WESTLAKE CHEMICAL CORP
Form 10-Q
November 03, 2006
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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 September 30, 2006

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 No. 001-32260

Westlake Chemical Corporation

(Exact name of Registrant as specified in its charter)

Delaware	**76-0346924**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**

2801 Post Oak Boulevard, Suite 600

Houston, Texas 77056

(Address of principal executive offices, including zip code)

(713) 960-9111

(Registrant s telephone number, including area code)

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

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

Large accelerated filer ¨ **Accelerated filer** x **Non-accelerated filer** ¨

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

The number of shares outstanding of the registrant s sole class of common stock, as of October 30, 2006, was 65,244,614.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

WESTLAKE CHEMICAL CORPORATION

CONSOLIDATED BALANCE SHEETS

(Unaudited)

	September 30, 2006	December 31, 2005
	(in thousands of dollars, except par values and share amounts)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 202,824	$ 237,895
Short-term investments	100,275	
Accounts receivable, net	335,063	302,779
Inventories, net	312,928	339,870
Prepaid expenses and other current assets	9,512	9,306
Deferred income taxes	13,040	13,013
Total current assets	973,642	902,863
Property, plant and equipment, net	909,532	863,232
Equity investment	26,347	20,042
Other assets, net	62,581	41,052
Total assets	$ 1,972,102	$ 1,827,189
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable	$ 145,033	$ 199,777
Accrued liabilities	124,920	104,872
Current portion of long-term debt		1,200
Total current liabilities	269,953	305,849
Long-term debt	260,135	265,689
Deferred income taxes	230,757	221,088
Other liabilities	38,956	40,457
Total liabilities	799,801	833,083
Commitments and Contingencies (Notes 13 and 16)		
Stockholders equity		
Preferred stock, nonvoting, noncumulative, $0.01 par value, 50,000,000 shares authorized		
Common stock, $0.01 par value, 150,000,000 shares authorized; 65,240,856 and 65,121,850 shares issued and outstanding in 2006 and 2005, respectively	652	651
Additional paid-in capital	426,653	424,537
Retained earnings	743,135	569,164
Minimum pension liability, net of tax	(1,976)	(1,976)
Unearned compensation on restricted stock		(971)
Cumulative translation adjustment	3,837	2,701

Total stockholders equity	1,172,301	994,106
Total liabilities and stockholders equity	$ 1,972,102	$ 1,827,189

The accompanying notes are an integral part of these consolidated financial statements.

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WESTLAKE CHEMICAL CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

The accompanying notes are an integral part of these consolidated financial statements.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
	(in thousands of dollars, except per share data)			
Net sales	$ 672,417	$ 605,391	$ 1,960,463	$ 1,804,666
Cost of sales	563,241	516,127	1,595,017	1,496,139
Gross profit	109,176	89,264	365,446	308,527
Selling, general and administrative expenses	22,165	19,202	60,703	53,994
Income from operations	87,011	70,062	304,743	254,533
Interest expense	(3,432)	(5,834)	(13,356)	(17,867)
Debt retirement cost			(25,853)	(646)
Other income, net	3,268	888	8,657	322
Income before income taxes	86,847	65,116	274,191	236,342
Provision for income taxes	25,191	21,590	94,029	83,147
Net income	$ 61,656	$ 43,526	$ 180,162	$ 153,195
Earnings per common share				
Basic	$ 0.95	$ 0.67	$ 2.77	$ 2.36
Diluted	$ 0.95	$ 0.67	$ 2.76	$ 2.35
Weighted average shares outstanding:				
Basic	65,134,582	65,026,962	65,110,448	64,987,068
Diluted	65,237,824	65,261,382	65,234,840	65,252,220

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WESTLAKE CHEMICAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months Ended September 30, 2006	2005
	(in thousands of dollars)	
Cash flows from operating activities		
Net income	$ 180,162	$ 153,195
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	61,974	60,649
Provision for (recovery of) bad debts	686	(2,568)
Amortization of debt issue costs	661	1,100
Loss from disposition of fixed assets	2,346	1,794
Deferred tax expense	9,617	30,527
Equity in (income) loss of joint venture	(1,731)	267
Write-off of debt issuance costs	3,623	646
Changes in operating assets and liabilities		
Accounts receivable	(32,970)	(119,219)
Inventories	26,942	33,228
Prepaid expenses and other current assets	(206)	1,668
Accounts payable	(32,594)	(10,714)
Accrued liabilities	20,048	31,193
Other, net	(24,690)	(6,640)
Net cash provided by operating activities	213,868	175,126
Cash flows from investing activities		
Additions to property, plant and equipment	(100,659)	(60,732)
Additions to equity investment	(4,574)	
Purchases of short-term investments	(134,625)	
Sales and maturities of short-term investments	34,350	
Proceeds from disposition of assets	20	43
Settlements of derivative instruments	(27,520)	
Net cash used for investing activities	(233,008)	(60,689)
Cash flows from financing activities		
Proceeds from the exercise of stock options	1,404	966
Dividends paid	(6,192)	(4,551)
Proceeds from borrowings	249,185	
Repayment of borrowings	(256,000)	(30,900)
Capitalized debt issuance costs	(4,328)	
Net cash used for financing activities	(15,931)	(34,485)
Net (decrease) increase in cash and cash equivalents	(35,071)	79,952
Cash and cash equivalents at beginning of period	237,895	43,396
Cash and cash equivalents at end of period	$ 202,824	$ 123,348

The accompanying notes are an integral part of these consolidated financial statements.

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WESTLAKE CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(dollars in thousands, except per share data)

1. Basis of Financial Statements

The accompanying unaudited consolidated interim financial statements were prepared in accordance with generally accepted accounting principles and the rules and regulations of the Securities and Exchange Commission (the SEC). Certain information and footnotes required for complete financial statements under generally accepted accounting principles in the United States have not been included pursuant to such rules and regulations. These interim consolidated financial statements should be read in conjunction with the December 31, 2005 financial statements and notes thereto of Westlake Chemical Corporation (the Company) included in the annual report on Form 10-K for the fiscal year ended December 31, 2005, filed with the SEC on February 23, 2006. These financial statements have been prepared in conformity with the accounting principles and practices as disclosed in the notes to the consolidated financial statements of the Company for the fiscal year ended December 31, 2005.

In the opinion of the Company s management, the accompanying unaudited interim financial statements reflect all adjustments (consisting only of normal recurring adjustments) that are necessary for a fair presentation of the Company s financial position as of September 30, 2006, the results of its operations for the three months and nine months ended September 30, 2006 and 2005 and the changes in its cash position for the nine months ended September 30, 2006 and 2005.

Results of operations and changes in cash position for the interim periods presented are not necessarily indicative of the results that will be realized for the year ending December 31, 2006 or any other interim period. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 prescribes 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. The interpretation is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the effect that the adoption of FIN 48 will have on its consolidated results of operations, financial position and related disclosures.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosure about fair value measurements. The statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company is currently evaluating the effect that the adoption of SFAS 157 will have, if any, on its consolidated results of operations, financial position and related disclosures.

In September 2006, the FASB also issued Statement of Financial Accounting Standards No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans (SFAS 158). SFAS 158 requires an enterprise to recognize in its statement of financial position an asset for a defined benefit postretirement plan s overfunded status or a liability for a defined benefit postretirement plan s underfunded status. In addition, each entity must recognize changes in the funded status of a defined benefit postretirement plan in comprehensive income in the year in which the changes occur. This statement is effective for fiscal years ending after December 15, 2006, and the Company will adopt this standard for its annual financial statements for 2006. The Company does not expect the adoption of SFAS 158 to have any significant impact on its consolidated results of operations and the impact of the adoption of this statement on its consolidated financial position will not be material.

Also in September 2006, the FASB issued FASB Staff Position No. AUG AIR-1, Accounting for Planned Major Maintenance Activities (FSP No. AUG AIR-1). FSP No. AUG AIR-1 prohibits the use of the accrue-in-advance method of accounting for planned major maintenance turnarounds because it causes the recognition of a liability in a period prior to the occurrence of the transaction or obligation. The Company does not account for its turnarounds utilizing this accounting method, so FSP No. AUG AIR-1 is not expected to impact the Company s consolidated results of operations or financial position.

The Securities and Exchange Commission released Staff Accounting Bulletin (SAB) No. 108 in September 2006. This bulletin provides guidance regarding the methodology of quantifying the dollar amounts of errors in determining materiality of those errors. These methods should be implemented for annual financial statements covering the first fiscal year ending after November 15, 2006.

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WESTLAKE CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(UNAUDITED)

(dollars in thousands, except per share data)

2. Stock-Based Compensation

The Board of Directors of the Company has adopted, and the stockholders have approved, the Westlake Chemical Corporation 2004 Omnibus Incentive Plan (the 2004 Plan). Under the 2004 Plan, all employees of the Company, as well as certain individuals who have agreed to become the Company s employees, are eligible for awards. Shares of common stock may be issued as authorized in the 2004 Plan. At the discretion of the administrator of the 2004 Plan, employees and non-employee directors may be granted awards in the form of stock options, stock appreciation rights, stock awards or cash awards (any of which may be a performance award). The total compensation expense related to the 2004 Plan was $440 and $1,384 for the three months and nine months ended September 30, 2006, respectively. The realized excess tax benefit from exercised options during those same periods was $194 and $271, respectively.

Prior to January 1, 2006, the Company accounted for its stock-based compensation plan in accordance with Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees (APB 25), and complied with Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation (SFAS 123), for disclosure purposes. Under these provisions, no compensation expense was recognized for stock options because the exercise price for all options was equal to the market price at the grant date, and any compensation expense resulting from restricted stock was recognized ratably over the associated vesting term. The Company provided pro forma disclosure amounts in accordance with SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure, as if the fair value method defined by SFAS 123 had been applied to its stock options.

Effective January 1, 2006, the Company adopted the fair value recognition provisions of SFAS 123 (revised 2004), Share-Based Payment (SFAS 123R), using the modified prospective transition method and therefore has not restated results of prior periods. Under this transition method, stock-based compensation expense for the first nine months of fiscal 2006 includes compensation expense of all stock-based compensation awards granted prior to, but not yet vested, as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provision of SFAS 123. Stock-based compensation expense for all stock-based compensation awards granted after January 1, 2006 is based on the grant-date fair value estimated in accordance with the provisions of SFAS 123R. The Company recognizes these compensation costs net of a forfeiture rate and recognizes the compensation costs on a straight-line basis over the requisite service period of the award for only those shares expected to vest. In March 2005, the SEC issued Staff Accounting Bulletin No. 107 (SAB 107) regarding the SEC s interpretation of SFAS 123R and the valuation of share-based payments for public companies.

Upon adoption of SFAS 123R on January 1, 2006, amounts previously recorded in stockholders equity under APB 25 at December 31, 2005 related to unearned compensation for restricted stock awards have been reversed against paid-in capital and will be expensed over the vesting period in accordance with SFAS 123R. As a result of adopting SFAS 123R, the impact to the consolidated statement of operations for the three months ended September 30, 2006 on income before income taxes and net income was a decrease of $292 and $184, respectively, from the amount that would have been reported if the Company had continued to account for stock-based compensation under APB 25. The impact for the nine months ended September 30, 2006 was a decrease in income before income taxes and net income of $934 and $588, respectively. The impact on both basic and diluted earnings per share for the three months and nine months ended September 30, 2006 was less than $0.01 per share.

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WESTLAKE CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(UNAUDITED)

(dollars in thousands, except per share data)

The pro forma table below reflects net income and basic and diluted earnings per share for the third quarter and first nine months of 2005, had the Company applied the fair value recognition provisions of SFAS 123:

	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2005
Net income, as reported	$ 43,526	$ 153,195
Pro forma stock option compensation expense	(362)	(1,235)
Provision for income taxes on pro forma stock option expense	120	435
Pro forma net income	$ 43,284	$ 152,395
Basic and diluted earnings per share		
As reported:		
Basic	$ 0.67	$ 2.36
Diluted	$ 0.67	$ 2.35
Pro forma:		
Basic	$ 0.67	$ 2.35
Diluted	$ 0.66	$ 2.34

Option activity and changes during the nine months ended September 30, 2006 were as follows:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Term (Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2005	438,763	$ 16.88		
Granted	57,958	35.22		
Exercised	(96,524)	14.57		
Cancelled	(15,490)	16.23		
Outstanding at September 30, 2006	384,707	20.25	8.3	$ 4,724
Exercisable at September 30, 2006	130,355	16.34	8.0	2,042

The aggregate intrinsic value in the table represents the total pretax intrinsic value (the difference between the Company s closing stock price on the last trading day of the third quarter of 2006 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on September 30, 2006. This amount changes based on the fair market value of the Company s common stock. Total intrinsic value of options exercised for the three months and nine months ended

September 30, 2006 was $1,052 and $1,564, respectively.

As of September 30, 2006, $1,416 of total unrecognized compensation cost related to stock options is expected to be recognized over a weighted-average period of 1.7 years.

The Company used the Black-Scholes option pricing model to value its options. The table below presents the weighted average value and assumptions used in developing each option s fair value. Volatility was calculated using historical trends of the Company s common stock price.

	2006 Options	2005 Options	2004 Options
Weighted average fair value	$ 14.87	$ 12.81	$ 6.52
Risk-free interest rate	4.8%	4.3%	4.0%
Expected life in years	6-7	8	10
Expected volatility	34.0%	36.5%	28.1%
Expected dividend yield	0.3%	0.4%	0.6%

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WESTLAKE CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(UNAUDITED)

(dollars in thousands, except per share data)

Non-vested restricted stock awards as of September 30, 2006 and changes during the nine months ended September 30, 2006 were as follows:

	Number of Shares	Weighted Average Grant Date Fair Value
Non-vested at December 31, 2005	42,129	$ 27.22
Granted	25,876	34.90
Forfeited	(496)	27.22
Vested	(13,151)	27.22
Non-vested at September 30, 2006	54,358	30.81

As of September 30, 2006, there was $1,365 of unrecognized stock-based compensation expense related to non-vested restricted stock awards. This cost is expected to be recognized over a weighted-average period of 2.2 years.

3. Short-term Investments

The Company selectively invests some of its cash in short-term investments in auction rate securities and began doing so during the third quarter of 2006. Auction rate securities are variable rate bonds tied to short-term interest rates that generally have long-term stated maturities of 20 to 30 years. However, these securities have certain economic characteristics of short-term investments due to an interest rate reset mechanism and the availability to liquidate the securities through a Dutch auction process that occurs on pre-determined intervals of less than 90 days. As such, these investments are classified as short-term investments.

The auction rate securities are classified as available-for-sale securities due to management s intent to hold these securities for short periods of time. As of September 30, 2006, the fair market value of the securities equaled the cost and there were no unrealized gains or losses associated with these investments. The fair values of auction rate securities by contractual maturity, were as follows:

	September 30, 2006
Due in 0-10 years	
Due in 11-20 years	52,625
Due after 20 years	47,650
	$ 100,275

4. Accounts Receivable

Accounts receivable consist of the following:

	September 30, 2006	December 31, 2005
Accounts receivable trade	$ 330,147	$ 301,091
Accounts receivable affiliates	1,261	845
Allowance for doubtful accounts	(3,704)	(3,460)
	327,704	298,476
Accounts receivable other	7,359	4,303
Accounts receivable, net	$ 335,063	$ 302,779

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WESTLAKE CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(UNAUDITED)

(dollars in thousands, except per share data)

5. Inventories

Inventories consist of the following:

	September 30, 2006	December 31, 2005
Finished products	$ 179,944	$ 186,241
Feedstock, additives and chemicals	113,135	133,949
Materials and supplies	27,717	27,790
	320,796	347,980
Allowance for inventory obsolescence	(7,868)	(8,110)
Inventories, net	$ 312,928	$ 339,870

6. Property, Plant and Equipment

Depreciation expense on property, plant and equipment of $18,623 and $15,385 is included in cost of sales in the consolidated statement of operations for the three months ended September 30, 2006 and 2005, respectively, and $54,722 and $51,279 for the nine months ended September 30, 2006 and 2005, respectively.

7. Equity Investment

In the second quarter of 2006, the Company increased its ownership percentage in Suzhou Huasu Plastics Co. Ltd., the Company s joint venture in China, from approximately 43% to approximately 58% at a cost of $6,441 ($1,867 was paid in the fourth quarter of 2005 and $4,574 was paid in the second quarter of 2006). The Company will continue to account for this investment using the equity method of accounting because the entity does not meet the definition of a variable interest entity under FIN 46R, Consolidation of Variable Interest Entities (revised December 2003) an interpretation of ARB No. 51, and because contractual arrangements allowing certain substantive participatory rights to minority shareholders prevent the Company from exercising a controlling financial interest over this entity.

8. Other Assets

Amortization expense on other assets of $2,644 and $4,077 is included in the consolidated statement of operations for the three months ended September 30, 2006 and 2005, respectively, and $7,913 and $10,470 for the nine months ended September 30, 2006 and 2005, respectively.

9. Income Taxes

The effective income tax rate was 29.0% and 34.3% in the third quarter and first nine months of 2006, respectively, as compared to 33.2% and 35.2% in the third quarter and first nine months of 2005. The current year rate is below the statutory rate primarily due to adjustments to deferred income taxes and the extra-territorial exclusion income benefit (ETI), which reduced income tax expense by $3.7 million in the third quarter of 2006. Excluding these adjustments, the effective tax rate for the first nine months of 2006 would have been 35.6%. The 2005 rate also includes an adjustment to deferred tax of $2.3 million. Excluding this adjustment, the rate for the first nine months of 2005 would have been 36.1%. The adjusted effective tax rates for 2006 and 2005 are higher than the statutory rate primarily due to state income taxes and reflects a tax benefit of approximately 1.0% related to the domestic manufacturing deduction.

10. Derivative Commodity Instruments

The Company uses derivative instruments, in conjunction with certain physical commodity positions, to reduce price volatility risk on commodities. Increases and decreases in the fair value of these trades are included in earnings. The Company had a net gain of $17,675 in connection with trading activity for the nine months ended September 30, 2006 compared to a net loss of $8,708 for the nine months ended September 30, 2005. Of the 2006 net gain, $13,538 related to derivative gains and $4,137 related to sales of related physical feedstock positions. Of the 2005 net loss, $36,274 related to derivative losses, offset by $27,566 in gains on the sale of related physical feedstock positions. Net trading gains in the third quarter of 2006 totaled $5,390 ($2,188 related to commodity derivative gains and $3,202 was due to gains on the sale of

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WESTLAKE CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(UNAUDITED)

(dollars in thousands, except per share data)

related physical positions) compared to a net loss of $8,452 ($34,377 related to commodity derivative losses offset by $25,925 in gains on the sale of physical positions related to spread trades) for the third quarter of 2005. Risk management asset balances of $3,895 and $-0- were included in Accounts receivable, net and risk management liability balances of $-0- and $31,891 were included in current liabilities in the Company s consolidated balance sheets as of September 30, 2006 and December 31, 2005, respectively.

11. Earnings per Share

There are no adjustments to Net income for the diluted earnings per share computations.

The following table reconciles the denominator for the basic and diluted earnings per share computations shown in the consolidated statements of operations:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
	(in thousands)		(in thousands)	
Weighted average common shares basic	65,135	65,027	65,110	64,987
Plus incremental shares from:				
Assumed conversion of options	90	220	111	231
Restricted stock	13	14	14	34
Weighted average common shares diluted	65,238	65,261	65,235	65,252

12. Pension and Other Post Retirement Benefits

Components of Net Periodic Costs for pension benefits are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Service cost	$ 267	$ 250	$ 800	$ 800
Interest cost	471	444	1,413	1,354
Expected return on plan assets	(551)	(482)	(1,651)	(1,446)
Amortization of prior service cost	80	80	239	239
Amortization of net loss	99	63	299	202
Net periodic benefit cost	$ 366	$ 355	$ 1,100	$ 1,149

Components of Net Periodic Costs for other benefits are as follows:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2006	2005	2006	2005
Service cost	$ 89	$ 97	$ 272	$ 292
Interest cost	122	103	390	308
Amortization of transition obligation	28	28	85	85
Amortization of prior service cost	67	67	200	200
Amortization of net loss	87	62	241	186
Net periodic benefit cost	$ 393	$ 357	$ 1,188	$ 1,071

The Company made no contributions to the Salaried and Wage pension plans during the quarters ended September 30, 2006 and 2005 but made contributions of $2,498 and $6,074 to the Salaried and Wage pension plans for the nine months ended September 30, 2006 and 2005, respectively. The Company is not scheduled to contribute any additional funds to the pension plans during the fiscal year ending December 31, 2006.

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WESTLAKE CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(UNAUDITED)

(dollars in thousands, except per share data)

13. Commitments and Contingencies

Environmental Matters

The Company is subject to environmental laws and regulations that can impose civil and criminal sanctions and that may require it to remove or mitigate the effects of the disposal or release of chemical substances at various sites. Under some of these laws and regulations, a current or previous owner or operator of property may be held liable for the costs of removal or remediation of hazardous substances on, under, or in its property, without regard to whether the owner or operator knew of, or caused the presence of the contaminants, and regardless of whether the practices that resulted in the contamination were legal at the time they occurred. Because several of the Company s production sites have a history of industrial use, it is impossible to predict precisely what effect these laws and regulations will have on the Company in the future. As is typical for chemical businesses, soil and groundwater contamination has occurred in the past at some of the Company s sites and might occur or be discovered at other sites in the future. The Company s investigations have not revealed any contamination caused by the Company s operations that would likely require the Company to incur material long-term remediation efforts and associated liabilities.

Calvert City, Kentucky

Contract Litigation with Goodrich and PolyOne. In connection with the 1990 and 1997 acquisitions of the Goodrich Corporation chemical manufacturing complex in Calvert City, Goodrich agreed to indemnify the Company for any liabilities related to preexisting contamination at the site. In addition, the Company agreed to indemnify Goodrich for contamination attributable to the ownership, use or operation of the plant after the closing dates. The soil and groundwater at the manufacturing complex, which does not include the Company s polyvinyl chloride facility in Calvert City, had been extensively contaminated by Goodrich s operations. In 1993, the Geon Corporation was spun off from Goodrich, and Geon assumed the responsibility to operate the site-wide remediation system and Goodrich s indemnification obligations for any liabilities arising from preexisting contamination at the site. Subsequently, Geon s name was changed to PolyOne. Part of the former Goodrich facility, which the Company did not acquire and on which it does not operate and that it believes is still owned by either Goodrich or PolyOne, is listed on the National Priorities List under the Comprehensive Environmental Response, Compensation, and Liability Act, or CERCLA. The investigation and remediation of contamination at the Company s manufacturing complex is currently being coordinated by PolyOne.

Given the scope and extent of the underlying contamination at the Company s manufacturing complex, the remediation will likely take a number of years. The costs incurred to treat contaminated groundwater collected from beneath the site were $4,556 in 2005, and the Company expects this level of expenditures to continue for the life of the remediation. For the past several years, PolyOne has asserted that the Company s actions after its acquisition of the complex have contributed to or otherwise exacerbated the contamination at the site. The Company denied those allegations. Goodrich has also asserted claims similar to those of PolyOne. In addition, Goodrich has asserted that the Company is responsible for a portion of the ongoing costs of treating contaminated groundwater being pumped from beneath the site. In May 2003, Goodrich began withholding payment of 45% of the monthly costs incurred by the Company to operate certain pollution control equipment owned by Goodrich at the site.

In October 2003, the Company filed suit against Goodrich in the United States District Court for the Western District of Kentucky for breach of contract to recover unpaid invoices related to the Company s operation of groundwater treatment equipment. Goodrich filed an answer and counterclaim in which it alleged that the Company was responsible for contamination at the facility. The Company denied those allegations and filed a motion to dismiss Goodrich s counterclaim. By order dated April 9, 2004, the court dismissed part of Goodrich s counterclaim while retaining the remainder. Goodrich also filed a third-party complaint against PolyOne. PolyOne in turn filed motions to dismiss, filed counterclaims against Goodrich and filed cross-claims against the Company in which it alleged breach of contract and that Goodrich and the Company had conspired to defraud PolyOne. On June 8, 2004, the Company filed a motion for summary judgment on its breach of contract claim against Goodrich. On June 16, 2004, the Company filed a motion to dismiss PolyOne s cross-claims. By order dated March 9, 2005, the court granted the Company s motion to dismiss PolyOne s cross-claims. On March 29, 2005, the court granted the Company s motion for summary judgment on the Company s breach of contract claim against Goodrich. On April 12, 2005, Goodrich filed a motion for reconsideration of the order granting summary judgment. On July 5, 2005, Goodrich and the Company entered a Non-Waiver Agreement pursuant to which Goodrich paid the Company all past due amounts, including interest, in the amount of $3,132. This reimbursement is reflected in the

WESTLAKE CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(UNAUDITED)

(dollars in thousands, except per share data)

consolidated statement of operations for the year ended December 31, 2005 resulting in a $2,606 reduction of selling, general and administrative expenses and $526 of interest income. Goodrich further agreed to make all future payments for services on a timely basis. Pursuant to the Non-Waiver Agreement, both parties retained all rights and legal arguments, including Goodrich s right to pursue its motion for reconsideration. The granting of such motion could result in the Company being required to repay Goodrich for the amounts paid by Goodrich under the Non-Waiver Agreement. The case is continuing with respect to Goodrich s counterclaims against the Company, and Goodrich s third-party claims against PolyOne and PolyOne s counterclaims against Goodrich. Extensive discovery is ongoing and the trial may occur in April 2007. A court-ordered mediation is currently scheduled for January 2007.

Administrative Proceedings and Related Litigation. In addition, there are several administrative proceedings in Kentucky involving Goodrich and PolyOne. On September 23, 2003, the Kentucky State Cabinet re-issued Goodrich s Resource Conservation and Recovery Act, or RCRA, permit which requires Goodrich to remediate contamination at the Calvert City manufacturing complex. Goodrich was named as the sole permittee. Both Goodrich and PolyOne have challenged that determination. Goodrich filed an appeal (Goodrich I) of that permit on October 23, 2003, and PolyOne filed a separate challenge (PolyOne I) on November 13, 2003. In both proceedings, Goodrich and PolyOne are seeking to shift Goodrich s cleanup responsibilities under Goodrich s RCRA permit to other parties, including the Company. The Company has either intervened directly or been named as a party in both of these proceedings. Mediation was conducted in these proceedings during 2004 but was unsuccessful. On September 27, 2004, the Kentucky State Cabinet sent PolyOne a determination requiring PolyOne to be added to the Goodrich RCRA permit due to PolyOne s operation of the site remediation system. On October 22, 2004, PolyOne filed an appeal (PolyOne II). In this second proceeding, PolyOne is challenging the State s determination that PolyOne is required to submit an application for a major modification of the Goodrich permit and assume the regulatory status of an operator under the permit. PolyOne makes a number of charges against the Company that, if proven, might cause the Kentucky State Cabinet to demand that the Company also be added to the Goodrich permit. Goodrich and PolyOne have alleged in Goodrich I and PolyOne I that Goodrich cannot be held responsible for contamination on property they do not own. Both Goodrich and PolyOne have also alleged that the Company is responsible for contamination at the manufacturing complex, which the Company has denied.

On January 24, 2005, Goodrich filed a challenge (Goodrich II) to the Kentucky State Cabinet s determination which had rejected a Goodrich proposal to perform a particular soil remediation procedure. The Company s motion to intervene in PolyOne II and Goodrich II was subsequently granted.

On March 18, 2005, the Goodrich I and II and PolyOne I and II proceedings were consolidated and the hearing for the consolidated case was set for September 12, 2006. Subsequently, the Kentucky State Cabinet agreed to allow Goodrich to perform a test of the soil remediation procedure. Goodrich then withdrew its complaint and the Goodrich II proceeding was dismissed. By order dated January 19, 2006, the hearing for the consolidated administrative proceedings was rescheduled to April 3, 2007.

On March 22, 2005, after the court had dismissed PolyOne s cross-claims against the Company, PolyOne filed a separate RCRA citizen suit against the Company in the United States District Court for the Western District of Kentucky, which covers the same issues raised in the Goodrich and PolyOne administrative proceedings. On May 23, 2005 the Company filed a motion to dismiss the PolyOne complaint, which PolyOne responded to on June 7, 2005. The Company filed its reply to PolyOne s response on June 21, 2005, and the motion is pending.

In January 2004, the Kentucky State Cabinet notified the Company by letter that, due to its ownership of a closed landfill (known as Pond 4) at the manufacturing complex, the Company would be required to submit a post-closure permit application under RCRA. This could require the Company to bear the responsibility and cost of performing remediation work at Pond 4 and solid waste management units and areas of concern located on property adjacent to Pond 4 that is owned by the Company. The Company acquired Pond 4 from Goodrich in 1997 as part of the acquisition of other facilities. Under the 1997 contract, the Company has the right to reconvey title to Pond 4 back to Goodrich, which the Company has tendered. On March 21, 2005, the Company filed suit against Goodrich in the United States District Court for the Western District of Kentucky to require Goodrich to accept the tendered reconveyance and to indemnify the Company for its costs incurred in connection with Pond 4. On May 20, 2005, Goodrich filed a motion to dismiss portions of the Company s complaint. On June 27, 2005, the Company filed a response in opposition to Goodrich s motion to dismiss, and Goodrich filed its reply on July 18, 2005. In addition, on June 6, 2005, Goodrich filed a third-party complaint against PolyOne, seeking to hold PolyOne responsible for any of Goodrich s Pond 4 liabilities to the Company. PolyOne moved to dismiss Goodrich s third-party complaint on August 30, 2005. Goodrich responded to PolyOne s motion on October 7, 2005, and

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PolyOne filed its reply on October 21, 2005. Finally, the Company filed a motion for partial summary judgment on Goodrich s liability for the Company s costs incurred in connection with Pond 4 on August 9, 2005. Goodrich responded to the Company s motion on September 6, 2005, and the Company replied on September 27, 2005. The motion is now pending.

The Company has also filed an appeal with the Kentucky State Cabinet regarding its January 2004 letter. Goodrich and PolyOne have both filed motions to intervene in this appeal. On July 1, 2004, the Company notified the Kentucky State Cabinet that the Company would prefer to conduct a clean-closure equivalency determination, or CCED, of Pond 4 rather than pursue a post-closure care RCRA permit. The proposal to conduct the CCED was rejected by the Kentucky State Cabinet. By letter dated, December 21, 2004, the Kentucky State Cabinet directed the Company to file a post-closure permit application for Pond 4. On February 23, 2005, the Company filed a motion for stay of the order requiring the Company to file the permit application. On February 18, 2005, the Company also sent a letter to the Kentucky State Cabinet demanding that it enforce the Goodrich RCRA permit against Goodrich since the RCRA permit requires Goodrich to address Pond 4. By letter dated, September 25, 2006, the Kentucky State Cabinet has indicated that the permit application will be due on March 19, 2007.

Monetary Relief. None of the parties involved in the proceedings relating to the disputes with Goodrich and PolyOne and the Kentucky State Cabinet described above has formally quantified the amount of monetary relief that they are seeking from the Company, nor has the court or the Kentucky State Cabinet proposed or established an allocation of the costs of remediation among the various participants. Any monetary liabilities that the Company might incur with respect to the remediation of contamination at the manufacturing complex in Calvert City would likely be spread out over an extended period. While the Company has denied responsibility for any such remediation costs and is actively defending its position, the Company is not in a position at this time to state what effect, if any, these proceedings could have on the Company s financial condition, results of operations, or cash flows.

Environmental Investigations. In March and June 2002, the EPA s National Enforcement Investigations Center, or NEIC, conducted an environmental investigation of the Company s manufacturing complex in Calvert City consisting of the ethylene dichloride (EDC)/vinyl chloride monomer (VCM), ethylene and chlor-alkali plants. In May 2003, the Company received a report prepared by the NEIC summarizing the results of that investigation. Among other things, the NEIC concluded that the requirements of several regulatory provisions had not been met. The Company analyzed the NEIC report and identified areas where it believed that erroneous factual or legal conclusions, or both, may have been drawn by the NEIC. The Company held a number of discussions with the EPA concerning its conclusions. In February 2004, representatives of the EPA orally informed the Company that the agency proposed to assess monetary penalties against it and to require it to implement certain injunctive relief to ensure compliance. In addition, the EPA s representatives informed the Company that the EPA, the NEIC and the Kentucky State Cabinet would conduct an inspection of its polyvinyl chloride (PVC) facility in Calvert City, which is separate from the manufacturing complex and was not visited during the 2002 inspection. That additional inspection took place in late February 2004. The Company has not yet received a written report from the agencies regarding the actions that they propose to take in response to that visit. The EPA submitted to the Company an information request under Section 114 of the Clean Air Act and issued a Notice of Violation, both pertaining to the inspection of the EDC/VCM plant. The Notice of Violation does not propose any specific penalties. The EPA also issued to the Company information requests under Section 3007 of RCRA and Section 114 of the Clean Air Act regarding the PVC plant inspection. The Company and the EPA met in June 2004 and have continued to hold settlement discussions pursuant to which the EPA has indicated it will impose monetary penalties and will require plant modifications that will require capital expenditures. The Company expects that, based on the EPA s past practices, the amount of any monetary penalties would be reduced by a percentage of the expenditures that the Company would agree to make for certain supplemental environmental projects. The Company is not in a position at this time to state what effect, if any, these proceedings could have on the Company s financial condition, results of operations, or cash flows. However, the Company has recorded an accrual for a probable loss related to monetary penalties. Although the ultimate amount of liability is not ascertainable, the Company believes that any amounts exceeding the recorded accruals should not materially affect the Company s financial condition. It is possible, however, that the ultimate resolution of this matter could result in a material adverse effect on the Company s results of operations or cash flows for a particular reporting period.

Legal Matters

In October 2003, the Company filed suit against CITGO Petroleum Corporation in state court in Lake Charles, Louisiana, asserting that CITGO had failed to take sufficient hydrogen under two successive contracts pursuant to which the

WESTLAKE CHEMICAL CORPORATION

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(dollars in thousands, except per share data)

Company has supplied and the Company supplies to CITGO hydrogen that the Company generates as a co-product in its ethylene plants in Lake Charles. In December 2003, CITGO responded with an answer and a counterclaim against the Company, asserting that CITGO had overpaid the Company for hydrogen due to the Company s allegedly faulty sales meter and that the Company is obligated to reimburse CITGO for the overpayments. In January 2004, the Company filed a motion to compel arbitration of CITGO s counterclaim and to stay all court proceedings relating to the counterclaim. In May 2004, the parties filed a joint motion with the court to provide for CITGO s counterclaim to be resolved by arbitration. The Company s claim against CITGO is approximately $8,100 plus interest at the prime rate plus two percentage points and attorneys fees. CITGO s claim against the Company is approximately $7,800 plus interest at the prime rate plus two percentage points and attorneys fees. The parties held a mediation conference in April 2004 at which they agreed to conduct further discovery with a view towards holding another mediation conference to attempt to settle their disputes. Subsequently, the parties have held discussions regarding a settlement. The Company can offer no assurance that a settlement can be achieved, and if no settlement is achieved, the Company intends to vigorously pursue its claim against CITGO and its defense against CITGO s counterclaim.

On March 30, 2006, Westlake Vinyls, Inc., a subsidiary of the Company, received notice that Royal Polymers Limited (Royal), a customer, had commenced a lawsuit against it in the Superior Court of Justice, Toronto, Ontario, Canada. Royal was seeking a declaration that the 2004 vinyl chloride monomer (VCM) supply agreement between Royal, as buyer, and Westlake Vinyls, Inc., as seller, was void and unenforceable as a result of the elimination of a published industry price factor which comprises one factor of a multi-factor pricing formula. Sales to Royal accounted for 16% of the net sales of the Company s Vinyls segment and 7% of the Company s consolidated net sales in 2005. Westlake Vinyls, Inc. continued to supply VCM to Royal and Royal continued to take VCM, although the parties were not in agreement as to the price of the VCM. In March 2006, Royal began short-paying invoices for VCM purchased, which shortfall aggregated a total of $10,223 as of September 30, 2006, making payments at prices lower than those the Company believed were called for under the agreement (the reduced payments were retroactive to January 1, 2006). The Company deferred recognition of the amount withheld pending a resolution. On April 6, 2006, Westlake Vinyls, Inc. commenced a lawsuit against Royal in the same Ontario court seeking a declaration that the supply agreement was valid and binding, and an order requiring Royal to pay any shortfall amounts. A hearing at the court in Toronto on the parties claims against one another had been set for October 25, 2006. On October 4, 2006, the Company announced that it had reached a settlement with Georgia Gulf Corporation (Georgia Gulf), which acquired the parent company of Royal on October 3, 2006, to resolve the dispute. In connection with the settlement, Westlake Vinyls Inc. entered into a new agreement to supply VCM to Georgia Gulf, and the Company agreed to forgive the shortfall amount for the period from January 1, 2006 through October 3, 2006. As the Company had reserved for the amount withheld, there is no additional earnings impact as a result of the settlement. Under the terms of the settlement, the parties agreed to release their respective claims and dismiss the lawsuits pending in the Ontario court.

In addition to the matters described above, in both Environmental Matters and Legal Matters, the Company is involved in various routine legal proceedings incidental to the conduct of its business. The Company does not believe that any of these routine legal proceedings will have a material adverse effect on its financial condition, results of operations or cash flows.

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14. Segment Information

The Company operates in two principal business segments: Olefins and Vinyls. These segments are strategic business units that offer a variety of different products. The Company manages each segment separately as each business requires different technology and marketing strategies.

	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Net sales to external customers				
Olefins				
Polyethylene	$ 188,047	$ 188,864	$ 583,923	$ 526,449
Ethylene, styrene and other	173,478	142,364	465,971	498,836
Total olefins	361,525	331,228	1,049,894	1,025,285
Vinyls				
Fabricated finished goods	162,947	153,818	485,235	425,136
VCM, PVC and other	147,945	120,345	425,334	354,245
Total vinyls	310,892	274,163	910,569	779,381
	$ 672,417	$ 605,391	$ 1,960,463	$ 1,804,666
Intersegment sales				
Olefins	$ 40,827	$ 21,525	$ 118,877	$ 69,174
Vinyls	218	269	849	836
	$ 41,045	$ 21,794	$ 119,726	$ 70,010
Income (loss) from operations				
Olefins	$ 41,851	$ 45,086	$ 163,445	$ 139,502
Vinyls	48,944	28,850	147,606	121,482
Corporate and other	(3,784)	(3,874)	(6,308)	(6,451)
	$ 87,011	$ 70,062	$ 304,743	$ 254,533
Depreciation and amortization				
Olefins	$ 12,293	$ 9,767	$ 35,872	$ 34,699
Vinyls	8,747	9,320	26,005	25,918
Corporate and other	38	18	97	32

	$ 21,078	$ 19,105	$ 61,974	$ 60,649
Other income (expense), net				
Olefins	$	$ (67)	$ (1)	$ (1,996)
Vinyls	71	(188)	156	276
Corporate and other	3,197	1,143	8,502	2,042
	3,268	888	8,657	322
Debt retirement cost			(25,853)	(646)
	$ 3,268	$ 888	$ (17,196)	$ (324)
Capital expenditures				
Olefins	$ 30,371	$ 10,079	$ 72,440	$ 26,691
Vinyls	7,283	5,936	27,707	32,194
Corporate and other	118	625	512	1,847
	$ 37,772	$ 16,640	$ 100,659	$ 60,732

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WESTLAKE CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(UNAUDITED)

(dollars in thousands, except per share data)

A reconciliation of total segment income from operations to consolidated income before taxes is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Income from operations	$ 87,011	$ 70,062	$ 304,743	$ 254,533
Interest expense	(3,432)	(5,834)	(13,356)	(17,867)
Debt retirement cost			(25,853)	(646)
Other income, net	3,268	888	8,657	322
Income before taxes	$ 86,847	$ 65,116	$ 274,191	$ 236,342

	September 30, 2006	December 31, 2005
Total Assets		
Olefins	$ 1,030,287	$ 961,742
Vinyls	588,230	573,709
Corporate and other	353,585	291,738
	$ 1,972,102	$ 1,827,189

15. Comprehensive Income Information

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Net income	$ 61,656	$ 43,526	$ 180,162	$ 153,195
Other comprehensive income (loss):				
Change in foreign currency translation	234	1,427	1,136	1,087
Comprehensive income	$ 61,890	$ 44,953	$ 181,298	$ 154,282

16. Long-Term Debt

Long-term indebtedness consists of the following:

	September 30, 2006	December 31, 2005
6 5/8% Senior notes due 2016	$ 249,246	$
8 3/4% Senior notes due 2011		247,000
Term loan		9,000
Loan related to tax-exempt revenue bonds	10,889	10,889
Total debt	260,135	266,889
Less: current portion		(1,200)
Long-term debt	$ 260,135	$ 265,689

In the first quarter of 2006, the Company issued $250,000 aggregate principal amount of 6 5/8% senior notes due 2016, the proceeds of which, together with cash on hand, were used to redeem all of the Company s 8 3/4% senior notes due 2011 and repay the Company s term loan. The 6 5/8 % senior notes were issued with an original issue discount of $815. As a result of the early redemption of the 8 3/4 % senior notes and the repayment of the term loan, the Company recognized $25,853 of debt retirement costs in the first quarter of 2006 consisting of a pre-payment premium on the 8 3/4% senior notes of $22,230 and a write-off of $3,623 in previously capitalized debt issuance cost. The issuance of the 6 5/8% senior notes resulted in the capitalization of $4,328 related to debt issuance cost.

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WESTLAKE CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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17. Subsequent Events

On October 9, 2006, a subsidiary of the Company entered into a definitive agreement to purchase Eastman Chemical Company s polyethylene and Epolene® polymers businesses, related assets and a 200 mile, 10 inch pipeline from Mont Belvieu, Texas to Longview, Texas, all of which are headquartered in Longview, Texas. The purchase price is $255,000 in cash, which includes working capital, and is subject to working capital adjustments. The transaction is expected to close in the fourth quarter of 2006, subject to standard closing conditions including regulatory review. The business and assets to be acquired in this transaction generated approximately $680,000 in revenue during 2005. The Company s management believes that the acquisition of these facilities will further strengthen the Company s position in the North American polyethylene market and will increase its ability to provide an improved overall product mix and new technology.

18. Guarantor Disclosures

The Company s payment obligations under its 6 5/8% senior notes are fully and unconditionally guaranteed by each of its current and future domestic restricted subsidiaries that guarantee other debt of the Company or of another guarantor of the 6 5/8% senior notes in excess of $5,000 (the Guarantor Subsidiaries). Each Guarantor Subsidiary is 100% owned by the parent company. These guarantees are the joint and several obligations of the Guarantor Subsidiaries. The following unaudited condensed consolidating financial information presents the financial condition, results of operations and cash flows of Westlake Chemical Corporation, the Guarantor Subsidiaries and the remaining subsidiaries that do not guarantee the notes (the Non-Guarantor Subsidiaries), together with consolidating adjustments necessary to present the Company s results on a consolidated basis.

Condensed Consolidating Financial Information as of September 30, 2006

	Westlake Chemical Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Balance Sheet					
Current assets					
Cash and cash equivalents	$ 190,117	$ 99	$ 12,608	$	$ 202,824
Short-term investments	100,275				100,275
Accounts receivable, net	(101,842)	322,199	(3,472)	118,178	335,063
Inventories, net		306,260	6,668		312,928
Prepaid expenses and other current assets	10	9,229	273		9,512
Deferred income taxes	12,398		642		13,040
Total current assets	200,958	637,787	16,719	118,178	973,642
Property, plant and equipment, net		898,106	11,427	(1)	909,532
Equity investment	1,461,356	15,300	26,347	(1,476,656)	26,347
Other assets, net	43,278	49,637	5,694	(36,028)	62,581
Total assets	$ 1,705,592	$ 1,600,830	$ 60,187	$ (1,394,507)	$ 1,972,102

Current liabilities					
Accounts payable	$ 18,036	$ 125,494	$ 1,502	$ 1	$ 145,033
Accrued liabilities	17,333	106,237	1,381	(31)	124,920
Total current liabilities	35,369	231,731	2,883	(30)	269,953
Long-term debt	249,246	(76,238)	4,949	82,178	260,135
Deferred income taxes	228,883		1,874		230,757
Other liabilities	19,793	19,165		(2)	38,956
Stockholders equity	1,172,301	1,426,172	50,481	(1,476,653)	1,172,301
Total liabilities and stockholders equity	$ 1,705,592	$ 1,600,830	$ 60,187	$ (1,394,507)	$ 1,972,102

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(UNAUDITED)

(dollars in thousands, except per share data)

Condensed Consolidating Financial Information as of December 31, 2005

	Westlake Chemical Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Balance Sheet					
Current assets					
Cash and cash equivalents	$ 231,957	$ 151	$ 5,787	$	$ 237,895
Accounts receivable, net	60,697	290,749	98	(48,765)	302,779
Inventories, net		331,867	8,003		339,870
Prepaid expenses and other current assets	10	9,007	289		

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)
Other comprehensive income, net of tax of $(907)	—	—	—	—	1,441	—	1,441

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 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

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)	(737)	174	3,941
Other consumer loans	7,924	4,027	(4,373)	782	7,488
Total Personal Banking	14,281	4,488	(7,402)	1,074	16,121
Commercial Banking:					
Commercial real estate loans	25,686	(7,715)	(1,500)	2,553	32,348
Commercial loans	15,356	3,340	(996)	511	12,501
Total Commercial Banking	41,042	(4,375)	(2,496)	3,064	44,849
Total originated loans	55,323	113	(9,898)	4,138	60,970
Acquired loans:					
Personal Banking:					
Residential mortgage loans	61	72	(124)	95	18
Home equity loans	1,128	1,955	(1,193)	265	101
Other consumer loans	552	709	(362)	95	110
Total Personal Banking	1,741	2,736	(1,679)	455	229
Commercial Banking:					
Commercial real estate loans	3,165	2,474	(1,128)	380	1,439
Commercial loans	552	536	(24)	6	34
Total Commercial Banking	3,717	3,010	(1,152)	386	1,473
Total acquired loans	5,458	5,746	(2,831)	841	1,702
Total	$60,781	5,859	(12,729)	4,979	62,672

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, 2015 (in thousands):

	Balance June 30, 2015	Current period provision	Charge-offs	Recoveries	Balance December 31, 2014
Personal Banking:					
Residential mortgage loans	$4,892	(206)	(613)	130	5,581
Home equity loans	3,445	(400)	(884)	179	4,550
Other consumer loans	6,244	3,135	(3,699)	690	6,118
Total Personal Banking	14,581	2,529	(5,196)	999	16,249
Commercial Banking:					
Commercial real estate loans	30,163	(1,316)	(4,552)	2,642	33,389
Commercial loans	14,313	5,102	(7,080)	2,776	13,515
Total Commercial Banking	44,476	3,786	(11,632)	5,418	46,904

Unallocated	—	(4,365)	—	—	4,365
Total	$59,057	1,950	(16,828)	6,417	67,518

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At June 30, 2016, we expect to fully collect the carrying value of our acquired loans and have determined that we can reasonably estimate their future cash flows including those loans that are 90 days or more delinquent. As a result, we do not consider our acquired loans that are 90 days or more delinquent to be nonaccrual or impaired and continue to recognize interest income on these loans, including the loans' accretable discount.

The following table provides information related to the loan portfolio by portfolio segment and by class of financing receivable at June 30, 2016 (in thousands):

	Total loans receivable	Allowance for loan losses	Nonaccrual loans (1)	Loans past due 90 days or more and still accruing (2)	TDRs	Allowance related to TDRs	Additional commitments to customers with loans classified as TDRs
Personal Banking:							
Residential mortgage loans	$2,757,598	3,083	18,370	2	7,340	251	—
Home equity loans	1,162,174	4,463	6,733	—	2,205	405	—
Consumer loans	546,550	8,476	2,903	171	—	—	—
Total Personal Banking	4,466,322	16,022	28,006	173	9,545	656	—
Commercial Banking:							
Commercial real estate loans	2,363,376	28,851	37,080	—	27,999	2,028	203
Commercial loans	465,223	15,908	10,792	299	11,569	1,256	131
Total Commercial Banking	2,828,599	44,759	47,872	299	39,568	3,284	334
Total	$7,294,921	60,781	75,878	472	49,113	3,940	334

(1) Includes $18.1 million of nonaccrual TDRs.
(2) Represents loans 90 days past maturity and still accruing.

The following table provides information related to the loan portfolio by portfolio segment and by class of financing receivable at December 31, 2015 (in thousands):

	Total loans receivable	Allowance for loan losses	Nonaccrual loans (1)	Loans past due 90 days or more and still accruing (2)	TDRs	Allowance related to TDRs	Additional commitments to customers with loans classified as TDRs
Personal Banking:							
Residential mortgage loans	$2,740,892	4,710	19,772	4	6,360	1,189	—
Home equity loans	1,187,106	4,042	7,522	—	2,298	605	—
Consumer loans	520,289	7,598	3,452	976	—	—	—
Total Personal Banking	4,448,287	16,350	30,746	980	8,658	1,794	—
Commercial Banking:							
Commercial real estate loans	2,351,434	33,787	33,421	206	31,970	2,257	241
Commercial loans	422,400	12,535	7,495	148	10,487	631	79
Total Commercial Banking	2,773,834	46,322	40,916	354	42,457	2,888	320
Total	$7,222,121	62,672	71,662	1,334	51,115	4,682	320

(1) Includes $21.1 million of nonaccrual TDRs.

(2) Represents loans 90 days past maturity and still accruing.

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The following table provides geographical information related to the loan portfolio by portfolio segment and class of financing receivable at June 30, 2016 (in thousands):

	Pennsylvania	New York	Ohio	Maryland	Other	Total
Loans receivable:						
Personal Banking:						
Residential mortgage loans	$2,324,087	181,713	71,305	124,887	55,606	2,757,598
Home equity loans	859,960	125,112	148,757	24,316	4,029	1,162,174
Consumer loans	263,384	12,555	107,267	1,942	161,402	546,550
Total Personal Banking	3,447,431	319,380	327,329	151,145	221,037	4,466,322
Commercial Banking:						
Commercial real estate loans	954,237	795,715	454,354	115,546	43,524	2,363,376
Commercial loans	329,151	56,340	64,018	5,641	10,073	465,223
Total Commercial Banking	1,283,388	852,055	518,372	121,187	53,597	2,828,599
Total	$4,730,819	1,171,435	845,701	272,332	274,634	7,294,921
Percentage of total loans receivable	64.9 %	16.0 %	11.6 %	3.7 %	3.8 %	100.0 %

The following table provides delinquency information related to the loan portfolio by portfolio segment and class of financing receivable at June 30, 2016 (in thousands):

	Pennsylvania	New York	Ohio	Maryland	Other	Total
Loans 90 or more days delinquent: (1)						
Personal Banking:						
Residential mortgage loans	$ 9,914	2,168	1,094	1,222	648	15,046
Home equity loans	2,784	872	1,296	470	—	5,422
Consumer loans	2,097	59	19	—	224	2,399
Total Personal Banking	14,795	3,099	2,409	1,692	872	22,867
Commercial Banking:						
Commercial real estate loans	6,957	2,402	5,632	110	143	15,244
Commercial loans	3,229	795	565	120	—	4,709
Total Commercial Banking	10,186	3,197	6,197	230	143	19,953
Total	$ 24,981	6,296	8,606	1,922	1,015	42,820
Percentage of total loans 90 or more days delinquent	58.3 %	14.7 %	20.1 %	4.5 %	2.4 %	100.0 %

(1) Includes $2.9 million of acquired loans considered accruing.

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The following table provides geographical information related to the loan portfolio by portfolio segment and class of financing receivable at December 31, 2015 (in thousands):

	Pennsylvania	New York	Ohio	Maryland	Other	Total
Loans receivable:						
Personal Banking:						
Residential mortgage loans	$2,310,860	171,790	70,209	129,129	58,904	2,740,892
Home equity loans	879,447	124,291	154,003	24,458	4,907	1,187,106
Consumer loans	260,170	12,244	102,034	1,870	143,971	520,289
Total Personal Banking	3,450,477	308,325	326,246	155,457	207,782	4,448,287
Commercial Banking:						
Commercial real estate loans	965,090	749,435	453,180	122,775	60,954	2,351,434
Commercial loans	284,611	53,420	68,327	5,662	10,380	422,400
Total Commercial Banking	1,249,701	802,855	521,507	128,437	71,334	2,773,834
Total	$4,700,178	1,111,180	847,753	283,894	279,116	7,222,121
Percentage of total loans receivable	65.1 %	15.4 %	11.7 %	3.9 %	3.9 %	100.0 %

The following table provides delinquency information related to the loan portfolio by portfolio segment and class of financing receivable at December 31, 2015 (in thousands):

	Pennsylvania	New York	Ohio	Maryland	Other	Total
Loans 90 or more days delinquent: (1)						
Personal Banking:						
Residential mortgage loans	$ 10,998	1,801	1,308	1,341	902	16,350
Home equity loans	3,204	639	1,294	975	—	6,112
Consumer loans	2,780	90	24	—	32	2,926
Total Personal Banking	16,982	2,530	2,626	2,316	934	25,388
Commercial Banking:						
Commercial real estate loans	10,439	3,012	4,823	251	506	19,031
Commercial loans	1,582	859	158	—	—	2,599
Total Commercial Banking	12,021	3,871	4,981	251	506	21,630
Total	$ 29,003	6,401	7,607	2,567	1,440	47,018
Percentage of total loans 90 or more days delinquent	61.6 %	13.6 %	16.2 %	5.5 %	3.1 %	100.0 %

(1) Includes $3.8 million of acquired loans considered accruing.

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

	Nonaccrual loans 90 or more days delinquent	Nonaccrual loans less than 90 days delinquent	Loans less than 90 days delinquent reviewed for impairment	TDRs less than 90 days delinquent not included elsewhere	Total impaired loans	Average recorded investment in impaired loans	Interest income recognized on impaired loans
Personal Banking:							
Residential mortgage loans	$ 14,829	3,541	—	6,165	24,535	24,219	549
Home equity loans	5,226	1,507	—	1,737	8,470	9,096	237
Consumer loans	2,374	529	—	—	2,903	3,065	73
Total Personal Banking	22,429	5,577	—	7,902	35,908	36,380	859
Commercial Banking:							
Commercial real estate loans	12,960	24,120	4,443	13,982	55,505	69,232	1,647
Commercial loans	4,566	6,226	2,843	3,942	17,577	15,896	465
Total Commercial Banking	17,526	30,346	7,286	17,924	73,082	85,128	2,112
Total	$ 39,955	35,923	7,286	25,826	108,990	121,508	2,971

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

	Nonaccrual loans 90 or more days delinquent	Nonaccrual loans less than 90 days delinquent	Loans less than 90 days delinquent reviewed for impairment	TDRs less than 90 days delinquent not included elsewhere	Total impaired loans	Average recorded investment in impaired loans	Interest income recognized on impaired loans
Personal Banking:							
Residential mortgage loans	$ 15,810	3,962	—	5,086	24,858	24,554	944
Home equity loans	5,650	1,872	—	1,847	9,369	9,644	497
Consumer loans	2,900	552	—	—	3,452	2,977	101
Total Personal Banking	24,360	6,386	—	6,933	37,679	37,175	1,542
Commercial Banking:							
Commercial real estate loans	16,449	16,972	16,121	16,467	66,009	77,166	3,226
Commercial loans	2,459	5,036	2,014	4,654	14,163	16,187	694
Total Commercial Banking	18,908	22,008	18,135	21,121	80,172	93,353	3,920
Total	$ 43,268	28,394	18,135	28,054	117,851	130,528	5,462

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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 June 30, 2016 (in thousands):

	Loans collectively evaluated for impairment	Loans individually evaluated for impairment	Loans individually evaluated for impairment for which there is a related impairment reserve	Related impairment reserve	Loans individually evaluated for impairment for which there is no related reserve
Personal Banking:					
Residential mortgage loans	$ 2,749,415	8,183	8,183	251	—
Home equity loans	1,159,969	2,205	2,205	405	—
Consumer loans	546,469	81	81	18	—
Total Personal Banking	4,455,853	10,469	10,469	674	—
Commercial Banking:					
Commercial real estate loans	2,329,716	33,660	33,284	2,402	376
Commercial loans	453,046	12,177	12,177	1,159	—
Total Commercial Banking	2,782,762	45,837	45,461	3,561	376
Total	$ 7,238,615	56,306	55,930	4,235	376

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

	Loans collectively evaluated for impairment	Loans individually evaluated for impairment	Loans individually evaluated for impairment for which there is a related impairment reserve	Related impairment reserve	Loans individually evaluated for impairment for which there is no related reserve
Personal Banking:					
Residential mortgage loans	$ 2,733,741	7,151	7,151	1,189	—
Home equity loans	1,184,808	2,298	2,298	605	—
Consumer loans	520,159	130	130	50	—
Total Personal Banking	4,438,708	9,579	9,579	1,844	—
Commercial Banking:					
Commercial real estate loans	2,297,599	53,835	35,937	2,675	17,898
Commercial loans	411,342	11,058	7,673	489	3,385
Total Commercial Banking	2,708,941	64,893	43,610	3,164	21,283
Total	$ 7,147,649	74,472	53,189	5,008	21,283

Our loan portfolios include 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 may be returned to performing status after considering the borrower's sustained repayment performance for a reasonable period of at least six months.

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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, using ASC 310-10. 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.

The following table provides a roll forward of troubled debt restructurings for the periods indicated (in thousands):

	For the quarters ended June 30,			
	2016		2015	
	Number of contracts	Amount	Number of contracts	Amount
Beginning TDR balance:	227	$48,248	242	$60,645
New TDRs	9	1,662	4	386
Re-modified TDRs	3	863	1	45
Net paydowns		(1,421)		(3,617)
Charge-offs:				
Residential mortgage loans	—	—	—	—
Home equity loans	—	—	1	(68)
Commercial real estate loans	—	—	1	(9)
Commercial loans	—	—	—	—
Paid-off loans:				
Residential mortgage loans	—	—	1	(53)
Home equity loans	1	(1)	—	—
Commercial real estate loans	4	(41)	6	(926)
Commercial loans	1	(197)	6	(219)
Ending TDR balance:	230	$49,113	231	$56,184
Accruing TDRs		$31,015		$40,741
Non-accrual TDRs		18,098		15,443

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The following table provides a roll forward of troubled debt restructurings for the periods indicated (in thousands):

	For the six months ended June 30,			
	2016		2015	
	Number of contracts		Number of contracts	
Beginning TDR balance:	227	$51,115	248	$61,788
New TDRs	18	5,011	6	498
Re-modified TDRs	4	1,063	2	130
Net paydowns		(2,904)		(4,440)
Charge-offs:				
Residential mortgage loans	—	—	—	—
Home equity loans	—	—	3	(99)
Commercial real estate loans	—	—	2	(23)
Commercial loans	1	(43)	2	(387)
Paid-off loans:				
Residential mortgage loans	—	—	1	(53)
Home equity loans	3	(232)	1	(6)
Commercial real estate loans	8	(4,562)	8	(1,005)
Commercial loans	3	(335)	6	(219)
Ending TDR balance:	230	$49,113	231	$56,184
Accruing TDRs		$31,015		$40,741
Non-accrual TDRs		18,098		15,443

The following table provides information related to troubled debt restructurings (including re-modified TDRs) by portfolio segment and by class of financing receivable during the periods indicated (dollars in thousands):

	For the quarter ended June 30, 2016				For the six months ended June 30, 2016			
	Number of contracts	Recorded investment at the time of modification	Current recorded investment	Current allowance	Number of contracts	Recorded investment at the time of modification	Current recorded investment	Current allowance
Troubled debt restructurings:								
Personal Banking:								
Residential mortgage loans	2	$ 526	525	17	5	$ 1,033	1,028	49
Home equity loans	4	224	191	47	5	280	246	60
Consumer loans	—	—	—	—	—	—	—	—
Total Personal Banking	6	750	716	64	10	1,313	1,274	109
Commercial Banking:								
Commercial real estate loans	2	812	807	31	4	2,096	2,076	297
Commercial loans	4	963	963	481	8	2,665	1,751	575
Total Commercial Banking	6	1,775	1,770	512	12	4,761	3,827	872
Total	12	$ 2,525	2,486	576	22	$ 6,074	5,101	981

At June 30, 2016, no TDRs modified within the previous twelve months have subsequently defaulted.

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The following table provides information related to troubled debt restructurings (including re-modified TDRs) by portfolio segment and by class of financing receivable during the periods indicated (dollars in thousands):

	For the quarter ended June 30, 2015				For the six months ended June 30, 2015			
	Number of contracts	Recorded investment at the time of modification	Current recorded investment	Current allowance	Number of contracts	Recorded investment at the time of modification	Current recorded investment	Current allowance
Troubled debt restructurings:								
Personal Banking:								
Residential mortgage loans	2	$ 120	119	—	4	$ 232	230	1
Home equity loans	1	2	2	—	2	87	85	17
Consumer loans	—	—	—	—	—	—	—	—
Total Personal Banking	3	122	121	—	6	319	315	18
Commercial Banking:								
Commercial real estate loans	1	12	12	1	1	12	12	1
Commercial loans	1	297	294	29	1	297	294	29
Total Commercial Banking	2	309	306	30	2	309	306	30
Total	5	$ 431	427	30	8	$ 628	621	48
Troubled debt restructurings modified within the previous twelve months that have subsequently defaulted:								
Personal Banking:								
Residential mortgage loans	1	$ 251	250	—	1	$ 251	250	—
Home equity loans	1	23	21	—	1	23	21	—
Consumer loans	—	—	—	—	—	—	—	—
Total Personal Banking	2	274	271	—	2	274	271	—
Commercial Banking:								
Commercial real estate loans	—	—	—	—	—	—	—	—
Commercial loans	—	—	—	—	1	50	—	—
Total Commercial Banking	—	—	—	—	1	50	—	—
Total	2	$ 274	271	—	3	$ 324	271	—

The following table provides information as of June 30, 2016 for troubled debt restructurings (including re-modified TDRs) by type of modification, by portfolio segment and class of financing receivable for modifications during the quarter ended June 30, 2016 (dollars in thousands):

		Type of modification				
	Number of contracts	Rate	Payment	Maturity date	Other	Total
Personal Banking:						
Residential mortgage loans	2	$—	—	525	—	525
Home equity loans	4	68	—	—	123	191
Consumer loans	—	—	—	—	—	—
Total Personal Banking	6	68	—	525	123	716

Commercial Banking:						
Commercial real estate loans	2	—	429	378	—	807
Commercial loans	4	—	963	—	—	963
Total Commercial Banking	6	—	1,392	378	—	1,770
Total	12	$ 68	1,392	903	123	2,486

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The following table provides information as of June 30, 2015 for troubled debt restructurings (including re-modified TDRs) by type of modification, by portfolio segment and class of financing receivable for modifications during the quarter ended June 30, 2015 (dollars in thousands):

		Type of modification				
	Number of contracts	Rate	Payment	Maturity date	Other	Total
Personal Banking:						
Residential mortgage loans	2	$ 74	—	—	45	119
Home equity loans	1	—	—	2	—	2
Consumer loans	—	—	—	—	—	—
Total Personal Banking	3	74	—	2	45	121
Commercial Banking:						
Commercial real estate loans	1	—	—	12	—	12
Commercial loans	1	—	—	294	—	294
Total Commercial Banking	2	—	—	306	—	306
Total	5	$ 74	—	308	45	427

The following table provides information as of June 30, 2016 for troubled debt restructurings (including re-modified TDRs) by type of modification, by portfolio segment and class of financing receivable for modifications during the six months ended June 30, 2016 (dollars in thousands):

		Type of modification				
	Number of contracts	Rate	Payment	Maturity date	Other	Total
Personal Banking:						
Residential mortgage loans	5	$363	—	617	48	1,028
Home equity loans	5	123	—	—	123	246
Other consumer loans	—	—	—	—	—	—
Total Personal Banking	10	486	—	617	171	1,274
Commercial Banking:						
Commercial real estate loans	4	—	429	378	1,269	2,076
Commercial loans	8	—	—	963	788	1,751
Total Commercial Banking	12	—	429	1,341	2,057	3,827
Total	22	$486	429	1,958	2,228	5,101

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The following table provides information as of June 30, 2015 for troubled debt restructurings (including re-modified TDRs) by type of modification, by portfolio segment and class of financing receivable for modifications during the six months ended June 30, 2015 (dollars in thousands):

	Number of contracts	Type of modification				
		Rate	Payment	Maturity date	Other	Total
Personal Banking:						
Residential mortgage loans	4	$ 74	—	111	45	230
Home equity loans	2	83	—	2	—	85
Other consumer loans	—	—	—	—	—	—
Total Personal Banking	6	157	—	113	45	315
Commercial Banking:						
Commercial real estate loans	1	—	—	12	—	12
Commercial loans	1	—	—	294	—	294
Total Commercial Banking	2	—	—	306	—	306
Total	8	$ 157	—	419	45	621

The following table provides information related to re-modified troubled debt restructurings by portfolio segment and by class of financing receivable for the quarter ended June 30, 2016 (dollars in thousands):

	Number of re-modified TDRs	Type of re-modification				
		Rate	Payment	Maturity date	Other	Total
Personal Banking:						
Residential mortgage loans	—	$ —	—	—	—	—
Home equity loans	—	—	—	—	—	—
Consumer loans	—	—	—	—	—	—
Total Personal Banking	—	—	—	—	—	—
Commercial Banking:						
Commercial real estate loans	—	—	—	—	—	—
Commercial loans	3	—	863	—	—	863
Total Commercial Banking	3	—	863	—	—	863
Total	3	$ —	863	—	—	863

The following table provides information related to re-modified troubled debt restructurings by portfolio segment and by class of financing receivable for the quarter ended June 30, 2015 (dollars in thousands):

	Number of re-modified TDRs	Type of re-modification				
		Rate	Payment	Maturity date	Other	Total
Personal Banking:						
Residential mortgage loans	1	$ —	—	—	45	45
Home equity loans	—	—	—	—	—	—
Consumer loans	—	—	—	—	—	—
Total Personal Banking	1	—	—	—	45	45
Commercial Banking:						

Commercial real estate loans	—	—	—	—	—	—
Commercial loans	—	—	—	—	—	—
Total Commercial Banking	—	—	—	—	—	—
Total	1	$ —	—	—	45	45

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The following table provides information related to re-modified troubled debt restructurings by portfolio segment and by class of financing receivable for the six months ended June 30, 2016 (dollars in thousands):

	Number of re-modified TDRs	Type of re-modification				
		Rate	Payment	Maturity date	Other	Total
Personal Banking:						
Residential mortgage loans	—	$ —	—	—	—	—
Home equity loans	—	—	—	—	—	—
Other consumer loans	—	—	—	—	—	—
Total Personal Banking	—	—	—	—	—	—
Commercial Banking:						
Commercial real estate loans	1	—	—	—	191	191
Commercial loans	3	—	863	—	—	863
Total Commercial Banking	4	—	863	—	191	1,054
Total	4	$ —	863	—	191	1,054

The following table provides information related to re-modified troubled debt restructurings by portfolio segment and by class of financing receivable for the six months ended June 30, 2015 (dollars in thousands):

	Number of re-modified TDRs	Type of re-modification				
		Rate	Payment	Maturity date	Other	Total
Personal Banking:						
Residential mortgage loans	1	$ —	—	—	45	45
Home equity loans	1	83	—	—	—	83
Other consumer loans	—	—	—	—	—	—
Total Personal Banking	2	83	—	—	45	128
Commercial Banking:						
Commercial real estate loans	—	—	—	—	—	—
Commercial loans	—	—	—	—	—	—
Total Commercial Banking	—	—	—	—	—	—
Total	2	$ 83	—	—	45	128

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The following table provides information related to loan payment delinquencies at June 30, 2016 (in thousands):

	30-59 Days delinquent	60-89 Days delinquent	90 Days or greater delinquent	Total delinquency	Current	Total loans receivable	90 Days or greater delinquent and accruing (1)
Originated loans:							
Personal Banking:							
Residential mortgage loans	$ 2,468	5,360	14,492	22,320	2,692,974	2,715,294	—
Home equity loans	4,617	1,291	4,545	10,453	1,029,004	1,039,457	—
Consumer loans	6,032	2,068	2,224	10,324	377,789	388,113	—
Total Personal Banking	13,117	8,719	21,261	43,097	4,099,767	4,142,864	—
Commercial Banking:							
Commercial real estate loans	3,824	5,623	10,018	19,465	1,960,298	1,979,763	—
Commercial loans	402	2,076	4,566	7,044	409,460	416,504	—
Total Commercial Banking	4,226	7,699	14,584	26,509	2,369,758	2,396,267	—
Total originated loans	17,343	16,418	35,845	69,606	6,469,525	6,539,131	—
Acquired loans:							
Personal Banking:							
Residential mortgage loans	885	273	554	1,712	40,592	42,304	217
Home equity loans	371	144	877	1,392	121,325	122,717	196
Consumer loans	693	179	175	1,047	157,390	158,437	25
Total Personal Banking	1,949	596	1,606	4,151	319,307	323,458	438
Commercial Banking:							
Commercial real estate loans	1,004	3,142	5,226	9,372	374,241	383,613	2,284
Commercial loans	131	353	143	627	48,092	48,719	143
Total Commercial Banking	1,135	3,495	5,369	9,999	422,333	432,332	2,427
Total acquired loans	3,084	4,091	6,975	14,150	741,640	755,790	2,865
Total loans	$ 20,427	20,509	42,820	83,756	7,211,165	7,294,921	2,865

(1) Represents acquired loans that were originally recorded at fair value upon acquisition. These loans are considered to be accruing because we can reasonably estimate future cash flows on and expect to fully collect the carrying value of these loans. Therefore, we are accreting the difference between the carrying value and their expected cash flows into interest income.

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The following table provides information related to loan payment delinquencies at December 31, 2015 (in thousands):

	30-59 Days delinquent	60-89 Days delinquent	90 Days or greater delinquent	Total delinquency	Current	Total loans receivable	90 Days or greater delinquent and accruing (1)
Originated loans:							
Personal Banking:							
Residential mortgage loans	$ 25,503	7,541	15,564	48,608	2,646,568	2,695,176	—
Home equity loans	4,870	1,836	5,251	11,957	1,043,950	1,055,907	—
Consumer loans	6,092	2,340	2,857	11,289	301,085	312,374	—
Total Personal Banking	36,465	11,717	23,672	71,854	3,991,603	4,063,457	—
Commercial Banking:							
Commercial real estate loans	22,212	6,875	14,942	44,029	1,891,128	1,935,157	—
Commercial loans	1,703	598	2,449	4,750	356,658	361,408	—
Total Commercial Banking	23,915	7,473	17,391	48,779	2,247,786	2,296,565	—
Total originated loan	60,380	19,190	41,063	120,633	6,239,389	6,360,022	—
Acquired loans:							
Personal Banking:							
Residential mortgage loans	440	249	786	1,475	44,241	45,716	540
Home equity loans	936	642	861	2,439	128,760	131,199	462
Consumer loans	1,009	181	69	1,259	206,656	207,915	26
Total Personal Banking	2,385	1,072	1,716	5,173	379,657	384,830	1,028
Commercial Banking:							
Commercial real estate loans	2,665	1,353	4,089	8,107	408,170	416,277	2,582
Commercial loans	1,165	—	150	1,315	59,677	60,992	140
Total Commercial Banking	3,830	1,353	4,239	9,422	467,847	477,269	2,722
Total acquired loan	6,215	2,425	5,955	14,595	847,504	862,099	3,750
Total	$ 66,595	21,615	47,018	135,228	7,086,893	7,222,121	3,750

(1) Represents acquired loans that were originally recorded at fair value upon acquisition. These loans are considered to be accruing because we can reasonably estimate future cash flows on and expect to fully collect the carrying value of these loans. Therefore, we are accreting the difference between the carrying value and their expected cash flows into interest income.

Credit quality indicators: We categorize loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. We analyze loans individually by classifying the loans by credit risk. Credit relationships greater than or equal to $1.0 million classified as special mention or substandard are reviewed quarterly for deterioration or improvement to determine if the loan is appropriately classified. We use the following definitions for risk ratings other than pass:

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

Substandard — Loans classified as substandard are inadequately protected by the current net worth and payment capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that

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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 possible in the future.

The following table sets forth information about credit quality indicators updated during the quarter ended June 30, 2016 (in thousands):

	Pass	Special mention	Substandard	Doubtful	Loss	Total loans receivable
Originated loans:						
Personal Banking:						
Residential mortgage loans	$2,700,637	—	14,657	—	—	2,715,294
Home equity loans	1,032,759	—	6,698	—	—	1,039,457
Consumer loans	386,208	—	1,905	—	—	388,113
Total Personal Banking	4,119,604	—	23,260	—	—	4,142,864
Commercial Banking:						
Commercial real estate loans	1,813,712	56,459	109,578	14	—	1,979,763
Commercial loans	361,002	14,725	37,713	3,064	—	416,504
Total Commercial Banking	2,174,714	71,184	147,291	3,078	—	2,396,267
Total originated loans	6,294,318	71,184	170,551	3,078	—	6,539,131
Acquired loans:						
Personal Banking:						
Residential mortgage loans	40,464	—	1,840	—	—	42,304
Home equity loans	120,251	—	2,466	—	—	122,717
Consumer loans	157,966	—	471	—	—	158,437
Total Personal Banking	318,681	—	4,777	—	—	323,458
Commercial Banking:						
Commercial real estate loans	356,871	6,892	19,850	—	—	383,613
Commercial loans	47,176	710	833	—	—	48,719
Total Commercial Banking	404,047	7,602	20,683	—	—	432,332
Total acquired loans	722,728	7,602	25,460	—	—	755,790
Total loans	$7,017,046	78,786	196,011	3,078	—	7,294,921

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The following table sets forth information about credit quality indicators, which were updated during the year ended December 31, 2015 (in thousands):

	Pass	Special mention	Substandard	Doubtful	Loss	Total loans receivable
Originated loans:						
Personal Banking:						
Residential mortgage loans	$2,680,562	—	13,274	—	1,340	2,695,176
Home equity loans	1,048,397	—	7,510	—	—	1,055,907
Consumer loans	309,900	—	2,474	—	—	312,374
Total Personal Banking	4,038,859	—	23,258	—	1,340	4,063,457
Commercial Banking:						
Commercial real estate loans	1,778,140	46,518	110,384	115	—	1,935,157
Commercial loans	299,455	23,023	37,820	1,110	—	361,408
Total Commercial Banking	2,077,595	69,541	148,204	1,225	—	2,296,565
Total originated loans	6,116,454	69,541	171,462	1,225	1,340	6,360,022
Acquired loans:						
Personal Banking:						
Residential mortgage loans	44,930	—	786	—	—	45,716
Home equity loans	130,338	—	861	—	—	131,199
Consumer loans	207,846	—	69	—	—	207,915
Total Personal Banking	383,114	—	1,716	—	—	384,830
Commercial Banking:						
Commercial real estate loans	392,811	6,872	16,594	—	—	416,277
Commercial loans	59,948	707	337	—	—	60,992
Total Commercial Banking	452,759	7,579	16,931	—	—	477,269
Total acquired loans	835,873	7,579	18,647	—	—	862,099
Total	$6,952,327	77,120	190,109	1,225	1,340	7,222,121

(5) Goodwill and Other Intangible Assets

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

	June 30, 2016	December 31, 2015
Amortizable intangible assets:		
Core deposit intangibles — gross	$37,953	30,578
Acquisitions	—	7,375
Less: accumulated amortization	(32,114)	(31,192)
Core deposit intangibles — net	5,839	6,761
Customer and Contract intangible assets — gross	8,496	8,234
Acquisitions	498	262
Less: accumulated amortization	(6,738)	(6,275)
Customer and Contract intangible assets — net	$2,256	2,221

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The following table shows the actual aggregate amortization expense for the quarters ended June 30, 2016 and 2015, 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 quarter ended June 30, 2016	$ 710
For the quarter ended June 30, 2015	269
For the six months ended June 30, 2016	1,385
For the six months ended June 30, 2015	537
For the year ending December 31, 2016	2,716
For the year ending December 31, 2017	2,224
For the year ending December 31, 2018	1,762
For the year ending December 31, 2019	1,300
For the year ending December 31, 2020	837
For the year ending December 31, 2021	462

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

	Community Banking	Consumer Finance	Total
Balance at December 31, 2014	$ 173,710	1,613	175,323
Goodwill acquired	86,413	—	86,413
Impairment losses	—	—	—
Balance at December 31, 2015	260,123	1,613	261,736
Goodwill acquired	404	—	404
Impairment losses	—	—	—
Balance at June 30, 2016	$ 260,527	1,613	262,140

We are in the process of performing our annual goodwill impairment test as of June 30, 2016 and do not anticipate that goodwill will be impaired. See Note 1 of the Notes to Consolidated Financial Statements in Item 8 of Part II of our 2015 Annual Report on Form 10-K for a description of our testing procedures.

(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 June 30, 2016, the maximum potential amount of future payments we could be required to make under these standby letters of credit was $33.4 million, of which $24.7 million is fully collateralized. At June 30, 2016, we had a liability, which represents deferred income, of $301,000 related to the standby letters of credit. There are no recourse provisions that would enable us to recover any amounts from third parties.

(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 stock options outstanding during the quarter ended June 30, 2016 were included in the computation of diluted earnings per share because the options' exercise price was less than the average market price of the common shares of $14.15. Stock options to purchase 1,711,080 shares of common stock with a weighted average exercise price of $12.64 per share were outstanding during the quarter ended June 30, 2015 but were not included in the computation of diluted earnings per share because the options' exercise price was greater than the average market price of the common shares of $12.32. Stock options to purchase 723,459 shares of common stock with a weighted average exercise price of $14.15 per share were outstanding during the six months ended June 30, 2016 but were

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not included in the computation of diluted earnings per share because the options' exercise price was greater than the average market price of the common shares of $13.43. Stock options to purchase 4,344,225 shares of common stock with a weighted average exercise price of $12.42 per share were outstanding during the six months ended June 30, 2015 but were not included in the computation of diluted earnings per share because the options' exercise price was greater than the average market price of the common shares of $12.11.

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

	Quarter ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Reported net income/ (loss)	$(7,008)	15,305	10,976	31,475
Weighted average common shares outstanding	99,177,609	91,538,172	99,033,676	91,585,766
Dilutive potential shares due to effect of stock options	1,065,833	459,833	778,049	364,450
Total weighted average common shares and dilutive potential shares	100,243,442	91,998,005	99,811,725	91,950,216
Basic earnings/ (loss) per share:	$(0.07)	0.17	0.11	0.34
Diluted earnings/ (loss) per share:	$(0.07)	0.17	0.11	0.34

(8) Pension and Other Post-retirement Benefits

The following table sets forth the net periodic costs for the defined benefit pension plans and post retirement healthcare plans for the periods indicated (in thousands):

Components of net periodic benefit cost

	Quarter ended June 30,			
	Pension benefits		Other post-retirement benefits	
	2016	2015	2016	2015
Service cost	$1,374	1,430	—	—
Interest cost	1,695	1,531	18	15
Expected return on plan assets	(2,475)	(2,593)	—	—
Amortization of prior service cost	(580)	(581)	—	—
Amortization of the net loss	928	925	22	15
Net periodic (benefit)/ cost	$942	712	40	30
	Six months ended June 30,			
	Pension benefits		Other post-retirement benefits	
	2016	2015	2016	2015
Service cost	$2,748	2,860	—	—
Interest cost	3,391	3,062	35	30
Expected return on plan assets	(4,949)	(5,186)	—	—
Amortization of prior service cost	(1,161)	(1,162)	—	—
Amortization of the net loss	1,855	1,850	45	30
Net periodic (benefit)/ cost	$1,884	1,424	80	60

We anticipate making a contribution to our defined benefit pension plan of $4.0 million to $8.0 million during the year ending December 31, 2016.

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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 techniques 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, 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 are segregated for valuation purposes. Characteristics include remaining term, coupon interest, and estimated prepayment speeds. Delinquent loans are separately evaluated given the impact delinquency has on the projected future cash flow of the loan and the approximate discount or market rate. Each loan pool is separately valued utilizing a discounted cash flow analysis. Projected monthly cash flows are discounted to present value using a market rate for comparable loans, which is not considered an exit price.

Federal Home Loan Bank (“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

Fixed rate advances are valued by comparing their contractual cost to the prevailing market cost. The carrying amount of collateralized borrowings 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.

Cash flow hedges — Interest rate swap agreements (“swaps”)

The fair value of the swaps is the amount we would expect 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 June 30, 2016 and December 31, 2015, there was no significant unrealized appreciation or depreciation on these financial instruments.

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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 June 30, 2016 (in thousands):

	Carrying amount	Estimated fair value	Level 1	Level 2	Level 3
Financial assets:					
Cash and cash equivalents	$311,431	311,431	311,431	—	—
Securities available-for-sale	705,297	705,297	3,723	692,855	8,719
Securities held-to-maturity	25,144	25,978	—	25,978	—
Loans receivable, net	7,234,140	7,634,998	39,942	—	7,595,056
Accrued interest receivable	20,713	20,713	20,713	—	—
FHLB Stock	40,321	40,321	—	—	—
Total financial assets	$8,337,046	8,738,738	375,809	718,833	7,603,775
Financial liabilities:					
Savings and checking deposits	$5,039,713	5,039,713	5,039,713	—	—
Time deposits	1,596,288	1,613,089	—	—	1,613,089
Borrowed funds	959,969	959,838	139,652	—	820,186
Junior subordinated debentures	111,213	114,577	—	—	114,577
Cash flow hedges - swaps	4,236	4,236	—	4,236	—
Accrued interest payable	737	737	737	—	—
Total financial liabilities	$7,712,156	7,732,190	5,180,102	4,236	2,547,852

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 December 31, 2015 (in thousands):

	Carrying amount	Estimated fair value	Level 1	Level 2	Level 3
Financial assets:					
Cash and cash equivalents	$167,408	167,408	167,408	—	—
Securities available-for-sale	874,405	874,405	1,894	863,556	8,955
Securities held-to-maturity	31,689	32,552	—	32,552	—
Loans receivable, net	7,159,449	7,482,431	—	—	7,482,431
Accrued interest receivable	21,072	21,072	21,072	—	—
FHLB Stock	40,903	40,903	—	—	—
Total financial assets	$8,294,926	8,618,771	190,374	896,108	7,491,386
Financial liabilities:					
Savings and checking accounts	$4,917,863	4,917,863	4,917,863	—	—
Time deposits	1,694,718	1,710,388	—	—	1,710,388
Borrowed funds	975,007	998,527	118,664	—	879,863
Junior subordinated debentures	111,213	115,268	—	—	115,268
Cash flow hedges - swaps	4,276	4,276	—	4,276	—
Accrued interest payable	1,993	1,993	1,993	—	—
Total financial liabilities	$7,705,070	7,748,315	5,038,520	4,276	2,705,519

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 June 30, 2016 and December 31, 2015. There were no transfers of financial instruments between Level 1 and Level 2 during the nine months ended June 30, 2016.

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The following table represents assets and liabilities measured at fair value on a recurring basis at June 30, 2016 (in thousands):

	Level 1	Level 2	Level 3	Total assets at fair value
Equity securities	$ 3,723	—	—	3,723
Debt securities:				
U.S. government and agencies	—	9	—	9
Government sponsored enterprises	—	179,893	—	179,893
States and political subdivisions	—	77,343	—	77,343
Corporate	—	8,134	8,719	16,853
Total debt securities	—	265,379	8,719	274,098
Residential mortgage-backed securities:				
GNMA	—	24,935	—	24,935
FNMA	—	88,878	—	88,878
FHLMC	—	44,528	—	44,528
Non-agency	—	594	—	594
Collateralized mortgage obligations:				
GNMA	—	8,561	—	8,561
FNMA	—	110,365	—	110,365
FHLMC	—	140,047	—	140,047
SBA	—	7,365	—	7,365
Non-agency	—	2,203	—	2,203
Total mortgage-backed securities	—	427,476	—	427,476
Interest rate swaps	—	(4,236)	—	(4,236)
Total assets and liabilities	$ 3,723	688,619	8,719	701,061

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The following table represents assets and liabilities measured at fair value on a recurring basis at December 31, 2015 (in thousands):

	Level 1	Level 2	Level 3	Total assets at fair value
Equity securities	$ 1,894	—	—	1,894
Debt securities:				
U.S. government and agencies	—	11	—	11
Government sponsored enterprises	—	294,440	—	294,440
States and political subdivisions	—	82,868	—	82,868
Corporate	—	7,520	8,955	16,475
Total debt securities	—	384,839	8,955	393,794
Residential mortgage-backed securities:				
GNMA	—	27,082	—	27,082
FNMA	—	99,170	—	99,170
FHLMC	—	50,369	—	50,369
Non-agency	—	606	—	606
Collateralized mortgage obligations:				
GNMA	—	10,669	—	10,669
FNMA	—	122,528	—	122,528
FHLMC	—	157,378	—	157,378
SBA	—	8,166	—	8,166
Non-agency	—	2,749	—	2,749
Total mortgage-backed securities	—	478,717	—	478,717
Interest rate swaps	—	(4,276)	—	(4,276)
Total assets and liabilities	$ 1,894	859,280	8,955	870,129

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 periods indicated (in thousands):

	Quarter ended		Six months ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Beginning balance	$ 8,590	10,306	8,955	10,597
Total net realized investment gains/ (losses) and net change in unrealized appreciation/ (depreciation):				
Included in net income as OTTI	—	—	—	—
Included in other comprehensive income	129	(1,083)	(236)	(1,374)
Purchases	—	—	—	—
Sales	—	—	—	—
Transfers in to Level 3	—	—	—	—
Transfers out of Level 3	—	—	—	—

Ending balance	$8,719	9,223	8,719	9,223

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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, mortgage servicing rights, and real estate owned. The following table represents the fair value measurement for nonrecurring assets at June 30, 2016 (in thousands):

	Level 1	Level 2	Level 3	Total assets at fair value
Loans measured for impairment	$	——	51,695	51,695
Mortgage servicing rights	$	——	40	40
Real estate owned	—	—	4,950	4,950
Total assets	$	——	56,685	56,685

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, 2015 (in thousands):

	Level 1	Level 2	Level 3	Total assets at fair value
Loans measured for impairment	$	——	48,181	48,181
Real estate owned	—	—	8,725	8,725
Total assets	$	——	56,906	56,906

Impaired loans — A loan is considered to be impaired as described in Note 1 of the Notes to Consolidated Financial Statements in Item 8 of Part II of our 2015 Annual Report on Form 10-K. We classify loans individually evaluated for impairment that require a specific reserve as nonrecurring Level 3.

Mortgage servicing rights - Mortgage servicing rights represent the value of servicing residential mortgage loans, when the mortgage loans have been sold into the secondary market and the associated servicing has been retained. The value is determined through a discounted cash flow analysis, which uses interest rates, prepayment speeds and delinquency rate assumptions as inputs. All of these assumptions require a significant degree of management judgment. Servicing rights and the related mortgage loans are segregated into categories or homogeneous pools based upon common characteristics. Adjustments are only made when the estimated discounted future cash flows are less than the carrying value, as determined by individual pool. As such, mortgage servicing rights are classified 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.

The table 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 June 30, 2016 (dollar amounts in thousands):

	Fair value	Valuation techniques	Significant unobservable inputs	Range (weighted average)
Debt securities	$ 8,719	Discounted cash flow	Discount margin	0.4% to 2.1% (0.7%)
			Default rates	1.0%
			Prepayment speeds	1.0 annually
Loans measured for impairment	51,695	Appraisal value (1)	Estimated cost to sell	10.0%
		Discounted cash flow	Discount rate	3.8% to 20.0% (11.0%)
Mortgage servicing rights	40	Discounted cash flow	Annual service cost	$80
			Prepayment rates	7.3% to 8.4% (7.9%)
			Expected life (months)	64.2 to 67.3 (65.5)
			Option adjusted spread	800 basis points
			Forward yield curve	0.5% to 1.7% (1.0%)
Real estate owned	4,950	Appraisal value (1)	Estimated cost to sell	10.0%

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

We have two legacy 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 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. To date, there have been no interest deferrals. Our obligation constitutes a full, irrevocable, and unconditional guarantee on a subordinated basis of the obligations of the trust under the preferred securities.

As a result of the LNB acquisition we acquired two statutory business trusts: LNB Trust I and LNB Trust II; both are Delaware statutory business trusts. The outstanding stock issued by LNB Trust I was redeemed on December 15, 2015. At June 30, 2016, LNB Trust II had 7,875 cumulative trust preferred securities outstanding (liquidation value of $1,000 per preferred security or $7,875,000) with a stated maturity of June 15, 2037. These securities carry a fixed interest rate of 6.64% through June 15, 2017, then becomes a floating interest rate, which is reset quarterly, equal to three-month LIBOR plus 1.48%. LNB Trust II invested the proceeds of the offerings in junior subordinated deferrable interest debentures acquired by the Company. The structure of these debentures mirrors the structure of the trust-preferred securities. LNB Trust II holds $8,119,000 of junior subordinated debentures. The 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 received by the Trusts.

We are currently a counterparty to two 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 swap modifies the re-pricing characteristics of Trust III, wherein for a ten year period expiring in September 2018, 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 other swap modifies the re-pricing characteristics of Trust IV, wherein for a ten year period expiring in December 2018, 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 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 June 30, 2016, $4.7 million of cash was pledged as collateral to the counterparty.

At June 30, 2016, the fair value of the swap agreements was $(4.2) 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 June 30, 2016 and December 31, 2015 (in thousands):

	June 30, 2016	December 31, 2015
Fair value	$ 4,236	4,276
Notional amount	50,000	50,000
Collateral posted	4,705	4,705

(11) Legal Proceedings

We establish accruals for legal proceedings when information related to the loss contingencies represented by those matters indicates both that a loss is probable and that the amount of loss can be reasonably estimated. As of June 30, 2016 we have not accrued for any legal proceedings based on our analysis of currently available information which is subject to significant judgment and a variety of assumptions and uncertainties. Any such accruals are adjusted thereafter as appropriate to reflect changes in circumstances. Due to the inherent subjectivity of assessments and unpredictability of outcomes of legal proceedings, any amounts accrued may not represent the ultimate loss to us from legal proceedings.

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(12) Changes in Accumulated Other Comprehensive Income/ (Loss)

The following table shows the changes in accumulated other comprehensive income by component for the periods indicated (in thousands):

	For the quarter ended June 30, 2016			
	Unrealized gains and (losses) on securities available-for-sale	Change in fair value of interest rate swaps	Change in defined benefit pension plans	Total
Balance as of March 31, 2016	$6,817	(2,919)	(24,856)	(20,958)
Other comprehensive income before reclassification adjustments	1,027	166	—	1,193
Amounts reclassified from accumulated other comprehensive income (1), (2)	22	—	226	248
Net other comprehensive income	1,049	166	226	1,441
Balance as of June 30, 2016	$7,866	(2,753)	(24,630)	(19,517)

	For the quarter ended June 30, 2015			
	Unrealized gains and (losses) on securities available-for-sale	Change in fair value of interest rate swaps	Change in defined benefit pension plans	Total
Balance as of March 31, 2015	$6,345	(4,034)	(23,534)	(21,223)
Other comprehensive income before reclassification adjustments	(1,788)	488	—	(1,300)
Amounts reclassified from accumulated other comprehensive income (3), (4)	(279)	—	219	(60)
Net other comprehensive income/ (loss)	(2,067)	488	219	(1,360)
Balance as of June 30, 2015	$4,278	(3,546)	(23,315)	(22,583)

(1) Consists of realized loss on securities (gain on sales of investments, net) of $(36), net of tax (income tax expense) of $14.

(2) Consists of amortization of prior service cost (compensation and employee benefits) of $580 and amortization of net loss (compensation and employee benefits) of $(950), net of tax (income tax expense) of $144. See note 8.

(3) Consists of realized gains on securities (gain on sales of investments, net) of $458, net of tax (income tax expense) of $(179).

(4) Consists of amortization of prior service cost (compensation and employee benefits) of $581 and amortization of net loss (compensation and employee benefits) of $(940), net of tax (income tax expense) of $140. See note 8.

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The following table shows the changes in accumulated other comprehensive income by component for the periods indicated (in thousands):

	For the six months ended June 30, 2016			
	Unrealized gains and (losses) on securities available-for-sale	Change in fair value of interest rate swaps	Change in defined benefit pension plans	Total
Balance as of December 31, 2015	$3,325	(2,779)	(25,081)	(24,535)
Other comprehensive income before reclassification adjustments	4,502	26	—	4,528
Amounts reclassified from accumulated other comprehensive income (1), (2)	39	—	451	490
Net other comprehensive income	4,541	26	451	5,018
Balance as of June 30, 2016	$7,866	(2,753)	(24,630)	(19,517)

	For the six months ended June 30, 2015			
	Unrealized gains and (losses) on securities available-for-sale	Change in fair value of interest rate swaps	Change in defined benefit pension plans	Total
Balance as of December 31, 2014	$3,461	(4,078)	(23,753)	(24,370)
Other comprehensive income before reclassification adjustments	1,164	532	—	1,696
Amounts reclassified from accumulated other comprehensive income (3), (4)	(347)	—	438	91
Net other comprehensive income	817	532	438	1,787
Balance as of June 30, 2015	$4,278	(3,546)	(23,315)	(22,583)

(1) Consists of realized gains on securities (gain on sales of investments, net) of $(64), net of tax (income tax expense) of $25.

(2) Consists of amortization of prior service cost (compensation and employee benefits) of $1,161 and amortization of net loss (compensation and employee benefits) of $(1,900), net of tax (income tax expense) of $288. See note 8.

(3) Consists of realized gains on securities (gain on sales of investments, net) of $569, net of tax (income tax expense) of $(222).

(4) Consists of amortization of prior service cost (compensation and employee benefits) of $1,162 and amortization of net loss (compensation and employee benefits) of $(1,880), net of tax (income tax expense) of $280. See note 8.

(13) Subsequent events

As was previously announced, on April 28, 2016, Northwest signed a definitive agreement to acquire 18 Western New York bank branches with deposits of approximately $1.700 billion from First Niagara Bank N.A., subject to the closing of the KeyCorp/First Niagara Financial Group, Inc. merger. First Niagara Bank N.A., will be a wholly owned subsidiary of KeyCorp at the time of closing. The premium to be paid on the deposits to be transferred is 4.5%. In addition to receiving approximately $1.000 billion in cash from the transaction, Northwest will acquire approximately $511.0 million of performing business and personal loans.

The First Niagara branches are being sold in connection with First Niagara Financial Group, Inc pending acquisition by KeyCorp. The divestitures have been approved by the United States Department of Justice and the Federal Reserve Board following a customary anti-trust review. The transaction has received approvals from each party's board of directors and the necessary regulatory approval and remains subject to other customary closing conditions. Pending such completion, the transaction is expected to close on September 9, 2016.

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 laws, government regulations or policies affecting financial institutions, including regulatory fees and capital requirements;
- general economic conditions, either nationally or in our market areas, that are different than expected;
- competition among other financial institutions and non-depository entities;
- inflation and changes in the interest rate environment that impact our margins or the fair value of financial instruments;
- adverse changes in the securities markets;
- cyber security concerns, including an interruption or breach in the security of our information systems;
- our ability to enter new markets successfully, capitalize on growth opportunities;
- managing our internal growth and our ability to successfully integrate acquired entities, businesses and branch offices;
- changes in consumer spending, borrowing and savings habits;
- our ability to continue to increase and manage our business and personal loans;
- possible impairments of securities held by us, including those issued by government entities and government sponsored enterprises;
- the impact of the economy on our loan portfolio (including cash flow and collateral values), investment portfolio, customers and capital market activities;
- our ability to receive regulatory approvals for proposed transactions or new lines of business:
- the impact of the current governmental effort to restructure the U.S. financial and regulatory system;
- changes in the financial performance and/or condition of our borrowers; and
- the effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Securities and Exchange Commission, the Public Company Accounting Oversight Board, the Financial Accounting Standards Board and other accounting standard setters.

Overview of Critical Accounting Policies Involving Estimates

Please refer to Note 1 of the Notes to Consolidated Financial Statements in Item 8 of Part II of our 2015 Annual Report on Form 10-K.

Executive Summary and Comparison of Financial Condition

Total assets at June 30, 2016 were $8.964 billion, an increase of $12.1 million, or 0.1%, from $8.952 billion at December 31, 2015. This increase in assets was due primarily to increases in interest-earning deposits in other financial institutions of $148.6 million, or 199.4%, and net loans receivable of $74.7 million, or 1.0%. Partially offsetting these increases was a $175.7 million, or 19.4%, decrease in marketable securities.

Total loans receivable increased by $72.8 million, or 1.0%, to $7.295 billion at June 30, 2016, from $7.222 billion at December 31, 2015. Loans funded during the six months ended June 30, 2016, of $1.336 billion exceeded loan maturities, principal repayments and mortgage loan sales of $1.256 billion. Our commercial banking loan portfolio increased by $54.8 million, or 2.0%, to $2.829 billion at June 30, 2016 from $2.774 billion at December 31, 2015, as we continue to emphasize the origination of commercial and commercial real estate loans. Additionally, our personal banking loan portfolio increased by $18.0 million, or

0.4%, to $4.466 billion at June 30, 2016 from $4.448 billion at December 31, 2015. This increase is primarily attributable to an increase in consumer loans of $26.3 million as a result of the success of our indirect automobile lending division.

Total deposits increased by $23.4 million, or 0.4%, to $6.636 billion at June 30, 2016 from $6.613 billion at December 31, 2015. All deposit types increased with the exception of time deposits. Noninterest-bearing demand deposits increased by $11.8 million, or 1.0%, to $1.189 billion at June 30, 2016 from $1.177 billion at December 31, 2015. Interest-bearing demand deposits increased by $30.5 million, or 2.8%, to $1.111 billion at June 30, 2016 from $1.080 billion at December 31, 2015. Savings deposits increased by $58.9 million, or 4.3%, to $1.445 billion at June 30, 2016 from $1.386 billion at December 31, 2015. Money market demand accounts increased by $20.6 million, or 1.6%, to $1.295 billion at June 30, 2016 from $1.275 billion at December 31, 2015. Partially offsetting these increases was a decrease in time deposits of $98.4 million, or 5.8%, to $1.596 billion at June 30, 2016 from $1.695 billion at December 31, 2015. We believe the increase in more liquid deposit accounts is due primarily to customers' continued reluctance to lock in time deposits at these historically low rates and our emphasis on attracting low-cost fee-based deposits.

Borrowed funds decreased by $15.0 million, or 1.5%, to $960.0 million at June 30, 2016, from $975.0 million at December 31, 2015. This decrease is due to the repayment and maturity of $750.0 million of FHLB long-term borrowings. These long-term borrowings were refinanced with lower cost short-term borrowings, in anticipation of the pending acquisition of 18 community banking offices from First Niagara, which lead to an increase of $670.0 million and $44.0 million in FHLB short-term and overnight advances, respectively. Also offsetting this decrease was an increase of $20.4 million in collateralized borrowings.

Total shareholders' equity at June 30, 2016 was $1.155 billion, or $11.28 per share, a decrease of $7.7 million, or 0.7%, from $1.163 billion, or $11.42 per share, at December 31, 2015. This decrease in equity was primarily the result of the payment of cash dividends of $29.9 million and the repurchase of 145,900 shares of common stock for $1.8 million during the six months ended June 30, 2016. Partially offsetting these decreases were net income of $11.0 million and a decrease in accumulated other comprehensive loss of $5.0 million due to an improvement in the net unrealized gain of the investment securities portfolio during the quarter ended June 30, 2016.

Regulatory Capital

Financial institutions and their holding companies are subject to various regulatory capital requirements. 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 guidelines. Capital amounts and classifications are also subject to qualitative judgments made by the regulators about components, risk-weighting and other factors.

In July 2013, the FDIC and the other federal regulatory agencies issued a final rule that revised their leverage and risk-based capital requirements and the method for calculating risk-weighted assets to make them consistent with agreements that were reached by the Basel Committee on Banking Supervision and certain provisions of the Dodd-Frank Act. Among other things, the rule establishes a new Common Equity Tier 1 ("CET1") minimum capital requirement (4.5% of risk-weighted assets) and increases the minimum Tier 1 capital to risk-based assets requirement (from 4% to 6% of risk-weighted assets). The rule limits an organization's capital distributions and certain discretionary bonus payments if the organization does not hold a "capital conservation buffer" consisting of 2.5% of CET1 capital to risk-weighted assets in addition to the amount necessary to meet its minimum risk-based capital requirements.

The final rule became effective for Northwest on January 1, 2015. The capital conservation buffer requirement is being phased in beginning on January 1, 2016 and ending on January 1, 2019, when the full capital conservation buffer requirement will be effective.

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, CET1 and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital to average assets (as defined). Capital ratios are presented in the tables below. Dollar amounts in the accompanying tables are in thousands.

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	At June 30, 2016					
	Actual		Minimum capital requirements (1)		Well capitalized requirements (1)	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk weighted assets)						
Northwest Bancshares, Inc.	$1,086,090	16.325%	573,820	8.625%	706,880	10.625%
Northwest Bank	1,017,718	15.324%	572,805	8.625%	705,629	10.625%
Tier 1 capital (to risk weighted assets)						
Northwest Bancshares, Inc.	1,025,142	15.409%	440,760	6.625%	573,820	8.625 %
Northwest Bank	956,931	14.409%	439,980	6.625%	572,805	8.625 %
CET1 capital (to risk weighted assets)						
Northwest Bancshares, Inc.	917,267	13.787%	340,966	5.125%	474,025	7.125 %
Northwest Bank	956,931	14.409%	340,362	5.125%	473,186	7.125 %
Tier 1 capital (leverage) (to average assets)						
Northwest Bancshares, Inc.	1,025,142	11.844%	346,206	4.000%	432,757	5.000 %
Northwest Bank	956,931	11.045%	346,571	4.000%	433,214	5.000 %

(1) Amounts and ratios include the current capital conservation buffer of 0.625%, with the exception of Tier 1 capital to average assets.

	At December 31, 2015					
	Actual		Minimum capital requirements		Well capitalized requirements	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk weighted assets)						
Northwest Bancshares, Inc.	$1,102,468	16.63%	530,257	8.00 %	662,821	10.00%
Northwest Bank	1,006,230	15.20%	529,498	8.00 %	661,872	10.00%
Tier I capital (to risk weighted assets)						
Northwest Bancshares, Inc.	1,039,574	15.68%	397,693	6.00 %	530,257	8.00 %
Northwest Bank	943,554	14.26%	397,123	6.00 %	529,498	8.00 %
CET1 capital (to risk weighted assets)						
Northwest Bancshares, Inc.	931,699	14.06%	298,269	4.50 %	430,834	6.50 %
Northwest Bank	943,554	14.26%	297,843	4.50 %	430,217	6.50 %
Tier I capital (leverage) (to average assets)						
Northwest Bancshares, Inc.	1,039,574	11.96%	347,582	4.00 %	434,477	5.00 %
Northwest Bank	943,554	10.87%	347,063	4.00 %	433,829	5.00 %

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Liquidity

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 June 30, 2016 was 11.1%. 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. At June 30, 2016 Northwest had $2.224 billion of additional borrowing capacity available with the FHLB, including $150.0 million on an overnight line of credit, which is fully utilized at June 30, 2016, as well as $117.2 million of borrowing capacity available with the Federal Reserve Bank and $80.0 million with two correspondent banks.

Dividends

We paid $15.0 million and $12.9 million in cash dividends during the quarters ended June 30, 2016 and 2015, respectively. The common stock dividend payout ratio (dividends declared per share divided by net income/ (loss) per share) was (214.3%) and 82.4% for the quarters ended June 30, 2016 and 2015, respectively, on regular dividends of $0.15 per share for the quarter ended June 30, 2016 and on regular dividends of $0.14 per share for the quarter ended June 30, 2015. We paid $29.9 million and $25.9 million in cash dividends during the quarters ended June 30, 2016 and 2015, respectively. The common stock dividend payout ratio (dividends declared per share divided by net income per share) was 272.7% and 82.4% for the quarters ended June 30, 2016 and 2015, respectively, on regular dividends of $0.30 per share for the quarter ended June 30, 2016 and on regular dividends of $0.28 per share for the quarter ended June 30, 2015. On July 20, 2016, the Board of Directors declared a dividend of $0.15 per share payable on August 18, 2016 to shareholders of record as of August 4, 2016. This represents the 87th consecutive quarter we have paid a cash dividend.

Nonperforming Assets

The following table sets forth information with respect to nonperforming assets. Nonaccrual loans are those loans on which the accrual of interest has ceased. Generally, when a loan is 90 days past due, we fully reverse all accrued interest thereon and cease to accrue interest thereafter. Exceptions are made for loans that have contractually matured, are in the process of being modified to extend the maturity date and are otherwise current as to principal and interest, and well secured loans that are in process of collection. Loans may also be placed on nonaccrual before they reach 90 days past due if conditions exist that call into question our ability to collect all contractual interest. Other nonperforming assets represent property acquired 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.

	June 30, 2016	December 31, 2015
	(Dollars in thousands)	
Nonaccrual loans 90 days or more delinquent:		
Residential mortgage loans	$14,829	$15,810
Home equity loans	5,226	5,650
Consumer loans	2,374	2,900
Commercial real estate loans	12,960	16,449
Commercial loans	4,566	2,459
Total loans 90 days or more delinquent	$39,955	$43,268
Total real estate owned (REO)	4,950	8,725
Total nonaccrual loans 90 days or more delinquent and REO	44,905	51,993

Total nonaccrual loans 90 days or more delinquent to net loans receivable	0.55	%	0.60	%
Total nonaccrual loans 90 days or more delinquent and REO to total assets	0.50	%	0.58	%
Nonperforming assets:				
Nonaccrual loans - loans 90 days or more delinquent	39,955		43,268	
Nonaccrual loans - loans less than 90 days delinquent	35,923		28,394	
Loans 90 days or more past maturity and still accruing	472		1,334	
Total nonperforming loans	76,350		72,996	
Total nonperforming assets	$81,300		81,721	
Nonaccrual troubled debt restructured loans (1)	$18,098		21,118	
Accruing troubled debt restructured loans	31,015		29,997	
Total troubled debt restructured loans	$49,113		51,115	

(1) Included in nonaccurual loans above.

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At June 30, 2016, we expect to fully collect the carrying value of our purchased credit impaired loans and have determined that we can reasonably estimate their future cash flows including those loans that are 90 days or more delinquent. As a result, we do not consider these loans that are 90 days or more delinquent to be nonaccrual or impaired and continue to recognize interest income on these loans, including the loans' accretable discount, which total $2.9 million at June 30, 2016.

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 June 30, 2016 and December 31, 2015 were $109.0 million and $117.9 million, respectively.

Allowance for Loan Losses

Our Board of Directors has adopted an "Allowance for Loan and Lease 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 region to monitor the performance and status of loans on an internal watch list. On an on-going basis the loan officer in conjunction with a portfolio manager grades or classifies problem loans or potential problem loans based upon their knowledge of the lending relationship and other information previously accumulated. This rating is also reviewed independently by our Loan Review department on a periodic basis. 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 previous categories, but which possess some weaknesses, are designated as "special mention". A "substandard" loan is any loan that is 90 days or more 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.

Credit relationships that have been classified as substandard or doubtful and are greater than or equal to $1.0 million 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, less costs of sale or disposal. 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 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 management's 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 and 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 structured methodology each period when analyzing the adequacy of the allowance for loan losses and the related provision for loan losses, which the Credit Committee assesses regularly for appropriateness. As part of the analysis as of June 30, 2016, we considered the economic conditions in our markets, such as unemployment and bankruptcy levels as well as changes in estimates of 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 decreased by $1.9 million, or 3.0%, to $60.8 million, or 0.83% of total loans at June 30, 2016 from $62.7 million, or 0.87% of total loans, at December 31, 2015. This decrease is primarily attributable to the charge-off of $1.4 million of residential mortgage loans that were fully reserved.

We also consider how the levels of non-accrual loans and historical charge-offs have influenced the required amount of allowance for loan losses. Nonaccrual loans of $75.9 million or 1.05% of total loans receivable at June 30, 2016 increased by $4.2 million, or 5.9%, from $71.7 million, or 1.01% of total loans receivable, at December 31, 2015. As a percentage of average loans, annualized net charge-offs decreased to 0.21% for the six months ended June 30, 2016 compared to 0.23% for the year ended December 31, 2015.

Comparison of Operating Results for the Quarters Ended June 30, 2016 and 2015

The Company experienced a net loss for the quarter ended June 30, 2016 of $7.0 million, or $0.07 per diluted share, due primarily to a $37.0 million prepayment penalty for strategically refinancing $715.0 million of term FHLB borrowings with short-term advances in anticipation of the funds to be received from the acquisition of 18 First Niagara offices and $1.700 billion of deposits in the third quarter of 2016. This loss was a decrease of $22.3 million, or 145.8%, from net income of $15.3 million, or $0.17 per diluted share, for the quarter ended June 30, 2015. The decrease in net income also resulted from an increase in noninterest expense of $48.2 million, or 87.3% and an increase in the provision for loan losses of $3.1 million or 299.9%. Partially offsetting these factors were increases in net interest income of $14.5 million, or 23.3%, noninterest income of $3.8 million, or 22.7%, and a decrease in income tax expense of $10.7million, or 148.4%. Annualized, net income/ (loss) for the quarter ended June 30, 2016 represents returns on average equity and average assets of (2.44%) and (0.32%), respectively, compared to 5.77% and 0.78% for the same quarter last year. A further discussion of significant changes follows.

Interest Income

Total interest income increased by $10.7 million, or 14.1%, to $86.7 million for the quarter ended June 30, 2016 from $76.0 million for the quarter ended June 30, 2015. This increase is the result of an increase in the average balance of interest earning assets of $783.7 million, or 10.7%, to $8.126 billion for the quarter ended June 30, 2016 from $7.343 billion for the quarter ended June 30, 2015 and an increase in the average yield earned on interest earning assets to 4.29% for the quarter ended June 30, 2016 from 4.15% for the quarter ended June 30, 2015.

Interest income on loans receivable increased by $11.6 million, or 16.4%, to $82.6 million for the quarter ended June 30, 2016 from $71.0 million for the quarter ended June 30, 2015. This increase in interest income on loans receivable can be attributed to an increase in the average balance of loans receivable of $1.200 billion, or 19.5%, to $7.257 billion for the quarter ended June 30, 2016 from $6.074 billion for the quarter ended June 30, 2015. This increase is due primarily to the addition of $928.1 million of loan balances, at fair value, from the LNB acquisition. Also contributing to this increase was internal loan growth of $415.0 million during the past year due to continued success in growing commercial banking relationships and our indirect automobile lending portfolio. Partially offsetting this increase was a decline in the average yield on loans receivable which decreased to 4.58% for the quarter ended June 30, 2016 from 4.69% for the quarter ended June 30, 2015. The decline in average yield is due primarily to the historically low level of market interest rates, as well as the overall lower average yield from the LNB portfolio.

Interest income on mortgage-backed securities remained flat at $2.1 million for the quarters ended June 30, 2016 and 2015. The average yield of mortgage-backed securities increased to 1.85% for the quarter ended June 30, 2016 from 1.72% for the quarter ended June 30, 2015 due to the LNB portfolio having higher yields than our existing portfolio. Offsetting this increase was a decrease in the average balance of mortgage-backed securities of $19.4 million, or 4.1%, to $458.4 million for the quarter ended June 30, 2016 from $477.8 million for the quarter ended June 30, 2015 despite the addition of $109.4 million, at fair value, of mortgage-backed security balances from the LNB acquisition. The cash flows from our existing portfolio were redirected to fund loan growth.

Interest income on investment securities decreased by $809,000, or 35.6%, to $1.5 million for the quarter ended June 30, 2016 from $2.3 million for the quarter ended June 30, 2015. This decrease is the result of decreases in both the average balance and average yield. The average balance of investment securities decreased by $169.1 million, or 35.0%, to $313.6 million for the quarter ended June 30, 2016 from $482.7 million for the quarter ended June 30, 2015. This decrease is due primarily to the maturity or call of municipal and government agency securities. The cash flows from our existing portfolio were redirected to fund loan growth and payoff FHLB advances. Partially offsetting this decrease was the addition of $74.7 million, at fair value, of municipal and government agency security balances from the LNB acquisition. The average yield of investment securities decreased slightly to 1.87% for the quarter ended June 30, 2016 from 1.88% for the quarter ended June 30, 2015.

Dividends on FHLB stock decreased by $74,000, or 15.6%, to $401,000 for the quarter ended June 30, 2016 from $475,000 for the quarter ended June 30, 2015. This decrease is attributable to decreases in both the average balance and average yield. The average yield of FHLB stock decreased to 4.84% for the quarter ended June 30, 2016 from 5.35% for the quarter ended June 30, 2015. Additionally, the average balance of FHLB stock decreased by $2.3 million, or 6.5% to $33.3 million for the quarter ended June 30, 2016 from $35.6 million for the quarter ended June 30, 2015. Required FHLB stock holdings fluctuate with, among other things, the utilization of our borrowing capacity as well as capital requirements established by the FHLB.

Interest income on interest-earning deposits decreased by $110,000, or 61.1%, to $70,000 for the quarter ended June 30, 2016 from $180,000 for the quarter ended June 30, 2015. This decrease is due to a decrease in the average balance of $208.7 million, or 76.5%, to $64.0 million for the quarter ended June 30, 2016 from $272.7 million for the quarter ended June 30, 2015, due to the utilization of cash to payoff FHLB advances, fund loan growth, and fund the purchase of LNB. Partially offsetting this decrease was an increase in the average yield on interest-earning deposits to 0.43% for the quarter ended June 30, 2016 from 0.26% for the quarter ended June 30, 2015, as a result of the 25 basis point increase in December 2015 of the Federal Funds rate targeted by the Federal Reserve Bank.

Interest Expense

Interest expense decreased by $3.8 million, or 27.4%, to $10.0 million for the quarter ended June 30, 2016 from $13.8 million for the quarter ended June 30, 2015. This decrease in interest expense was due primarily to a decrease in the average cost of interest-bearing liabilities, which decreased to 0.63% for the quarter ended June 30, 2016 from 0.96% for the quarter ended June 30, 2015. This decrease is due primarily to the replacement of approximately $715.0 million of long-term FHLB advances with lower cost short-term FHLB advances in anticipation of the pending acquisition of 18 First Niagara community banking offices scheduled to close in the third quarter of 2016. Additionally, the average cost of each deposit type declined from the prior year in this low interest rate environment.

Partially offsetting the decrease in cost was an increase in the average balance of $591.6 million, or 10.2%, to $6.365 billion for the quarter ended June 30, 2016 from $5.773 billion for the quarter ended June 30, 2015. This increase was due primarily to the addition of $1.017 billion, at fair value, of deposit balances from the LNB acquisition.

Net Interest Income

Net interest income increased by $14.5 million, or 23.3%, to $76.7 million for the quarter ended June 30, 2016 from $62.2 million for the quarter ended June 30, 2015. This increase is attributable to the factors discussed above. Redirecting existing funds and cash flow from investment securities to fund the LNB acquisition, which provided $1.140 billion of interest-earning assets, fund loan growth, and the repayment/ refinance long-term FHLB borrowings, improved our net interest spread and margin. Our net interest rate spread increased to 3.66% for the quarter ended June 30, 2016 from 3.19% for the quarter ended June 30, 2015 and our net interest margin increased to 3.77% for the quarter ended June 30, 2016 from 3.39% for the quarter ended June 30, 2015.

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Provision for Loan Losses

The provision for loan losses increased by $3.1 million, or 299.9%, to $4.2 million for the quarter ended June 30, 2016 from $1.1 million for the quarter ended June 30, 2015. This increase is due primarily to the downgrade of three commercial loans requiring an additional $1.7 million of combined reserves. However, the percentage of classified loans to total loans decreased to 2.73% at June 30, 2016 from 3.12% million at June 30, 2015. In addition, annualized net charge-offs decreased for the quarter ended June 30, 2016 to 0.31% of total loans compared to 0.61% for the quarter ended June 30, 2015.

In determining the amount of the current period provision, we considered current economic conditions, including but not limited to unemployment levels and bankruptcy filings, and changes in real estate values and the impact of these factors on the quality of our loan portfolio and historical loss factors. 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.

Noninterest Income

Noninterest income increased by $3.8 million, or 22.7%, to $20.3 million for the quarter ended June 30, 2016 from $16.5 million for the quarter ended June 30, 2015. The increase is primarily attributable to increases in service charges and fees, gain on sale of real estate owned, and insurance commission income. Service charges and fees increased by $1.4 million, or 15.2%, to $10.6 million for the quarter ended June 30, 2016 from $9.2 million for the quarter ended June 30, 2015 due primarily to the growth in checking accounts from both the LNB acquisition and the successful execution of internal growth initiatives. Also contributing to the increase in noninterest income was an increase in gain on sale of real estate owned of $652,000, as we recognized a net gain of $111,000 for the quarter ended June 30, 2016 compared to a net loss of $541,000 for the same quarter last year. Additionally, insurance commission income increased by $558,000, or 25.2%, for the quarter ended June 30, 2016 compared to the same quarter last year as acquired companies and commercial banking referrals continue to generate additional revenue.

Noninterest Expense

Noninterest expense increased by $48.2 million, or 87.3%, to $103.3 million for the quarter ended June 30, 2016 from $55.1 million for the quarter ended June 30, 2015. This increase is primarily the result of the FHLB prepayment penalty and, to a lesser extent, increases in compensation and employee benefits, restructuring and acquisition expense, and processing expenses. During the quarter ended June 30, 2016, we replaced long-term FHLB advances with lower cost short-term advances incurring a $37.0 million prepayment penalty. This refinancing was done in anticipation of the pending acquisition of 18 First Niagara community banking offices with deposits of approximately $1.700 billion. Compensation and employee benefits increased by $5.4 million, or 18.8%, to $34.3 million for the quarter ended June 30, 2016 from $28.9 million for the quarter ended June 30, 2015. This increase is due primarily to the addition of lending and credit staff and the employees retained from the LNB acquisition. Restructuring and acquisition expense increased by $2.9 million to $3.4 million for the quarter ended June 30, 2016 from $467,000 for the quarter ended June 30, 2015. This increase is due primarily to restructuring costs of $2.8 million associated with the consolidation of 24 community banking offices. Processing expenses increased by $780,000, or 10.6%, to $8.2 million for the quarter ended June 30, 2016 from $7.4 million for the quarter ended June 30, 2015, due primarily to the acquisition of LNB, as well as technology upgrades. Also contributing to the increase in noninterest expense was an increase in office operations of $438,000, or 15.1%, and occupancy costs of $376,000, or 6.4%, for the quarter ended June 30, 2016, due primarily to the acquisition of LNB.

Income Taxes

The provision for income taxes decreased by $10.7 million, or 148.4%, to ($3.5) million for the quarter ended June 30, 2016 from $7.2 million for the quarter ended June 30, 2015. This decrease in income tax expense is primarily the result of a decrease in pretax income of $33.0 million, or 146.6%. We anticipate our effective tax rate to be between 28.0% and 30.0% for all of 2016.

Comparison of Operating Results for the Six Months Ended June 30, 2016 and 2015

Net income for the six months ended June 30, 2016 was $11.0 million, or $0.11 per diluted share, a decrease of $20.5 million, or 65.1%, from $31.5 million, or $0.34 per diluted share, for the six months ended June 30, 2015. The decrease in net income resulted from increases in noninterest expense of $57.7 million, or 53.0%, and provision for loan losses of $3.9 million, or 200.5%. Partially offsetting these factors were increases in net interest income of $23.1 million, or 18.4%, and noninterest income of $8.6 million, or 27.5%, as well as a decrease in income tax expense of of $9.4 million, or 67.3%. Annualized, net income for the six months ended June 30, 2016 represents returns on average equity and average assets of 1.90% and 0.25%, respectively, compared to 5.97% and 0.81% for the six months ended June 30, 2015. A discussion of significant changes follows.

Interest Income

Total interest income increased by $19.1 million, or 12.5%, to $172.0 million for the six months ended June 30, 2016 from $152.9 million for the six months ended June 30, 2015. This increase is the result of increases in both the average balance of and average yield earned on interest earning assets. The average balance of interest earning assets increased by $831.7 million, or 11.4%, to $8.143 billion for the six months ended June 30, 2016 from $7.311 billion for the six months ended June 30, 2015. Additionally, the average yield on interest-earning assets increased to 4.25% for the six months ended June 30, 2016 from 4.18% for the six months ended June 30, 2015.

Interest income on loans receivable increased by $21.7 million, or 15.3%, to $163.4 million for the six months ended June 30, 2016 from $141.7 million for the six months ended June 30, 2015. This increase in interest income on loans receivable can be attributed to an increase in the average balance of loans receivable of $1.191 billion, or 19.7%, to $7.238 billion for the six months ended June 30, 2016 from $6.047 billion for the six months ended June 30, 2015. This increase is due primarily to the addition of $928.1 million of loan balances, at fair value, from the LNB acquisition. Also contributing to this increase was internal loan growth of $415.0 million during the past year due to continued success in growing commercial banking relationships and our indirect automobile lending portfolio. Partially offsetting this increase was a decline in the average yield on loans receivable which decreased to 4.54% for the six months ended June 30, 2016 from 4.73% for the six months ended June 30, 2015. The decline in average yield is due primarily to the continued historically low level of market interest rates, as well as the overall lower yield of the LNB portfolio.

Interest income on mortgage-backed securities remained flat at $4.3 million for the six months ended June 30, 2016 and 2015. The average balance of mortgage-backed securities decreased by $18.9 million, or 3.8%, to $473.3 million for the six months ended June 30, 2016 from $492.2 million for the six months ended June 30, 2015 despite the addition of $109.4 million, at fair value, of mortgage-backed security balances from the LNB acquisition. The cash flow from these securities was redirected to fund the LNB acquisition, payoff FHLB advances, and fund loan growth. Partially offsetting this decrease was an increase in the average yield on mortgage-backed securities to 1.84% for the six months ended June 30, 2016 from 1.74% for the six months ended June 30, 2015 due to the acquisition of the higher yielding LNB portfolio.

Interest income on investment securities decreased by $1.5 million, or 30.9%, to $3.2 million for the six months ended June 30, 2016 from $4.7 million for the six months ended June 30, 2015. This decrease is the result of decreases in both the average balance and average yield. The average balance of investment securities decreased by $133.8 million, or 27.6%, to $350.6 million for the six months ended June 30, 2016 from $484.4 million for the six months ended June 30, 2015. This decrease is due primarily to the maturity or call of municipal and government agency securities and the use of these proceeds to fund the LNB acquisition, pay off FHLB advances, and fund loan growth. The average yield on investment securities decreased to 1.84% for the six months ended June 30, 2016 from 1.93% for the six months ended June 30, 2015. This decrease is primarily the result of higher rate, tax-free, municipal securities maturing or being called and, if replaced, being replaced by lower yielding, shorter duration government agency securities.

Dividends on FHLB stock decreased by $1.0 million, or 53.8%, to $868,000 for the six months ended June 30, 2016 from $1.9 million for the six months ended June 30, 2015. This decrease is due a $1.0 million special dividend paid in the first quarter of 2015. Additionally, the average balance decreased by $672,000, or 1.9%, to $35.2 million for the six months ended June 30, 2016 from $35.9 million for the six months ended June 30, 2015. Partially offsetting these factors was an increase in the average yield, exclusive of the special dividend, to 4.96% for the six months ended June 30, 2016 from 4.71% for the six months ended June 30, 2015. Required FHLB stock holdings fluctuate with, among other things, the utilization of our borrowing capacity as well as capital requirements established by the FHLB.

Interest income on interest-earning deposits decreased by $190,000, or 59.6%, to $129,000 for the six months ended June 30, 2016 from $319,000 for the six months ended June 30, 2015. This decrease is due to a decrease in the average balance of $206.3 million, or 81.8%, to $45.9 million for the six months ended June 30, 2016 from $252.2 million for the six months ended June 30, 2015, due to the utilization of cash for the LNB acquisition, to pay off FHLB advances, and fund loan growth. Partially offsetting this decrease was an increase in the average yield on interest-earning deposits to 0.56% for the six months ended June 30, 2016 from 0.25% for the six months ended June 30, 2015, as a result of the 25 basis point increase in December 2015 of the Federal Funds rate targeted by the Federal Reserve Bank.

Interest Expense

Interest expense decreased by $3.9 million, or 14.2%, to $23.8 million for the six months ended June 30, 2016 from $27.7 million for the six months ended June 30, 2015. This decrease in interest expense was due to a decline in the average cost of interest-bearing liabilities which decreased to 0.74% for the six months ended June 30, 2016 from 0.97% for the six months ended June 30, 2015. This decrease is due primarily to the replacement of long-term FHLB borrowings with lower cost short-term FHLB advances in anticipation of the pending acquisition of 18 First Niagara community banking offices. Additionally, the average cost of each deposit type declined from the prior year in this low interest rate environment. Partially offsetting this decrease was an increase in the average balance of interest-bearing liabilities, which increased by $631.6 million, or 10.9%, to $6.414 billion for the six months ended June 30, 2016 from $5.782 billion for the six months ended June 30, 2015. This increase was due primarily to the addition of $1.017 billion, at fair value, of deposit balances from the LNB acquisition.

Net Interest Income

Net interest income increased by $23.0 million, or 18.4%, to $148.2 million for the six months ended June 30, 2016 from $125.2 million for the six months ended June 30, 2015. This increase is attributable to the factors discussed above. Redirecting existing funds and cash flow from investment securities to fund the LNB acquisition, which provided $1.140 billion of interest-earning assets, and to fund loan growth, as well as the repayment/ refinance of FHLB long-term borrowings, improved our net interest spread and margin. Our net interest rate spread increased to 3.51% for the six months ended June 30, 2016 from 3.21% for the six months ended June 30, 2015 and our net interest margin increased to 3.64% for the six months ended June 30, 2016 from 3.40% for the six months ended June 30, 2015.

Provision for Loan Losses

The provision for loan losses increased by $3.9 million, or 200.5%, to $5.9 million for the six months ended June 30, 2016 from $2.0 million for the six months ended June 30, 2015. This increase is due primarily to the downgrading of five commercial loans requiring an additional $2.5 million in combined reserves and increases in reserves for the oil and gas industry and indirect auto loans. However, the percentage of classified loans to total loans decreased to 2.73% at June 30, 2016 from 3.12% at June 30, 2015. In addition, annualized net charge-offs decreased for the six months ended ended June 30, 2016 to 0.21% of total loans compared to 0.34% for the six months ended ended June 30, 2015.

In determining the amount of the current period provision, we considered current economic conditions, including unemployment levels and bankruptcy filings, and changes in real estate values and the impact of these factors on the quality of our loan portfolio and historical loss factors. 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.

Noninterest Income

Noninterest income increased by $8.5 million, or 27.5%, to $39.7 million for the six months ended June 30, 2015 from $31.2 million for the six months ended June 30, 2015. The increase is primarily attributable to an increase in service charges and fees and a decrease in loss on real estate owned. Service charges and fees increased by $2.8 million, or 15.7%, to $20.7 million for the six months ended June 30, 2016 from $17.9 million for the six months ended June 30, 2015 due primarily to the growth in checking accounts from both the LNB acquisition and the successful execution of internal growth initiatives. Also contributing to the increase in noninterest income was an increase in gain on sale of real estate owned of $1.9 million, as we recognized a net gain of $360,000 for the six months ended June 30, 2016 compared to a net loss of $1.6 million for the same period last year. Other operating income increased by $1.6 million, or 125.0%, to $2.9 million for the six months ended June 30, 2016 from $1.3 million for the six months ended June 30, 2015 due primarily to income on paid-off purchased credit impaired loans. Additionally, insurance commission income and trust and other financial services income increased by $844,000 and $668,000, respectively, for the six months ended June 30, 2016 compared to the same period last year.

Noninterest Expense

Noninterest expense increased by $57.7 million, or 53.0%, to $166.5 million for the six months ended June 30, 2016 from $108.8 million for the six months ended June 30, 2015. This increase is primarily the result of a FHLB prepayment penalty and, to a lesser extent, increases in compensation and employee benefits, restructuring and acquisition expense, other expense, and processing expenses. During the six months ended June 30, 2016, we replaced long-term FHLB borrowings with lower cost short-term advances incurring a $37.0 million prepayment penalty. This refinancing occurred in anticipation of the pending acquisition of 18 First Niagara community banking offices with deposits of approximately $1.700 billion. Compensation and employee benefits increased by $10.6 million, or 18.6%, to $67.4 million for the six months ended June 30, 2016 from $56.8 million for the six months ended June 30, 2015. This increase is the result of the employees retained from LNB acquisition, the addition of lending and credit staff, and higher healthcare and stock benefit costs. Additionally, expenses totaling $4.0 million were incurred during the six months ended June 30, 2016 related to the consolidation of 24 community banking offices into existing offices and the aforementioned First Niagara acquisition. Also contributing to this increase in noninterest expense was an increase in other expense of $2.9 million, or 68.7%, as a result of an increase in charitable contributions made to utilize Pennsylvania Education Improvement Tax Credits. Processing expense increased by $2.0 million, or 13.6%, to $16.6 million for the six months ended June 30, 2016 from $14.6 million for the six months ended June 30, 2015, due primarily to technology upgrades, the additional maintenance costs attributable to the addition of the LNB operations, and the replacement of debit cards in an effort to enhance customer security.

Income Taxes

The provision for income taxes decreased by $9.4 million, or 67.3%, to $4.6 million for the six months ended June 30, 2016 from $14.0 million for the six months ended June 30, 2015. This decrease in income tax expense is primarily the result of a decrease in pretax income of $29.9 million, or 65.8%. Our effective tax rate for the six months ended June 30, 2016 was 29.5% compared to 30.8% for the six months ended June 30, 2015. We anticipate our effective tax rate to be between 28.0% and 30.0% for all of 2016.

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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 interest-earning assets and average cost of interest-bearing 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.

	Quarter ended June 30, 2016			2015		
	Average balance	Interest	Avg. yield/ cost (g)	Average balance	Interest	Avg. yield/ cost (g)
Assets:						
Interest-earning assets:						
Residential mortgage loans	$2,751,601	30,228	4.39%	2,546,712	28,395	4.46 %
Home equity loans	1,163,900	12,701	4.39%	1,054,508	11,402	4.34 %
Consumer loans	522,745	8,697	6.69%	245,832	6,529	10.65%
Commercial real estate loans	2,356,994	26,691	4.48%	1,859,790	21,257	4.52 %
Commercial loans	461,808	4,902	4.20%	367,069	3,862	4.16 %
Loans receivable (a) (b) (includes FTE adjustments of $574 and $460, respectively)	7,257,048	83,219	4.61%	6,073,911	71,445	4.72 %
Mortgage-backed securities (c)	458,398	2,115	1.85%	477,800	2,058	1.72 %
Investment securities (c) (includes FTE adjustments of $381 and $615, respectively)	313,647	1,844	2.35%	482,670	2,887	2.39 %
FHLB stock	33,302	401	4.84%	35,608	475	5.35 %
Other interest-earning deposits	63,950	70	0.43%	272,691	180	0.26 %
Total interest-earning assets (includes FTE adjustments of $955 and $1,075, respectively)	8,126,345	87,649	4.34%	7,342,680	77,045	4.21 %
Noninterest earning assets (d)	755,713			529,528		
Total assets	$8,882,058			7,872,208		
Liabilities and shareholders' equity:						
Interest-bearing liabilities:						
Savings deposits	$1,440,886	837	0.23%	1,263,785	838	0.27 %
Interest-bearing checking deposits	1,130,122	144	0.05%	920,071	131	0.06 %
Money market deposit accounts	1,294,381	829	0.26%	1,147,017	759	0.27 %
Time deposits	1,616,260	4,055	1.01%	1,409,740	3,963	1.13 %
Borrowed funds (e)	772,225	3,017	1.57%	929,744	6,929	2.99 %
Junior subordinated debentures	111,213	1,126	4.01%	103,094	1,172	4.49 %
Total interest-bearing liabilities	6,365,087	10,008	0.63%	5,773,451	13,792	0.96 %
Noninterest-bearing checking deposits (f)	1,184,786			957,912		
Noninterest-bearing liabilities	177,300			77,075		

Total liabilities	7,727,173			6,808,438			
Shareholders' equity	1,154,885			1,063,770			
Total liabilities and shareholders' equity	$8,882,058			7,872,208			
Net interest income/ Interest rate spread		77,641	3.71%		63,253	3.25	%
Net interest-earning assets/ Net interest margin	$1,761,258		3.82%	1,569,229		3.45	%
Ratio of interest-earning assets to interest-bearing liabilities	1.28	X		1.27	X		

(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 were 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 and collateralized borrowings.
(f) Average cost of deposits were 0.35% and 0.40%, respectively.
(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 — 4.58% and 4.69%, respectively; Investment securities — 1.87% and 1.88%, respectively; interest-earning assets — 4.29% and 4.15%, respectively. GAAP basis net interest rate spreads were 3.66% and 3.19%, respectively; and GAAP basis net interest margins were 3.77% and 3.39%, respectively.

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Rate/ Volume Analysis
(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.

Quarters ended June 30, 2016 and 2015

	Rate	Volume	Net Change
Interest earning assets:			
Loans receivable	$(5,676)	17,450	11,774
Mortgage-backed securities	147	(90)	57
Investment securities	(49)	(994)	(1,043)
FHLB stock	(42)	(31)	(73)
Other interest-earning deposits	118	(228)	(110)
Total interest-earning assets	(5,502)	16,107	10,605
Interest-bearing liabilities:			
Savings deposits	(118)	117	(1)
Interest-bearing checking deposits	(17)	30	13
Money market deposit accounts	(28)	98	70
Time deposits	(489)	581	92
Borrowed funds	(2,738)	(1,174)	(3,912)
Junior subordinated debentures	(137)	92	(45)
Total interest-bearing liabilities	(3,527)	(256)	(3,783)
Net change in net interest income	$(1,975)	16,363	14,388

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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 interest-earning assets and average cost of interest-bearing 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.

	Six months ended June 30,					
	2016			2015		
	Average balance	Interest	Avg. yield/ cost (g)	Average balance	Interest	Avg. yield/ cost (g)
Assets:						
Interest-earning assets:						
Residential mortgage loans	$2,745,695	60,013	4.37 %	$2,529,553	56,650	4.48 %
Home equity loans	1,170,653	25,243	4.34 %	1,056,813	22,875	4.39 %
Consumer loans	516,419	16,916	6.59 %	242,896	12,819	10.64%
Commercial real estate loans	2,353,371	52,684	4.43 %	1,829,724	42,184	4.59 %
Commercial loans	451,893	9,625	4.21 %	387,755	8,099	4.15 %
Loans receivable (a) (b) (includes FTE adjustments of $1,055 and $931, respectively)	7,238,031	164,481	4.57 %	6,046,741	142,627	4.76 %
Mortgage-backed securities (c)	473,346	4,344	1.84 %	492,209	4,292	1.74 %
Investment securities (c) (includes FTE adjustments of $770 and $1,341, respectively)	350,553	3,995	2.28 %	484,366	6,006	2.48 %
FHLB stock (h)	35,200	868	4.96 %	35,872	1,878	4.71 %
Other interest-earning deposits	45,926	129	0.56 %	252,210	319	0.25 %
Total interest-earning assets (includes FTE adjustments of $1,825 and $2,272, respectively)	8,143,056	173,817	4.29 %	7,311,398	155,122	4.24 %
Noninterest earning assets (d)	753,474			569,689		
Total assets	$8,896,530			7,881,087		
Liabilities and shareholders' equity:						
Interest-bearing liabilities:						
Savings deposits	$1,423,343	1,702	0.24 %	1,247,854	1,651	0.27 %
Interest-bearing checking deposits	1,111,981	300	0.05 %	899,260	262	0.06 %
Money market deposit accounts	1,291,457	1,694	0.26 %	1,156,079	1,524	0.27 %
Time deposits	1,640,291	8,257	1.01 %	1,430,989	8,020	1.13 %
Borrowed funds (e)	835,832	9,556	2.30 %	945,192	13,904	2.97 %
Junior subordinated debentures	111,213	2,245	3.99 %	103,094	2,330	4.50 %
Total interest-bearing liabilities	6,414,117	23,754	0.74 %	5,782,468	27,691	0.97 %
Noninterest-bearing checking deposits	1,109,662			936,090		
Noninterest-bearing liabilities	213,301			98,992		
Total liabilities	7,737,080			6,817,550		

Shareholders’ equity	1,159,450				1,063,537			
Total liabilities and shareholders’ equity	$8,896,530				7,881,087			
Net interest income/ Interest rate spread			150,063	3.55 %			127,431	3.27 %
Net interest-earning assets/ Net interest margin	$1,728,939			3.69 %	1,528,930			3.46 %
Ratio of interest-earning assets to interest-bearing liabilities	1.27	X			1.26	X		

(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 were 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 and collateralized borrowings.
(f) Average cost of deposits were 0.37% and 0.41%, respectively.
(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 – 4.54% and 4.73%, respectively; Investment securities – 1.84% and 1.93%, respectively; interest-earning assets – 4.25% and 4.18%, respectively. GAAP basis net interest rate spreads were 3.51% and 3.21%, respectively; and GAAP basis net interest margins were 3.64% and 3.40%, respectively.
(h) The average yield calculation excludes the $1.0 million special dividend paid in February 2015, the average yield was 10.59% with the special dividend included.

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Rate/ Volume Analysis
(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.

Six months ended June 30, 2016 and 2015

	Rate	Volume	Net Change
Interest earning assets:			
Loans receivable	$(13,364)	35,218	21,854
Mortgage-backed securities	225	(173)	52
Investment securities	(352)	(1,659)	(2,011)
FHLB stock	(995)	(15)	(1,010)
Other interest-earning deposits	386	(576)	(190)
Total interest-earning assets	(14,100)	32,795	18,695
Interest-bearing liabilities:			
Savings deposits	(182)	233	51
Interest-bearing checking deposits	(24)	62	38
Money market deposit accounts	(9)	179	170
Time deposits	(939)	1,176	237
Borrowed funds	(2,735)	(1,613)	(4,348)
Junior subordinated debentures	(270)	185	(85)
Total interest-bearing liabilities	(4,159)	222	(3,937)
Net change in net interest income	$(9,941)	32,573	22,632

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 mortgage-backed securities.

We have an Asset/Liability Committee consisting of 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 risk and trends, our interest sensitivity position, the liquidity position and the market risk inherent in the investment portfolio.

In an effort to assess interest rate risk and 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 savings and interest-bearing demand 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 interest income simulation. Given a non-parallel shift of 100 basis points (“bps”), 200 bps and 300 bps in interest rates, the estimated net income may not decrease by more than 5%, 10% and 15%, respectively, within a one-year period.

Net income simulation. Given a non-parallel shift of 100 basis points (“bps”), 200 bps and 300 bps in interest rates, the estimated net income may not decrease by more than 10%, 20% and 30%, respectively, 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 non-parallel shift of 100 bps, 200 bps and 300 bps in interest rates, the market value of equity may not decrease by more than 15%, 30% and 35%, respectively, from the computed economic value at current interest rate levels.

The following table illustrates the simulated impact of a 100 bps, 200 bps or 300 bps upward or a 100 bps 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-bearing liability levels at June 30, 2016 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 June 30, 2016 levels.

	Increase			Decrease
Non-parallel shift in interest rates over the next 12 months	100 bps	200 bps	300 bps	100 bps
Projected percentage increase/ (decrease) in net interest income	(2.5)%	(4.9)%	(7.1)%	(3.1)%
Projected percentage increase/ (decrease) in net income	(5.4)%	(10.6)%	(15.4)%	(9.8)%
Projected increase/ (decrease) in return on average equity	(5.2)%	(10.3)%	(15.0)%	(9.5)%
Projected increase/ (decrease) in earnings per share	$(0.04)	$(0.08)	$(0.11)	$(0.07)
Projected percentage increase/ (decrease) in market value of equity	(4.9)%	(9.3)%	(14.2)%	0.6 %

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. We believe that any additional liability, other than that which has already been accrued, that may result from such potential litigation will not have a material adverse effect on the financial statements. However, we cannot presently determine whether or not any claims against us will have a material adverse effect on our results of operations in any future reporting period. See note 11.

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Item 1A. Risk Factors

In addition to the other information contained in this Quarterly Report on Form 10-Q, the following risk factor represents material updates and additions to the risk factors previously disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015 as filed with the Securities and Exchange Commission. Additional risks not presently known to us, or that we currently deem immaterial, may also adversely affect our business, financial condition or results of operations. Further, to the extent that any of the information contained in this Quarterly Report on Form 10-Q constitutes forward-looking statements, the risk factor set forth below also is a cautionary statement identifying important factors that could cause our actual results to differ materially from those expressed in any forward-looking statements made by or on behalf of us.

A new accounting standard will likely require us to increase our allowance for loan losses and may have a material adverse effect on our financial condition and results of operations

The FASB has adopted a new accounting standard that will be effective for our first fiscal year after December 15, 2019. This standard, referred to as Current Expected Credit Loss, or CECL, will require financial institutions to determine periodic estimates of lifetime expected credit losses on loans, and recognize the expected credit losses as allowances for loan losses. This will change the current method of providing allowances for loan losses that are probable, which may require us to increase our allowance for loan losses, and to greatly increase the types of data we would need to collect and review to determine the appropriate level of the allowance for loan losses. We are currently evaluating the impact this standard will have on our results of operations and financial position.

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 June 30, 2016:

Month	Number of shares purchased	Average price paid per share		Total number of shares purchased as part of a publicly announced repurchase plan (1)	Maximum number of shares yet to be purchased under the plan (1)
April	—	$	—	—	4,834,089
May	—	—		—	4,834,089
June	—	—		—	4,834,089
	—	$	—		

(1) Reflects the program for 5,000,000 shares announced December 13, 2012. This program does not have an expiration date.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

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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.
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:	August 9, 2016	By:	/s/ William J. Wagner
			William J. Wagner
			President and Chief Executive Officer
			(Duly Authorized Officer)

Date:	August 9, 2016	By:	/s/ Gerald J. Ritzert
			Gerald J. Ritzert
			Controller
			(Principal Accounting Officer)