)	—	—	—	(1,752)
Dividends paid ($0.30 per share)	—	—	—	(29,931)	—	—	(29,931)
Ending balance at June 30, 2016	102,472,947	$1,025	722,980	470,337	(19,517)	(19,370)	1,155,455

See accompanying notes to unaudited consolidated financial statements

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

	Six months ended June 30,	
	2016	2015
OPERATING ACTIVITIES:		
Net Income	$10,976	31,475
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	5,859	1,950
Net gain on sale of assets	(2,127)	(311)
Net depreciation, amortization and accretion	5,332	2,571
Decrease in other assets	23,505	11,233
Increase in other liabilities	2,284	1,169
Net amortization on marketable securities	1,035	173
Noncash write-down of real estate owned	927	1,927
FHLB prepayment penalty	24,520	—
Deferred income tax benefit	(650)	—
Origination of loans held for sale	(114,140)	(221)
Proceeds from sale of loans held for sale	74,042	224
Noncash compensation expense related to stock benefit plans	3,192	2,256
Net cash provided by operating activities	34,755	52,446
INVESTING ACTIVITIES:		
Purchase of marketable securities available-for-sale	(2,000)	(59,980)
Proceeds from maturities and principal reductions of marketable securities held-to-maturity	6,544	42,409
Proceeds from maturities and principal reductions of marketable securities available-for-sale	177,781	111,630
Proceeds from sale of marketable securities available-for-sale	91	1,214
Loan originations	(1,221,930)	(996,253)
Proceeds from loan maturities and principal reductions	1,182,305	850,823
Net sale/ (purchase) of Federal Home Loan Bank stock	582	(4,773)
Proceeds from sale of real estate owned	5,989	5,704
Sale of real estate owned for investment, net	304	304
Purchase of premises and equipment	(8,235)	(5,172)
Acquisitions, net of cash received	(684)	(438)
Net cash provided by/ (used in) investing activities	140,747	(54,532)

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

	Six months ended June 30, 2016	2015
FINANCING ACTIVITIES:		
Increase in deposits, net	$23,420	61,940
Proceeds from long-term borrowings	—	85,000
Repayments of long-term borrowings, including prepayment penalty	(774,546)	(50,026)
Net increase/ (decrease) in short-term borrowings	734,988	(24,027)
Increase in advances by borrowers for taxes and insurance	11,553	11,256
Cash dividends paid	(29,931)	(25,902)
Purchase of common stock for retirement	(1,752)	(6,003)
Proceeds from stock options exercised	4,583	2,067
Excess tax benefit from stock-based compensation	206	23
Net cash provided by/ (used in) financing activities	(31,479)	54,328
Net increase in cash and cash equivalents	$144,023	52,242
Cash and cash equivalents at beginning of period	$167,408	240,706
Net increase in cash and cash equivalents	144,023	52,242
Cash and cash equivalents at end of period	$311,431	292,948
Cash and cash equivalents:		
Cash and due from banks	$87,711	84,000
Interest-earning deposits in other financial institutions	223,084	208,311
Federal funds sold and other short-term investments	636	637
Total cash and cash equivalents	$311,431	292,948
Cash paid during the period for:		
Interest on deposits and borrowings (including interest credited to deposit accounts of $11,335 and $10,508, respectively)	$25,010	27,325
Income taxes	$1,502	4,823
Business acquisitions:		
Fair value of assets acquired	$810	438
Cash paid, net	(684)	(438)
Liabilities assumed	$126	—
Non-cash activities:		
Loans foreclosures and repossessions	$1,854	5,012
Sale of real estate owned financed by the Company	$1,260	174

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"), a Maryland corporation headquartered in Warren, Pennsylvania, is a savings and loan holding company regulated by the Board of Governors of the Federal Reserve System. The primary activity of the Company is the ownership of all of the issued and outstanding common stock of Northwest Bank, a Pennsylvania-chartered savings bank ("Northwest"). Northwest is regulated by the FDIC and the Pennsylvania Department of Banking. Northwest operates 157 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., Allegheny Services, Inc., Great Northwest Corporation, Boetger & Associates, Inc. and The Bert Company. 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 or 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, 2015 updated, as required, for any new pronouncements or changes.

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

During the quarter ended June 30, 2016, we identified and corrected an error that arose in prior periods related to the amortization of certain deferred loan fees related to letters of credit, which had the impact of understating our interest income. We have assessed the materiality of these corrections of errors and concluded, based on qualitative and quantitative considerations, that the adjustments are not material to the financial statements as a whole. As a result, $1.1 million of deferred loan fees were recognized in loan interest income for the quarter and six months ended June 30, 2016. For the quarter and six months ended June 30, 2015 loan interest income would have increased by $53,000 and $98,000, respectively, income tax expense would have increased by $21,000 and $38,000, respectively, and net income would have increased by $32,000 and $60,000, respectively.

The results of operations for the quarter and six months ended June 30, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016, or any other period.

Stock-Based Compensation

On May 18, 2016, we awarded employees 660,600 stock options and directors 64,800 stock options with an exercise price of $14.15 and grant date fair value of $1.52 per stock option. On May 18, 2016, we also awarded employees 310,160 restricted common shares and directors 24,300 restricted common shares with a grant date fair value of $14.51. Awarded stock options and common shares vest over a ten-year period with the first vesting occurring on the grant date. Stock-based compensation expense of $1.9 million and $1.4 million for the quarters ended June 30, 2016 and 2015, and $3.2 million and $2.3 million for the six months ended June 30, 2016 and 2015, respectively, was recognized in compensation expense relating to our stock benefit plans. At June 30, 2016 there was compensation expense of $4.6 million to be recognized for awarded but unvested stock options and $17.0 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. At June 30, 2016 we had no liability for unrecognized tax benefits.

We recognize interest accrued related to: (1) unrecognized tax benefits in other expenses and (2) refund claims in other operating income. We recognize penalties (if any) in other expenses. 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, 2015, 2014, 2013 and 2012. We are currently under audit by the state of New York for the tax periods ended December 31, 2014, 2013, 2012 and 2011. At June 30, 2016 we have accrued $219,000 for the payment of interest and penalties related to this audit.

Impact of New Accounting Standards

In May 2014 the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-9, "Revenue from Contracts with Customers (Topic 606)". This guidance supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance. The core principle of this guidance requires an entity to recognize revenue upon the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services and provides five steps to be analyzed to accomplish the core principle. This guidance is effective retrospectively for annual reporting periods beginning after December 15, 2017, including interim periods within those years and early adoption is not permitted. We are currently evaluating the impact this standard will have on our results of operations and financial position.

In January 2016 the FASB issued ASU 2016-01, "Financial Instruments-Overall (Subtopic 825-10)". This guidance requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. Additionally, this guidance requires entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes and eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet. This guidance is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. We are currently evaluating the impact this standard will have on our results of operations and financial position.

In February 2016 the FASB issued ASU 2016-2, "Leases". This guidance requires a lessee to recognize in the statement of financial condition a liability to make lease payments and a right-of-use asset representing the right to use the underlying asset for the term of the lease. Optional periods should only be recognized if the lessee is reasonably certain to exercise the option. For leases with a term of twelve months or less, the lessee is permitted not to recognize lease assets and lease liabilities and should recognize lease expense for such leases generally on a straight-line basis over the term of the lease. This guidance is effective for annual periods beginning after December 15, 2018, including interim periods within those years and early adoption is permitted. We are currently evaluating the impact this standard will have on our results of operations and financial position.

In March 2016 the FASB issued ASU 2016-08, "Principal Versus Agent Considerations". This guidance clarifies the implementation guidance on principal versus agent considerations of ASU 2014-09 "Revenue from Contracts with Customers (Topic 606)". When another party is involved in providing goods or services to a customer, an entity is required to determine whether the nature of its promise is to provide the specified good or service itself (that is, the entity is a principal) or to arrange for that good or service to be provided by the other party (that is, the entity is an agent). When (or as) an entity that is a principal satisfies a performance obligation, the entity recognizes revenue in the gross amount of consideration to which it expects to be entitled in exchange for the specified good or service transferred to the customer. When (or as) an entity that is an agent satisfies a performance obligation, the entity recognizes revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified good or service to be provided by the other party. This guidance is effective retrospectively for annual reporting periods beginning after December 15, 2017, including interim periods within those years and early adoption is not permitted. We are currently evaluating the impact this standard will have on our results of operations and financial position.

In March 2016 the FASB issued ASU 2016-09, “Improvements to Employee Share-based Payment Accounting”. This guidance is part of the FASB's Simplification Initiative and simplifies the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. This guidance is effective for annual periods beginning after December 15, 2016, including interim periods within those years and early adoption is permitted. We do not expect that this standard will have a material impact on our results of operations or financial position.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments-Credit Losses (Topic 326)-Measurement of Credit Losses on Financial Instruments, which eliminates the probable initial recognition threshold for credit losses requiring, instead, that all financial assets (or group of financial assets) measured at amortized cost be presented at the net amount expected to be collected inclusive of the entity’s current estimate of all lifetime expected credit losses. This guidance also applies to certain off-balance-sheet credit exposures such as unfunded commitments and non-derivative financial guarantees. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial asset(s) in order to present the net carrying value at the amount expected to be collected on the financial asset. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. The income statement under this guidance will reflect the initial

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recognition of current expected credit losses for newly recognized assets, as well as any increases or decreases of expected credit losses that have occurred during the period. This guidance retains many currently-existing disclosures related to the credit quality of an entity's assets and the related allowance for credit losses amended to reflect the change to an expected credit loss methodology, as well as enhanced disclosures to provide information to users at a more disaggregated level. Upon adoption, ASU 2016-13 provides for a modified retrospective transition by means of a cumulative-effect adjustment to equity as of the beginning of the period in which the guidance is effective, except for debt securities for which an other-than-temporary impairment has previously been recognized. For these debt securities, a prospective transition is provided in order to maintain the same amortized cost prior to and subsequent to the effective date of the ASU. This guidance is effective for annual reporting periods beginning after December 15, 2019, and interim periods within those annual periods with early adoption permitted for fiscal years beginning after December 15, 2018, and interim periods within those annual periods. We are currently evaluating the impact this standard will have on our results of operations and financial position.

(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 business and personal deposit accounts and business 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 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.

At or for the quarter ended (in thousands):

June 30, 2016	Community Banking	Consumer Finance	All other (1)	Consolidated
External interest income	$82,137	4,324	233	86,694
Intersegment interest income/ expense	631	—	(631)	—
Interest expense	8,924	631	453	10,008
Provision for loan losses	3,365	834	—	4,199
Noninterest income	19,848	400	27	20,275
Noninterest expense	100,079	2,878	304	103,261
Income tax expense (benefit)	(3,245)	158	(404)	(3,491)
Net income	$(6,507)	223	(724)	(7,008)
Total assets	$8,839,334	108,282	16,359	8,963,975

June 30, 2015	Community Banking	Consumer Finance	All other (1)	Consolidated
External interest income	$71,273	4,492	205	75,970
Intersegment interest income/ expense	582	—	(582)	—
Interest expense	12,781	582	429	13,792
Provision for loan losses	850	200	—	1,050
Noninterest income	16,080	411	34	16,525

Noninterest expense	51,682	3,081	372	55,135
Income tax expense (benefit)	7,183	434	(404)	7,213
Net income	$ 15,439	606	(740)	15,305
Total assets	$ 7,740,273	108,348	15,889	7,864,510

(1) Eliminations consist of intercompany loans, interest income and interest expense.

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At or for the six months ended (in thousands):

June 30, 2016	Community Banking	Consumer Finance	All other (1)	Consolidated
External interest income	$162,975	8,567	450	171,992
Intersegment interest income	1,273	—	(1,273)	—
Interest expense	21,605	1,273	876	23,754
Provision for loan losses	4,578	1,281	—	5,859
Noninterest income	38,854	780	89	39,723
Noninterest expense	160,051	5,807	678	166,536
Income tax expense (benefit)	4,997	409	(816)	4,590
Net income	$11,871	577	(1,472)	10,976
Total assets	$8,839,334	108,282	16,359	8,963,975

June 30, 2015	Community Banking	Consumer Finance	All other (1)	Consolidated
External interest income	$143,604	8,822	424	152,850
Intersegment interest income	1,157	—	(1,157)	—
Interest expense	25,669	1,157	865	27,691
Provision for loan losses	1,100	850	—	1,950
Noninterest income	30,406	681	63	31,150
Noninterest expense	102,122	6,034	690	108,846
Income tax expense (benefit)	14,218	609	(789)	14,038
Net income	$32,058	853	(1,436)	31,475
Total assets	$7,740,273	108,348	15,889	7,864,510

(1) Eliminations consist of intercompany loans, interest income and interest expense.

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(3) Investment securities and impairment of investment securities

The following table shows the portfolio of investment securities available-for-sale at June 30, 2016 (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	$ 9	—	—	9
Debt issued by government sponsored enterprises:				
Due in one year or less	15,000	—	(1)	14,999
Due after one year through five years	163,440	830	(51)	164,219
Due after five years through ten years	670	5	—	675
Due after ten years	—	—	—	—
Equity securities	3,351	459	(87)	3,723
Municipal securities:				
Due in one year or less	1,035	3	—	1,038
Due after one year through five years	13,666	167	(1)	13,832
Due after five years through ten years	12,067	432	—	12,499
Due after ten years	47,985	1,989	—	49,974
Corporate debt issues:				
Due after ten years	14,432	2,890	(469)	16,853
Residential mortgage-backed securities:				
Fixed rate pass-through	104,094	3,587	(26)	107,655
Variable rate pass-through	48,949	2,336	(5)	51,280
Fixed rate non-agency CMOs	2,022	181	—	2,203
Fixed rate agency CMOs	190,336	1,226	(777)	190,785
Variable rate agency CMOs	75,347	341	(135)	75,553
Total residential mortgage-backed securities	420,748	7,671	(943)	427,476
Total marketable securities available-for-sale	$ 692,403	14,446	(1,552)	705,297

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The following table shows the portfolio of investment securities available-for-sale at December 31, 2015 (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	$ 11	—	—	11
Debt issued by government sponsored enterprises:				
Due in one year or less	15,500	3	(48)	15,455
Due after one year through five years	257,463	298	(1,395)	256,366
Due after five years through ten years	12,721	14	(23)	12,712
Due after ten years	9,815	135	(43)	9,907
Equity securities	1,400	500	(6)	1,894
Municipal securities:				
Due in one year or less	1,684	8	—	1,692
Due after one year through five years	14,327	117	(4)	14,440
Due after five years through ten years	12,400	323	—	12,723
Due after ten years	52,286	1,727	—	54,013
Corporate debt issues:				
Due after ten years	14,463	2,417	(405)	16,475
Residential mortgage-backed securities:				
Fixed rate pass-through	118,266	2,480	(420)	120,326
Variable rate pass-through	54,292	2,616	(7)	56,901
Fixed rate non-agency CMOs	2,519	230	—	2,749
Fixed rate agency CMOs	215,719	389	(3,881)	212,227
Variable rate agency CMOs	86,090	476	(52)	86,514
Total residential mortgage-backed securities	476,886	6,191	(4,360)	478,717
Total marketable securities available-for-sale	$ 868,956	11,733	(6,284)	874,405

The following table shows the portfolio of investment securities held-to-maturity at June 30, 2016 (in thousands):

	Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
Municipal securities:				
Due after five years through ten years	$ 274	1	—	275
Due after ten years	4,805	159	—	4,964
Residential mortgage-backed securities:				
Fixed rate pass-through	5,785	368	—	6,153
Variable rate pass-through	3,213	76	—	3,289
Fixed rate agency CMOs	10,182	217	—	10,399
Variable rate agency CMOs	885	13	—	898

Total residential mortgage-backed securities	20,065	674	—	20,739
Total marketable securities held-to-maturity	$ 25,144	834	—	25,978

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The following table shows the portfolio of investment securities held-to-maturity at December 31, 2015 (in thousands):

	Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
Municipal securities:				
Due after five years through ten years	$ 274	1	—	275
Due after ten years	6,336	239	—	6,575
Residential mortgage-backed securities:				
Fixed rate pass-through	6,458	351	—	6,809
Variable rate pass-through	3,618	41	—	3,659
Fixed rate agency CMOs	14,033	219	—	14,252
Variable rate agency CMOs	970	12	—	982
Total residential mortgage-backed securities	25,079	623	—	25,702
Total marketable securities held-to-maturity	$ 31,689	863	—	32,552

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 June 30, 2016 (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 sponsored enterprises	$ 14,999	(1)	11,570	(51)	26,569	(52)
Municipal securities	2,188	(1)	—	—	2,188	(1)
Corporate issues	—	—	1,958	(469)	1,958	(469)
Equity securities	2,463	(87)	—	—	2,463	(87)
Residential mortgage-backed securities - agency	27,425	(70)	88,558	(873)	115,983	(943)
Total temporarily impaired securities	$ 47,075	(159)	102,086	(1,393)	149,161	(1,552)

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, 2015 (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 sponsored enterprises	$ 143,751	(723)	92,961	(786)	236,712	(1,509)
Municipal securities	7,505	(4)	—	—	7,505	(4)
Corporate debt issues	—	—	2,021	(405)	2,021	(405)
Equity securities	544	(6)	—	—	544	(6)
Residential mortgage-backed securities - agency	122,109	(598)	149,889	(3,762)	271,998	(4,360)
Total temporarily impaired securities	$ 273,909	(1,331)	244,871	(4,953)	518,780	(6,284)

We review our investment portfolio for indications of impairment. This review includes analyzing the length of time and the extent to which amortized costs have exceeded fair values, 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. Certain investments are evaluated using our best estimate of future cash flows.

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If the estimate of cash flows indicates that an adverse change has occurred, other-than-temporary impairment is recognized for the amount of the unrealized loss that was deemed credit related.

Credit related impairment on all debt securities is recognized in earnings while noncredit related impairment on available-for-sale 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 for the quarter and six months ended (in thousands):

	2016	2015
Beginning balance at April 1, (1)	$8,424	8,865
Credit losses on debt securities for which other-than-temporary impairment was not previously recognized	—	—
Reduction for losses realized during the quarter	(16)	(16)
Reduction for securities called realized during the quarter	—	(360)
Additional credit losses on debt securities for which other-than-temporary impairment was previously recognized	—	—
Ending balance at June 30,	$8,408	$8,489

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

	2016	2015
Beginning balance at January 1, (1)	$8,436	8,894
Credit losses on debt securities for which other-than-temporary impairment was not previously recognized	—	—
Reduction for losses realized during the six months	(28)	(45)
Reduction for securities called realized during the nine months	—	(360)
Additional credit losses on debt securities for which other-than-temporary impairment was previously recognized	—	—
Ending balance at June 30,	$8,408	8,489

(1) 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

The following table shows a summary of our loans receivable at June 30, 2016 and December 31, 2015 (in thousands):

	June 30, 2016			December 31, 2015		
	Originated	Acquired	Total	Originated	Acquired	Total
Personal Banking:						
Residential mortgage loans (1)	$2,714,268	42,304	2,756,572	2,695,561	45,716	2,741,277
Home equity loans	1,039,457	122,717	1,162,174	1,055,907	131,199	1,187,106
Consumer loans	381,677	154,321	535,998	307,961	202,656	510,617
Total Personal Banking	4,135,402	319,342	4,454,744	4,059,429	379,571	4,439,000
Commercial Banking:						
Commercial real estate loans	2,173,571	387,131	2,560,702	2,094,710	429,564	2,524,274
Commercial loans	440,785	50,814	491,599	372,540	65,175	437,715
Total Commercial Banking	2,614,356	437,945	3,052,301	2,467,250	494,739	2,961,989
Total loans receivable, gross	6,749,758	757,287	7,507,045	6,526,679	874,310	7,400,989
Deferred loan costs	18,530	4,116	22,646	14,806	5,259	20,065
Allowance for loan losses	(55,323)	(5,458)	(60,781)	(60,970)	(1,702)	(62,672)
Undisbursed loan proceeds:						
Residential mortgage loans	(11,068)	—	(11,068)	(10,778)	—	(10,778)
Commercial real estate loans	(193,808)	(3,518)	(197,326)	(159,553)	(13,287)	(172,840)
Commercial loans	(24,281)	(2,095)	(26,376)	(11,132)	(4,183)	(15,315)
Total loans receivable, net	$6,483,808	750,332	7,234,140	6,299,052	860,397	7,159,449

(1) Includes $39.9 million of loans held for sale at June 30, 2016.

Acquired loans were initially measured at fair value and subsequently accounted for under either Accounting Standards Codification ("ASC") Topic 310-30 or ASC Topic 310-20. The following table provides information related to the outstanding principal balance and related carrying value of acquired loans for the dates indicated (in thousands):

	June 30, 2016	December 31, 2015
Acquired loans evaluated individually for future credit losses:		
Outstanding principal balance	$17,719	$ 21,069
Carrying value	14,043	16,867
Acquired loans evaluated collectively for future credit losses:		
Outstanding principal balance	749,206	848,194
Carrying value	741,747	839,973
Total acquired loans:		
Outstanding principal balance	766,925	869,263
Carrying value	755,790	856,840

The following table provides information related to the changes in the accretable discount, which includes income recognized from contractual cash flows for the dates indicated (in thousands):

Total

Balance at December 31, 2014	$—
LNB Bancorp, Inc. acquisition	1,672
Accretion	(377)
Net reclassification from nonaccretable yield	724
Balance at December 31, 2015	2,019
Accretion	(628)
Net reclassification from nonaccretable yield	628
Balance at June 30, 2016	$2,019

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The following table provides information related to acquired impaired loans by portfolio segment and by class of financing receivable at and for the six months ended June 30, 2016 (in thousands):

	Carrying value	Outstanding principal balance	Related impairment reserve	Average recorded investment in impaired loans	Interest income recognized
Personal Banking:					
Residential mortgage loans	$ 1,446	2,248	21	1,546	103
Home equity loans	1,515	2,868	6	1,586	108
Consumer loans	201	399	2	216	20
Total Personal Banking	3,162	5,515	29	3,348	231
Commercial Banking:					
Commercial real estate loans	10,631	11,938	353	10,675	391
Commercial loans	250	266	—	250	6
Total Commercial Banking	10,881	12,204	353	10,925	397
Total	$ 14,043	17,719	382	14,273	628

The following table provides information related to acquired impaired loans by portfolio segment and by class of financing receivable at and for the year ended December 31, 2015 (in thousands):

	Carrying value	Outstanding principal balance	Related impairment reserve	Average recorded investment in impaired loans	Interest income recognized
Personal Banking:					
Residential mortgage loans	$ 1,981	2,910	14	2,083	41
Home equity loans	2,084	3,455	6	2,222	51
Consumer loans	267	492	2	305	18
Total Personal Banking	4,332	6,857	22	4,610	110
Commercial Banking:					
Commercial real estate loans	12,288	13,946	353	12,867	249
Commercial loans	247	266	—	335	18
Total Commercial Banking	12,535	14,212	353	13,202	267
Total	$ 16,867	21,069	375	17,812	377

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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 for the quarter ended June 30, 2016 (in thousands):

	Balance June 30, 2016	Current period provision	Charge-offs	Recoveries	Balance March 31, 2016
Originated loans:					
Personal Banking:					
Residential mortgage loans	$3,022	501	(1,803)	67	4,257
Home equity loans	3,335	230	(439)	135	3,409
Consumer loans	7,924	2,382	(2,146)	394	7,294
Total Personal Banking	14,281	3,113	(4,388)	596	14,960
Commercial Banking:					
Commercial real estate loans	25,686	(3,509)	(1,317)	645	29,867
Commercial loans	15,356	901	(885)	417	14,923
Total Commercial Banking	41,042	(2,608)	(2,202)	1,062	44,790
Total originated loans	55,323	505	(6,590)	1,658	59,750
Acquired loans:					
Personal Banking:					
Residential mortgage loans	61	35	(49)	67	8
Home equity loans	1,128	1,217	(507)	120	298
Consumer loans	552	501	(186)	38	199
Total Personal Banking	1,741	1,753	(742)	225	505
Commercial Banking:					
Commercial real estate loans	3,165	1,660	(414)	184	1,735
Commercial loans	552	281	(18)	1	288
Total Commercial Banking	3,717	1,941	(432)	185	2,023
Total acquired loans	5,458	3,694	(1,174)	410	2,528
Total	$60,781	4,199	(7,764)	2,068	62,278

The following table provides information related to the allowance for loan losses by portfolio segment and by class of financing receivable for the quarter ended June 30, 2015 (in thousands):

	Balance June 30, 2015	Current period provision	Charge-offs	Recoveries	Balance March 31, 2015
Personal Banking:					
Residential mortgage loans	$4,892	76	(278)	17	5,077
Home equity loans	3,445	(187)	(542)	131	4,043
Consumer loans	6,244	1,865	(1,759)	303	5,835
Total Personal Banking	14,581	1,754	(2,579)	451	14,955
Commercial Banking:					
Commercial real estate loans	30,163	(1,558)	(3,439)	1,908	33,252
Commercial loans	14,313	4,832	(6,356)	724	15,113
Total Commercial Banking	44,476	3,274	(9,795)	2,632	48,365

Unallocated	—	(3,978)	—	—	3,978
Total	$59,057	1,050	(12,374)	3,083	67,298

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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 for the six months ended June 30, 2016 (in thousands):

	Balance June 30, 2016	Current period provision	Charge-offs	Recoveries	Balance December 31, 2015
Originated loans:					
Personal Banking:					
Residential mortgage loans	$ 3,022	504	(2,292)	118	4,692
Home equity loans	3,335	(43)			