

Northwest Bancshares, Inc.
Form 10-K
February 27, 2015
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended December 31, 2014

OR

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

For the transition period from to

Commission File No. 001-34582

NORTHWEST BANCSHARES, INC.

(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of incorporation or organization)

27-0950358
(I.R.S. Employer Identification Number)

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100 Liberty Street, Warren, Pennsylvania
(Address of Principal Executive Offices)

16365
(Zip Code)

(814) 726-2140

(Registrant's telephone number)

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, \$0.01 Par Value	NASDAQ Stock Market, LLC

Securities Registered Pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES NO

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 twelve months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such requirements for the past 90 days. YES NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

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

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

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES NO

As of February 13, 2015, there were 94,719,378 shares outstanding of the Registrant's Common Stock.

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant, computed by reference to the last sale price on June 30, 2014, as reported by the Nasdaq Global Select Market, was approximately \$1.288 billion.

DOCUMENTS INCORPORATED BY REFERENCE

(1) Proxy Statement for the 2015 Annual Meeting of Stockholders of the Registrant (Part III).

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FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements, which can be identified by the use of words such as estimate, project, believe, intend, anticipate, plan, seek, expect and words of similar meaning. These forward-looking statements include, but are not limited to:

- statements of our goals, intentions and expectations;
- statements regarding our business plans, prospects, growth and operating strategies;
- statements regarding the asset quality of our loan and investment portfolios; and
- estimates of our risks and future costs and benefits.

These forward-looking statements are based on current beliefs and expectations of our management and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change.

The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements:

- changes in laws or government regulations or policies affecting financial institutions, including changes in regulatory fees and capital requirements;
- general economic conditions, either nationally or in our market areas, that are worse than expected;
- competition among depository and other financial institutions;

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- inflation and changes in the interest rate environment that reduce our margins or reduce the fair value of financial instruments;
- adverse changes in the securities markets;
- our ability to enter new markets successfully and capitalize on growth opportunities;
- our ability to successfully integrate acquired entities, if any;
- 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;
- 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.

Because of these and other uncertainties, our actual future results may be materially different from the results indicated by these forward-looking statements. Please see Item 1A. Risk Factors.

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Except as may be required by law, we disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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ITEM 1. BUSINESS

Northwest Bancshares, Inc.

Northwest Bancshares, Inc., a Maryland corporation, was incorporated in September 2009 to be the successor corporation to Northwest Bancorp, Inc., the former stock holding company for Northwest Bank, upon completion of the mutual-to-stock conversion of Northwest Bancorp, MHC. The terms Northwest, the Company, we, us and our refer to Northwest Bancshares, Inc.

The conversion was completed December 18, 2009 when the Company sold 68,878,267 shares of common stock at \$10.00 per share in the related offering. Concurrent with the completion of the offering, shares of Northwest Bancorp, Inc. common stock owned by public stockholders were exchanged for 2.25 shares of Northwest Bancshares, Inc. common stock. We also issued 1,277,565 shares of common stock and contributed \$1.0 million in cash from the offering proceeds to Northwest Charitable Foundation, a charitable foundation that we established for the benefit of the communities in which Northwest Bank operates. As of December 31, 2014, the Company had 94,721,453 shares outstanding and a market capitalization of approximately \$1.187 billion.

Our executive offices are located at 100 Liberty Street, Warren, Pennsylvania 16365. Our telephone number at this address is (814) 726-2140.

The Company's website (www.northwestsavingsbank.com) contains a direct link to Northwest Bancshares, Inc. and its predecessor Northwest Bancorp, Inc.'s filings with the Securities and Exchange Commission, including copies of annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to these filings, if any. Information on our website shall not be considered a part of this report. Copies may also be obtained, without charge, by written request to Shareholder Relations, P.O. Box 128, Warren, Pennsylvania 16365.

Northwest Bank

Northwest Bank is a Pennsylvania-chartered stock savings bank headquartered in Warren, Pennsylvania, which is located in northwestern Pennsylvania. Northwest Bank is a community-oriented financial institution offering personal and business banking solutions, investment management and trust services and insurance products. Through a wholly-owned subsidiary, Northwest Consumer Discount Company, it also offers consumer finance loans. Northwest Bank's mutual savings bank predecessor was founded in 1896.

As of December 31, 2014, Northwest Bank operated 162 community-banking offices throughout its market area in central and western Pennsylvania, western New York, eastern Ohio and Maryland. Northwest Consumer Discount Company operates 51 consumer finance offices in Pennsylvania. Northwest Bank also offers investment management and trust services and through wholly-owned subsidiaries, actuarial and benefit plan administration services, as well as property and casualty and employer benefit plan insurance. Our principal lending activities are the origination of fixed-rate loans secured by first mortgages on owner-occupied, one-to-four-family residences, shorter term consumer loans, and commercial business and commercial real estate loans.

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Our principal sources of funds are personal and business deposits, borrowed funds and the principal and interest payments on loans and marketable securities. Our principal source of income is interest received on loans and marketable securities. Our principal expenses are the cost of employee compensation and benefits and the interest paid on deposits and borrowed funds.

As was previously announced on December 15, 2014 the Company entered into an Agreement and Plan of Merger (Merger Agreement) by and between the Company and LNB Bancorp, Inc. (LNB). Pursuant to the Merger Agreement, LNB will merge with and into the Company, with the Company as the surviving entity. Immediately thereafter, The Lorain National Bank (Lorain National Bank), the wholly owned subsidiary of LNB, will merge with and into Northwest Bank, the wholly owned subsidiary of the Company, with Northwest Bank as the surviving entity.

Under the terms of the Merger Agreement, 50% of LNB s common shares will be converted into Company common stock and the remaining 50% will be exchanged for cash. LNB s shareholders will have the option to elect to receive either 1.461 shares of the Company s common stock or \$18.70 in cash for each LNB common share, subject to proration to ensure that, in the aggregate, 50% of LNB s common shares will be converted into Company stock.

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The transaction has been approved by the Boards of Directors of the Company and LNB. Completion of the transaction is subject to customary closing conditions, including the receipt of required regulatory approvals and the approval of LNB's shareholders.

Northwest Bank's principal executive office is located at 100 Liberty Street, Warren, Pennsylvania, and its telephone number at that address is (814) 726-2140.

Market Area and Competition

We are headquartered in Warren, Pennsylvania, which is located in northwestern Pennsylvania, and have our highest concentration of deposits and loans in this area. Since the early 1990s, we have expanded, primarily through acquisitions, into the southwestern and central regions of Pennsylvania, as well as western New York, eastern Ohio and Maryland. As of December 31, 2014, we operated 135 community banking offices and 51 consumer finance offices in Pennsylvania, four community banking offices in Ohio, 19 community banking offices in New York and four community banking offices in Maryland. All of the aforementioned market areas are served by a number of competing financial institutions. As a result, we encounter strong competition both in attracting deposits and in originating personal and business loans. Our most direct competition for deposits comes from commercial banks, brokerage houses, other thrift institutions and credit unions in our market areas. We expect continued competition from these financial institutions in the foreseeable future. With the continued acceptance of internet banking by our customers and consumers generally, competition for deposits has increased from institutions operating outside of our market area as well as from insurance companies.

The following description of our market area is based upon information obtained from SNL Securities, the Bureau of Labor Statistics, The Federal Housing Financial Agency and the Mortgage Bankers Association.

Pennsylvania and Western New York Market Area. Our retail branch network encompasses 28 counties in Pennsylvania and five counties in western New York. In addition, through our consumer finance offices we operate in 12 additional counties in Pennsylvania. Our northwestern and southwestern Pennsylvania and western New York markets have a diverse economy driven by service businesses, technology companies and small manufacturing companies. Our southeastern Pennsylvania market is primarily driven by service businesses and serves as a bedroom community to the cities of Baltimore, Maryland and Philadelphia, Pennsylvania.

Pennsylvania is a stable banking market with a total population of approximately 12.8 million and total households of approximately 5.1 million as of December 31, 2014. The Pennsylvania markets in which we operate our retail branch and consumer finance offices contain more than half of Pennsylvania's population and a similar percentage of households. Our western New York market area has a total population of approximately 2.1 million and total households of approximately 868,000 as of December 31, 2014. Our Pennsylvania and western New York market areas have experienced a very modest decrease in population between 2010 and 2014, of 0.5% and 0.7%, respectively. As of December 31, 2014, the average median household income has increased over the last two years for the counties in which we conduct business in Pennsylvania by 9.9% and by 3.4% in our western New York markets. The median household income for the counties in which we conduct business in Pennsylvania was \$46,986 and was \$46,132 in our western New York market area as of December 31, 2014, compared to the national median income level of \$51,579. However, the household income growth rate in Pennsylvania is projected to increase above the expected national average growth rates during the next five years by approximately 75.5%. Our western New York market area is projected to increase above the expected national average growth rates during the next five years by approximately 49.0%. As of December 31, 2014 the unemployment rate for Pennsylvania was 4.8% and for our western New York market area was 5.5%, both below the national average of 5.6%.

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As of September 30, 2014 the change in the House Price Index for the last four quarters in Pennsylvania and our western New York market increased by 1.7% and 2.4%, respectively, compared to an increase in the national average of 4.6%. Foreclosures have receded from their record highs to the lowest levels since the fourth quarter of 2007. As of September 30, 2014, the foreclosure rates for mortgage loans on one-to-four unit residential properties in Pennsylvania and New York were 2.8% and 5.7%, respectively, compared to the national average of 2.4%.

Maryland and Ohio Market Areas. In addition to operating in Pennsylvania and western New York, we also operate four community banking offices in Ashtabula and Lake counties in Ohio and four community banking offices in Baltimore and Howard counties in Maryland. Our Maryland regional economy consists of service businesses, government, and health care industries. The major employment sectors in our Ohio market are similar to our northwestern Pennsylvania market. Our Maryland market has an expanding population base as well as median

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household income levels and projected income growth rates comparable to or exceeding the state and national averages as of December 31, 2014. While our current Ohio market has experienced a slight population decline over the past two years and median income and projected income growth rates below the state and national averages, our previously announced acquisition of LNB Bancorp, Inc. will expand our Ohio market to the attractive counties around Cleveland. As of December 31, 2014 the unemployment rate for our Ohio and Maryland market areas was 5.8% and 5.0%, respectively, compared to the national average of 5.6%.

As of September 30, 2014 the change in the House Price Index for the last four quarters for our Ohio and Maryland markets increased by 4.5% and 3.4%, respectively, compared to an increase in the national average of 4.6%. As of September 30, 2014 the foreclosure rates in Ohio and Maryland were 2.8% and 3.4%, respectively, compared to the national average of 2.4%.

Lending Activities

General. Our principal lending activities are the origination of fixed-rate and, to a lesser extent, adjustable-rate mortgage loans collateralized by one-to-four-family residential real estate, shorter term consumer loans and the origination of loans collateralized by multi-family residential and commercial real estate and commercial business loans. Generally, we focus our lending activities in the geographic areas where we maintain offices.

In an effort to manage interest rate risk, we have sought to make our interest-earning assets more interest rate sensitive by originating adjustable-rate loans, such as adjustable-rate residential mortgage loans and home equity lines of credit, and by originating short-term and medium-term fixed-rate consumer loans. In recent years we have emphasized the origination of commercial real estate loans and commercial business loans, which generally have adjustable rates of interest and shorter maturities than one-to-four-family residential real estate loans. We also purchase mortgage-backed securities and other types of investment securities that generally have short average lives and/or adjustable interest rates. Because we originate a substantial amount of long-term fixed-rate mortgage loans collateralized by one-to-four-family residential real estate, when possible, we originate and underwrite loans according to standards that allow us to sell them into the secondary mortgage market for purposes of managing interest-rate risk and liquidity. The sale of mortgage loans supports our strategy to grow the consumer and commercial loan portfolios by more than our portfolio of long-term fixed rate residential mortgage loans. We currently sell low-yielding fixed rate residential mortgage loans with maturities of more than 15 years, and on a more limited basis, those with maturities of 15 years or less, while retaining all adjustable rate residential mortgage loans. Although we sell a portion of the residential mortgage loans that we originate, we continue to be a portfolio lender, and at any one time hold few loans identified as held-for-sale. We currently retain servicing on the mortgage loans we sell which generates monthly service fee income. We generally retain in our portfolio all consumer loans that we originate while we periodically sell participations in the multi-family residential, commercial real estate or commercial business loans that we originate in an effort to reduce the concentration of certain individual credits and the risk associated with certain businesses, industries or geographies.

Residential Mortgage Loans. We offer residential mortgage loans with terms typically ranging from 15 to 30 years, with either fixed or adjustable interest rates. Originations of fixed rate residential mortgage loans versus adjustable rate residential mortgage loans are monitored on an ongoing basis. The percentage of adjustable rate residential mortgage originations to total originations is affected significantly by the level of market interest rates, customer preference, our interest rate sensitivity and liquidity position, as well as loan products offered by our competitors. Therefore, even when our strategy is to increase the origination of adjustable rate residential mortgage loans, market conditions may be such that there is greater demand for fixed rate mortgage loans. Adjustable rate residential mortgage loans totaled \$21.7 million, or 0.4%, of our gross loan portfolio at December 31, 2014.

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Our fixed rate residential mortgage loan products offer fixed rates for up to 30 years. Whenever possible, our fixed rate residential mortgages are originated and underwritten according to secondary mortgage market guidelines in order to manage credit risk, as well as interest rate risk and liquidity. Our adjustable rate residential mortgage loans offer initial interest rate adjustment periods of one, three, and five years, terms up to 30 years and adjustments based on changes in designated market indices. All of our residential mortgage loans are amortized on a monthly basis with both principal and interest due monthly.

Regulations limit the amount that a savings bank may lend relative to appraised values of real estate securing the loans, as determined by an appraisal at the time of loan origination. Appraisals are performed by in-house appraiser staff or by appraisers deemed qualified by our chief appraiser. Such regulations permit a maximum loan-to-value of 95% for residential properties and 80% for all other real estate secured loans. We generally limit

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the maximum loan-to-value on both fixed- and adjustable-rate residential mortgage loans without private mortgage insurance, to 80% of the lesser of appraised values or purchase prices of real estate serving as collateral for our mortgage loans. Limited special financing programs allow for insured loans with loan-to-value ratios of up to 97%, and uninsured loans with loan-to-value ratios up to 90%. We require fire and casualty insurance, as well as a title guaranty regarding good title, on all properties securing our residential mortgage loans. We also require flood insurance for loans secured by properties located within special flood hazard areas.

Included in our \$2.526 billion portfolio of residential mortgage loans are construction loans of \$22.2 million, or 0.4% of our gross loan portfolio. We offer fixed-rate and adjustable-rate residential construction loans primarily for the construction of owner-occupied one-to-four-family residences in our market area to builders or to owners who have a contract for construction. Construction loans are generally structured to become permanent mortgages, and are originated with terms of up to 30 years with an allowance of up to one year for construction. Advances are made as construction is completed. In addition, we originate loans within our market area that are secured by individual unimproved or improved lots. Land loans for the construction of owner-occupied residential real estate properties are currently offered with fixed-rates for terms of up to 10 years. The maximum loan-to-value ratio for these loans is 80% of the as-completed appraised value, and the maximum loan-to-value ratio for construction loans is 95% of the lower of cost to build or as-completed appraised value. Construction lending generally involves a greater degree of credit risk than permanent residential mortgage lending, as repayment of construction loans is often dependent upon the successful completion of construction projects. Construction delays or the inability of borrowers to sell properties once construction is completed may impair borrowers' ability to repay loans. Private mortgage insurance is required for construction loans with loan-to-value ratios in excess of 80%.

Our residential mortgage loans customarily include due-on-sale clauses, which are provisions giving us the right to declare loans immediately due and payable in the event, among other things, borrowers sell or otherwise dispose of underlying real properties serving as collateral for loans.

Some financial institutions we have acquired have held loans that are serviced by others and are secured by one-to-four-family residences. At December 31, 2014, our portfolio of residential mortgage loans serviced by others totaled \$4.1 million. We currently have no plans to enter into new residential mortgage loan participations.

Home Equity Loans. Generally, our home equity loans are secured by the borrower's principal residence with a maximum loan-to-value ratio, including the principal balances of both the first and second mortgage loans, of 90% or less. Home equity loans are offered on a fixed rate basis with terms of up to 20 years. Home equity lines of credit are offered on an adjustable-rate basis with terms of up to 25 years. All home equity lines of credit are underwritten assuming the borrower is required to immediately begin making principal and interest payments using the current rates on our equivalent fixed rate products. At December 31, 2014, the disbursed portion of home equity lines of credit totaled \$326.4 million, or 5.3% of gross loans, with \$111.5 million remaining undisbursed, and our fixed-rate home equity loans totaled \$739.7 million, or 12.1% of gross loans. We generally underwrite home equity loans and lines of credit in a manner similar to our underwriting of residential mortgage loans.

Other Consumer Loans. The principal types of other consumer loans we offer are automobile loans, sales finance loans, unsecured personal loans, credit card loans, and loans secured by deposit accounts. These loans are typically offered with maturities of ten years or less.

The underwriting standards we employ for consumer loans include a determination of the applicant's credit history and an assessment of ability to meet existing obligations and payments on the proposed loan. The stability of the applicant's monthly income may be determined by verification of gross monthly income from primary employment, and additionally, from any verifiable secondary income. Creditworthiness of

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the applicant is of primary consideration; however, the underwriting process also includes a comparison of the value of the collateral in relation to the proposed loan amount.

Consumer loans entail greater credit risk than residential mortgage loans, particularly in the case of consumer loans that are unsecured or secured by assets that depreciate rapidly, such as automobiles, mobile homes, boats, recreation vehicles, appliances and furniture. In such cases, repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment for the outstanding loan and the remaining deficiency often does not warrant further substantial collection efforts against the borrower. In particular, amounts realizable on the sale of repossessed automobiles may be significantly reduced based upon the condition of the automobiles and the lack of demand for used automobiles. At December 31, 2014, other consumer loans totaled \$242.7 million, or 4.0% of gross loans.

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Commercial Real Estate Loans. Our multi-family commercial real estate loans are secured by multi-family residences, such as rental properties. Our commercial real estate loans are secured by nonresidential properties such as hotels, commercial offices, manufacturing facilities and retail establishments. At December 31, 2014, a significant portion of our multi-family commercial real estate and commercial real estate loans were secured by properties located within our market area. Our largest multi-family commercial real estate loan relationship at December 31, 2014 had a principal balance of \$17.1 million, and was collateralized by student housing. This loan was performing in accordance with its terms as of December 31, 2014. Our largest commercial real estate loan relationship at December 31, 2014, had a principal balance of \$65.9 million and was secured by 18 commercial real estate properties including hotels, office and retail space. These loans were performing in accordance with their terms as of December 31, 2014. Multi-family commercial and commercial real estate loans are offered with both adjustable interest rates and fixed interest rates. The terms of each multi-family residential and commercial real estate loan are negotiated on a case-by-case basis. We generally originate multi-family commercial and commercial real estate loans in amounts up to 80% of the appraised value of the property collateralizing the loan.

Loans secured by multi-family commercial and commercial real estate generally involve a greater degree of credit risk than residential mortgage loans and carry larger loan balances. This increased credit risk is a result of several factors, including the concentration of principal in a limited number of loans and borrowers, the effects of general economic conditions on income producing properties, and the increased difficulty of evaluating and monitoring these types of loans. Furthermore, the repayment of loans secured by multi-family commercial and commercial real estate is typically dependent upon the successful operation of the related real estate property. If the cash flow from the project is reduced, the borrower's ability to repay the loan may be impaired.

Commercial Loans. We offer commercial loans to finance various activities in our market area, some of which are secured in part by additional real estate collateral. At December 31, 2014 our largest commercial loan relationship had a principal balance of \$22.2 million, and was secured by all business assets of an equipment sales and rental business. This loan was performing in accordance with its terms as of December 31, 2014.

Commercial business loans are offered with both fixed and adjustable interest rates. Underwriting standards we employ for commercial business loans include a determination of the applicant's ability to meet existing obligations and payments on the proposed loan from operating cash flows generated by the applicant's business. The financial strength of each applicant also is assessed through a review of financial statements provided by the applicant.

Commercial loans generally have higher interest rates than residential loans, but they also may involve a higher risk of default since their repayment is generally dependent on the successful operation of the borrower's business. We generally obtain personal guarantees from the borrower or a third party as a condition to originating commercial loans.

Loan Originations, Solicitation, Processing and Commitments. Upon receiving a retail loan application, we obtain a credit report and employment verification to verify specific information relating to the applicant's employment, income, and credit standing. In the case of a real estate loan, either an in-house appraiser, or an approved external appraiser, appraises the real estate intended to secure the proposed loan. A loan processor checks the loan document file for accuracy and completeness, and verifies the information provided.

For our personal loans, including residential mortgage loans, home equity loans and lines of credit, automobile loans, credit cards and other unsecured loans, we have implemented a credit approval process based on a laddered individual loan authority system. Real estate secured loans are underwritten by our licensed mortgage loan originators. Non-real estate loans are underwritten by local loan officers who are granted various

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levels of authority based on their lending experience and expertise. These authority levels are reviewed by the Credit Committee on at least an annual basis. As part of the approval process, we assign independent credit officers to review the creditworthiness of all loans exceeding \$500,000. If the credit officer has concerns regarding a loan that has been approved at a specific level, they have the authority to request that the loan be reviewed and approved at the next higher level.

Our commercial loan policy assigns lending limits for our various commercial loan officers and stacked authorities for commercial loan officers with the approval of regional supervisors. These individual and stacked authorities are established by the Credit Committee. The Senior Loan Committee may approve extensions of credit in excess of the stacked loan authorities. The Credit Committee meets quarterly to review the assigned lending limits and to monitor our lending policies, loan activity, economic conditions and concentrations of credit.

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Our general policy is to make no loans either individually or in the aggregate to one customer in excess of \$20.0 million. Under certain circumstances; for instance well qualified customers or customers with multiple individually qualified projects, this limit may be exceeded subject to the approval of the Senior Loan Committee. Although the Board of Directors does not approve individual loans, the Chief Credit Officer reviews any loans exceeding \$20.0 million or unusual loan requests with the Board of Directors prior to the loan being approved. In addition, the Chief Credit Officer has the authority to require that the Board of Directors review any loan that has been approved by the Senior Loan Committee with which the Chief Credit Officer has specific concerns. Also, all loans originated during a calendar quarter of \$5.0 million or more are reported to the Risk Management Committee of the Board of Directors at the end of each quarter. Fire and casualty insurance is required at the time the loan is made and throughout the term of the loan, and flood insurance is required as determined by regulation. After the loan is approved, a loan commitment letter is promptly issued to the borrower. At December 31, 2014, we had commitments to originate \$186.6 million of loans.

If the loan is approved, the commitment letter specifies the terms and conditions of the proposed loan including the amount of the loan, interest rate, amortization period, maturity, a description of the required collateral and required insurance coverage. The borrower must provide proof of fire and casualty insurance on the property (and, as required, flood insurance) serving as collateral, which insurance must be maintained during the full term of the loan. Property searches are requested, as needed, on all loans secured by real property.

Loan Origination Fees. We defer loan origination fees received from borrowers and costs and amortize such amounts as an adjustment of yield over the life of the loan by using the level yield method. Deferred loan fees or costs are recognized as part of interest income immediately upon prepayment or the sale of the related loan. At December 31, 2014, we had \$6.1 million of net deferred loan origination costs. Loan origination fees vary with the volume and type of loans and commitments originated and purchased, principal repayments, and competitive conditions in the marketplace.

Income from net loan origination fees was \$8.2 million, \$8.4 million and \$11.2 million for the years ended December 31, 2014, 2013 and 2012, respectively.

Loans-to-One Borrower. As of December 31, 2014, the largest aggregate amount loaned to one borrower, or related borrowers, totaled \$65.9 million and was secured by 18 commercial real estate properties including hotels, office and retail space. Our second largest lending relationship totaled \$52.7 million and was secured by five commercial office buildings. Our third largest lending relationship totaled \$41.2 million and was secured by a residential development. Our fourth largest lending relationship totaled \$40.4 million and was secured by six commercial real estate properties and undeveloped land. Our fifth largest lending relationship totaled \$38.4 million and was secured by five properties including residential, senior housing and commercial office. All of these loans were performing in accordance with their terms at December 31, 2014.

Investment Activities

Our Board of Directors has primary responsibility for establishing and overseeing our investment policy. The Board of Directors has delegated authority to implement the investment policy to our Chief Financial Officer. The investment policy is reviewed at least annually by the Chief Financial Officer, and any changes to the policy are subject to approval by the Board of Directors. The overall objectives of the Investment Policy are to maintain a portfolio of high quality and diversified investments, to provide liquidity, and to control interest rate risk while providing an acceptable return. The investment portfolio is also used to provide collateral for qualified deposits and borrowings, to provide additional earnings when loan production is low, and to reduce our tax liability. The policy dictates that investment decisions give consideration to the safety of principal, liquidity requirements and potential returns. Either our Chief Financial Officer executes our securities portfolio

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transactions or another designee executes transactions as directed by the Chief Financial Officer. All purchase and sale transactions are reported to the Board of Directors on a monthly basis.

Our investment policy does not permit the purchase of complex securities and derivatives as defined in federal banking regulations and other high-risk securities, nor does it permit additional investments in non-agency mortgage-backed securities, pooled trust preferred securities, or single issuer trust preferred securities.

At the time of purchase, we designate a security as either held-to-maturity or available-for-sale based upon our ability and intentions. Securities available-for-sale are reported at market value and securities held to maturity are reported at amortized cost. A periodic review and evaluation of the available-for-sale and held-to-maturity securities portfolios is conducted to determine if the fair value of any security has declined below its carrying value

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and whether such decline is other-than-temporary. If impairment exists, credit related impairment losses are recorded in earnings while noncredit related impairment losses are recorded in accumulated other comprehensive income (for available for sale securities). The fair values of our securities are based on published or securities dealers' market values, when available. See note 3 to the Consolidated Financial Statements for a detailed analysis and description of our investment portfolio and valuation techniques.

We purchase debentures and mortgage-backed securities that generally are issued by the Federal Home Loan Bank, Fannie Mae, Freddie Mac or Ginnie Mae. Historically, we invested in mortgage-backed securities to achieve positive interest rate spreads with minimal administrative expense and to lower our credit risk as a result of the guarantees provided by Freddie Mac, Fannie Mae or Ginnie Mae. However, in September 2008, the Federal Housing Finance Agency placed Freddie Mac and Fannie Mae into conservatorship. The U.S. Treasury Department has established financing agreements to ensure that Freddie Mac and Fannie Mae meet their obligations to holders of mortgage-backed securities that they have issued or guaranteed. These actions have not materially affected the markets for mortgage-backed securities issued by Freddie Mac or Fannie Mae.

Sources of Funds

General. Deposits are the major source of our funds for lending and other investment purposes. In addition to deposits, we derive funds from the amortization and prepayment of loans and mortgage-backed securities, the maturity of investment securities, operations and, if needed, borrowings. Scheduled loan principal repayments are a relatively stable source of funds, while deposit inflows and outflows and loan prepayments are influenced significantly by general interest rates and market conditions. Borrowings may be used on a short-term basis to compensate for reductions in the availability of funds from other sources or on a longer term basis for general business purposes, including to manage interest rate risk.

Deposits. Personal and business deposits are generated from our market area by offering a broad selection of deposit instruments including checking accounts, savings accounts, money market deposit accounts, term certificate accounts and individual retirement accounts. While we accept deposits of \$250,000 or more, we do not offer premium rates for such deposits. We accept brokered deposits through the CDARS program, but generally do not solicit funds outside our market area. As of December 31, 2014, we had 11 deposits through the CDARS program with an aggregate balance of \$986,000. Deposit account terms vary according to the minimum balance required, the period of time during which the funds must remain on deposit, and the interest rate, among other factors. We regularly execute changes in our deposit rates based upon cash flow requirements, general market interest rates, competition, and liquidity requirements.

Borrowings. Deposits are the primary source of funds for our lending and investment activities and general business purposes. We also rely upon borrowings to supplement our supply of lendable funds and to meet deposit withdrawal requirements. Borrowings from the Federal Home Loan Bank of Pittsburgh typically are collateralized by a portion of our real estate loans. In addition to the Federal Home Loan Bank of Pittsburgh, we have borrowing facilities with the Federal Reserve Bank, two correspondent banks and we borrow funds, in the form of corporate repurchase agreements, from municipalities, corporations and school districts.

The Federal Home Loan Bank of Pittsburgh functions as a central bank providing credit for Northwest Bank and other member financial institutions. As a member, Northwest Bank is required to own capital stock in the Federal Home Loan Bank of Pittsburgh and is authorized to apply for borrowings on the security of certain of its real estate loans, provided certain standards related to creditworthiness have been met. Borrowings are made pursuant to several different programs. Each credit program has its own interest rate and range of maturities. Depending on the program, limitations on the amount of borrowings are based either on a fixed percentage of a member institution's net worth or on the

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Federal Home Loan Bank of Pittsburgh's assessment of the institution's creditworthiness. All of our Federal Home Loan Bank of Pittsburgh borrowings currently have fixed interest rates and original maturities of between one day and ten years.

Subsidiary Activities

Northwest Bancshares, Inc.'s sole direct consolidated subsidiary is Northwest Bank. Northwest Bancshares, Inc. also owns all of the common stock of two statutory business trusts: Northwest Bancorp Capital Trust III, a Delaware statutory business trust, and Northwest Bancorp Statutory Trust IV, a Connecticut statutory business trust (the Trusts). The Trusts have issued a total of \$100.0 million of trust preferred securities. The Trusts are not consolidated with Northwest Bancshares, Inc. At December 31, 2014, Northwest Bancshares, Inc.'s investment in the Trusts totaled \$3.1 million, and the Trusts had assets of \$103.1 million.

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Northwest Bank has ten wholly-owned subsidiaries Northwest Settlement Agency, LLC, Great Northwest Corporation, Northwest Financial Services, Inc., Northwest Advisors, Inc., Northwest Consumer Discount Company, Inc., Allegheny Services, Inc., Boetger and Associates, Inc., Evans Capital Management, Inc., Northwest Capital Group, Inc., and The Bert Company. For financial reporting purposes all of these companies are included in the consolidated financial statements of Northwest Bancshares, Inc.

Northwest Settlement Agency, LLC provides title insurance to borrowers of Northwest Bank and other lenders. At December 31, 2014, Northwest Bank had an equity investment in Northwest Settlement Agency, LLC of \$3.4 million. For the year ended December 31, 2014, Northwest Settlement Agency, LLC had net income of \$201,000.

Great Northwest Corporation holds equity investments in government-assisted, low-income housing projects in various locations throughout our market area. At December 31, 2014, Northwest Bank had an equity investment in Great Northwest Corporation of \$9.4 million. For the year ended December 31, 2014, Great Northwest Corporation had net income of \$644,000, generated primarily from federal low-income housing tax credits.

Northwest Financial Services, Inc. provides retail brokerage services. At December 31, 2014, Northwest Bank had an equity investment in Northwest Financial Services, Inc. of \$8.0 million, and for the year ended December 31, 2014, Northwest Financial Services, Inc. had net income of \$417,000.

Northwest Advisors, Inc., a federally registered investment advisor (RIA) provides investment management programs and investment portfolio planning services. At December 31, 2014, Northwest Bank had an equity investment in Northwest Advisors, Inc. of \$521,000, and for the year ended December 31, 2014, Northwest Advisors, Inc. had a net loss of \$39,000.

Northwest Consumer Discount Company, Inc. operates 51 consumer finance offices throughout Pennsylvania. At December 31, 2014, Northwest Bank had an equity investment in Northwest Consumer Discount Company of \$42.7 million and the net income of Northwest Consumer Discount Company, Inc. for the year ended December 31, 2014 was \$1.8 million.

Allegheny Services, Inc. is a Delaware investment company that holds mortgage loans originated through our wholesale lending operation as well as municipal bonds. In addition, Allegheny Services, Inc. funds the operation of the Northwest Consumer Discount Company through an intercompany loan relationship. At December 31, 2014, Northwest Bank had an equity investment in Allegheny Services, Inc. of \$744.5 million, and for the year ended December 31, 2014, Allegheny Services, Inc. had net income of \$17.9 million.

Boetger and Associates, Inc. (doing business as Northwest Retirement Services) is an actuarial and employee benefits consulting firm that specializes in the design, implementation and administration of qualified and non-qualified retirement plan programs. At December 31, 2014, Northwest Bank had an equity investment of \$2.6 million in Boetger and Associates, Inc. and for the year ended December 31, 2014, Boetger and Associates, Inc. had net income of \$200,000.

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Evans Capital Management, Inc. provides investment management programs and investment portfolio planning services. At December 31, 2014, Northwest Bank had an equity investment in Evans Capital Management, Inc. of \$2.4 million, and for the year ended December 31, 2014, Evans Capital Management, Inc. had a net loss of \$90,000.

Northwest Capital Group, Inc.'s principal activity is to own, operate and ultimately divest of properties that were acquired in foreclosure. At December 31, 2014, Northwest Bank had an equity investment of \$11.5 million in Northwest Capital Group, Inc. which reported net income of \$705,000 for the year ended December 31, 2014.

The Bert Company (doing business as Northwest Insurance Services) is an employee benefits and property and casualty insurance firm specializing in commercial and personal insurance as well as retirement benefit plans. At December 31, 2014, Northwest Bank had an equity investment of \$8.0 million in The Bert Company and for the year ended December 31, 2014, The Bert Company had net income of \$1.0 million. On January 1, 2014 Veracity Benefits Design, Inc. was merged into The Bert Company and together they are doing business as Northwest Insurance Services.

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As we previously announced, on January 12, 2015 Northwest acquired B.J. Petruso Agency a Meadville, Pennsylvania property and casualty and life insurance firm which will be absorbed into Northwest Insurance Services.

Federal regulations require insured institutions to provide 30 days advance notice to the Federal Deposit Insurance Corporation (FDIC) before establishing or acquiring a subsidiary or conducting a new activity in a subsidiary. The insured institution must also provide the FDIC such information as may be required by applicable regulations and must conduct the activity in accordance with the rules and orders of the FDIC. In addition to other enforcement and supervision powers, the FDIC may determine after notice and opportunity for a hearing that the continuation of a savings bank's ownership of or relation to a subsidiary constitutes a serious risk to the safety, soundness or stability of the savings bank, or is inconsistent with the purposes of federal banking laws. Upon the making of such a determination, the FDIC may order the savings bank to divest the subsidiary or take other actions.

Personnel

As of December 31, 2014, we had 1,863 full-time and 357 part-time employees. None of our employees are represented by a collective bargaining group. We believe we have a good working relationship with our employees.

SUPERVISION AND REGULATION

General

Northwest Bank is a Pennsylvania-chartered savings bank and our deposit accounts are insured up to applicable limits by the FDIC under the Deposit Insurance Fund. Northwest Bank is subject to extensive regulation by the Department of Banking and Securities of the Commonwealth of Pennsylvania (the Department of Banking), as its chartering agency, and by the FDIC, as the insurer of its deposit accounts. Northwest Bank must file reports with the Department of Banking and the FDIC concerning its activities and financial condition in addition to obtaining regulatory approvals prior to entering into certain transactions including acquisitions of other financial institutions. Northwest Bank is examined periodically by the Department of Banking and the FDIC to test Northwest Bank's compliance with various laws and regulations. This regulation and supervision, as well as federal and state law, establishes a comprehensive framework of activities in which Northwest Bank may engage and is intended primarily for the protection of the FDIC insurance fund and depositors. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and with their examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes.

Any change in these laws or regulations, whether by the Department of Banking or the FDIC, could have a material adverse impact on the Company, Northwest Bank and their respective operations.

As a savings and loan holding company, we are required to comply with the rules and regulations of the Board of Governors of the Federal Reserve System (the Federal Reserve Board), and are also required to file certain reports with and are subject to examination by the Federal Reserve Board. We are also subject to the rules and regulations of the Securities and Exchange Commission under the federal securities laws.

Set forth below is a brief description of certain regulatory requirements that are applicable to Northwest Bank and Northwest Bancshares, Inc. The description below is limited to certain material aspects of the statutes and regulations addressed, and is not intended to be a complete description of such statutes and regulations and their effects on Northwest Bank and Northwest Bancshares, Inc.

Dodd-Frank Wall Street Reform and Consumer Protection Act

In July 2010 the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) was signed into law. This law has significantly changed the current bank regulatory structure and is affecting the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies. The Dodd-Frank Act requires various federal agencies to adopt a broad range of new rules and regulations, and to prepare numerous studies and reports for Congress. The federal agencies are given significant discretion in drafting rules and regulations, and consequently, many of the details and much of the impact of the Dodd-Frank Act may not be known for many years.

Certain provisions of the Dodd-Frank Act have had a near term effect on us. For example, the law provided that the Office of Thrift Supervision, which was the primary federal regulator for Northwest Bancshares, Inc.,

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ceased to exist one year from the date of the new law's enactment. The Federal Reserve Board is now supervising and regulating all savings and loan holding companies that were formerly regulated by the Office of Thrift Supervision, including Northwest Bancshares, Inc.

The Dodd-Frank Act created a new Consumer Financial Protection Bureau with broad powers to supervise and enforce consumer protection laws. The Consumer Financial Protection Bureau has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions, including the authority to prohibit unfair, deceptive or abusive acts and practices. The Consumer Financial Protection Bureau has examination and enforcement authority over all banks and savings institutions with more than \$10 billion in assets. Banks and savings institutions with \$10 billion or less in assets will continue to be examined by their applicable bank regulators. The Dodd-Frank Act also weakened the federal preemption rules that have been applicable for national banks and federal savings associations, and gave state attorneys general the ability to enforce federal consumer protection laws.

The Dodd-Frank Act also broadened the base for Federal Deposit Insurance Corporation insurance assessments. Assessments are now based on the average consolidated total assets less tangible equity capital of a financial institution. The Dodd-Frank Act also permanently increased the maximum amount of deposit insurance for banks, savings institutions and credit unions to \$250,000 per deposit category.

The Dodd-Frank Act required publicly traded companies to give stockholders a non-binding vote on executive compensation (say-on-pay) and so-called golden parachute payments. The legislation directed the Federal Reserve Board to promulgate rules prohibiting excessive compensation paid to bank holding company executives, regardless of whether the company is publicly traded or not. The legislation also provided for originators of certain securitized loans to retain a percentage of the risk for transferred credits, directed the Federal Reserve Board to regulate pricing of certain debit card interchange fees, and contained a number of reforms related to mortgage origination.

The Dodd-Frank Act contained the so-called Volcker Rule, which generally prohibits banking organizations from engaging in proprietary trading and from investing in, sponsoring or having certain relationships with hedge or private equity funds (covered funds). On December 13, 2013, federal agencies issued a final rule implementing the Volcker Rule which, among other things, requires banking organizations to restructure and limit certain of their investments in and relationships with covered funds. The final rule unexpectedly included within the interests subject to its restrictions collateralized debt obligations backed by trust-preferred securities (TRUPS CDOs). Many banking organizations had purchased such instruments because of their favorable tax, accounting and regulatory treatment and would have been subject to unexpected write-downs. In response to concerns expressed by community banking organizations, the federal agencies subsequently issued an interim final rule which grandfathers TRUPS CDOs issued before May 19, 2010 if (i) acquired by a banking organization on or before December 10, 2013 and (ii) the organization reasonably believed the proceeds from the TRUPS CDOs were invested primarily in any trust preferred security or subordinated debt instrument issued by a depository institution holding company with less than \$15 billion in assets or by a mutual holding company.

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

Pennsylvania Savings Bank Law

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The Pennsylvania Banking Code of 1965, as amended (the Banking Code) contains detailed provisions governing the organization, operations, corporate powers, savings and investment authority, branching rights and responsibilities of directors, officers and employees of Pennsylvania savings banks. A Pennsylvania savings bank may locate or change the location of its principal place of business and establish an office anywhere in, or adjacent to, Pennsylvania, with the prior approval of the Department of Banking. The Banking Code delegates extensive rulemaking power and administrative discretion to the Department of Banking in its supervision and regulation of state-chartered savings banks.

The Department of Banking generally examines each savings bank not less frequently than once every two years. Although the Department of Banking may accept the examinations and reports of the FDIC in lieu of its own examination, the current practice is for the Department of Banking to conduct individual examinations. The Department of Banking may order any savings bank to discontinue any violation of law or unsafe or unsound

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business practice and may direct any director, officer, or employee of a savings bank engaged in a violation of law, unsafe or unsound practice or breach of fiduciary duty to show cause at a hearing before the Department of Banking why such person should not be removed. The Department of Banking may also appoint a receiver or conservator for an institution in appropriate cases.

The Banking Law Modernization Package was Pennsylvania legislation effective on December 24, 2012. The legislation was intended to update, simplify and modernize the banking laws of Pennsylvania and reduce regulatory burden where possible. The legislation, among other things, increased the threshold for investments in bank premises without Department of Banking approval from 25% of capital, surplus, undivided profits and capital securities to 100%, eliminated archaic lending requirements and pricing restrictions and changed the procedure for Pennsylvania state chartered institutions closing a branch from an application for approval to a notice. The legislation also clarified the Department of Banking's examination and enforcement authority over subsidiaries of Pennsylvania institutions and authorized the assessment of civil money penalties of up to \$25,000 under certain circumstances for violations of laws or orders related to the institution or unsafe or unsound practices or breaches of fiduciary duties.

Federal Deposit Insurance

The FDIC currently maintains the Deposit Insurance Fund (the DIF), which was created in 2006 through the merger of the Bank Insurance Fund and the Savings Association Insurance Fund. The deposit accounts of our subsidiary bank are insured by the DIF to the maximum amount provided by law. This insurance is backed by the full faith and credit of the United States Government.

As insurer, the FDIC is authorized to conduct examinations of and to require reporting by DIF-insured institutions. It also may prohibit any DIF-insured institution from engaging in any activity the FDIC determines by regulation or order to pose a serious threat to the DIF. The FDIC also has the authority to take enforcement actions against insured institutions.

The FDIC imposes assessments for deposit insurance on an insured institution quarterly according to its ranking in one of four risk categories based upon supervisory and capital evaluations. The assessment rate for an individual institution is determined according to a formula based on a weighted average of the institution's individual CAMELS component ratings plus various financial ratios. Well-capitalized institutions (generally those with CAMELS composite ratings of 1 or 2) are grouped in Risk Category I and their initial base assessment rate for deposit insurance is set at an annual rate of between 5 and 9 basis points of total assets less tangible equity. The initial base assessment rate for institutions in Risk Categories II, III and IV is set at annual rates of 14, 23 and 35 basis points, respectively. These initial base assessment rates are adjusted to determine an institution's final assessment rate based on its brokered deposits and unsecured debt. The adjustments include higher premiums for institutions that rely significantly on excessive amounts of brokered deposits, including CDARS, while providing a reduction for all institutions for their unsecured debt. Total base assessment rates after adjustments range from 2.5 to 9 basis points for Risk Category I, 9 to 24 basis points for Risk Category II, 18 to 33 basis points for Risk Category III, and 30 to 45 basis points for Risk Category IV. This assessment structure represents a change, required by the Dodd-Frank Act and effective April 1, 2011, from the FDIC's prior system, which based assessments on deposits rather than total assets less tangible equity.

Pursuant to the Dodd-Frank Act, the FDIC has established 2.0% as the designated reserve ratio (DRR) of the DIF to insured deposits. The FDIC has adopted a plan under which it will meet the statutory minimum DRR of 1.35% by September 30, 2020, the deadline imposed by the Dodd-Frank Act. The Dodd-Frank Act requires the FDIC to offset the effect on institutions with assets less than \$10 billion of the increase in the statutory minimum DRR to 1.35% from the former statutory minimum of 1.15%. The FDIC has not yet announced how it will implement this offset or how larger institutions will be affected by it.

In addition, all institutions with deposits insured by the FDIC are required to pay assessments to fund interest payments on bonds issued by the Financing Corporation, a mixed-ownership government corporation established to recapitalize a predecessor to the Deposit Insurance Fund. These assessments will continue until the Financing Corporation bonds mature in 2019.

Insurance of deposits may be terminated by the FDIC upon a finding that the institution has engaged or is engaging in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC or written agreement entered

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into with the FDIC. The management of the Bank does not know of any practice, condition or violation that might lead to termination of deposit insurance.

Capital Requirements

Under the FDIC's regulations, federally insured state-chartered banks that are not members of the Federal Reserve System (state non-member banks), such as Northwest Bank, are required to comply with minimum leverage capital requirements. For an institution determined by the FDIC to not be anticipating or experiencing significant growth and to be, in general, a strong banking organization rated composite 1 under Uniform Financial Institutions Ranking System established by the Federal Financial Institutions Examination Council, the minimum capital leverage requirement is a ratio of Tier 1 capital to total assets of 3.0%. For all other institutions, the minimum leverage capital ratio is not less than 4.0%. Tier 1 capital is the sum of common stockholder's equity, noncumulative perpetual preferred stock (including any related surplus) and minority investments in certain subsidiaries, less intangible assets (except for certain servicing rights and credit card relationships) and certain other specified items.

In addition, FDIC regulations require state non-member banks to maintain certain ratios of regulatory capital to regulatory risk-weighted assets, or risk-based capital ratios. Risk-based capital ratios are determined by allocating assets and specified off-balance sheet items to four risk-weighted categories ranging from 0.0% to 100.0% (or 200% for certain residual interests in transferred assets). State non-member banks must maintain a minimum ratio of total capital to risk-weighted assets of at least 8.0%, of which at least one-half must be Tier 1 capital. Total capital consists of Tier 1 capital plus Tier 2 or supplementary capital items, which include allowances for loan losses in an amount of up to 1.25% of risk-weighted assets, cumulative preferred stock and certain other capital instruments, and a portion of the net unrealized gain on equity securities. The includable amount of Tier 2 capital cannot exceed the amount of the institution's Tier 1 capital. In assessing an institution's capital adequacy, the FDIC takes into consideration, not only these numeric factors, but also qualitative factors, and has authority to establish higher individual capital requirements for state non-member banks where deemed necessary.

In July 2013, the FDIC and the other federal bank regulatory agencies issued a final rule that will revise 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 minimum capital requirement (4.5% of risk-weighted assets), adopts a uniform minimum Tier 1 capital to adjusted total assets ratio of 4%, increases the minimum Tier 1 capital to risk-based assets requirement (from 4% to 6% of risk-weighted assets) and assigns a higher risk weight (150%) to exposures that are more than 90 days past due or are on nonaccrual status and to certain commercial real estate facilities that finance the acquisition, development or construction of real property. The final rule also requires unrealized gains and losses on certain available-for-sale securities holdings to be included for purposes of calculating regulatory capital requirements unless a one-time opt-in or opt-out is exercised. The rule limits a banking organization's capital distributions and certain discretionary bonus payments to executive officers if the banking organization does not hold a capital conservation buffer consisting of 2.5% of common equity Tier 1 capital to risk-weighted assets in addition to the amount necessary to meet its minimum risk-based capital requirements. The final rule also implements the Dodd-Frank Act's directive to apply to savings and loan holding companies consolidated capital requirements that are not less stringent than those applicable to their subsidiary institutions. The final rule was effective January 1, 2015. The capital conservation buffer will be phased in from January 1, 2016 to January 1, 2019, when the full capital conservation buffer will be effective.

Any institution that fails any of the FDIC capital requirements is subject to enforcement action by the FDIC. Such action may include a capital directive, a cease and desist order, civil money penalties, restrictions on an institution's operations, termination of federal deposit insurance, and the appointment of a conservator or receiver. The FDIC's capital regulation provides that such action, through enforcement proceedings or otherwise, may require a variety of corrective measures.

Northwest Bank is also subject to capital guidelines of the Department of Banking. Although not adopted in regulation form, the Department of Banking requires 6% leverage capital and 10% risk-based capital. The components of leverage and risk-based capital are substantially the same as those defined by the FDIC.

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The following table shows the Basel III regulatory capital levels that must be maintained to avoid limitations on capital distributions and discretionary bonus payments for the periods indicated:

	Current	Basel III Regulatory Capital Requirements				
		January 1, 2015	January 1, 2016	January 1, 2017	January 1, 2018	January 1, 2019
New Tier 1 common equity ratio plus capital conservation buffer		4.50%	5.125%	5.75%	6.375%	7.00%
Tier 1 risk-based capital ratio	4.00%					
Tier 1 risk-based capital ratio plus capital conservation buffer		6.00%	6.625%	7.25%	7.875%	8.50%
Total risk-based capital ratio	8.00%					
Total risk-based capital ratio plus capital conservation buffer		8.00%	8.625%	9.25%	9.875%	10.50%

Prompt Corrective Action

Under the federal prompt corrective regulations, a bank is considered to be (i) well capitalized if it has total risk-based capital of 10.0% or more, Tier 1 risk-based capital of 8.0% or more, Tier I leverage capital of 5.0% or more and a common equity Tier 1 ratio of 6.5% or more, and is not subject to any written capital order or directive; (ii) adequately capitalized if it has total risk-based capital of 8.0% or more, Tier I risk-based capital of 6.0% or more, Tier I leverage capital of 4.0% or more and a common equity Tier 1 ratio of 4.5% or more, and does not meet the definition of well capitalized; (iii) undercapitalized if it has total risk-based capital of less than 8.0%, Tier I risk-based capital of less than 6.0%, Tier I leverage capital of less than 4.0% or a common equity Tier 1 ratio of less than 4.5%; (iv) significantly undercapitalized if it has total risk-based capital of less than 6.0%, Tier I risk-based capital less than 4.0%, Tier I leverage capital of less than 3.0% or a common equity Tier 1 ratio of less than 3%; and (v) critically undercapitalized if its ratio of tangible equity to total assets is equal to or less than 2.0%. Institutions that fall into an undercapitalized category are subject to a variety of mandatory and discretionary supervisory actions, including a restriction on capital distributions and the requirement to file a capital restoration plan with the regulators. Performance under the capital restoration plan must be guaranteed by the parent holding company up to the lesser of the amount of the capital deficiency when deemed undercapitalized or 5% of the institution's total assets. Federal regulations also specify circumstances under which a federal banking agency may reclassify a well capitalized institution as adequately capitalized, and may require an adequately capitalized institution to comply with supervisory actions as if it were in the next lower category (except that the Federal Deposit Insurance Corporation may not reclassify a significantly undercapitalized institution as critically undercapitalized). As of December 31, 2014, Northwest Bank was well-capitalized for this purpose.

Loans-to-One Borrower Limitation

In accordance with the Banking Code, a Pennsylvania chartered savings bank, with certain limited exceptions, may lend to a single or related group of borrowers on an unsecured basis an amount equal to 15% of its capital accounts, the aggregate of capital, surplus, undivided profits, capital securities and reserve for loan losses. We have established an internal lending limit, either individually or in the aggregate to one customer, of \$20.0 million. Under certain circumstances, for instance well qualified customers or customers with multiple individually qualified projects, this limit may be exceeded subject to the approval of the Senior Loan Committee. We currently have five credit relationships that equal or exceed our \$20.0 million internal limit.

Activities and Investments of Insured State-Chartered Banks

Federal law generally limits the activities and equity investments of state-chartered banks insured by the FDIC to those that are permissible for national banks. Under regulations dealing with equity investments, an insured state bank generally may not, directly or indirectly, acquire or retain any equity investment of a type, or in an amount, that is not permissible for a national bank. An insured state bank is not prohibited from, among other things: (i) acquiring or retaining a majority interest in a subsidiary; (ii) investing as a limited partner in a partnership the sole purpose of which is direct or indirect investment in the acquisition, rehabilitation, or new construction of a qualified housing project, provided that such limited partnership investments may not exceed 2% of the bank's total assets; (iii) acquiring up to 10% of the voting stock of a company that solely provides or reinsures liability insurance for directors, trustees or officers, or blanket bond group insurance coverage for insured depository institutions; and (iv) acquiring or retaining the voting shares of a depository institution if certain requirements are met. Activities of state banks and their subsidiaries are generally limited to those permissible for national banks. Exceptions include where the bank meets applicable regulatory capital requirements and the FDIC determines that the proposed activity does not pose a significant risk to the deposit insurance fund.

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The USA PATRIOT Act

The USA Patriot Act gives the federal government powers to address terrorist threats through enhanced domestic security measures, expanded surveillance powers, increased information sharing and broadened anti-money laundering requirements. The USA Patriot Act also requires the federal banking agencies to take into consideration the effectiveness of controls designed to combat money-laundering activities in determining whether to approve a merger or other acquisition application of a member institution. Accordingly, if we engage in a merger or other acquisition, our controls designed to combat money laundering would be considered as part of the application process. We have established policies, procedures and systems designed to comply with these regulations.

Holding Company Regulation

General. Federal law allows a state savings bank, such as Northwest Bank, that qualifies as a Qualified Thrift Lender, as discussed below, to elect to be treated as a savings association for purposes of the savings and loan company provisions of the Home Owners Loan Act of 1933, as amended. Such election results in its holding company being regulated as a savings and loan holding company by the Federal Reserve Board rather than as a bank holding company. Northwest Bank has made such an election. Therefore, Northwest Bancshares, Inc. is a savings and loan holding company within the meaning of the Home Owners Loan Act of 1933, as amended. As such, we are registered as a savings and loan holding company with the Federal Reserve Board and are subject to Federal Reserve Board regulations, examinations, supervision and reporting requirements. In addition, the Federal Reserve Board has enforcement authority over the Company and any non-savings institution subsidiaries of the Company. Among other things, this authority permits the Federal Reserve Board to restrict or prohibit activities that are determined to be a serious risk to the subsidiary savings institution.

Permissible Activities. The business activities of Northwest Bancshares, Inc. are generally limited to those activities permissible for financial holding companies under Section 4(k) of the Bank Holding Company Act of 1956, as amended, or for multiple savings and loan holding companies. A financial holding company may engage in activities that are financial in nature, including underwriting equity securities and insurance as well as activities that are incidental to financial activities or complementary to financial activities. The Dodd-Frank Act specifies that a savings and loan holding company may only engage in financial holding company activities if it meets the qualitative criteria necessary for a bank holding company to engage in such activities. A multiple savings and loan holding company is generally limited to activities permissible for bank holding companies under Section 4(c)(8) of the Bank Holding Company Act, subject to the prior approval of the Federal Reserve Board, and certain additional activities authorized by Federal Reserve Board regulations.

Federal law prohibits a savings and loan holding company, including Northwest Bancshares, Inc., directly or indirectly, or through one or more subsidiaries, from acquiring more than 5% of another savings institution or holding company thereof, without prior written approval of the Federal Reserve Board. It also prohibits, with certain exceptions, the acquisition or retention of more than 5% of a non-subsidiary company engaged in activities that are not closely related to banking or financial in nature, or acquiring or retaining control of an institution that is not federally insured. In evaluating applications by holding companies to acquire savings institutions, the Federal Reserve Board must consider the financial and managerial resources, future prospects of the company and institution involved, the effect of the acquisition on the risk to the federal deposit insurance fund, the convenience and needs of the community and competitive factors.

The Federal Reserve Board is prohibited from approving any acquisition that would result in a multiple savings and loan holding company controlling savings institutions in more than one state, subject to two exceptions:

- (i) the approval of interstate supervisory acquisitions by savings and loan holding companies; and
- (ii) the acquisition of a savings institution in another state if the laws of the state of the target savings institution specifically permit such acquisition.

The states vary in the extent to which they permit interstate savings and loan holding company acquisitions.

Qualified Thrift Lender Test. To be regulated as a savings and loan holding company (rather than as a bank holding company), Northwest Bank must qualify as a Qualified Thrift Lender. To qualify as a Qualified Thrift Lender, Northwest Bank must be a domestic building and loan association, as defined in the Internal Revenue Code, or comply with the Qualified Thrift Lender test. Under the Qualified Thrift Lender test, a savings institution is required to maintain at least 65% of its portfolio assets (total assets less: (1) specified liquid assets up to 20% of

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total assets; (2) intangibles, including goodwill; and (3) the value of property used to conduct business) in certain qualified thrift investments (primarily residential mortgages and related investments, including certain mortgage-backed and related securities) in at least nine months out of each 12-month period. As of December 31, 2014, Northwest Bank met the Qualified Thrift Lender test.

Capital Requirements. Savings and loan holding companies have not historically been subjected to consolidated regulatory capital requirements. However, the Dodd-Frank Act requires the Federal Reserve Board to set, for all depository institution holding companies, minimum consolidated capital levels that are as stringent as those required for the insured depository subsidiaries. The previously discussed final rule regarding regulatory capital requirements implements the Dodd-Frank Act as to savings and loan holding companies. Consolidated regulatory capital requirements identical to those applicable to the subsidiary depository institutions apply to savings and loan holding companies as of January 1, 2015. As is the case with institutions themselves, the capital conservation buffer will be phased in between 2016 and 2019.

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

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

As a subsidiary of a savings and loan holding company, Northwest Bank must notify the Federal Reserve Board thirty days before declaring any dividend to the Company. The dividend notice may be objected to under certain circumstances, such as where the dividend raises safety or soundness concerns, the dividend would cause the savings bank to be undercapitalized or the dividend would violate a law, regulation, regulatory condition or enforcement order.

Federal Securities Laws

Our common stock is registered with the SEC under Section 12(b) of the Securities Exchange Act of 1934, as amended (the Exchange Act). We are also subject to the proxy rules, tender offer rules, insider trading restrictions, annual and periodic reporting, and other requirements of the Exchange Act.

Sarbanes-Oxley Act of 2002

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The Sarbanes-Oxley Act of 2002 was enacted to increase corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies, and to protect investors by improving the accuracy and reliability of corporate disclosures pursuant to the securities laws. The Sarbanes-Oxley Act generally applies to all companies that file or are required to file periodic reports with the Securities and Exchange Commission, under the Securities Exchange Act of 1934.

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

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FEDERAL AND STATE TAXATION

Federal Taxation. For federal income tax purposes, Northwest Bancshares, Inc. files a consolidated federal income tax return with its wholly-owned subsidiaries on a calendar year basis. The applicable federal income tax expense or benefit is properly allocated to each subsidiary based upon taxable income or loss calculated on a separate company basis.

We account for income taxes using the asset and liability method which accounts for deferred income taxes by applying the enacted statutory rates in effect at the balance sheet date to differences between the book basis and the tax basis of assets and liabilities. The resulting deferred tax liabilities and assets are adjusted to reflect changes in tax laws.

State Taxation. As a Maryland business corporation, Northwest Bancshares, Inc. is required to file annual tax returns with the State of Maryland. In addition, Northwest Bancshares, Inc. is subject to Pennsylvania's corporate net income tax and capital stock tax. Dividends received from Northwest Bank qualify for a 100% dividends received deduction and are not subject to corporate net income tax.

Northwest Bank is subject to Pennsylvania's mutual thrift institutions tax based on Northwest Bank's net income determined in accordance with generally accepted accounting principles, with certain adjustments. The tax rate under the mutual thrift institutions tax is 11.5%. Interest on Pennsylvania and federal obligations is excluded from net income. An allocable portion of interest expense incurred to carry the obligations is disallowed as a deduction. Northwest Bank is also subject to taxes in the other states in which it conducts business. These taxes are apportioned based upon the volume of business conducted in those states as a percentage of the whole. Because a majority of Northwest Bank's affairs are conducted in Pennsylvania, taxes paid to other states are not material.

The subsidiaries of Northwest Bank are subject to a Pennsylvania corporate net income tax and a capital stock tax, and are also subject to other applicable taxes in the states where they conduct business.

ITEM 1A. RISK FACTORS

In addition to factors discussed in the description of our business and elsewhere in this report, the following are factors that could adversely affect our future results of operations and financial condition.

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

Our performance is significantly impacted by the general economic conditions in our primary markets in Pennsylvania, New York, Ohio and Maryland. Our markets have been adversely impacted by the severe national economic recession of 2008 and 2009, and the weak economic recovery has resulted in continued uncertainty in the financial markets and the expectation of weak general economic conditions continuing.

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Recovery by many businesses has been impaired by lower consumer spending. If the Federal Reserve Board increases the federal funds rate or more rapidly curtails its bond purchasing program, higher interest rates would likely result, which may reduce our loan originations, and housing markets and U.S. economic activity would be negatively affected. These difficult market conditions are likely to result in continued high levels of unemployment, which will further weaken an already distressed economy and could result in additional defaults of mortgage loans.

At December 31, 2014, 75.8% of our loan portfolio was secured by properties located in Pennsylvania, with a large portion of the rest of our loans secured by real estate located in New York, Ohio and Maryland. Our business, financial condition and results of operations could be adversely affected by recessionary or impaired recovery conditions that are longer or deeper than expected. Negative economic conditions, such as high unemployment, in the markets where collateral for our mortgage loans is located could adversely affect the value of the collateral securing such loans. Declines in the U.S. housing market manifested by falling home prices and increasing foreclosures, as well as unemployment and under-employment, have all negatively impacted the credit performance of mortgage loans and resulted in significant write-downs of asset values by financial institutions. Furthermore, a further deterioration in economic conditions or a prolonged delay in economic recovery in the market areas we serve could result in decreased demand for our products and services, and the net worth and liquidity of loan guarantors may decline, impairing their ability to honor commitments to us.

Moreover, a significant decline in general economic conditions, caused by inflation, recession, acts of terrorism, an outbreak of hostilities or other international or domestic calamities, unemployment or other factors beyond our control could further impact these local economic conditions and could further negatively affect the

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financial results of our banking operations. In addition, deflationary pressures, while possibly lowering our operating costs, could have a significant negative effect on our borrowers, especially our business borrowers, and the values of underlying collateral securing loans, which could negatively affect our financial performance.

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

Since the latter half of 2007, negative developments in the global credit and securitization markets have resulted in uncertainty in the financial markets and a general economic downturn which has continued through 2014. Bank and bank holding company stock prices have been negatively affected, as has the ability of banks and bank holding companies to raise capital or borrow in the debt markets. These negative developments along with the turmoil and uncertainties that have accompanied them have heavily influenced the formulation and enactment of the Dodd-Frank Act, along with its implications as described elsewhere in this Risk Factors section. In addition to the many future rules and regulations of the Dodd-Frank Act, the potential exists for other new federal or state laws and regulations regarding lending and funding practices and liquidity standards to be enacted. Bank regulatory agencies are expected to continue to be active in responding to concerns and trends identified in examinations. Negative developments in the financial industry and the domestic and international credit markets, and the impact of new legislation in response to those developments, may negatively impact our operations by increasing our costs, restricting our business operations, including our ability to originate or sell loans, and adversely impact our financial performance. In addition, these risks could affect the value of our loan portfolio as well as the value of our investment portfolio, which would also negatively affect our financial performance.

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

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act, or the Act) has significantly changed the current bank regulatory structure and affected the lending, investment, trading and operating activities of financial institutions and their holding companies. The Dodd-Frank Act eliminated our former primary federal regulator, the Office of Thrift Supervision, and required savings and loan holding companies, such as the Company, to be regulated and supervised by the Board of Governors of the Federal Reserve Board. The Act also requires the Federal Reserve Board to set minimum capital levels for depository institution holding companies that are at least as stringent as those required for the insured depository subsidiaries, and the components of Tier 1 capital will be restricted to capital instruments that are currently considered to be Tier 1 capital for insured depository institutions. The new capital rules were effective January 1, 2015.

The Dodd-Frank Act also broadened the base for FDIC insurance assessments. Assessments are now based on the average consolidated total assets less tangible equity capital of a financial institution. In addition, the Act created a new Consumer Financial Protection Bureau with broad powers to supervise and enforce consumer protection laws. The Consumer Financial Protection Bureau has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions such as Northwest, including the authority to prohibit unfair, deceptive or abusive acts and practices. The Consumer Financial Protection Bureau has examination and enforcement authority over all banks and savings institutions with more than \$10 billion in assets. Banks and savings institutions with \$10 billion or less in assets are examined by their applicable bank regulators. For additional changes under the Dodd-Frank Act, see Supervision and Regulation Dodd-Frank Wall Street Reform and Consumer Protection Act.

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

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

The Company and Northwest Bank are subject to extensive regulation, supervision and examination by the Federal Reserve Board, the Department of Banking and the FDIC. These regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities, including the ability to impose restrictions on Northwest Bank's operations, reclassify assets, determine the adequacy of Northwest Bank's allowance for loan losses and determine the level of deposit insurance premiums assessed. Because our business is highly regulated, the laws and applicable regulations are subject to frequent change and interpretations. Any change in these regulations and oversight, whether in the form of regulatory policy, new regulations or legislation or additional deposit insurance premiums could have a material impact on our operations.

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

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

We have become subject to more stringent capital requirements, which may adversely impact our return on equity, require us to raise additional capital, or constrain us from paying dividends or repurchasing shares.

In July 2013, the FDIC and the Federal Reserve Board approved a new rule that will substantially amend the regulatory risk-based capital rules applicable to Northwest. The final rule implements the Basel III regulatory capital reforms and changes required by the Dodd-Frank Act.

The final rule includes new minimum risk-based capital and leverage ratios, effective for Northwest on January 1, 2015, and refined the definition of what constitutes capital for purposes of calculating these ratios. The new minimum capital requirements are: (i) a new common equity Tier 1 capital ratio of 4.5%; (ii) a Tier 1 to risk-based assets capital ratio of 6% (increased from 4%); (iii) a total capital ratio of 8% (unchanged from current rules); and (iv) a Tier 1 leverage ratio of 4%. The final rule also establishes a capital conservation buffer of 2.5%, and will result in the following minimum ratios: (i) a common equity Tier 1 capital ratio of 7.0%, (ii) a Tier 1 to risk-based assets capital ratio of 8.5%, and (iii) a total capital ratio of 10.5%. The new capital conservation buffer requirement would be phased in beginning in January 2016 at 0.625% of risk-weighted assets and would increase each year until fully implemented in January 2019. An institution will be subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations will establish a maximum percentage of eligible retained income that can be utilized for such actions.

The application of more stringent capital requirements for Northwest Bank could, among other things, result in lower returns on equity, require the raising of additional capital, and result in regulatory actions constraining us from paying dividends or repurchasing shares if we were to be unable to comply with such requirements.

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The corporate governance provisions in our articles of incorporation and bylaws, and the corporate governance provisions under Maryland law, may prevent or impede the holders of our common stock from obtaining representation on our Board of Directors and may impede takeovers of the company that our board might conclude are not in the best interest of us or our stockholders.

Provisions in our articles of incorporation and bylaws may prevent or impede holders of our common stock from obtaining representation on our Board of Directors and may make takeovers of Northwest Bancshares, Inc. more difficult. For example, our Board of Directors is divided into three staggered classes. A classified board makes it more difficult for stockholders to change a majority of the directors because it generally takes at least two annual elections of directors for this to occur. Our articles of incorporation include a provision that no person will be entitled to vote any shares of our common stock in excess of 10% of our outstanding shares of common stock. This limitation does not apply to the purchase of shares by a tax-qualified employee stock benefit plan established by us. In addition, our articles of incorporation and bylaws restrict who may call special meetings of stockholders and how directors may be removed from office. Additionally, in certain instances, the Maryland General Corporation Law requires a supermajority vote of our stockholders to approve a merger or other business combination with a large stockholder, if the proposed transaction is not approved by a majority of our directors.

Changes in interest rates could adversely affect our results of operations and financial condition.

While we strive to control the impact of changes in interest rates on our net income, our results of operations and financial condition could be significantly affected by changes in interest rates. Our results of operations depend substantially on our net interest income, which is the difference between the interest income we earn on our interest-earning assets, such as loans and investment securities, and the interest expense we pay on our interest-bearing liabilities, such as deposits, borrowings and trust preferred securities. Because it is difficult to perfectly match the maturities and cash flows from our financial assets and liabilities our net income could be adversely impacted by changes in the level of interest rates or the slope of the Treasury yield curve.

Changes in interest rates may also affect the average life of loans and mortgage-related securities. Decreases in interest rates can result in increased prepayments of loans and mortgage-related securities, as borrowers refinance to reduce their borrowing costs. Under these circumstances, we are subject to reinvestment risk to the extent that we are unable to reinvest the cash received from such prepayments at rates that are comparable to the rates on existing loans and investment securities. Additionally, increases in interest rates may decrease loan demand and make it more difficult for borrowers to repay adjustable rate loans. Also, increases in interest rates may extend the life of fixed rate assets, which would restrict our ability to reinvest in higher yielding alternatives, and may result in customers withdrawing certificates of deposit early so long as the early withdrawal penalty is less than the interest they could receive as a result of the higher interest rates.

Changes in interest rates also affect the current fair value of our interest-earning investment securities portfolio. Generally, the value of securities moves inversely with changes in interest rates. At December 31, 2014, the fair value of our investment and mortgage-backed securities portfolio totaled \$1.019 billion. Net unrealized gains on these securities totaled \$8.3 million at December 31, 2014.

At December 31, 2014, our interest rate risk analysis indicated that the market value of our equity would decrease by 7.0% if there was an instant non-parallel 200 basis point increase in market interest rates. See Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

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

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

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We are a community bank and our ability to maintain our reputation is critical to the success of our business and the failure to do so may materially adversely affect our performance.

We are a community bank, and our reputation is one of the most valuable components of our business. A key component of our business strategy is to rely on our reputation for customer service and knowledge of local markets to expand our presence by capturing new business opportunities from existing and prospective customers in our current market and contiguous areas. As such, we strive to conduct our business in a manner that enhances our reputation. This is done, in part, by recruiting, hiring and retaining employees who share our core values of being an integral part of the communities we serve, delivering superior service to our customers and caring about our customers and associates. If our reputation is negatively affected, by the actions of our employees, by our inability to conduct our operations in a manner that is appealing to current or prospective customers, or otherwise, our business and operating results may be adversely affected.

If the allowance for credit losses is not sufficient to cover actual loan losses, our earnings could decrease.

Our customers may not repay their loans according to the original terms, and the collateral, if any, securing the payment of these loans may be insufficient to pay any remaining loan balance. We may experience significant loan losses, which may have a material adverse effect on operating results. We make various assumptions and judgments about the collectability of the loan portfolio, including the creditworthiness of borrowers and the value of the real estate and other assets serving as collateral for the repayment of loans. If our assumptions prove to be incorrect, the allowance for credit losses may not be sufficient to cover losses inherent in our loan portfolio, resulting in additions to the allowance. Material additions to the allowance would materially decrease net income.

Our emphasis on originating commercial real estate and commercial loans is one of the more significant factors in evaluating the allowance for loan losses. As we continue to increase the amount of such loans, increased provisions for loan losses may be necessary which would decrease our earnings.

Bank regulators periodically review our allowance for loan losses and may require an increase to the provision for loan losses or further loan charge-offs. Any increase in our allowance for loan losses or loan charge-offs as required by these regulatory authorities may have a material adverse effect on our results of operations or financial condition.

Our commercial loan portfolio is increasing and the inherently higher risk of loss may lead to additional provisions for loan losses or charge-offs, which would hurt our profits.

Over the past two years our commercial loan portfolio, which includes commercial real estate, multi-family, commercial business and construction loans, has increased by \$245.8, or 12.0%, to \$2.294 billion December 31, 2014 from \$2.049 at December 31, 2012. A large portion of our commercial loan portfolio is unseasoned, meaning they were originated recently. Our limited experience with these borrowers does not provide us with a significant payment history pattern with which to judge future collectability. Further, these loans have not been subjected to unfavorable economic conditions. As a result, it is difficult to predict the future performance of this part of our loan portfolio. These loans may have delinquency or charge-off levels above our historical experience, which could adversely affect our future performance.

We could record future losses on our investment securities portfolio.

A number of factors or combinations of factors could require us to conclude in one or more future reporting periods that an unrealized loss that exists with respect to these and other securities constitutes an impairment that is other-than-temporary, which could result in material losses to us. These factors include, but are not limited to, failure by the issuer to make scheduled interest payments, an increase in the severity of the unrealized loss on a particular security, an increase in the continuous duration of the unrealized loss without an improvement in value or changes in market conditions and/or industry or issuer specific factors that would render us unable to forecast a full recovery in value. In addition, the fair values of securities could decline if the overall economy and the financial condition of some of the issuers continues to deteriorate and there remains limited liquidity for these securities.

See Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Balance Sheet Analysis Securities for a discussion of our securities portfolio and the unrealized losses related to the portfolio, as well as the Marketable Securities and Disclosures about Fair Value of Financial Instruments footnotes to the audited financial statements.

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Proposed and final regulations could restrict our ability to originate and sell loans.

The Consumer Financial Protection Bureau has issued a rule designed to clarify for lenders how they can avoid legal liability under the Dodd-Frank Act, which would hold lenders accountable for ensuring a borrower's ability to repay a mortgage. Loans that meet this qualified mortgage definition will be presumed to have complied with the new ability-to-repay standard. Under the Consumer Financial Protection Bureau's rule, a qualified mortgage loan must not contain certain specified features, including:

- excessive upfront points and fees (those exceeding 3% of the total loan amount, less bona fide discount points for prime loans);
- interest-only payments;
- negative-amortization; and
- terms longer than 30 years.

Also, to meet the definition of a qualified mortgage, a borrower's total monthly debt-to-income ratio may not exceed 43%. Lenders must also verify and document the income and financial resources relied upon to qualify the borrower for the loan and underwrite the loan based on a fully amortizing payment schedule and maximum interest rate during the first five years, taking into account all applicable taxes, insurance and assessments. The Consumer Financial Protection Bureau's rule on qualified mortgages could limit our ability or desire to make certain types of loans or loans to certain borrowers, or could make it more expensive/and or time consuming to make these loans, which could limit our growth or profitability.

In addition, the Dodd-Frank Act requires the regulatory agencies to issue regulations that require securitizers of loans to retain not less than 5% of the credit risk for any asset that is not a qualified residential mortgage. The regulatory agencies have issued a proposed rule to implement this requirement. The Dodd-Frank Act provides that the definition of qualified residential mortgage can be no broader than the definition of qualified mortgage issued by the Consumer Financial Protection Bureau for purposes of its regulations (as described above). Although the final rule with respect to the retention of credit risk has not yet been issued, the final rule could have a significant effect on the secondary market for loans and the types of loans we originate, and restrict our ability to make loans.

Non-compliance with the USA PATRIOT Act, Bank Secrecy Act, or other laws and regulations could result in fines or sanctions.

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The USA PATRIOT and Bank Secrecy Acts require financial institutions to develop programs to prevent financial institutions from being used for money laundering and terrorist activities. If such activities are detected, financial institutions are obligated to file suspicious activity reports with the U.S. Treasury's Office of Financial Crimes Enforcement Network. These rules require financial institutions to establish procedures for identifying and verifying the identity of customers seeking to open new financial accounts. Failure to comply with these regulations could result in fines or sanctions. During the last year, several banking institutions have received large fines for non-compliance with these laws and regulations. While we have developed policies and procedures designed to assist in compliance with these laws and regulations, these policies and procedures may not be effective in preventing violations of these laws and regulations.

We hold certain intangible assets that could be classified as impaired in the future. If these assets are considered to be either partially or fully impaired in the future, the book values of these assets would have to be written-down and the amount of the write-down would decrease earnings.

We are required to test our goodwill and other identifiable intangible assets for impairment on an annual basis and more regularly if indicators of impairment exist. The impairment testing process considers a variety of factors, including the current market price of our common shares, the estimated net present value of our assets and liabilities and information concerning the terminal valuation of similar insured depository institutions. Future impairment testing may result in a partial or full impairment of the value of our goodwill or other identifiable intangible assets, or both. If an impairment determination is made in a future reporting period, our earnings and the book value of these intangible assets will be reduced by the amount of the impairment. However, the recording of such an impairment loss would have no impact on the tangible book value of our shares of common stock or our regulatory capital levels.

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Strong competition may limit growth and profitability.

Competition in the banking and financial services industry is intense. We compete with commercial banks, savings institutions, mortgage brokerage firms, credit unions, finance companies, mutual funds, insurance companies, and brokerage and investment banking firms operating locally and elsewhere. Many of these competitors (whether regional or national institutions) have substantially greater resources and lending limits than we have and may offer certain services that we do not or cannot provide. In addition, some have competitive advantages such as the credit union exemption from paying Federal income tax. Our profitability depends upon our ability to successfully compete in our market areas.

Future legislative or regulatory actions responding to perceived financial and market problems could impair our ability to foreclose on collateral.

There have been proposals made by members of Congress and others that would reduce the amount distressed borrowers are otherwise contractually obligated to pay under their mortgage loans and limit an institution's ability to foreclose on mortgage collateral. Were proposals such as these, or other proposals limiting our rights as a creditor, to be implemented, we could experience increased credit losses or increased expense in pursuing our remedies as a creditor.

Legal and regulatory proceedings and related matters could adversely affect us or the financial services industry in general.

We, and other participants in the financial services industry upon whom we rely to operate, have been and may in the future become involved in legal and regulatory proceedings. Most of the proceedings we consider to be in the normal course of our business or typical for the industry; however, it is inherently difficult to assess the outcome of these matters, and other participants in the financial services industry or we may not prevail in any proceeding or litigation. There could be substantial cost and management diversion in such litigation and proceedings, and any adverse determination could have a materially adverse effect on our business, brand or image, or our financial condition and results of our operations.

Our exposure to municipalities may lead to operating losses.

Our municipal bond portfolio may be impacted by the effects of economic stress on state and local governments. At December 31, 2014, we had \$136.9 million invested in debt obligations of states, municipalities and political subdivisions (collectively referred to as our municipal bond portfolio). We also had \$124.2 million of loans outstanding to municipalities and political subdivisions. Widespread concern currently exists regarding the stress on state and local governments emanating from: (i) declining revenues; (ii) large unfunded liabilities to government workers; and (iii) entrenched cost structures. Debt-to-gross domestic product ratios for the majority of states have been deteriorating due to, among other factors: (i) declines in federal monetary assistance provided as the United States is currently experiencing the largest deficit in its history; and (ii) lower levels of sales and property tax revenue as unemployment remains elevated and the housing market continues to remain unstable. This concern has led to speculation about the potential for a significant deterioration in the municipal bond market, which could materially affect our results of operations, financial condition and liquidity. We may not be able to mitigate the exposure in our municipal portfolio if state and local governments are unable to fulfill their obligations. The risk of widespread issuer defaults may also increase if there are changes in legislation that permit states, or additional municipalities and political subdivisions, to file for bankruptcy protection or if there are judicial interpretations that, in a bankruptcy or other proceeding, lessen the value of any structural protections.

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Changes in the valuation of our securities portfolio could hurt our profits.

Our securities portfolio may be impacted by fluctuations in market value, potentially reducing accumulated other comprehensive income and/or earnings. Fluctuations in market value may be caused by changes in market interest rates, lower market prices for securities and limited investor demand. Management evaluates securities for other-than-temporary impairment on a monthly basis, with more frequent evaluation for selected issues. In analyzing a debt issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, industry analysts' reports and, to a lesser extent given the relatively insignificant levels of depreciation in our debt portfolio, spread differentials between the effective rates on instruments in the portfolio compared to risk-free rates. In analyzing an equity issuer's financial condition, management considers industry analysts' reports, financial performance and projected target prices of investment analysts within a one-year time frame. If this evaluation shows impairment to the actual or projected cash flows associated with one or more securities, a potential loss to earnings may occur. Changes in interest rates can also have an adverse effect on our financial condition, as our available-for-sale securities are reported at their estimated fair value, and therefore are impacted by fluctuations in interest rates. We increase or decrease our stockholders' equity by the amount of change in the estimated fair value of the available-for-sale securities, net of taxes. The declines in market value could result in other-than-temporary impairments of these assets, which would lead to accounting charges that could have a material adverse effect on our net income and capital levels.

The financial services sector represents a significant concentration within our investment portfolio.

Within our investment portfolio, we have a significant amount of marketable equity, corporate debt and mortgage-backed securities issued by companies in the financial services sector. Given current market conditions, this sector has an enhanced level of credit risk. We are also reviewing the requirements of the Basel Committee on Banking Supervision (Basel III) regulatory capital reforms and the possibility that our retention of these securities may reduce our risk based regulatory capital.

Risks associated with system failures, interruptions, or breaches of security could negatively affect our earnings.

Information technology systems are critical to our business. We use various technology systems to manage our customer relationships, general ledger, deposits, and loans. We have established policies and procedures to prevent or limit the impact of system failures, interruptions, and security breaches, but such events may still occur or may not be adequately addressed if they do occur. In addition, any compromise of our systems could deter customers from using our products and services. Although we rely on security systems to provide security and authentication necessary to effect the secure transmission of data, these precautions may not protect our systems from compromises or breaches of security.

In addition, we outsource a majority of our data processing to certain third-party providers. If these third-party providers encounter difficulties, or if we have difficulty communicating with them, our ability to adequately process and account for transactions could be affected, and our business operations could be adversely affected. Threats to information security also exist in the processing of customer information through various other vendors and their personnel.

The occurrence of any system failures, interruption, or breach of security could damage our reputation and result in a loss of customers and business, could subject us to additional regulatory scrutiny, or could expose us to litigation and possible financial liability. Any of these events

could have a material adverse effect on our financial condition and results of operations.

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Our risk management framework may not be effective in mitigating risk and reducing the potential for significant losses.

Our risk management framework is designed to minimize risk and loss to us. We seek to identify, measure, monitor, report and control our exposure to risk, including strategic, market, liquidity, credit, interest rate, compliance and operational risks. While we use a broad and diversified set of risk monitoring and mitigation techniques, these techniques are inherently limited because they cannot anticipate the existence or future development of currently unanticipated or unknown risks. Recent economic conditions and heightened legislative and regulatory scrutiny of the financial services industry, among other developments, have increased our level of risk. Accordingly, we could suffer losses as a result of our failure to properly anticipate and manage these risks.

Our business may be adversely affected by an increasing prevalence of fraud and other financial crimes.

Our loans to businesses and individuals and our deposit relationships and related transactions are subject to exposure to the risk of loss due to fraud and other financial crimes. Nationally, reported incidents of fraud and other financial crimes have increased. We have also experienced losses due to apparent fraud and other financial crimes. While we have policies and procedures designed to prevent such losses, losses may still occur.

Acquisitions may disrupt our business and dilute stockholder value.

We regularly evaluate merger and acquisition opportunities with other financial institutions and financial services companies. As a result, negotiations may take place and future mergers or acquisitions involving cash, debt, or equity securities may occur at any time. We would seek acquisition partners that offer us either significant market presence or the potential to expand our market footprint and improve profitability through economies of scale or expanded services.

Acquiring other banks, businesses, or branches may have an adverse effect on our financial results and may involve various other risks commonly associated with acquisitions, including, among other things:

- difficulty in estimating the value of the target company;
- payment of a premium over book and market values that may dilute our tangible book value and earnings per share in the short and long term;
- potential exposure to unknown or contingent liabilities of the target company;
- exposure to potential asset quality problems of the target company;
- potential volatility in reported income associated with goodwill impairment losses;

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- difficulty and expense of integrating the operations and personnel of the target company;
- inability to realize the expected revenue increases, cost savings, increases in geographic or product presence, and/or other projected benefits of the acquisition;
- potential disruption to our business;
- potential diversion of our management's time and attention;
- the possible loss of key employees and customers of the target company; and
- potential changes in banking or tax laws or regulations that may affect the target company.

Our funding sources may prove insufficient to replace deposits at maturity and support our future growth.

We must maintain sufficient funds to respond to the needs of depositors and borrowers. As a part of our liquidity management, we use a number of funding sources in addition to core deposit growth and repayments and maturities of loans and investments. As we continue to grow, we are likely to become more dependent on these sources, which may include Federal Home Loan Bank advances, proceeds from the sale of loans, federal funds purchased and brokered certificates of deposit. Adverse operating results or changes in industry conditions could lead to difficulty or an inability to access these additional funding sources. Our financial flexibility will be severely constrained if we are unable to maintain our access to funding or if adequate financing is not available to accommodate future growth at acceptable interest rates. If we are required to rely more heavily on more expensive funding sources to support future growth, our revenues may not increase proportionately to cover our costs. In this case, our operating margins and profitability would be adversely affected.

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We are subject to environmental liability risk associated with lending activities.

A significant portion of our loan portfolio is secured by real estate, and we could become subject to environmental liabilities with respect to one or more of these properties. During the ordinary course of business, we may foreclose on and take title to properties securing defaulted loans. In doing so, there is a risk that hazardous or toxic substances could be found on these properties. If hazardous conditions or toxic substances are found on these properties, we may be liable for remediation costs, as well as for personal injury and property damage, civil fines and criminal penalties regardless of when the hazardous conditions or toxic substances first affected any particular property. Environmental laws may require us to incur substantial expenses to address unknown liabilities and may materially reduce the affected property's value or limit our ability to use or sell the affected property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase our exposure to environmental liability. Although we have policies and procedures to perform an environmental review before initiating any foreclosure action on nonresidential real property, these reviews may not be sufficient to detect all potential environmental hazards. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on us.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

As of December 31, 2014, we conducted our business through our main office located in Warren, Pennsylvania, 128 other full-service offices and six free-standing drive-up locations throughout our market area in central and western Pennsylvania, 19 offices in western New York, four offices in eastern Ohio and four offices in Maryland. Northwest Bancshares, Inc. and its wholly-owned subsidiaries also operated 51 consumer finance offices located throughout Pennsylvania. At December 31, 2014, our premises and equipment had an aggregate net book value of approximately \$143.9 million.

ITEM 3. LEGAL PROCEEDINGS

Northwest Bancshares, Inc. and its subsidiaries are subject to various legal actions arising in the normal course of business. In the opinion of management, the resolution of these legal actions is not expected to have a material adverse effect on our results of operations. See note 18 in the notes to the Consolidated Financial Statements.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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Our common stock is listed on the Nasdaq Global Select Market under the symbol NWBI. As of February 13, 2015, we had 21 registered market makers, 13,540 stockholders of record (excluding the number of persons or entities holding stock in street name through various brokerage firms), and 94,719,378 shares outstanding. The following table sets forth market price and dividend information for our common stock.

Year Ended		High		Low		Cash Dividends
December 31, 2014						Declared
First Quarter	\$	15.07	\$	13.66	\$	0.23
Second Quarter	\$	15.11	\$	12.77	\$	1.13
Third Quarter	\$	13.86	\$	11.99	\$	0.13
Fourth Quarter	\$	13.30	\$	11.86	\$	0.13

Year Ended		High		Low		Cash Dividends
December 31, 2013						Declared
First Quarter	\$	12.95	\$	12.04	\$	0.00
Second Quarter	\$	13.58	\$	11.98	\$	0.24
Third Quarter	\$	14.57	\$	12.88	\$	0.13
Fourth Quarter	\$	15.05	\$	13.15	\$	0.13

Payment of dividends on our shares of common stock is subject to determination and declaration by the Board of Directors and will depend upon a number of factors, including capital requirements, regulatory limitations on the payment of dividends, our results of operations and financial condition, tax considerations and general economic conditions. No assurance can be given that dividends will continue to be declared or, if declared, what the amount of dividends will be. See Item 1. Business Supervision and Regulation Holding Company Regulation Source of Strength/Capital Distributions for additional information regarding our ability to pay dividends.

There were no sales of unregistered securities during the quarter ended December 31, 2014.

The following tables disclose information regarding repurchases of shares of common stock during the quarter ended December 31, 2014, and includes the repurchase programs announced on September 26, 2011 and December 13, 2012. The repurchase programs are for approximately 4,750,000 and 5,000,000 shares, respectively, and do not have expiration dates.

Month	Number of shares purchased	Average price paid per share	Total number of shares purchased as part of a publicly announced repurchase plan (1)	Maximum number of shares yet to be purchased under the plan (1)
October	63,100	\$ 12.27	63,100	986,089

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November				986,089
December	360,800	12.47	360,800	625,289
	423,900	\$ 12.44		

Month	Number of shares purchased	Average price paid per share	Total number of shares purchased as part of a publicly announced repurchase plan (2)	Maximum number of shares yet to be purchased under the plan (2)
October		\$		5,000,000
November				5,000,000
December		\$		5,000,000

(1) Reflects program for 4,750,000 shares announced September 26, 2011.

(2) Reflects program for 5,000,000 shares announced December 13, 2012.

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Stock Performance Graph

Set forth hereunder is a stock performance graph comparing (a) the cumulative total return on our Common Stock between December 31, 2009 and December 31, 2014, (b) the cumulative total return on stocks included in the Total Return Index for the Nasdaq Stock Market (US) over such period, and (c) the cumulative total return on stocks included in the Nasdaq Bank Index over such period. Cumulative return assumes the reinvestment of dividends, and is expressed in dollars based on an assumed investment of \$100.

There can be no assurance that our stock performance will continue in the future with the same or similar trend depicted in the graph. We will not make or endorse any predictions as to future stock performance.

	12/31/09	12/31/10	12/31/11	12/31/12	12/31/13	12/31/14
Northwest Bancshares, Inc.	100.00	108.12	118.31	121.35	153.42	146.40
NASDAQ Composite	100.00	117.61	118.70	139.00	196.83	223.74
NASDAQ Bank	100.00	115.72	104.50	122.51	173.89	182.21

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The summary financial information presented below is derived in part from the Company's consolidated financial statements. The following is only a summary and should be read in conjunction with the consolidated financial statements and notes included elsewhere in this document. The information at December 31, 2014 and 2013 and for the years ended December 31, 2014, 2013 and 2012 is derived in part from the audited consolidated financial statements that appear in this document. The information at December 31, 2012, 2011 and 2010, and for the years ended December 31, 2011 and 2010, is derived in part from audited consolidated financial statements that do not appear in this document.

	2014	2013	At December 31, 2012	2011	2010
	(In thousands)				
Selected Consolidated Financial Data:					
Total assets	\$ 7,775,033	7,879,859	7,941,163	7,956,439	8,147,039
Investment securities held-to-maturity	66,752	69,316	69,275	74,692	106,520
Investment securities available-for-sale	427,259	439,693	414,569	279,125	246,765
Mortgage-backed securities held-to-maturity	36,943	52,050	85,806	156,697	251,402
Mortgage-backed securities available-for-sale	485,112	577,074	664,505	629,224	703,698
Loans receivable net:					
Residential mortgage loans	2,515,875	2,475,129	2,407,647	2,388,884	2,391,450
Home equity	1,061,581	1,076,694	1,075,360	1,085,514	1,100,398
Other consumer loans	236,626	222,861	223,194	230,949	237,846
Commercial real estate loans	1,720,627	1,573,430	1,551,334	1,403,619	1,314,487
Commercial loans	392,029	391,491	375,752	375,831	417,883
Total loans receivable, net (1)	5,922,373	5,734,943	5,629,261	5,480,381	5,457,593
Deposits	5,632,542	5,668,879	5,764,600	5,780,325	5,764,336
Advances from Federal Home Loan Bank and other borrowed funds	888,109	881,645	860,047	827,925	891,293
Shareholders' equity	1,062,647	1,155,185	1,127,032	1,153,638	1,306,334

(1) Total includes unallocated allowance for loan losses of \$4.4 million, \$4.7 million, \$4.0 million, \$4.4 million and \$4.5 million for December 31, 2014, 2013, 2012, 2011 and 2010, respectively.

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	2014	For the Year Ended December 31,			2010
		2013	2012	2011	
(In thousands except per share data)					
Selected Consolidated Operating Data:					
Total interest income	\$ 303,618	312,726	337,742	358,967	369,079
Total interest expense	56,587	61,162	75,199	92,801	112,927
Net interest income	247,031	251,564	262,543	266,166	256,152
Provision for loan losses	20,314	18,519	26,338	34,170	40,486
Net interest income after provision for loan losses	226,717	233,045	236,205	231,996	215,666
Noninterest income	72,575	66,847	58,904	58,978	61,609
Noninterest expense	215,535	207,134	205,477	200,227	196,508
Income before income tax expense	83,757	92,758	89,632	90,747	80,767
Income tax expense	21,795	26,199	26,243	26,747	23,404
Net income	\$ 61,962	66,559	63,389	64,000	57,363
Earnings per share:					
Basic	\$ 0.68	0.73	0.68	0.64	0.53
Diluted	\$ 0.67	0.73	0.67	0.64	0.53

	2014	At or For the Year Ended December 31,			2010
		2013	2012	2011	
Selected Financial Ratios and Other Data:					
Return on average assets (1)	0.79%	0.84%	0.79%	0.79%	0.71%
Return on average equity (2)	5.69%	5.87%	5.48%	5.24%	4.39%
Average capital to average assets	13.80%	14.30%	14.45%	15.17%	16.08%
Capital to total assets	13.67%	14.66%	14.19%	14.50%	16.03%
Tangible common equity to tangible assets	11.64%	12.70%	12.22%	12.59%	14.18%
Net interest rate spread (3)	3.27%	3.31%	3.39%	3.38%	3.17%
Net interest margin (4)	3.47%	3.51%	3.63%	3.66%	3.50%
Noninterest expense to average assets	2.73%	2.61%	2.56%	2.49%	2.42%
Efficiency ratio	67.44%	64.99%	63.86%	61.53%	61.79%
Noninterest income to average assets	0.92%	0.84%	0.74%	0.73%	0.76%
Net interest income to noninterest expense	1.15x	1.22x	1.28x	1.35x	1.31x
Dividend payout ratio	241.80%	68.49%	89.55%	67.19%	75.47%
Nonperforming loans to net loans receivable	1.35%	1.88%	2.16%	2.40%	2.74%
Nonperforming assets to total assets	1.25%	1.60%	1.86%	1.99%	2.09%
Allowance for loan losses to nonperforming loans	84.35%	66.12%	60.06%	54.05%	51.13%
Allowance for loan losses to net loans receivable	1.14%	1.24%	1.30%	1.30%	1.40%
Average interest-earning assets to average interest-bearing liabilities	1.25x	1.24x	1.23x	1.22x	1.22x
Number of full-service offices	162	165	165	168	171
Number of consumer finance offices	51	50	52	52	52

-
- (1) Represents net income divided by average assets.
- (2) Represents net income divided by average equity.
- (3) Represents average yield on interest-earning assets less average cost of interest-bearing liabilities (shown on an FTE basis).
- (4) Represents net interest income as a percentage of average interest-earning assets (shown on a FTE basis).

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**ITEM 7.
OF OPERATIONS**

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS

Overview

Our principal business consists of attracting deposits and making loans secured by various types of collateral, including real estate and other assets in the markets in which we operate. Attracting and maintaining deposits is affected by a number of factors, including interest rates paid on competing investments offered by other financial and non-financial institutions, account maturities, fee structures, and levels of personal income and savings. Lending activities are affected by the demand for funds and thus are influenced by interest rates, the number and quality of lenders and regional economic conditions. Sources of funds for lending activities include deposits, borrowings, repayments on loans, cash flows from investment and mortgage-backed securities and income provided from operations.

Our earnings depend primarily on our level of net interest income, which is the difference between interest earned on our interest-earning assets, consisting primarily of loans and investment securities, and the interest paid on interest-bearing liabilities, consisting primarily of deposits, borrowed funds, and trust-preferred securities. Net interest income is a function of our interest rate spread, which is the difference between the average yield earned on our interest-earning assets and the average rate paid on our interest-bearing liabilities, as well as a function of the average balance of interest-earning assets compared to the average balance of interest-bearing liabilities. Also contributing to our earnings is noninterest income, which consists primarily of service charges and fees on loan and deposit products and services, fees related to insurance and investment management and trust services, and net gains and losses on the sale of assets. Net interest income and noninterest income are offset by provisions for loan losses, general administrative and other expenses, including employee compensation and benefits and occupancy and equipment costs, as well as by state and federal income tax expense.

Our net income was \$62.0 million, or \$0.67 per diluted share, for the year ended December 31, 2014 compared to \$66.6 million, or \$0.73 per diluted share, for the year ended December 31, 2013 and \$63.4 million, or \$0.67 per diluted share, for the year ended December 31, 2012. The loan loss provision was \$20.3 million for the year ended December 31, 2014 compared to \$18.5 million for the year ended December 31, 2013 and \$26.3 million for the year ended December 31, 2012. We recorded other-than-temporary impairment losses on securities, which were reflected as a reduction of noninterest income, of \$0, \$713,000 and \$331,000 for the years ended December 31, 2014, 2013 and 2012, respectively.

Other than our loans for the construction of one-to-four family residential mortgage loans, we do not solicit interest only mortgage loans on one-to-four family residential properties (where the borrower pays interest for an initial period, after which the loan converts to a fully amortizing loan). We also do not offer loans that provide for negative amortization of principal, such as Option ARM loans, where the borrower can pay less than the interest owed on the loan, resulting in an increased principal balance during the life of the loan. We do not directly solicit subprime loans (loans that generally target borrowers with FICO scores of less than 660) or Alt-A loans (traditionally defined as loans having less than full documentation). However, a portion of the loans originated by one of our subsidiaries, Northwest Consumer Discount Company (NCDC), consists of loans to persons with credit scores that would cause such loans to be considered subprime. NCDC has been in operation for over 25 years and has 51 offices throughout Pennsylvania. NCDC offers a variety of consumer loans for automobiles, appliances and furniture as well as residential mortgage loans. At December 31, 2014, NCDC's total loan portfolio was approximately \$104.2 million with an average loan size of \$4,193, an average FICO score of 623 and an average yield of approximately 16.8%. NCDC's total delinquency is approximately 5.2% of outstanding loans, with loans delinquent for 90 days or more at 1.5% of loans outstanding. Annual net charge-offs average approximately \$2.8 million, or 3.1% of outstanding loans, and it maintains an allowance for loan losses of \$5.0 million, or 4.8% of loans. Although loans originated through NCDC have higher average rates of delinquency and charge-offs than similar loans originated directly by Northwest Bank, management believes that the higher yields on loans originated through NCDC compensate for the incremental credit risk exposure.

Critical Accounting Policies

Certain accounting policies are important to the understanding of our financial condition, since they require management to make difficult, complex or subjective judgments, some of which may relate to matters that are inherently uncertain. Estimates associated with these policies are susceptible to material changes as a result of changes in facts and circumstances, including, but without limitation, changes in interest rates, performance of the economy, financial condition of borrowers and laws and regulations. The following are the accounting policies we believe are critical.

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Allowance for Loan Losses. We recognize that losses will be experienced on loans and that the risk of loss varies with the type of loan, the creditworthiness of the borrower, general economic conditions and the quality of the collateral for the loan. We maintain an allowance for losses inherent in the loan portfolio. The allowance for loan losses represents management's estimate of probable losses based on all available information. The allowance for loan losses is based on management's evaluation of the collectability of the loan portfolio, including past loan loss experience, known and inherent losses, information about specific borrower situations, estimated collateral values, and current economic conditions. The loan portfolio is reviewed regularly by management in its determination of the allowance for loan losses. The methodology for assessing the appropriateness of the allowance includes a review of historical losses, peer group comparisons, industry data and economic conditions. As an integral part of their examination process, regulatory agencies periodically review our allowance for loan losses and may require us to make additional provisions for estimated losses based upon judgments different from those of management. In establishing the allowance for loan losses, loss factors are applied to various pools of outstanding loans. Loss factors are derived using our historical loss experience and may be adjusted for factors that affect the collectability of the portfolio as of the evaluation date. Commercial loans over \$1.0 million that are criticized are evaluated individually to determine the required allowance for loan losses and to evaluate the potential impairment. Although management believes that it uses the best information available to establish the allowance for loan losses, future adjustments to the allowance for loan losses may be necessary and results of operations could be adversely affected if circumstances differ substantially from the assumptions used in making the determinations. Because future events affecting borrowers and collateral cannot be predicted with certainty, there can be no assurance that the existing allowance for loan losses is adequate or that increases will not be necessary should the quality of loans deteriorate as a result of the factors discussed previously. Any material increase in the allowance for loan losses may adversely affect our financial condition and results of operations. The allowance is based on information known at the time of the review. Changes in factors underlying the assessment could have a material impact on the amount of the allowance that is necessary and the amount of provision to be charged against earnings. Such changes could impact future results. For further information related to our allowance for loan losses, see note 1(f) of the notes to the Consolidated Financial Statements.

Valuation of Investment Securities. Our investment securities are classified as either held-to-maturity or available-for-sale. Held-to-maturity securities are carried at amortized cost, while available-for-sale securities are carried at fair value. Unrealized gains or losses on available-for-sale securities, net of deferred taxes, are reported in other comprehensive income. Fair values are determined as described in note 15 of the notes to the Consolidated Financial Statements. Semi-annually (at May 31 and November 30), we validate the prices received from these third parties by comparing them to prices provided by a different independent pricing service. We have reviewed the detailed valuation methodologies provided to us by our pricing services. Additional information related to our investment securities can be found in note 1(d) of the notes to the Consolidated Financial Statements.

We conduct a quarterly review and evaluation of all investment securities to determine if any declines in fair value are other than temporary. In making this determination, we consider the period of time the securities have been in an unrealized loss position, the percentage decline in comparison to the securities' amortized cost, the financial condition of the issuer, if applicable, and the delinquency or default rates of underlying collateral. We consider our intent to sell the investment securities evaluated and the likelihood that we will not have to sell the investment securities before recovery of their cost basis. If impairment exists, credit related impairment losses are recorded in earnings while noncredit related impairment losses are recorded in accumulated other comprehensive income, net of income taxes. Any future deterioration in the fair value of an investment security, or the determination that the existing unrealized loss of an investment security is other-than-temporary, may have a material adverse affect on future earnings.

Goodwill. Goodwill is not subject to amortization but must be tested for impairment at least annually, and possibly more frequently if certain events or changes in circumstances arise. Impairment testing requires that the fair value of each reporting unit be compared to its carrying amount, including goodwill. Reporting units are identified based upon analyzing each of our individual operating segments. A reporting unit is defined as any distinct, separately identifiable component of an operating segment for which complete, discrete financial information is available that management regularly reviews. Goodwill is allocated to the carrying value of each reporting unit based on its relative fair value at the time it is acquired. Determining the fair value of a reporting unit requires a high degree of subjective management judgment. With the assistance of an independent third party, we evaluate goodwill for possible impairment using four valuation methodologies including a public market peers approach, a comparable transactions approach, a control premium approach and a discounted cash flow approach.

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Future changes in the economic environment or the operations of the reporting units could cause changes to these variables, which could give rise to declines in the estimated fair value of the reporting unit. Declines in fair value could result in impairment being identified. We have established June 30 of each year as the date for conducting our annual goodwill impairment assessment. Quarterly, we evaluate if there are any triggering events that would require an update to our previous assessment. The variables are selected as of June 30 and the valuation model is run to determine the fair value of each reporting unit. We did not identify any individual reporting unit where the fair value was less than the carrying value as of June 30, 2014.

Deferred Income Taxes. We use the asset and liability method of accounting for income taxes. Using this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. If current available information raises doubt as to the realization of the deferred tax assets, a valuation allowance is established. Deferred tax assets and liabilities are measured using enacted tax rates expected to be applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. We exercise significant judgment in evaluating the amount and timing of recognition of the resulting tax liabilities and assets. These judgments require us to make projections of future taxable income. The judgments and estimates we make in determining our deferred tax assets, which are inherently subjective, are reviewed on an ongoing basis as regulatory and business factors change. A reduction in estimated future taxable income could require us to record a valuation allowance. Changes in levels of valuation allowances could result in increased income tax expense, and could negatively affect earnings.

Pension Benefits. Pension expense and obligations are dependent on assumptions used in calculating such amounts. These assumptions include discount rates, anticipated salary increases, interest costs, expected return on plan assets, mortality rates, and other factors. In accordance with U.S. generally accepted accounting principles, actual results that differ from the assumptions are amortized over average future service and, therefore, generally affect recognized expense. While management believes that the assumptions used are appropriate, differences in actual experience or changes in assumptions may affect our pension obligations and future expense.

In determining the projected benefit obligations for pension benefits at December 31, 2014 and 2013, we used a discount rate of 3.89% and 4.86%, respectively. We use the Citigroup Pension Liability Index rates matching the duration of our benefit payments as of the measurement date to determine the discount rate. Our measurement date is December 31.

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Balance Sheet Analysis

Assets. Total assets at December 31, 2014 were \$7.775 billion, a decrease of \$104.8 million, or 1.3%, from \$7.880 billion at December 31, 2013. This decrease in assets was primarily caused by decreases in cash and interest-earning deposits in other financial institutions and in our marketable securities portfolio of \$151.2 million and \$122.1, respectively. Partially offsetting these decreases was an increase in net loans receivable of \$187.4 million. A discussion of significant changes follows.

Cash and interest-earning deposits in other financial institutions. Total cash decreased by \$151.2 million, or 38.6%, to \$240.7 million at December 31, 2014, from \$391.9 million at December 31, 2013. This decrease was a result of using cash to fund an increase in net loans receivable of \$187.4 million and a net deposit decrease of \$36.3 million.

Investment securities. Investment securities decreased by \$122.1 million, or 10.7%, to \$1.016 billion at December 31, 2014 from \$1.138 billion at December 31, 2013. This decrease was a result of using the cash flow generated from these portfolios to fund loan growth and deposit outflow and the payment of cash dividends. During the year ended December 31, 2014, we did not have any other-than-temporary credit related impairment charges within our investment portfolio.

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

	2014		At December 31, 2013		2012	
	Amortized cost	Fair value	Amortized cost	Fair value	Amortized cost	Fair value
	(In thousands)					
Residential mortgage-backed securities available for sale:						
Fixed-rate pass through certificates	\$ 72,852	75,877	85,306	87,272	85,134	91,400
Variable-rate pass through certificates	66,140	69,598	78,890	82,399	104,591	109,899
Fixed-rate non-agency CMOs	3,162	3,408	3,894	3,998	5,700	5,620
Fixed-rate agency CMOs	226,413	221,767	265,769	255,393	227,608	230,326
Variable-rate non-agency CMOs			660	651	873	853
Variable-rate agency CMOs	113,842	114,462	146,908	147,361	225,383	226,407
Total residential mortgage-backed securities available for sale	\$ 482,409	485,112	581,427	577,074	649,289	664,505
Investment securities available for sale:						
U.S. Government, agency and GSEs	\$ 335,943	333,530	322,754	316,089	237,993	238,354
Municipal securities	67,492	70,145	91,449	92,578	127,628	134,208
Corporate debt issues	18,267	20,427	21,150	21,176	24,911	22,703
Equity securities and mutual funds	2,591	3,157	5,298	9,850	13,301	19,304
	\$ 424,293	427,259	440,651	439,693	403,833	414,569

Total investment securities available for
sale

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

	2014		At December 31, 2013		2012	
	Amortized cost	Fair value	Amortized cost	Fair value	Amortized cost	Fair value
(In thousands)						
Residential mortgage-backed securities held to maturity:						
Fixed-rate pass through certificates	\$ 8,236	8,713	11,101	11,645	16,369	17,281
Variable-rate pass through certificates	4,273	4,395	5,172	5,243	6,548	6,534
Fixed-rate agency CMOs	23,382	23,913	34,425	35,172	56,713	58,719
Variable-rate agency CMOs	1,052	1,064	1,352	1,362	6,176	6,257
Total residential mortgage-backed securities held to maturity	\$ 36,943	38,085	52,050	53,422	85,806	88,791
Investment securities held to maturity:						
Municipal securities	\$ 66,752	68,207	69,316	70,639	69,275	73,178
Total investment securities held to maturity	\$ 66,752	68,207	69,316	70,639	69,275	73,178

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

		2014	At December 31, 2013	2012
			(In thousands)	
Residential mortgage-backed securities:				
FNMA	\$	230,051	279,684	341,778
GNMA		54,422	66,802	97,648
FHLMC		223,479	264,752	287,942
SBA		10,052	12,569	15,775
Other (non-agency)		4,051	5,317	7,168
Total mortgage-backed securities	\$	522,055	629,124	750,311

Further information and analysis of our investment portfolio, including tables with information related to gross unrealized gains and losses on available-for sale and held-to-maturity investment securities and tables showing the fair value and gross unrealized losses on investment securities aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position are located in note 3 of the notes to the Consolidated Financial Statements.

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Investment Portfolio Maturities and Yields. The following table sets forth the scheduled maturities, carrying values, amortized cost, market values and weighted average yields for our investment securities and mortgage-backed securities portfolios at December 31, 2014. Adjustable-rate mortgage-backed securities are included in the period in which interest rates are next scheduled to adjust.

	One year or less		More than one year to five years		More than five years to ten years		More than ten years			Total	Annualized
	Amortized cost	Annualized weighted average yield	Amortized cost	Annualized weighted average yield	Amortized cost	Annualized weighted average yield	Amortized cost	Annualized weighted average yield	Amortized cost	Fair value	weighted average yield
	(Dollars in thousands)										
Investment securities available for sale:											
Government sponsored entities	\$		\$ 310,172	1.03%	\$ 25,746	1.34%	\$		\$ 335,918	333,505	1.05%
U.S. Government and agency obligations	25	1.19%						25		25	1.19%
Municipal securities	810	3.59%	7,878	4.28%	6,965	4.52%	51,839	4.15%	67,492	70,145	4.20%
Corporate debt issues							18,267	2.81%	18,267	20,427	2.81%
Equity securities and mutual funds							2,591	3.62%	2,591	3,157	3.62%
Total investment securities available for sale	835	3.52%	318,050	1.11%	32,711	2.02%	72,697	3.80%	424,293	427,259	1.64%
Residential mortgage-backed securities available for sale:											
Pass through certificates	66,144	2.20%	1,138	4.59%	36,811	1.86%	34,899	4.58%	138,992	145,475	2.73%
CMOs	113,842	0.64%	18,585	2.51%	60,914	1.56%	150,076	1.46%	343,417	339,637	1.26%
Total residential mortgage-backed securities available for sale	179,986	1.21%	19,723	2.63%	97,725	1.67%	184,975	2.05%	482,409	485,112	1.69%
Investment securities held-to-maturity:											
Municipal securities					10,207	3.84%	56,545	4.18%	66,752	68,207	4.13%
Total investment securities held-to-maturity					10,207	3.84%	56,545	4.18%	66,752	68,207	4.13%
Residential mortgage-backed securities held-to-maturity:	4,273	1.32%					8,236	3.25%	12,509	13,108	2.59%

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Pass through certificates											
CMOs	1,052	0.85%	1,450	2.02%	4,375	2.33%	17,557	3.02%	24,434	24,977	2.74%
Total residential mortgage-backed securities											
held-to-maturity	5,325	1.22%	1,450	2.02%	4,375	2.33%	25,793	3.09%	36,943	38,085	2.69%
Total investment securities and mortgage-backed	\$ 186,146	1.22%	\$ 339,223	1.20%	\$ 145,018	1.92%	\$ 340,010	2.86%	\$ 1,010,397	1,018,663	1.87%

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Loans receivable. Net loans receivable increased by \$187.4 million, or 3.3%, to \$5.922 billion at December 31, 2014, from \$5.735 billion at December 31, 2013. During 2014 personal banking loans increased by \$35.0 million, or 0.9%, compared to last year. This increase occurred primarily in our residential mortgage loan portfolio, which increased by \$38.5 million, or 1.5%, as a result of refocusing on our traditional lending niche and improving our application and underwriting processes. In addition, our efforts to expand beyond traditional residential mortgage lending continued to produce results as our business banking loan portfolio increased by \$148.6 million, or 7.4%, to \$2.160 billion at December 31, 2014 from \$2.011 billion at December 31, 2013. Commercial real estate loans increased by \$145.2 million, or 9.0%, and commercial loans increased by \$3.4 million, or 0.8%, compared to the prior year.

Loans 30 days or more delinquent decreased by \$31.0 million, or 23.5%, to \$100.6 million at December 31, 2014 from \$131.6 million at December 31, 2013. Delinquencies for all classes of loans with the exception of other consumer loans decreased during the year ended December 31, 2014. Delinquencies on residential mortgage loans decreased by \$7.6 million, or 12.7%, delinquencies on home equity loans decreased by \$3.5 million, or 20.0%, delinquencies on commercial real estate loans decreased by \$13.6 million, or 44.2%, and delinquencies on commercial loans decreased by \$8.3 million, or 54.8%, while delinquencies on other consumer loans increased by \$2.0 million, or 23.9%. Loans 90 days or more delinquent decreased by \$16.5 million, or 28.4%, to \$41.3 million at December 31, 2014 from \$57.8 million at December 31, 2013. This represents the lowest level of delinquency since before the economic downturn began in 2008.

The following table sets forth the recorded investment in loans receivable by state (based on borrowers' domicile) at December 31, 2014.

(Dollars in thousands)	Residential mortgage (1)		Home equity (2)		Other consumer (3)		Commercial real estate loans (4)		Commercial loans (5)		Total (6)	
Pennsylvania	\$ 2,151,361	85.4%	\$ 909,139	85.2%	\$ 225,088	92.8%	\$ 966,012	55.2%	\$ 290,779	71.7%	\$ 4,542,379	75.8%
New York	161,445	6.4%	115,459	10.8%	9,961	4.1%	590,934	33.7%	83,252	20.5%	961,051	16.0%
Ohio	18,486	0.7%	9,087	0.9%	3,132	1.3%	24,901	1.4%	15,826	3.9%	71,432	1.2%
Maryland	134,228	5.3%	27,203	2.6%	1,328	0.5%	114,850	6.5%	7,817	1.9%	285,426	4.8%
All other	55,936	2.2%	5,243	0.5%	3,235	1.3%	56,867	3.2%	8,322	2.0%	129,603	2.2%
Total	\$ 2,521,456	100.0%	\$ 1,066,131	100.0%	\$ 242,744	100.0%	\$ 1,753,564	100.0%	\$ 405,996	100.0%	\$ 5,989,891	100.0%

(1) Percentage of total mortgage loans

(2) Percentage of total home equity loans

(3) Percentage of total other consumer loans

(4) Percentage of total commercial real estate loans

(5) Percentage of total commercial loans

(6) Percentage of total loans

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

	2014		2013		At December 31, 2012		2011		2010	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
(Dollars in thousands)										
Personal Banking:										
Residential mortgage loans	\$ 2,526,240	41.2%	\$ 2,492,138	42.2%	\$ 2,431,860	42.0%	\$ 2,414,992	42.9%	\$ 2,432,421	42.9%
Home equity loans	1,066,131	17.4%	1,083,939	18.3%	1,083,654	18.7%	1,094,201	19.4%	1,108,073	19.5%
Other consumer loans:										
Automobile	92,659	1.5%	82,194	1.4%	78,577	1.3%	80,839	1.4%	88,486	1.6%
Education loans	9,890	0.2%	12,394	0.2%	14,606	0.3%	18,840	0.3%	21,957	0.4%
Loans on savings accounts	8,466	0.1%	9,040	0.2%	9,759	0.2%	11,764	0.2%	11,850	0.2%
Other (1)	131,729	2.2%	124,720	2.1%	125,408	2.2%	124,831	2.3%	121,363	2.1%
Total other consumer loans	242,744	4.0%	228,348	3.9%	228,350	4.0%	236,274	4.2%	243,656	4.3%
Total Personal Banking	3,835,115	62.6%	3,804,425	64.4%	3,743,864	64.7%	3,745,467	66.5%	3,784,150	66.7%
Business Banking:										
Commercial real estate	1,827,324	29.8%	1,665,274	28.2%	1,615,701	27.9%	1,481,127	26.3%	1,423,021	25.1%
Commercial loans	467,145	7.6%	437,559	7.4%	432,944	7.4%	408,462	7.2%	463,006	8.2%
Total Business Banking	2,294,469	37.4%	2,102,833	35.6%	2,048,645	35.3%	1,889,589	33.5%	1,886,027	33.3%
Total loans receivable, gross	6,129,584	100.0%	5,907,258	100.0%	5,792,509	100.0%	5,635,056	100.0%	5,670,177	100.0%
Deferred loan costs/ (fees)	6,095		2,461		(1,624)		(4,752)		(7,165)	
Undisbursed loan proceeds	(145,788)		(103,428)		(88,405)		(78,785)		(129,007)	
Allowance for loan losses:										
Personal Banking:										
Residential mortgage loans	(5,581)		(7,875)		(8,002)		(8,482)		(6,854)	
Home equity loans	(4,550)		(7,245)		(8,294)		(8,687)		(7,675)	
Other consumer loans:										
	(6,118)		(5,487)		(5,156)		(5,325)		(5,810)	
Total Personal Banking	(16,249)		(20,607)		(21,452)		(22,494)		(20,339)	
Business Banking:										
Commercial real estate	(32,937)		(34,969)		(34,499)		(32,148)		(35,832)	
Commercial loans	(13,967)		(11,110)		(13,242)		(12,080)		(15,770)	
Total Business Banking	(46,904)		(46,079)		(47,741)		(44,228)		(51,602)	
Unallocated	(4,365)		(4,662)		(4,026)		(4,416)		(4,471)	
Total allowance for loan losses	(67,518)		(71,348)		(73,219)		(71,138)		(76,412)	

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Total loans receivable, net	\$ 5,922,373	\$ 5,734,943	\$ 5,629,261	\$ 5,480,381	\$ 5,457,593
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(1) Consists primarily of secured and unsecured personal loans.

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The following table sets forth the maturity or period of re-pricing of our loan portfolio at December 31, 2014. Demand loans and loans having no stated schedule of repayments and no stated maturity are reported as due in one year or less. Adjustable and floating-rate loans are included in the period in which interest rates are next scheduled to adjust rather than in which they contractually mature, and fixed-rate loans are included in the period in which the final contractual repayment is due.

At December 31, 2014 (In thousands)	Due in one year or less	Due after one year through two years	Due after two years through three years	Due after three years through five years	Due after five years	Total
Personal Banking:						
Residential mortgage loans	\$ 132,084	117,382	117,015	228,520	1,931,239	2,526,240
Home equity loans	392,578	76,434	72,687	129,234	395,198	1,066,131
Other consumer loans	96,410	41,979	38,186	63,809	2,360	242,744
Total Personal Banking	621,072	235,795	227,888	421,563	2,328,797	3,835,115
Business Banking:						
Commercial real estate loans	609,730	279,053	321,679	449,456	167,406	1,827,324
Commercial loans	263,481	55,869	40,694	56,033	51,068	467,145
Total Business Banking	873,211	334,922	362,373	505,489	218,474	2,294,469
Total	\$ 1,494,283	570,717	590,261	927,052	2,547,271	6,129,584

The following table sets forth at December 31, 2014, the dollar amount of all fixed-rate and adjustable-rate loans due one year or more after the date indicated. Adjustable and floating-rate loans are included in the table based on the contractual due date of the loan.

At December 31, 2014 (In thousands)	Fixed	Adjustable	Total
Personal Banking:			
Residential mortgage loans	\$ 2,434,915	20,917	2,455,832
Home equity loans	748,074	284,244	1,032,318
Other consumer loans	157,393	27,582	184,975
Total Personal Banking	3,340,382	332,743	3,673,125
Business Banking:			
Commercial real estate loans	461,769	1,014,274	1,476,043
Commercial loans	99,465	149,528	248,993
Total Business Banking	561,234	1,163,802	1,725,036
Total	\$ 3,901,616	1,496,545	5,398,161

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Deposits. Total deposits decreased by \$36.3 million, or 0.6%, to \$5.633 billion at December 31, 2014 from \$5.669 billion at December 31, 2013. Time deposits decreased by \$189.1 million, or 11.3%, to \$1.478 billion at December 31, 2014 from \$1.667 billion at December 31, 2013 as customers continue to favor more liquid accounts, such as savings deposits and money market demand accounts, and utilize savings to fund living expenses. As a result savings deposits and money market demand accounts increased by \$28.8 million, or 1.2%, to \$2.388 billion at December 31, 2014 from \$2.360 billion at December 31, 2013. Demand deposits increased by \$123.9 million, or 7.5%, to \$1.766 billion at December 31, 2014 from \$1.642 billion at December 31, 2013. The increase in demand deposits is primarily the result of our efforts to procure new checking account customers and increase low-cost deposits.

The following table sets forth the dollar amount of deposits in each state indicated as of December 31, 2014.

State	Balance (Dollars in thousands)	Percent
Pennsylvania	\$ 4,710,841	83.6%
New York	596,734	10.6%
Ohio	54,546	1.0%
Maryland	270,000	4.8%
Other	421	
Total	\$ 5,632,542	100.0%

The following table indicates the amount of our certificates of deposit of \$100,000 or more by time remaining until maturity at December 31, 2014.

Maturity period	Certificates of deposit (In thousands)
Three months or less	\$ 37,845
Over three months through six months	33,066
Over six months through twelve months	77,636
Over twelve months	203,339
Total	\$ 351,886

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

	At December 31,								
	2014			2013			2012		
	Balance	Percent (1)	Rate (2)	Balance	Percent (1)	Rate (2)	Balance	Percent (1)	Rate (2)
	(Dollars in thousands)								
Savings deposits	\$ 1,209,287	21.5%	0.26%	\$ 1,191,584	21.0%	0.28%	\$ 1,158,795	20.1%	0.41%
Demand deposits	1,765,871	31.4	0.03%	1,641,944	29.0	0.03%	1,607,200	27.9	0.06%
Money market demand accounts	1,179,070	20.9	0.28%	1,167,954	20.6	0.28%	1,112,516	19.3	0.40%
Time deposits:									

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Maturing within 1 year	647,699	11.5	0.77%	665,779	11.7	0.60%	871,580	15.1	1.95%
Maturing 1 to 3 years	712,479	12.6	1.51%	622,934	11.0	1.64%	438,970	7.6	1.82%
Maturing more than 3 years	118,136	2.1	1.10%	378,684	6.7	1.50%	575,539	10.0	2.41%
Total certificates	1,478,314	26.2	1.15%	1,667,397	29.6	1.19%	1,886,089	32.7	2.01%
Total deposits	\$ 5,632,542	100.0%	0.42%	\$ 5,668,879	100.2%	0.46%	\$ 5,764,600	100.0%	0.96%

(1) Represents percentage of total deposits.

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

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Borrowings. Borrowings increased by \$6.5 million, or 0.7%, to \$888.1 million at December 31, 2014 from \$881.6 million at December 31, 2013. This increase resulted from an increase in collateralized borrowings of \$6.5 million, or 4.2%, to \$162.7 million for the year ended December 31, 2014 from \$156.2 million for the year ended December 31, 2013. During 2010, we restructured \$695.0 million of FHLB borrowings reducing the annual interest cost by 0.22%, while extending the average maturities of these borrowings by approximately 3.5 years. We incurred a penalty of \$52.2 million in conjunction with this restructuring, which is being amortized as part of interest expense over the life of the borrowings. At December 31, 2014 the remaining amount to be amortized was \$21.5 million. Our next scheduled maturity of FHLB borrowings is in 2015.

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

Federal Home Loan Bank of Pittsburgh borrowings:				
Average balance outstanding	\$	725,420	718,559	695,551
Maximum outstanding at end of any month during year		725,441	725,493	695,579
Balance outstanding at end of year		725,395	725,447	695,516
Weighted average interest rate during year		3.60%	3.61%	3.67%
Weighted average interest rate at end of year		3.60%	3.60%	3.67%
Collateralized borrowings:				
Average balance outstanding	\$	155,698	150,079	154,620
Maximum outstanding at end of any month during year		174,155	171,815	176,516
Balance outstanding at end of year		162,714	156,198	164,531
Weighted average interest rate during year		0.29%	0.31%	0.34%
Weighted average interest rate at end of year		0.27%	0.31%	0.32%
Total borrowings:				
Average balance outstanding	\$	881,118	868,638	850,171
Maximum outstanding at end of any month during year		899,554	897,268	872,040
Balance outstanding at end of year		888,109	881,645	860,047
Weighted average interest rate during year		3.02%	3.04%	3.07%
Weighted average interest rate at end of year		2.99%	3.02%	3.03%

Shareholders equity. Total shareholders equity at December 31, 2014 was \$1.063 billion, a decrease of \$92.5 million, or 8.0%, from \$1.155 billion at December 31, 2013. This decrease was primarily the result of the payment of cash dividends of \$149.9 million and an increase in other comprehensive loss of \$12.5 million. Partially offsetting these decreases was net income of \$62.0 million.

Average Balance Sheets

The following tables set forth average balance sheets, average yields and costs, and certain other information at and for the periods indicated. All average balances are daily average balances. Non-accrual loans are included in the computation of average balances, but have been reflected in the table as loans carrying a zero yield. The yields set forth below include the effect of deferred fees and discounts and premiums that are amortized or accreted to interest income or expense. The average yield for loans receivable and investment securities are calculated on a fully-taxable equivalent basis.

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	2014		For the Years Ended December 31, 2013				2012		Average Yield/ Cost (10)
	Average Outstanding Balance	Interest	Average Yield/ Cost (10)	Average Outstanding Balance	Interest	Average Outstanding Balance	Interest		
(Dollars in thousands)									
Interest-earning assets:									
Loans receivable (includes FTE adjustments of \$2,057, \$2,258 and \$2,259, respectively) (1)(2)(3)	\$ 5,883,244	284,107	4.83%	\$ 5,682,431	289,235	5.09%	\$ 5,655,179	310,217	5.49%
Mortgage-backed securities (5)	581,906	10,320	1.77%	701,589	12,818	1.83%	736,896	16,738	2.27%
Investment securities (includes FTE adjustments of \$3,381, \$4,210 and \$4,910, respectively) (4)(5)	499,718	13,792	2.76%	518,753	16,047	3.09%	353,431	16,357	4.63%
Federal Home Loan Bank stock	41,975	1,809	4.31%	46,580	371	0.80%	47,205	87	0.18%
Interest-earning deposits	325,201	837	0.25%	410,022	1,093	0.26%	638,366	1,599	0.25%
Total interest-earning assets (includes FTE adjustments of \$5,438 \$6,468 and \$7,169, respectively)	7,332,044	310,865	4.24%	7,359,375	319,564	4.34%	7,431,077	344,998	4.64%
Non-interest-earning assets (6)	561,107			570,555			580,077		
Total assets	\$ 7,893,151			\$ 7,929,930			\$ 8,011,154		
Interest-bearing liabilities:									
Savings deposits	\$ 1,221,304	3,286	0.27%	\$ 1,197,931	3,595	0.30%	\$ 1,136,774	4,219	0.37%
Interest-bearing demand deposits	882,980	587	0.07%	855,031	576	0.07%	822,626	792	0.10%
Money market demand accounts	1,181,235	3,174	0.27%	1,133,584	3,042	0.27%	1,047,894	3,605	0.34%
Time deposits	1,575,595	18,275	1.16%	1,766,219	22,066	1.25%	2,059,702	34,761	1.69%
Borrowed funds (7)	881,118	26,574	3.02%	868,638	26,439	3.04%	850,171	26,105	3.07%
Junior subordinated deferrable interest debentures	103,094	4,691	4.49%	103,094	5,444	5.21%	103,094	5,717	5.47%
Total interest-bearing liabilities	5,845,326	56,587	0.97%	5,924,497	61,162	1.03%	6,020,261	75,199	1.25%
Non-interest-bearing checking	864,322			784,279			723,666		
Non-interest-bearing liabilities	94,298			87,193			109,483		
Total liabilities	6,803,946			6,795,969			6,853,410		
Shareholders' equity	1,089,205			1,133,961			1,157,744		
Total liabilities and stockholders' equity	\$ 7,893,151			\$ 7,929,930			\$ 8,011,154		
Net interest income		254,278			258,402			269,799	
			3.27%			3.31%			3.39%

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Net interest rate spread (8)					
Net interest earning assets/					
Net interest margin (9)	\$ 1,486,718	3.47%	\$ 1,434,878	3.51%	\$ 1,410,816
Ratio of average interest-earning assets to average interest-bearing liabilities	1.25x		1.24x		1.23x

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- (1) Average gross loans receivable includes loans held as available-for-sale and loans placed on nonaccrual status.
- (2) Interest income includes accretion/amortization of deferred loan fees/expenses, which was not material.
- (3) Interest income on tax-free loans is presented on a taxable equivalent basis including adjustments as indicated.
- (4) Interest income on tax-free investment securities is presented on a taxable equivalent basis including adjustments as indicated.
- (5) Average balances do not include the effect of unrealized gains or losses on securities held as available-for-sale.
- (6) Average balances include the effect of unrealized gains or losses on securities held as available-for-sale.
- (7) Average balances include Federal Home Loan Bank advances and collateralized borrowings.
- (8) Net interest rate spread represents the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities.
- (9) Net interest margin represents net interest income as a percentage of average interest-earning assets.
- (10) Shown on a FTE basis. GAAP basis yields were: Loans 4.79%, 5.05% and 5.45%, respectively, Investment securities 2.08%, 2.28% and 3.24%, respectively, interest-earning assets 4.17%, 4.25% and 4.55%, respectively, GAAP basis net interest rate spreads were 3.20%, 3.22% and 3.30%, respectively, and GAAP basis net interest margins were 3.39%, 3.42% and 3.53%, respectively.

Table of Contents**Rate/Volume Analysis**

The following table presents the changes in interest income and interest expense for major components of interest-earning assets and interest-bearing liabilities for the year ended December 31, 2014 compared to 2013 and for the year ended December 31, 2013 compared to 2012. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to: (1) changes in volume multiplied by the prior year rate; (2) changes in rate multiplied by the prior year volume; and (3) the total increase or decrease. Changes not solely attributable to rate or volume have been allocated proportionately to the change due to volume and the change due to rate.

	Years ended December 31, 2014 vs. 2013			Years ended December 31, 2013 vs. 2012		
	Increase (decrease) Due to		Total increase (decrease)	Increase (decrease) Due to		Total increase (decrease)
	Rate	Volume		Rate	Volume	
Interest-earning assets:						
Loans receivable	\$ (15,349)	10,221	(5,128)	\$ (22,477)	1,495	(20,982)
Mortgage-backed securities	(375)	(2,123)	(2,498)	(3,118)	(802)	(3,920)
Investment securities	(1,666)	(589)	(2,255)	(7,961)	7,651	(310)
Federal Home Loan Bank stock	1,636	(198)	1,438	289	(5)	284
Interest-earning deposits	(30)	(226)	(256)	66	(572)	(506)
Total interest-earning assets	(15,784)	7,085	(8,699)	(33,201)	7,767	(25,434)
Interest-bearing liabilities:						
Savings deposits	(372)	63	(309)	(808)	184	(624)
Interest-bearing demand deposits	(8)	19	11	(247)	31	(216)
Money market demand accounts	4	128	132	(858)	295	(563)
Time deposits	(1,580)	(2,211)	(3,791)	(7,742)	(4,953)	(12,695)
Borrowed funds	(241)	376	135	(228)	562	334
Junior subordinated deferrable interest debentures	(753)		(753)	(273)		(273)
Total interest-bearing liabilities	(2,950)	(1,625)	(4,575)	(10,156)	(3,881)	(14,037)
Net change in net interest income	\$ (12,834)	8,710	(4,124)	\$ (23,045)	11,648	(11,397)

Comparison of Results of Operations for the Years Ended December 31, 2014 and 2013

General. Net income for the year ended December 31, 2014 was \$62.0 million, or \$0.67 per diluted share, a decrease of \$4.6 million, or 6.9%, from \$66.6 million, or \$0.73 per diluted share, for the year ended December 31, 2013. The decrease in net income resulted primarily from increases in noninterest expense of \$8.4 million and the provision for loan losses of \$1.8 million and a decrease in net interest income of \$4.6 million. These items were partially offset by an increase in noninterest income of \$5.8 million and a decrease in income tax expense of \$4.4 million.

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Net income for the year ended December 31, 2014 represents a 5.69% and 0.79% return on average equity and return on average assets, respectively, compared to 5.87% and 0.84% for the year ended December 31, 2013. A discussion of each significant change follows.

Interest income. Interest income decreased by \$9.1 million, or 2.9%, to \$303.6 million for the year ended December 31, 2014 from \$312.7 million for the year ended December 31, 2013. The decrease in interest income was due both to a decrease in the average balance of interest-earning assets and a decrease in the average yield on interest-earning assets. The average balance of interest-earning assets decreased by \$27.3 million, or 0.4%, to \$7.332 billion for the year ended December 31, 2014 from \$7.359 billion for the year ended December 31, 2013. The average rate earned on interest-earnings assets decreased by eight basis points to 4.17% for the year ended December 31, 2014 from 4.25% for the year ended December 31, 2013. An explanation of the changes in the balances of interest-earnings assets and changes in the yield is discussed in each category below.

Interest income on loans receivable decreased by \$4.9 million, or 1.7%, to \$282.1 million for the year ended December 31, 2014 from \$287.0 million for the year ended December 31, 2013. This decrease was

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attributable to a decrease in the average yield, which was partially offset by an increase in the average balance of loans receivable. The average yield on loans receivable decreased by 26 basis points, to 4.79% for the year ended December 31, 2014, from 5.05% for the year ended December 31, 2013. This decrease is primarily due to the re-pricing of variable rate loans, the refinancing of existing loans to lower market interest rates and the origination of new loans in the continued low and highly competitive interest rate environment. Average loans receivable increased by \$200.8 million, or 3.5%, to \$5.883 billion for the year ended December 31, 2014 from \$5.682 billion for the year ended December 31, 2013. This increase was primarily attributable to our efforts to attract and maintain quality business loan relationships, as well as growth in both our residential mortgage and consumer loan portfolios.

Interest income on mortgage-backed securities decreased by \$2.5 million, or 19.5%, to \$10.3 million for the year ended December 31, 2014 from \$12.8 million for the year ended December 31, 2013. This decrease was attributable to decreases in both the average balance and the average yield of mortgage-backed securities. The average balance of mortgage-backed securities decreased by \$119.7 million, or 17.1%, to \$581.9 million for the year ended December 31, 2014 from \$701.6 million for the year ended December 31, 2013. This decrease in the average balance was primarily the result of redirecting cash flows to fund loan growth and pay common stock dividends. The average yield on mortgage-backed securities decreased by six basis points, to 1.77% for the year ended December 31, 2014, from 1.83% for the year ended December 31, 2013. This decrease in yield resulted from the continuation of historically low market interest rates and the reduction in the balance of our vintage securities that carry higher relative yields.

Interest income on investment securities decreased by \$1.4 million, or 12.1%, to \$10.4 million for the year ended December 31, 2014 from \$11.8 million for the year ended December 31, 2013. This decrease was attributable to decreases in both the average yield and the average balance of investment securities. The average yield on investment securities decreased by 20 basis points, to 2.08% for the year ended December 31, 2014, from 2.28% for the year ended December 31, 2013. This decrease resulted from higher yielding municipal securities maturing and being called as well as lower relative yields on securities that were purchased during the year. The average balance of investment securities decreased slightly by \$19.1 million, or 3.7%, to \$499.7 million for the year ended December 31, 2014 from \$518.8 million for the year ended December 31, 2013.

For the year ended December 31, 2014 we received dividends on FHLB stock of \$1.8 million on an average balance of \$42.0 million, resulting in a yield of 4.31%. For the year ended December 31, 2013 we received dividends on FHLB stock of \$371,000 on an average balance of \$46.6 million, resulting in a yield of 0.80%. As a result of the improved financial condition of the FHLB of Pittsburgh, they have been able to increase the dividends paid to member financial institutions.

Interest income on interest-earning deposits decreased by \$256,000, or 23.4%, to \$837,000 for the year ended December 31, 2014 from \$1.1 million for the year ended December 31, 2013. This decrease is the result of a decrease in the average balance of interest-earning deposits of \$84.8 million, or 20.7%, to \$325.2 million for the year ended December 31, 2014 from \$410.0 million for the year ended December 31, 2013. This decrease in the average balance was primarily the result of redirecting cash flows to fund loan growth and pay common stock dividends.

Interest expense. Interest expense decreased by \$4.6 million, or 7.5%, to \$56.6 million for the year ended December 31, 2014 from \$61.2 million for the year ended December 31, 2013. This decrease was primarily attributed to decreases in the interest rate paid on time deposits and junior subordinated debentures as well as a decrease in the average balance of deposits. The average rate paid on all categories of deposit accounts decreased or remained flat during the year ended December 31, 2014, due primarily to the current level of market interest rates which enabled us to reduce the rates paid on time deposit products. The average rate paid on time deposits decreased to 1.16% from 1.25% and the average rate paid on savings deposits decreased to 0.27% from 0.30%. The average rate paid on interest-bearing demand deposits and money market deposit accounts remained unchanged at 0.07% and 0.27%, respectively, from the prior year. Also contributing to the decrease in interest expense was the continued shift in the mix of our deposits with average balances increasing for savings deposits, interest-bearing demand deposits and money market deposit accounts, while decreasing for time deposits. Also contributing to the decrease in interest expense was the maturity of an interest rate swap which was in place to convert the floating interest rate on our junior subordinated debentures to a fixed rate.

This maturity reduced the average interest rate to 4.49% in 2014 from 5.21% last year.

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Net interest income. Net interest income decreased by \$4.6 million, or 1.8%, to \$247.0 million for the year ended December 31, 2014 from \$251.6 million for the year ended December 31, 2013. This decrease was a result of the factors previously discussed as well as a decrease in total interest-earning assets. Our net interest rate spread decreased slightly by two basis points, to 3.20% for the year ended December 31, 2014 from 3.22% for the year ended December 31, 2013 and our net interest margin decreased by three basis points, to 3.39% for the year ended December 31, 2014 from 3.42% for the year ended December 31, 2013.

Provision for loan losses. We analyze the allowance for loan losses as described in note 1(f) of the notes to the Consolidated Financial Statements. The provision for loan losses increased by \$1.8 million, or 9.7%, to \$20.3 million for year ended December 31, 2014 from \$18.5 million for the year ended December 31, 2013. This increase is primarily due to five business banking loans requiring combined provisions of \$10.1 million during the first half of 2014. Overall asset quality, however, continues to improve as loans 90 days or more delinquent decreased by \$16.5 million, or 28.4%, to \$41.3 million at December 31, 2014 from \$57.8 million at December 31, 2013 and total non-accrual loans decreased by \$27.4 million, or 25.6%, to \$79.8 million at December 31, 2014 from \$107.2 million at December 31, 2013. Additionally, classified loans decreased by \$19.9 million, or 8.4%, to \$217.0 million at December 31, 2014 from \$236.9 million at December 31, 2013.

In determining the amount of the current period provision, we considered current economic conditions and their impact on our markets, including unemployment levels, bankruptcy filings, and changes in real estate values which ultimately impact the quality of our loan portfolio. Net loan charge-offs increased by \$3.7 million, or 18.4%, to \$24.1 million for the year ended December 31, 2014 from \$20.4 million for the year ended December 31, 2013. This increase was the result of the charge-off of just two business banking loans in the first half of 2014 totaling \$8.1 million. As a result, annual net charge-offs to average loans increased to 0.41% for the year ended December 31, 2014 from 0.36% for the year ended December 31, 2013. The provision that is recorded is sufficient, in our judgment, to bring the allowance for loan losses 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 \$5.8 million, or 8.6%, to \$72.6 million for the year ended December 31, 2014 from \$66.8 million for the year ended December 31, 2013. This increase is primarily the result of increases in trust and other financial services income and other operating income as well as a decrease in loss on real estate owned. Trust and other financial services income increased by \$3.1 million, or 32.6%, to \$12.4 million for the year ended December 31, 2014 from \$9.3 million for the year ended December 31, 2013 primarily due to changes made to our fee structure and the acquisition of Evans Capital Management, Inc. on January 1, 2014. Losses on real estate owned decreased by \$2.2 million, or 69.6%, to \$967,000 for the year ended December 31, 2014 from \$3.2 million for the year ended December 31, 2013. This decrease is primarily due to an elevated level of write-downs on commercial properties that were taken in 2013. Other operating income increased by \$1.9 million, or 48.7%, to \$5.9 million for the year ended December 31, 2014 from \$4.0 million for the year ended December 31, 2013 primarily due to an increase in FHLB of Pittsburgh dividends. Partially offsetting these factors was a decrease in gains on sale of investments of \$1.2 million, or 19.4%, to \$4.9 million for the year ended December 31, 2014 from \$6.1 million for the year ended December 31, 2013. Additionally, income from bank owned life insurance decreased by \$1.0 million, or 19.4%, to \$4.2 million for the year ended December 31, 2014 from \$5.2 million for the year ended December 31, 2013 as a result of death benefits received in 2013.

Noninterest expense. Noninterest expense increased by \$8.4 million, or 4.1%, to \$215.5 million for the year ended December 31, 2014 from \$207.1 million for the year ended December 31, 2013. This increase is primarily the result of increases in compensation and employee benefits, marketing expenses, professional services and processing expenses. Compensation and employee benefits increased by \$3.8 million, or 3.4%, to \$116.0 million for the year ended December 31, 2014 from \$112.2 million for the year ended December 31, 2013 due to regular annual merit increases, as well as severance paid as a result of the corporate restructuring which was announced in the third quarter of 2014. Marketing expense increased by \$1.9 million, or 30.7%, to \$8.2 million for the year ended December 31, 2014 from \$6.3 million for the year ended December 31, 2013 due primarily to marketing campaigns directed towards loan and deposit growth as well as the promotion of the JD Power and Associates and Forbes awards recognized throughout the year. Professional services increased by \$1.4 million, or 22.2%, to \$7.7 million for the year ended December 31, 2014 from \$6.3 million for the year ended December 31, 2013 as a result of additional consulting expenses which were incurred as we continue to strengthen our compliance management system. Finally, processing expense increased by \$1.2 million, or 4.4%, to \$26.7 million for the year ended December 31, 2014 from \$25.5 million for the year ended December 31, 2013. This increase is primarily due

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to software enhancements and the amortization of the costs to upgrade our programs used to address regulatory compliance requirements.

Income taxes. Income tax expense decreased by \$4.4 million, or 16.8%, to \$21.8 million for the year ended December 31, 2014 from \$26.2 million for the year ended December 31, 2013 primarily due to a decrease in income before income taxes of \$9.0 million, or 9.7%, compared to the prior year. Additionally, our effective tax rate decreased to 26.0% from 28.3% last year. This decrease resulted from Pennsylvania state tax credits relating to certain charitable contributions and an increase in deductible pass-thru dividends on the Company's common stock held in our Employee Stock Ownership Plans and 401(k) plan related to the \$1.10 special dividends paid by the Company in 2014.

Comparison of Results of Operations for the Years Ended December 31, 2013 and 2012

General. Net income for the year ended December 31, 2013 was \$66.6 million, or \$0.73 per diluted share, an increase of \$3.2 million, or 5.0%, from \$63.4 million, or \$0.67 per diluted share, for the year ended December 31, 2012. The increase in net income resulted primarily from an increase in noninterest income of \$7.9 million and a decrease in provision for loan losses of \$7.8 million. These items were partially offset by a decrease in net interest income of \$10.9 million and an increase in noninterest expense of \$1.7 million. A discussion of each significant change follows.

Net income for the year ended December 31, 2013 represents a 5.87% and 0.84% return on average equity and return on average assets, respectively, compared to 5.47% and 0.79% for the year ended December 31, 2012.

Interest income. Interest income decreased by \$25.0 million, or 7.4%, to \$312.7 million for the year ended December 31, 2013 from \$337.7 million for the year ended December 31, 2012. The decrease in interest income was due both to a decrease in the average balance of interest-earning assets and a decrease in the average yield on interest-earning assets. The average balance of interest-earning assets decreased by \$71.7 million, or 1.0%, to \$7.359 billion for the year ended December 31, 2013 from \$7.431 billion for the year ended December 31, 2012. The average rate earned on interest-earnings assets decreased by 30 basis points, to 4.25% for the year ended December 31, 2013 from 4.55% for the year ended December 31, 2012. An explanation of the changes in the balances of interest-earnings assets and changes in the yield is discussed in each category below.

Interest income on loans receivable decreased by \$21.0 million, or 6.8%, to \$287.0 million for the year ended December 31, 2013 from \$308.0 million for the year ended December 31, 2012. This decrease was attributable to a decrease in the average yield, which was partially offset by an increase in the average balance of loans receivable. The average yield on loans receivable decreased by 40 basis points, to 5.05% for the year ended December 31, 2013, from 5.45% for the year ended December 31, 2012. This decrease is primarily due to the re-pricing of variable rate loans, the refinancing of existing loans to lower market interest rates and the origination of new loans in the continued low and highly competitive interest rate environment. Average loans receivable increased by \$27.3 million, or 0.5%, to \$5.682 billion for the year ended December 31, 2013 from \$5.655 billion for the year ended December 31, 2012. This increase was primarily attributable to our efforts in attracting and maintaining quality business loan relationships, as well as our decision to hold more of residential mortgage loans originated through our wholesale lending division and not sell them in the secondary markets.

Interest income on mortgage-backed securities decreased by \$3.9 million, or 23.4%, to \$12.8 million for the year ended December 31, 2013 from \$16.7 million for the year ended December 31, 2012. This decrease was attributable to decreases in both the average yield and the average

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balance of mortgage-backed securities. The average yield on mortgage-backed securities decreased by 44 basis points, to 1.83% for the year ended December 31, 2013, from 2.27% for the year ended December 31, 2012. This decrease in yield resulted from the continuation of historically low market interest rates which caused a decrease in the rates on our variable rate securities and lower relative yields on the securities that were purchased during the year. The average balance of mortgage-backed securities decreased by \$35.3 million, or 4.8%, to \$701.6 million for the year ended December 31, 2013 from \$736.9 million for the year ended December 31, 2012. This decrease in the average balance was primarily the result of redirecting cash flows to purchase government agency debentures of shorter duration as well as to fund loan growth.

Interest income on investment securities increased by \$391,000, or 3.4%, to \$11.8 million for the year ended December 31, 2013 from \$11.4 million for the year ended December 31, 2012. This increase was attributable to an increase in the average balance of investment securities of \$165.4 million, or 46.8%, to \$518.8 million for the year ended December 31, 2013 from \$353.4 million for the year ended December 31, 2012. This increase was

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primarily the result of using excess cash to mitigate net interest margin compression while shortening the duration of our investment securities portfolio. Partially offsetting this increase was a decrease in the average yield on investment securities of 96 basis points, to 2.28% for the year ended December 31, 2013, from 3.24% for the year ended December 31, 2012. This decrease resulted from higher yielding municipal securities maturing and being called as well as lower relative yields on the shorter duration securities that were purchased during the year.

For the year ended December 31, 2013 we received dividends on FHLB stock of \$371,000 on an average balance of \$46.6 million, resulting in a yield of 0.80%. Dividends on FHLB stock totaled \$87,000 on an average balance of \$47.2 million, resulting in a yield of 0.18% for the year ended December 31, 2012. The FHLB of Pittsburgh resumed paying dividends on its member owned common stock during 2012.

Interest income on interest-earning deposits decreased by \$506,000, or 31.6%, to \$1.1 million for the year ended December 31, 2013 from \$1.6 million for the year ended December 31, 2012. This decrease is the result of a decrease in the average balance of interest-earning deposits of \$228.4 million, or 35.8%, to \$410.0 million for the year ended December 31, 2013 from \$638.4 million for the year ended December 31, 2012. This decrease is primarily the result of using excess cash to fund loan growth, deposit outflow and to purchase government agency debentures.

Interest expense. Interest expense decreased by \$14.0 million, or 18.7%, to \$61.2 million for the year ended December 31, 2013 from \$75.2 million for the year ended December 31, 2012. This decrease was primarily attributed to decreases in the interest rate paid on both deposits and borrowed funds as well as a decrease in the average balance of deposits. The average rate paid on all categories of deposit accounts decreased during the year ended December 31, 2013 due to a decrease in market interest rates. Rates on savings accounts decreased to 0.30% from 0.37%; interest-bearing demand deposit rates decreased to 0.07% from 0.10%; money market demand account rates decreased to 0.27% from 0.34% and certificates of deposit rates decreased to 1.25% from 1.69%. Also contributing to the decrease in interest expense was a shift in the mix of our deposits with average balances increasing for savings, interest-bearing checking and money market demand accounts, while decreasing for certificates of deposit. The average rate paid on borrowed funds decreased by three basis points to 3.04% for the year ended December 31, 2013, from 3.07% for the year ended December 31, 2012. The decrease in average rate paid was partially offset by an increase in the average balance of borrowed funds of \$18.5 million during the year ended December 31, 2013.

Net interest income. Net interest income decreased by \$10.9 million, or 4.2%, to \$251.6 million for the year ended December 31, 2013 from \$262.5 million for the year ended December 31, 2012. This decrease was a result of the factors previously discussed as well as a decrease in total interest-earning assets. Our net interest rate spread decreased by eight basis points, to 3.22% for the year ended December 31, 2013 from 3.30% for the year ended December 31, 2012 and our net interest margin decreased by eleven basis points, to 3.42% for the year ended December 31, 2013 from 3.53% for the year ended December 31, 2012.

Provision for loan losses. We analyze the allowance for loan losses as described in note 1(f) of the notes to the Consolidated Financial Statements. The provision for loan losses decreased by \$7.8 million, or 29.7%, to \$18.5 million for year ended December 31, 2013 from \$26.3 million for the year ended December 31, 2012. Facilitating this decrease was a decrease in non-accrual loans of \$13.0 million, or 10.8%, to \$107.2 million at December 31, 2013 from \$120.2 million at December 31, 2012. Additionally, classified loans decreased by \$13.9 million, or 5.6%, to \$236.9 million at December 31, 2013 from \$250.8 million at December 31, 2012. These changes were partially offset by elevated levels in historical charge-off factors which include years with historically high charge-off amounts and an increase in business banking loans collectively evaluated for impairment, which typically require higher reserves than personal banking loans.

In determining the amount of the provision, we considered economic conditions and their impact on our markets, including unemployment levels, bankruptcy filings, and changes in real estate values which ultimately impact the quality of our loan portfolio. Net loan charge-offs

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decreased by \$3.9 million, or 15.9%, to \$20.4 million for the year ended December 31, 2013 from \$24.3 million for the year ended December 31, 2012. Annual net charge-offs to average loans decreased to 0.36% for the year ended December 31, 2013 from 0.43% for the year ended December 31, 2012. The provision that was recorded was sufficient, in our judgment, to bring the allowance for loan losses to a level that reflects the losses inherent in our loan portfolio relative to loan mix, economic conditions and historical loss experience.

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Noninterest income. Noninterest income increased by \$7.9 million, or 13.5%, to \$66.8 million for the year ended December 31, 2013 from \$58.9 million for the year ended December 31, 2012. This increase is primarily the result of increases in the gain on sales of investments and insurance commission income as well as a decrease in loss on real estate owned. Gain on sale of investments increased by \$5.5 million, or 835.5%, to \$6.1 million for the year ended December 31, 2013 from \$654,000 for the year ended December 31, 2012 due to the sale of certain equity securities in the fourth quarter of 2013. Insurance commission income increased by \$2.3 million, or 37.9%, to \$8.6 million for the year ended December 31, 2013 from \$6.3 million for the year ended December 31, 2012 due to our acquisition of the Bert Company, a broker of employee benefit and property and casualty insurance, on December 31, 2012. Losses on real estate owned decreased by \$2.4 million, or 43.5%, to \$3.2 million for the year ended December 31, 2013 from \$5.6 million for the year ended December 31, 2012. This decrease is primarily due to historically high write-downs taken on commercial properties in 2012. Partially offsetting these factors was a decrease in mortgage banking income of \$3.1 million, or 65.3%, to \$1.6 million for the year ended December 31, 2013 from \$4.7 million for the year ended December 31, 2012, as most residential mortgage loan originations during 2013 were retained in our portfolio and not sold into the secondary market.

Noninterest expense. Noninterest expense increased by \$1.6 million, or 0.8%, to \$207.1 million for the year ended December 31, 2013 from \$205.5 million for the year ended December 31, 2012. This increase is primarily the result of increases in office operations, other expense and premises and occupancy costs. Office operations increased by \$1.3 million, or 9.3%, to \$14.5 million for the year ended December 31, 2013 from \$13.2 million for the year ended December 31, 2012 primarily due to increased loan collections costs. As a result of increased charitable contributions to organizations that qualify for Pennsylvania's Education Improvement Tax Credit program, for which we receive state income tax credits, other expense increased by \$865,000, or 9.5%, to \$10.0 million for the year ended December 31, 2013 from \$9.1 million for the year ended December 31, 2012. Premises and occupancy costs increased by \$773,000, or 3.4%, compared to the prior year due primarily to increased snow removal and depreciation expense. Partially offsetting these increases were decreases in marketing expense and professional services. Marketing expense decreased by \$1.5 million, or 19.7%, to \$6.3 million for the year ended December 31, 2013 from \$7.8 million for the year ended December 31, 2012 due primarily to our decision to postpone campaigns scheduled for 2013 until 2014. Professional services decreased by \$738,000, or 10.5%, to \$6.3 million for the year ended December 31, 2013 from \$7.0 million for the year ended December 31, 2012 as a result of a decrease in compliance related consulting projects that were completed in 2012.

Income taxes. Income tax expense decreased by \$44,000, or 0.2%, to \$26.2 million for the year ended December 31, 2013 from \$26.3 million for the year ended December 31, 2012. This decrease is due to a decrease in the effective tax rate to 28.2% from 29.3% which resulted from increased Pennsylvania state tax credits. Partially offsetting this decrease was an increase in income before income taxes of \$3.1 million compared to the prior year.

Asset Quality

We actively manage asset quality through our underwriting practices and collection procedures. Our underwriting practices are focused on balancing risk and return while our collection operations focus on diligently working with delinquent borrowers in an effort to minimize losses.

Collection procedures. Our collection procedures for personal loans generally provide that when a loan is five days past due, a computer-generated late notice is sent to the borrower requesting payment. If delinquency continues, at 15 days a delinquent notice, plus a notice of a late charge, is sent and personal contact efforts are attempted, either in person or by telephone, to strengthen the collection process and obtain reasons for the delinquency. Also, plans to establish a payment program are developed. Personal contact efforts are continued throughout the collection process, as necessary. Generally, if a loan becomes 60 days past due, a collection letter is sent and the loan becomes subject to possible legal action if suitable arrangements for payment have not been made. In addition, the borrower is given information which provides access to consumer counseling services to the extent required by the regulations of the Department of Housing and Urban Development and other applicable regulators. When a loan continues in a delinquent status for 90 days or more, and a payment schedule has not been developed or

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kept by the borrower, we may send the borrower a notice of intent to foreclose, giving 30 days to cure the delinquency. If not cured, foreclosure proceedings are initiated.

Nonperforming assets. Loans are reviewed on a regular basis and are placed on a nonaccrual status when, in the opinion of management, the collection of all contractual principal and/or interest is doubtful. Loans are automatically placed on nonaccrual status when either principal or interest is 90 days or more past due. Interest

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accrued and unpaid at the time a loan is placed on a nonaccrual status is reversed and charged against interest income.

Real estate acquired as a result of foreclosure or by deed in lieu of foreclosure is classified as real estate owned until such time that it is sold. When real estate is acquired through foreclosure or by deed in lieu of foreclosure, it is recorded at the lower of the related loan balance or its fair value as determined by an appraisal, less estimated costs of disposal. If the value of the property is less than the loan, less any related specific loan loss reserve allocations, the difference is charged against the allowance for loan losses. Any subsequent write-down of real estate owned or loss at the time of disposition is charged against earnings.

Nonaccrual, Past Due, Restructured Loans and 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.

	2014	2013	At December 31, 2012	2011	2010
	(Dollars in thousands)				
Loans 90 days or more past due:					
Residential mortgage loans	\$ 17,704	24,625	24,295	28,233	29,751
Home equity loans	6,606	8,345	8,481	9,781	10,263
Other consumer loans	2,656	2,723	2,712	2,944	2,565
Commercial real estate loans	10,215	18,433	24,938	44,603	46,032
Commercial loans	4,380	4,321	9,619	10,785	12,877
Total loans 90 days or more past due	\$ 41,561	58,447	70,045	96,346	101,488
Total real estate owned (REO)	16,759	18,203	26,165	26,887	20,780
Total loans 90 days or more past due and REO	58,320	76,650	96,210	123,233	122,268
Total loans 90 days or more past due to net loans receivable	0.70%	1.02%	1.24%	1.76%	1.86%
Total loans 90 days or more past due and REO to total assets	0.75%	0.97%	1.21%	1.55%	1.50%
Nonperforming assets:					
Nonaccrual loans - loans 90 days or more past due					
	\$ 41,326	57,757	68,347	95,836	100,421
Nonaccrual loans - loans less than 90 days past due					
	38,482	49,464	51,865	35,269	47,970
Loans 90 days or more past due still accruing					
	235	690	1,698	510	1,067
Total nonperforming loans	80,043	107,911	121,910	131,615	149,458
Total nonperforming assets	\$ 96,802	126,114	148,075	158,502	170,238
Nonaccrual troubled debt restructured loans (1)					
	\$ 24,459	28,889	41,166	29,575	41,740
Accruing troubled debt restructured loans	37,329	50,277	48,278	39,854	10,865
Total troubled debt restructured loans	\$ 61,788	79,166	89,444	69,429	52,605

(1) Also included in nonaccrual loans above.

During the year ended December 31, 2014, gross interest income of approximately \$6.4 million would have been recorded on loans accounted for on a nonaccrual basis if the loans had been current and in accordance with their original terms throughout the year. We recognized \$2.7 million of interest income on nonaccrual loans during the year ended December 31, 2014.

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The following table sets forth loans 90 days or more delinquent by state (based on borrowers' domicile) at December 31, 2014.

(Dollars in thousands)	Residential mortgage	(1)	Home equity	(2)	Other consumer	(3)	Commercial real estate loans	(4)	Commercial loans	(5)	Total	(6)
Pennsylvania	\$ 12,282	0.6%	\$ 4,474	0.5%	\$ 2,388	1.1%	\$ 7,943	0.8%	\$ 3,543	1.2%	\$ 30,630	0.7%
New York	1,237	0.8%	936	0.8%	55	0.6%	1,072	0.2%	284	0.3%	3,584	0.4%
Ohio	710	3.8%	35	0.4%	7	0.2%		0.0%		0.0%	752	1.1%
Maryland	1,678	1.3%	1,058	3.9%		0.0%	270	0.2%	207	2.6%	3,213	1.1%
All other	1,789	3.2%	103	2.0%		0.0%	930	1.6%	325	3.9%	3,147	2.4%
Total	\$ 17,696	0.7%	\$ 6,606	0.6%	\$ 2,450	1.0%	\$ 10,215	0.6%	\$ 4,359	1.1%	\$ 41,326	0.7%

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

Classification of Assets. Our policies, consistent with regulatory guidelines, provide for the classification of loans considered to be of lesser quality as substandard, doubtful, or loss assets. An asset is considered substandard if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Substandard assets include those characterized by the distinct possibility that the savings institution will sustain some loss if the deficiencies are not corrected. Assets classified as doubtful have all of the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. Assets classified as loss are those considered uncollectible so that their continuance as assets without the establishment of a specific loss reserve is not warranted. Assets that do not expose the savings institution to risk sufficient to warrant classification in one of the aforementioned categories, but which possess some weaknesses, are required to be designated special mention. At December 31, 2014, we had 286 loans, with an aggregate principal balance of \$60.6 million, designated as special mention.

We regularly review our asset portfolio to determine whether any assets require classification in accordance with applicable regulations. Our largest classified assets generally are also our largest nonperforming assets.

The following table sets forth the aggregate amount of our classified assets at the dates indicated.

	At December 31,	
2014	2013	2012

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(In thousands)

Substandard assets	\$	229,913	250,545	271,268
Doubtful assets		2,677	3,188	4,829
Loss assets		1,424	1,321	1,049
Total classified assets	\$	234,014	255,054	277,146

Allowance for Loan Losses. Our board of directors has approved an Allowance for Loan Losses Policy designed to provide management with a systematic methodology for determining and documenting the allowance for loan losses each reporting period. This methodology was developed to provide a consistent process and review procedure to ensure that the allowance for loan losses is in conformity with GAAP, our policies and procedures and other supervisory and regulatory guidelines.

On an ongoing basis, the Credit Administration department, as well as loan officers, branch managers and department heads, review and monitor the loan portfolio for problem loans. This portfolio monitoring includes a review of the monthly delinquency reports as well as historical comparisons and trend analysis. On an on-going basis the loan officer along with the Credit Administration department grades or classifies problem loans or potential problem loans based upon their knowledge of the lending relationship and other information previously accumulated. Credit relationships greater than or equal to \$1.0 million that have been classified as substandard or doubtful are reviewed by the Credit Administration department for possible impairment. A loan is considered

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impaired when, based on current information and events it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement including both contractual principal and interest payments. Our loan grading system for problem loans is described above in Classification of Assets.

If an individual loan is deemed to be impaired, we determine the proper measurement of impairment for each loan based on one of three methods: (1) the present value of expected future cash flows discounted at the loan's effective interest rate; (2) the loan's observable market price; or (3) the fair value of the collateral if the loan is collateral dependent. If the measure of the impaired loan is more or less than the recorded investment in the loan, we adjust the specific allowance associated with that individual loan accordingly.

If a substandard or doubtful loan is not considered individually for impairment, it is grouped with other loans that possess common characteristics for impairment evaluation and analysis. This segmentation is accomplished by grouping loans of similar product types, risk characteristics and industry concentration into homogeneous pools. Each pool is then analyzed based on the historical delinquency, charge-off and recovery trends over the past three years which are then extended to include the loss realization period during which the event of default occurs, additional consideration is also given to the current economic, political, regulatory and interest rate environment. This adjusted historical net charge-off amount as a percentage of loans outstanding for each group is used to estimate the measure of impairment.

The individual impairment measures along with the estimated losses for each homogeneous pool are consolidated into one summary document. This summary schedule along with the supporting documentation used to establish this schedule is prepared monthly and presented to the Credit Committee on a quarterly basis. The Credit Committee is comprised of members of Senior Management from our various departments, including mortgage, consumer and commercial lending, appraising, administration and finance as well as our President and Chief Executive Officer. The Credit Committee reviews the processes and documentation presented, reviews the concentration of credit by industry and customer, discusses lending products, activity, competition and collateral values, as well as economic conditions in general and in each of our market areas. Based on this review and discussion, the appropriate allowance for loan losses is estimated and any adjustments necessary to reconcile the actual allowance for loan losses with this estimate are determined. In addition, the Credit Committee considers whether any changes to the methodology are needed. The Credit Committee also compares our delinquency trends, nonperforming asset amounts and allowance for loan loss levels to our peer group and to state and national statistics. A similar review is also performed by the Risk Management Committee of the board of directors.

In addition to the reviews by the Credit Committee and the Risk Management Committee, regulators from either the Federal Deposit Insurance Corporation or Pennsylvania State Department of Banking perform a review on an annual basis of the adequacy of the allowance for loan losses and its conformity with regulatory guidelines and pronouncements. The internal audit department also performs a regular review of the detailed supporting schedules for accuracy and reports their findings to the Audit Committee of the board of directors. Any recommendations or enhancements from these independent parties are considered by management and the Credit Committee and implemented accordingly.

We acknowledge that this is a dynamic process and consists of factors, many of which are external and beyond our control, which can change. The adequacy of the allowance for loan losses is based upon estimates using all the information previously discussed as well as current and known circumstances and events. There is no assurance that actual portfolio losses will not be substantially different than those that were estimated.

We utilize a consistent methodology each period when analyzing the adequacy of the allowance for loan losses and the related provision for loan losses. As part of the analysis, we considered the economic data in our markets such as the unemployment and bankruptcy levels as well as the changes in real estate collateral values. In addition, we considered the overall trend in asset quality, loan charge-offs and the allowance for loan

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losses as a percentage of nonperforming loans. We also consider the specific reserves already established for criticized loans based upon a three year average of historical charge-offs. As a result, we decreased the allowance for loan losses during the year by \$3.8 million, or 5.4%, to \$67.5 million, or 1.13% of total loans, at December 31, 2014 from \$71.3 million, or 1.23% of total loans, at December 31, 2013. The decrease in the allowance for loan losses and the related provision for loan losses is discussed above in the section Provision for loan losses.

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Analysis of the Allowance for Loan Losses. The following table sets forth the analysis of the allowance for loan losses for the periods indicated.

	2014	2013	Years ended December 31, 2012	2011	2010
	(Dollars in thousands)				
Net loans receivable	\$ 5,922,373	5,734,943	5,629,261	5,480,381	5,457,593
Average loans outstanding	5,883,244	5,682,431	5,655,179	5,508,790	5,487,645
Allowance for loan losses					
Balance at beginning of period	71,348	73,219	71,138	76,412	70,403
Provision for loan losses	20,314	18,519	26,338	34,170	40,486
Charge offs:					
Residential mortgage loans	(2,181)	(2,501)	(4,295)	(4,198)	(4,497)
Home equity loans	(1,783)	(2,239)	(4,066)	(4,734)	(4,104)
Other consumer loans	(6,423)	(6,055)	(5,919)	(5,283)	(6,390)
Commercial real estate loans	(8,422)	(10,042)	(9,919)	(12,508)	(12,576)
Commercial loans	(11,936)	(5,007)	(6,254)	(15,641)	(9,305)
Total charge-offs	(30,745)	(25,844)	(30,453)	(42,364)	(36,872)
Recoveries:					
Residential mortgage loans	443	420	528	308	176
Home equity loans	194	258	297	127	82
Other consumer loans	1,190	1,082	1,410	1,254	1,422
Commercial real estate loans	2,195	2,305	1,823	872	314
Commercial loans	2,579	1,389	2,138	359	401
Total recoveries	6,601	5,454	6,196	2,920	2,395
Balance at end of period	\$ 67,518	71,348	73,219	71,138	76,412
Allowance for loan losses as a percentage of net loans receivable	1.14%	1.24%	1.30%	1.30%	1.40%
Net charge-offs as a percentage of average loans outstanding	0.41%	0.36%	0.43%	0.72%	0.63%
Allowance for loan losses as a percentage of nonperforming loans	84.35%	66.12%	60.06%	54.05%	51.13%
Allowance for loan losses as a percentage of nonperforming loans and real estate owned	69.75%	56.57%	49.45%	44.88%	44.89%

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Allocation of Allowance for Loan Losses. The following tables set forth the allocation of allowance for loan losses by loan category at the dates indicated. The allowance for loan losses allocated to each category is not necessarily indicative of future losses in any particular category.

	2014		At December 31, 2013		2012	
	Amount	% of Total loans (1)	Amount (Dollars in thousands)	% of Total loans (1)	Amount	% of Total loans (1)
Balance at end of year applicable to:						
Residential mortgage loans	\$ 5,581	41.2%	\$ 7,875	42.2%	\$ 8,002	42.0%
Home equity loans	4,550	17.4	7,245	18.3	8,294	18.7
Other consumer loans	6,118	4.0	5,487	3.9	5,156	4.0
Commercial real estate loans	32,937	29.8	34,969	28.2	34,499	27.9
Commercial loans	13,967	7.6	11,110	7.4	13,242	7.4
Total allocated allowance	63,153		66,686		69,193	
Unallocated	4,365		4,662		4,026	
Total	\$ 67,518	100.0%	\$ 71,348	100.0%	\$ 73,219	100.0%

	2011		At December 31, 2010	
	Amount	% of Total loans (1)	Amount (Dollars in thousands)	% of Total loans (1)
Balance at end of year applicable to:				
Residential mortgage loans	\$ 8,482	42.9%	\$ 6,854	42.9%
Home equity loans	8,687	19.4	7,675	19.5
Other consumer loans	5,325	4.2	5,810	4.3
Commercial real estate loans	32,148	26.3	35,832	25.1
Commercial loans	12,080	7.2	15,770	8.2
Total allocated allowance	66,722		71,941	
Unallocated	4,416		4,471	
Total	\$ 71,138	100.0%	\$ 76,412	100.0%

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

Liquidity and Capital Resources

Northwest Bank is required to maintain a sufficient level of liquid assets, as determined by management and defined and reviewed for adequacy by the Federal Deposit Insurance Corporation during their regular examinations. The Federal Deposit Insurance Corporation, however, does not prescribe by regulation a minimum amount or percentage of liquid assets. The Federal Deposit Insurance Corporation allows us to consider any unencumbered, available-for-sale marketable security, whose sale would not impair our capital adequacy, to be eligible for liquidity. Liquidity is monitored through the use of a standard liquidity ratio of liquid assets to borrowings plus deposits. Using this formula, Northwest Bank's liquidity ratio was 8.0% as of December 31, 2014. We adjust our liquidity level in order to meet funding needs of deposit outflows, repayment of borrowings and loan commitments. We also adjust liquidity as appropriate to meet our asset and liability management objectives. Liquidity needs can also be met by temporarily drawing upon lines-of-credit established for such reasons. As of December 31, 2014, Northwest Bank had

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\$2.121 billion of additional borrowing capacity available with the Federal Home Loan Bank of Pittsburgh, including a \$150.0 million overnight line of credit, as well as a \$182.4 million borrowing capacity available with the Federal Reserve Bank and \$80.0 million with two correspondent banks.

In addition to deposits, our primary sources of funds are the amortization and repayment of loans and mortgage-backed securities, maturities of investment securities and other short-term investments, and earnings and funds provided from operations. While scheduled principal repayments on loans and mortgage-backed securities are a relatively predictable source of funds, deposit flows and loan prepayments are greatly influenced by general interest rate levels, economic conditions, and competition. We manage the pricing of our deposits to maintain a desired deposit balance. In addition, we invest excess funds in short-term interest earning and other assets, which provide liquidity to meet lending requirements. Short-term interest-earning deposits amounted to \$153.3 million at

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December 31, 2014. For additional information about our cash flows from operating, financing, and investing activities, see the Statements of Cash Flows included in the Consolidated Financial Statements.

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

Liquidity management is both a daily and long-term function of business management. If we require funds beyond our ability to generate them internally, borrowing agreements exist with the Federal Home Loan Bank of Pittsburgh and the Federal Reserve Bank of Cleveland, which provide an additional source of funds. At December 31, 2014 Northwest Bank had advances of \$725.4 million from the Federal Home Loan Bank of Pittsburgh. We borrow from these sources to reduce interest rate risk and to provide liquidity when necessary.

At December 31, 2014, our customers had \$428.6 million of unused lines of credit available and \$186.6 million in loan commitments. This amount does not include the unfunded portion of loans in process. Time deposits scheduled to mature in less than one year at December 31, 2014, totaled \$647.7 million. We believe that a significant portion of such deposits will remain with us.

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

Deposits are our primary source of externally generated funds. The level of deposit inflows during any given period is heavily influenced by factors outside of our control, such as consumer savings tendencies, the general level of short-term and long-term market interest rates, as well as higher alternative yields that investors may obtain on competing investments such as money market mutual funds. Financial institutions, such as Northwest Bank, are also subject to deposit outflows. Our net deposits decreased by \$36.3 million, \$95.7 million and \$15.7 million for the years ended December 31, 2014, 2013 and 2012, respectively.

Similarly, the amount of principal repayments on loans and the amount of new loan originations is heavily influenced by the general level of market interest rates, consumer confidence and consumer spending. Funds received from loan maturities and principal payments on loans for the years ended December 31, 2014, 2013 and 2012 were \$1.731 billion, \$1.924 billion and \$1.912 billion, respectively. Loan originations for the years ended December 31, 2014, 2013 and 2012 were \$1.946 billion, \$2.110 billion and \$2.337 billion, respectively. We also sell a portion of the loans we originate, and the cash flows from such sales for the years ended December 31, 2014, 2013 and 2012 were \$1.3 million, \$52.6 million and \$236.5 million, respectively.

We experience significant cash flows from our portfolio of marketable securities as principal payments are received on mortgage-backed securities and as investment securities mature or are called. Cash flow from the repayment of principal and the maturity or call of marketable securities for the years ended December 31, 2014, 2013 and 2012 were \$179.7 million, \$288.8 million and \$417.5 million, respectively.

When necessary, we utilize borrowings as a source of liquidity and as a source of funds for long-term investment when market conditions permit. The net cash flow from the receipt and repayment of borrowings were net increases of \$6.5 million, \$21.6 million and \$32.1 million for the years ended December 31, 2014, 2013 and 2012, respectively.

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Other activity with respect to cash flow was the payment of cash dividends on common stock in the amount of \$149.9 million, \$45.9 million and \$56.9 million for the ended December 31, 2014, 2013 and 2012, respectively.

At December 31, 2014, stockholders' equity totaled \$1.063 billion. During 2014 our Board of Directors declared regular quarterly dividends totaling \$0.52 per share of common stock and special dividends of \$0.10 per share of common stock and \$1.00 per share of common stock in the first and second quarters of 2014, respectively.

We monitor the capital levels of Northwest Bank to provide for current and future business opportunities and to meet regulatory guidelines for well capitalized institutions. Northwest Bank is required by the Pennsylvania Department of Banking and Securities and the FDIC to meet minimum capital adequacy requirements. At December 31, 2014, Northwest Bank exceeded all regulatory minimum capital requirements and is considered to be well capitalized. In addition, as of December 31, 2014, we were not aware of any recommendation by a regulatory authority that, if it were implemented, would have a material effect on liquidity, capital resources or operations.

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Regulatory Capital Requirements.

Northwest Bank is subject to minimum capital requirements established by the Federal Deposit Insurance Corporation. See Item 1. Business Supervision and Regulation Capital Requirements and Prompt Corrective Action . The following table summarizes Northwest Bank's total shareholder's equity, regulatory capital, total risk-based assets, and leverage and risk-based regulatory ratios at the dates indicated.

	At December 31,	
	2014	2013
	(Dollars in thousands)	
Total shareholder's equity (GAAP capital)	\$ 1,049,511	1,059,546
Accumulated other comprehensive income	9,135	(2,147)
Less: non-qualifying intangible assets	(178,356)	(176,963)
Leverage or Tier 1 capital	880,290	880,436
Plus: Tier 2 capital (1)	65,362	64,297
Total risk-based capital	\$ 945,652	944,733
Total assets for leverage ratio	\$ 7,622,077	7,726,550
Net risk-weighted assets including off-balance sheet items	\$ 5,226,294	5,086,660
Leverage capital ratio	11.55%	11.39%
Minimum requirement	4.00%	4.00%
Total risk-based capital ratio	18.09%	18.57%
Minimum requirement	8.00%	8.00%

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

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

Contractual Obligations

We are obligated to make future payments according to various contracts. The following table presents the expected future payments of the contractual obligations aggregated by obligation type at December 31, 2014.

	Less than one year	One year to less than three years	Payments due Three years to less than five years	Five years or greater	Total

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(In thousands)

Contractual obligations at December 31, 2014						
Long-term debt (1)	\$	272,714	270,395	250,000	95,000	888,109
Junior subordinated debentures (2)					103,094	103,094
Operating leases (3)		3,881	5,981	3,243	4,204	17,309
Total	\$	276,595	276,376	253,243	202,298	1,008,512
Commitments to extend credit	\$	186,637				186,637

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- (1) See Note 10 to the consolidated financial statements, Borrowed Funds, for additional information.
- (2) See Note 22 to the consolidated financial statements, Junior Subordinated Debentures/Trust Preferred Securities, for additional information.
- (3) See Note 7 to the consolidated financial statements, Premises and Equipment, for additional information.

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Impact of Inflation and Changing Prices

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

Off-Balance Sheet Arrangements

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk Management

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

Our practice is to reduce our exposure to interest rate risk generally by better matching the maturities of our interest rate sensitive assets and liabilities and by increasing the interest rate sensitivity of our interest-earning assets. We purchase adjustable-rate investment securities and mortgage-backed securities which at December 31, 2014 totaled \$253.2 million, and originate adjustable-rate loans, which at December 31, 2014, totaled \$1.876 billion or 30.6% of our gross loan portfolio. Of our \$7.153 billion of interest-earning assets at December 31, 2014, \$2.282 billion, or 31.9%, consisted of assets with adjustable rates of interest. When market conditions are favorable, we also attempt to reduce interest rate risk by lengthening the maturities of our interest-bearing liabilities by using FHLB advances as a source of long-term fixed-rate funds, and by promoting longer-term certificates of deposit.

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At December 31, 2014, total interest-earning liabilities maturing or re-pricing within one year exceeded total interest-bearing assets maturing or re-pricing in the same period by \$421.7 million, representing a negative one-year gap ratio of 5.42%.

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The following table sets forth, on a carrying value basis, the amounts of interest-earning assets and interest-bearing liabilities outstanding at December 31, 2014, which are expected to re-price or mature, based upon certain assumptions, in each of the future time periods shown. Except as stated below, the amounts of assets and liabilities shown that re-price or mature during a particular period were determined in accordance with the earlier of the term of re-pricing or the contractual term of the asset or liability. We believe that these assumptions approximate the standards used in the financial services industry and consider them appropriate and reasonable.

	Within 1 year	Over 1-3 years	Amounts maturing or re-pricing		Over 10-20 years	Total
			Over 3-5 years (Dollars in thousands)	Over 5-10 years		
Rate-sensitive assets:						
Interest-earning deposits	\$ 153,305					153,305
Mortgage-backed securities:						
Fixed rate	79,327	106,725	69,940	76,678		332,670
Variable-rate	160,809	13,677	14,899			189,385
Investment securities	173,664	184,836	131,572	3,939		494,011
Mortgage loans:						
Adjustable rate	19,138	2,361	65	74	74	21,712
Fixed-rate	348,934	628,090	532,258	855,326	129,041	2,493,649
Home equity loans:						
Adjustable rate	326,435					326,435
Fixed-rate	207,623	305,132	172,206	54,735		739,696
Other consumer loans	206,896	35,848				242,744
Commercial real estate loans	727,423	665,638	308,323	50,380	1,800	1,753,564
Commercial loans	249,689	98,730	37,290	20,287		405,996
Total rate-sensitive assets	2,653,243	2,041,037	1,266,553	1,061,419	130,915	7,153,167
Rate-sensitive liabilities:						
Time deposits	647,699	712,479	107,834	10,302		1,478,314
Money market demand accounts	1,162,484				16,586	1,179,070
Savings deposits	630,937	471,006			107,344	1,209,287
Demand deposits	308,015	193,212			1,264,644	1,765,871
FHLB advances	110,000	270,395	250,000	95,000		725,395
Other borrowings	162,714					162,714
Trust preferred securities	53,094		50,000			103,094
Total rate-sensitive liabilities	3,074,943	1,647,092	407,834	105,302	1,388,574	6,623,745
Interest sensitivity gap per period	\$ (421,700)	393,945	858,719	956,117	(1,257,659)	529,422
Cumulative interest sensitivity gap	\$ (421,700)	(27,755)	830,964	1,787,081	529,422	529,422
Cumulative interest sensitivity gap as a percentage of total assets	-5.42%	-0.36%	10.69%	22.98%	6.81%	6.81%
Cumulative interest-earning assets as a percent of cumulative interest-bearing liabilities	86.29%	99.41%	116.20%	134.14%	107.99%	107.99%

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

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

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

Net income simulation. Given a non-parallel shift of 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 our equity is the present value of our 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 non-parallel 100 bps, 200 bps or 300 bps upward or 100 bps downward movement in interest rates on net income, return on average equity, earnings per share and market value of equity. These analyses were prepared assuming that total interest-earning asset and interest-bearing liability levels at December 31, 2014 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 December 31, 2014 levels.

Non-parallel shift in interest rates over the next 12 months	Increase			Decrease	
	100 bps	200 bps	300 bps	100 bps	
Projected percentage decrease) in net income	(2.5)%	(2.3)%	(2.9)%	(14.0)%	
Projected decrease in return on average equity	(2.3)%	(2.2)%	(2.9)%	(13.7)%	
Projected decrease in earnings per share	\$ (0.02)	\$ (0.02)	\$ (0.02)	\$ (0.09)	
Projected percentage decrease in market value of equity	(4.5)%	(7.0)%	(16.8)%	(0.3)%	

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

When assessing our interest rate sensitivity, analysis of historical trends indicates that loans will prepay at various speeds (or annual rates) depending on the variance between the weighted average portfolio rates and the current market rates. In preparing the table above, the following assumptions were used: (i) adjustable-rate mortgage loans will prepay at an annual rate of 6% to 14%; (ii) fixed-rate mortgage loans will prepay at an annual rate of 6% to 14%, depending on the type of loan; (iii) commercial loans will prepay at an annual rate of 8% to 14%; (iv) consumer loans held by Northwest Bank will prepay at an annual rate of 18% to 24%; and (v) consumer loans held by Northwest Consumer Discount Company will prepay at an annual rate of 55% to 70%. In regards to our deposits, it has been assumed that (i) fixed maturity deposits will not be withdrawn prior to maturity; (ii) the significant majority of money market accounts will re-price immediately; (iii) savings accounts will gradually re-price over three years; and (iv) checking accounts will re-price either when the rates on such accounts re-price as interest rate levels change, or when deposit holders withdraw funds from such accounts and select other types of deposit accounts, such as certificate accounts, which may have higher interest rates. For purposes of this analysis, management has estimated, based on historical trends, that \$308.0 million, or 35.2%, of our checking accounts and \$630.9 million, or 52.2%, of our savings accounts are interest sensitive and may re-price in one year or

less, and that the remainder may re-price over longer time periods.

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

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interest rates, prepayment and early withdrawal levels would likely deviate significantly from those assumed in calculating the table.

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

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Management's Report on Internal Control Over Financial Reporting

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

Management, including the principal executive officer and principal financial officer, has assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2014. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal control - Integrated Framework (1992)*. Based on such assessment, management concluded that, as of December 31, 2014, the Company's internal control over financial reporting is effective based upon those criteria.

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

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

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

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Northwest Bancshares, Inc.:

We have audited Northwest Bancshares, Inc.'s (the Company) internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control – Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control – Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Northwest Bancshares, Inc. and subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of

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operations, comprehensive income, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2014, and our report dated February 27, 2015 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Pittsburgh, Pennsylvania
February 27, 2015

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Northwest Bancshares, Inc.:

We have audited the accompanying consolidated balance sheets of Northwest Bancshares, Inc. and subsidiaries (the Company) as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2014. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Northwest Bancshares, Inc. and subsidiaries as of December 31, 2014 and 2013, and the results of its operations and their cash flows for each of the years in the three-year period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Northwest Bancshares, Inc.'s internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 27, 2015 expressed an unqualified opinion on the effectiveness of Northwest Bancshares Inc.'s internal control over financial reporting.

/s/ KPMG LLP

Pittsburgh, Pennsylvania
February 27, 2015

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

(amounts in thousands, excluding per share data)

	December 31,	
	2014	2013
Assets		
Cash and due from banks	\$ 87,401	98,122
Interest-earning deposits in other financial institutions	152,671	293,149
Federal funds sold and other short-term investments	634	634
Marketable securities available-for-sale (amortized cost of \$906,702 and \$1,022,078)	912,371	1,016,767
Marketable securities held-to-maturity (fair value of \$106,292 and \$124,061)	103,695	121,366
Loans receivable, net of allowance for loan losses of \$67,518 and \$71,348	5,922,373	5,734,943
Accrued interest receivable	18,623	19,152
Real estate owned, net	16,759	18,203
Federal Home Loan Bank stock, at cost	33,293	43,715
Premises and equipment, net	143,909	146,139
Bank owned life insurance	144,362	140,172
Goodwill	175,323	174,644
Other intangible assets	3,033	2,319
Other assets	60,586	70,534
Total assets	\$ 7,775,033	7,879,859
Liabilities and Shareholders' equity		
Liabilities:		
Deposits	\$ 5,632,542	5,668,879
Borrowed funds	888,109	881,645
Advances by borrowers for taxes and insurance	30,507	26,669
Accrued interest payable	936	888
Other liabilities	57,198	43,499
Junior subordinated deferrable interest debentures held by trusts that issued guaranteed capital debt securities	103,094	103,094
Total liabilities	6,712,386	6,724,674
Shareholders' equity:		
Preferred stock, \$0.01 par value: 50,000,000 authorized, no shares issued		
Common stock, \$0.01 par value: 500,000,000 shares authorized, 94,721,453 and 94,243,713 shares issued, respectively	947	943
Paid-in capital	626,134	619,678
Retained earnings	481,577	569,547
Unallocated common stock of employee stock ownership plan	(21,641)	(23,083)
Accumulated other comprehensive loss	(24,370)	(11,900)
	1,062,647	1,155,185
Total liabilities and shareholders' equity	\$ 7,775,033	7,879,859

See accompanying notes to consolidated financial statements.

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

(amounts in thousands, excluding per share data)

	Years ended December 31,		
	2014	2013	2012
Interest income:			
Loans receivable	\$ 282,050	286,977	307,958
Mortgage-backed securities	10,320	12,818	16,738
Taxable investment securities	4,130	4,021	2,328
Tax-free investment securities	6,281	7,817	9,119
Interest-earning deposits	837	1,093	1,599
Total interest income	303,618	312,726	337,742
Interest expense:			
Deposits	25,322	29,279	43,377
Borrowed funds	31,265	31,883	31,822
Total interest expense	56,587	61,162	75,199
Net interest income	247,031	251,564	262,543
Provision for loan losses	20,314	18,519	26,338
Net interest income after provision for loan losses	226,717	233,045	236,205
Noninterest income:			
Impairment losses on securities		(713)	(996)
Noncredit related losses on securities not expected to be sold (recognized in other comprehensive income)			665
Net impairment losses		(713)	(331)
Gain on sale of investments, net	4,930	6,118	654
Service charges and fees	36,383	35,884	35,623
Trust and other financial services income	12,369	9,330	8,544
Insurance commission income	8,760	8,635	6,264
Loss on real estate owned, net	(967)	(3,186)	(5,643)
Income from bank owned life insurance	4,191	5,197	4,961
Mortgage banking income	1,022	1,623	4,678
Other operating income	5,887	3,959	4,154
Total noninterest income	72,575	66,847	58,904
Noninterest expense:			
Compensation and employee benefits	115,967	112,190	111,727
Premises and occupancy costs	23,455	23,182	22,409
Office operations	14,721	14,454	13,224
Processing expenses	26,671	25,548	25,000
Professional services	7,661	6,267	7,005
Amortization of other intangible assets	1,323	1,210	1,012
Marketing expenses	8,213	6,284	7,829
Real estate owned expense	2,140	2,437	2,620
Federal deposit insurance premiums	5,193	5,600	5,554
Other expenses	10,191	9,962	9,097
Total noninterest expense	215,535	207,134	205,477
Income before income taxes	83,757	92,758	89,632
Provision for income taxes:			

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Federal		19,656	23,177	22,390
State		2,139	3,022	3,853
Total provision for income taxes		21,795	26,199	26,243
Net income	\$	61,962	66,559	63,389
Basic earnings per share	\$	0.68	0.73	0.68
Diluted earnings per share	\$	0.67	0.73	0.67

See accompanying notes to consolidated financial statements

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

(amounts in thousands)

	Years ended December 31,		
	2014	2013	2012
Net Income	\$ 61,962	66,559	63,389
Other comprehensive income net of tax:			
Net unrealized holding gains on marketable securities:			
Unrealized holding gains/ (losses), net of tax of \$(5,787), \$10,551 and \$(1,346), respectively	9,042	(16,544)	2,029
Other-than-temporary impairment on securities included in net income, net of tax of \$0, \$(278) and \$(129), respectively		435	202
Reclassification adjustment for gains included in net income, net of tax of \$1,501, \$1,904 and \$271, respectively	(2,348)	(2,977)	(424)
Net unrealized holding gains/ (losses) on marketable securities	6,694	(19,086)	1,807
Change in fair value of interest rate swaps, net of tax of \$(618), \$(1,714) and \$(246), respectively	1,146	3,181	459
Defined benefit plans:			
Net (loss)/ gain, net of tax of \$12,080, \$(10,716) and \$(6,112), respectively	(17,988)	17,002	9,576
Amortization of prior service costs, net of tax of \$905, \$812 and \$56, respectively	(2,322)	(1,509)	(104)
Net (loss)/ gain on defined benefit plans	(20,310)	15,493	9,472
Other comprehensive (loss)/ income	(12,470)	(412)	11,738
Total comprehensive income	\$ 49,492	66,147	75,127

See accompanying notes to consolidated financial statements

Table of Contents**NORTHWEST BANCSHARES, INC.****CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY****For the years ended December 31, 2014, 2013 and 2012**

(amounts in thousands, excluding per share data)

	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income/ (Loss)	Unallocated Common Stock of ESOP	Total Shareholders Equity
Balance at December 31, 2011	\$ 975	659,523	542,332	(23,226)	(25,966)	1,153,638
Comprehensive income:						
Net income			63,389			63,389
Other comprehensive income, net of tax of \$(7,506)				11,738		11,738
Total comprehensive income			63,389	11,738		75,127
Exercise of stock options	3	2,128				2,131
Share repurchases	(44)	(51,984)				(52,028)
Stock-based compensation expense, including tax benefits of \$403	3	3,582			1,441	5,026
Dividends paid (\$0.60 per share)			(56,862)			(56,862)
Balance at December 31, 2012	937	613,249	548,859	(11,488)	(24,525)	1,127,032
Comprehensive income:						
Net income			66,559			66,559
Other comprehensive loss, net of tax of \$559				(412)		(412)
Total comprehensive income			66,559	(412)		66,147
Exercise of stock options	7	6,611				6,618
Share repurchases	(4)	(4,455)				(4,459)
Stock-based compensation expense, including tax benefits of \$635	3	4,273			1,442	5,718
Dividends paid (\$0.50 per share)			(45,871)			(45,871)
Balance at December 31, 2013	943	619,678	569,547	(11,900)	(23,083)	1,155,185
Comprehensive income:						
Net income			61,962			61,962
Other comprehensive loss, net of tax of \$8,081				(12,470)		(12,470)
Total comprehensive income			61,962	(12,470)		49,492
Exercise of stock options	6	6,513				6,519
Share repurchases	(4)	(5,269)				(5,273)
Stock-based compensation expense, including tax benefits of \$945	2	5,212			1,442	6,656
Dividends paid (\$1.62 per share)			(149,932)			(149,932)
Balance at December 31, 2014	\$ 947	626,134	481,577	(24,370)	(21,641)	1,062,647

See accompanying notes to consolidated financial statements

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

(Amounts in thousands)

	2014	Years ended December 31, 2013	2012
Operating activities:			
Net Income	\$ 61,962	66,559	63,389
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	20,314	18,519	26,338
Net gain on sale of assets	(5,236)	(6,061)	(2,894)
Net depreciation, amortization and accretion	9,868	8,952	9,466
Decrease in other assets	9,241	12,057	18,588
Increase/ (decrease) in other liabilities	(22,857)	2,890	11,351
Net amortization/ (accretion) of premium on marketable securities	383	298	(76)
Noncash compensation expense related to stock benefit plans	5,711	5,083	4,623
Noncash impairment losses on investment securities	-	713	331
Noncash impairment of real estate owned	2,318	4,158	4,942
Deferred income tax expense	8,595	1,262	3,170
Origination of loans held for sale	(1,042)	(36,773)	(248,658)
Proceeds from sale of loans held for sale	1,315	52,550	236,482
Net cash provided by operating activities	90,572	130,207	127,052
Investing activities:			
Purchase of marketable securities available-for-sale	(49,996)	(234,965)	(508,553)
Proceeds from maturities and principal reductions of marketable securities held-to-maturity	17,673	33,764	76,257
Proceeds from maturities and principal reductions of marketable securities available-for-sale	162,007	255,064	341,287
Proceeds from sale of marketable securities available-for-sale	7,910	16,003	-
Loan originations	(1,944,677)	(2,072,797)	(2,088,565)
Proceeds from loan maturities and principal reductions	1,730,603	1,924,179	1,911,871
Redemptions of Federal Home Loan Bank stock	10,422	3,119	2,101
Proceeds from sale of real estate owned	10,216	18,036	14,049
Sale of real estate owned for investment, net	607	814	457
Purchase of premises and equipment	(9,968)	(19,367)	(18,255)
Acquisitions, net of cash received	(2,792)	-	(4,089)
Net cash used in investing activities	(67,995)	(76,150)	(273,440)

(Continued)

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

(Amounts in thousands)

	2014	Years ended December 31,	
		2013	2012
Financing activities:			
Decrease in deposits, net	\$ (36,337)	(95,721)	(15,725)
Proceeds from long-term borrowings		30,000	
Repayments of long-term borrowings	(52)	(68)	(69)
Net increase/ (decrease) in short-term borrowings	6,516	(8,334)	32,191
Increase/ (decrease) in advances by borrowers for taxes and insurance	3,838	3,344	(246)
Share repurchases	(5,273)	(4,459)	(52,028)
Cash dividends paid on common stock	(149,932)	(45,871)	(56,862)
Proceeds from stock options exercised	6,519	6,618	2,131
Excess tax benefit from stock-based compensation	945	635	403
Net cash used in by financing activities	(173,776)	(113,856)	(90,205)
Net decrease in cash and cash equivalents	\$ (151,199)	(59,799)	(236,593)
Cash and cash equivalents at beginning of period	\$ 391,905	451,704	688,297
Net decrease in cash and cash equivalents	(151,199)	(59,799)	(236,593)
Cash and cash equivalents at end of period	\$ 240,706	391,905	451,704
Cash and cash equivalents:			
Cash and due from banks	\$ 87,401	98,122	88,277
Interest-earning deposits in other financial institutions	152,671	293,149	362,794
Federal funds sold and other short-term investments	634	634	633
Total cash and cash equivalents	\$ 240,706	391,905	451,704
Cash paid during the period for:			
Interest on deposits and borrowings (including interest credited to deposit accounts of \$22,783, \$26,329 and \$37,633, respectively)	\$ 56,539	61,162	75,415
Income taxes	26,042	22,881	14,278
Noncash activities:			
Business acquisitions:			
Fair value of assets acquired	\$ 2,798		4,152
Net cash paid	(2,792)		(4,089)
Liabilities assumed	\$ 6		63
Loan foreclosures and repossessions	\$ 10,820	14,529	20,080
Sale of real estate owned financed by the Company	486	943	461

See accompanying notes to consolidated financial statements

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NORTHWEST BANCSHARES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2014, 2013 and 2012

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

(1) Summary of Significant Accounting Policies

(a) *Nature of Operations*

Northwest Bancshares, Inc., a Maryland corporation headquartered in Warren, Pennsylvania, is a federal savings and loan holding company for its wholly owned subsidiary, Northwest Bank. Northwest Bank, a Pennsylvania chartered savings bank, offers personal and business deposit and loan products as well as investment management and insurance services through its 162 banking locations in Pennsylvania, New York, Ohio and Maryland. Northwest Bank, through its subsidiary Northwest Consumer Discount Company, also offers personal loan products through 51 consumer finance offices in Pennsylvania.

(b) *Principles of Consolidation*

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

(c) *Cash and Cash Equivalents*

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

(d) *Investment Securities*

We classify marketable securities at the time of purchase as held-to-maturity, available-for-sale, or trading securities. Securities for which management has the intent and ability to hold until maturity are classified as held-to-maturity and are carried at cost, adjusted for amortization of premiums and accretion of discounts on a level yield basis (amortized cost). If it is management's intent at the time of purchase to hold securities for an indefinite period of time and/or to use such securities as part of its asset/liability management strategy, the securities are classified as available-for-sale and are carried at fair value, with unrealized gains and losses reported as accumulated other comprehensive income/ (loss), a separate component of shareholders' equity, net of tax. Securities classified as available-for-sale include securities that may be sold in response to changes in interest rates, resultant prepayment risk, or other market factors. Securities that are bought and held principally for the purpose of selling them in the near term are classified as trading and are reported at fair value, with changes in fair value included in earnings. The cost of securities sold is determined on a specific identification basis. We held no securities classified as trading at or for the years ended December 31, 2014 and 2013.

On at least a quarterly basis, we review our investments for other-than-temporary impairment (OTTI). An investment security is deemed impaired if the fair value of the investment is less than its amortized cost. If an investment security is determined to be impaired, we evaluate whether the decline in value is other-than-temporary. We consider whether or not we expect to receive all of the contractual cash flows from the investment security based on factors that include, but are not limited to the credit worthiness of the issuer and the historical and projected performance of the underlying collateral. Also, we may evaluate the business and financial outlook of the issuer, as well as broader economic performance indicators. We consider both our intent to sell and the likelihood that we will not have to sell the investment securities before recovery of their cost basis during our evaluation. Impairment that is deemed credit related is recognized in earnings while impairment deemed noncredit related is recorded in accumulated other comprehensive income, if we do not intend to sell nor it is not likely we will be required to sell the investment security. If we intend to sell the investment security or if it's more likely than not that we will be required to sell the investment security, the entire impairment is recorded in earnings.

Federal law requires a member institution of the Federal Home Loan Bank (FHLB) system to hold stock of its district FHLB according to a predetermined formula. This stock is recorded at cost. Quarterly, we evaluate our investment in the FHLB of Pittsburgh for impairment. We evaluate recent and long-term operating

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NORTHWEST BANCSHARES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

performance, liquidity, funding and capital positions, stock repurchase history, dividend history and impact of legislative and regulatory changes. Based on our most recent evaluation, we have determined that no impairment write-downs are currently required.

(e) Loans Receivable

Our loan portfolio segments consist of Personal Banking and Business Banking loans. Personal Banking loans include the following classes: residential mortgage loans, home equity loans and other consumer loans. Business Banking loans include the following classes: commercial real estate loans and commercial loans. All classes of loans are carried at their unpaid principal balance net of any deferred origination fees or costs and the allowance for estimated loan losses. Interest income on loans is credited to income as earned. Interest earned on loans for which no payments were received during the month is accrued at month end. Accrued interest on loans more than 90 days delinquent is reversed, and such loans are placed on nonaccrual.

All loans are placed on nonaccrual when principal or interest is 90 days or more delinquent, or when there is reasonable doubt that interest or principal will not be collected in accordance with the contractual terms. Interest receipts on all nonaccrual and impaired loans are recognized as interest revenue when it has been determined that all principal and interest will be collected or are applied to principal when collectability of principal is in doubt. Nonaccrual loans generally are restored to an accrual basis when principal and interest become current and a period of performance has been established in accordance with the contractual terms, typically six months.

A loan is considered to be a troubled debt restructured loan (TDR) when the restructuring constitutes a concession and the borrower is experiencing financial difficulties. TDRs may include modifications of terms of loans, receipts of assets from borrowers in partial or full satisfaction of loans, or a combination thereof. TDRs are impaired loans. A modified loan is determined to be a TDR based on the contractual terms as specified by the original loan agreement or the most recent modification. Once classified a TDR, a loan is removed from such classification under three circumstances: (1) the loan is paid off, (2) the loan is charged off, or (3) if, at the beginning of the current fiscal year, the loan has performed in accordance with the modified terms for a minimum of six consecutive months and at the time of modification the loan's interest rate represented a then current market interest rate for a loan of similar risk.

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Loan delinquency is measured based on the number of days since the payment due date. Past due status is measured using the loan's contractual maturity date.

Loan fees and certain direct loan origination costs are deferred, and the net deferred fee or cost is then recognized using the level-yield method over the contractual life of the loan as an adjustment to interest income.

We have identified certain residential mortgage loans, which will be sold prior to maturity, as loans held for sale. These loans are recorded at the lower of amortized cost or fair value less estimated cost to sell and at December 31, 2014 and 2013 were \$0 and \$221,000, respectively.

(f) Allowance for Loan Losses and Provision for Loan Losses

Provisions for estimated loan losses and the amount of the allowance for loan losses are based on losses inherent in the loan portfolio that are both probable and can be reasonably estimated at the date of the financial statements.

We consider a loan to be impaired when it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. In evaluating whether a loan is impaired, we consider not only the amount that we expect to collect but also the timing of collection. Generally, if a delay in payment is insignificant (e.g., less than 30 days), a loan is not deemed to be impaired.

Business Banking loans greater than or equal to \$1.0 million are reviewed to determine if they should be individually evaluated for impairment. Smaller balance, homogeneous loans (e.g., primarily residential

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mortgage, home equity and consumer loans) are evaluated collectively for impairment. When a loan is considered to be impaired, the amount of impairment is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's market price, or fair value of the collateral, less estimated cost to sell, if the loan is collateral dependent. Impairment losses are included in the allowance for loan losses. Impaired loans are charged-off or charged down when we believe that the ultimate collectability of a loan is not likely or the collateral value no longer supports the carrying value of the loan.

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

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

For Business Banking loans the allowance for loan losses consists of:

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

The allowance for impaired loans is based on individual analysis of all nonperforming loans greater than or equal to \$1.0 million. The allowance is measured by the difference between the recorded value of impaired loans and their impaired value. The impaired value is either the present

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value of the expected future cash flows from the borrower, the market value of the loan, or the fair value of the collateral, less estimated cost to sell.

The allowance for homogeneous loans based on historical factors is a rolling three-year average of actual losses incurred, adjusted for a loss realization period (the period of time from the event of loss to loss realization), applied to homogenous pools of loans categorized by similar risk characteristics, not including loans evaluated individually for impairment.

The allowance for homogeneous loans based on environmental factors augments the historical loss factors for changes in: economic conditions, lending policies and procedures, the nature and volume of the loan portfolio, management, delinquency trends, loan administration, underlying collateral values and concentrations of credit.

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For Personal Banking loans the allowance for loan losses consists of:

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

The allowance for loans 90 days or more delinquent is based on the loss history of loans that have become 90 days or more delinquent. We apply a historical loss factor to homogeneous pools of loans that are 90 days or more delinquent.

The allowance for homogeneous loans based on historical losses is a rolling three-year average of actual losses incurred, adjusted for a loss realization period (the period of time from the event of loss to loss realization), applied to homogenous pools of loans categorized by similar risk characteristics, not including loans that are 90 days or more delinquent.

The allowance for homogeneous loans based on environmental factors augments the historical loss factors for changes in: economic conditions, lending policies and procedures, the nature and volume of the loan portfolio, management, delinquency trends, loan administration, underlying collateral values and concentrations of credit.

We also have an unallocated allowance which is based on our judgment regarding economic conditions, collateral values, specific loans and industry conditions.

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

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

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

(g) *Real Estate Owned*

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

(h) *Premises and Equipment*

Premises and equipment are carried at cost less accumulated depreciation and amortization. Depreciation is accumulated on a straight-line basis over the estimated useful lives of the related assets. Estimated lives range from three to 39 years. Amortization of leasehold improvements is accumulated on a straight-line basis over the terms of the related leases or the useful lives of the related assets, whichever is shorter.

(i) *Goodwill*

Goodwill is generated from the premium paid for an acquisition and is allocated to reporting units, which are either the Company's reportable segments or one level below. Goodwill is not subject to amortization but is tested for impairment at least annually and possibly more frequently if certain events occur

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or changes in circumstances arise. Impairment testing requires that the fair value of each reporting unit be compared to its carrying amount, including goodwill. Reporting units are identified based upon analyzing each individual operating segment. A reporting unit is defined as a distinct, separately identifiable component of an operating segment for which complete, discrete financial information is available that management regularly reviews. Determining the fair value of a reporting unit requires a high degree of subjective management judgment, including developing cash flow projections, selecting appropriate discount rates, identifying relevant market comparables, incorporating general economic and market conditions and selecting an appropriate control premium. The selection and weighting of the various fair value techniques may result in a higher or lower fair value. Judgment is applied in determining the weightings that are most representative of fair value. We conduct our annual goodwill impairment assessment as of June 30th. Through the assistance of an external third party, we performed an impairment test on goodwill. We valued each reporting unit by using a weighted average of four valuation methodologies; comparable transaction approach, control premium approach, public market peers approach and discounted cash flow approach. Declines in fair value could result in impairment being identified. At June 30, 2014, we did not identify any individual reporting unit where the fair value was less than the carrying value and no other events or changes have occurred since that date that would warrant an updated valuation. Future changes in the economic environment or the operations of the operating units could cause changes to the variables used, which could give rise to declines in the estimated fair value of the reporting units. There were no changes in our operations that would cause us to update the goodwill impairment test performed as of June 30, 2014. Accordingly, we have determined that goodwill is not impaired as of December 31, 2014 and 2013.

(j) Core Deposit Intangibles and Other Identifiable Intangibles

Through the assistance of an independent third party, we analyze and prepare a core deposit study for all bank acquisitions or other identifiable intangible asset study, such as customer lists, for all non-bank acquisitions. The core deposit study reflects the cumulative present value benefit of acquiring deposits versus an alternative source of funding. The other identifiable intangible asset study reflects the cumulative present value benefit of acquiring the income stream from an existing customer base versus developing new business relationships. Based upon analysis, the amount of the premium related to the core deposits or other identifiable intangibles of the business purchased is calculated along with the estimated life of the intangible. The intangible, which is recorded in other intangible assets, is then amortized to expense on an accelerated basis over an approximate life of seven years.

(k) Bank-Owned Life Insurance

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

(l) Deposits

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

(m) Pension Plans

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

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(n) *Income Taxes*

We join with our wholly owned subsidiaries in filing a consolidated federal income tax return. In accordance with an intercompany tax allocation agreement, the applicable federal income tax expense or benefit is allocated to each subsidiary based upon taxable income or loss calculated on a separate company basis. Each subsidiary is responsible for payment of its own federal income tax liability or receives reimbursement of federal income tax benefit. In addition, deferred taxes are calculated and maintained on a separate company basis.

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

(o) *Stock Related Compensation*

We determine the fair value of each option award, estimated on the grant date, using the Black-Scholes-Merton option-pricing model. The Black-Scholes-Merton option-pricing model uses variables including; expected volatilities, expected term, risk-free discount rate and annual rate of quarterly dividends. Expected volatilities are based on historical volatility of the Company's stock. The expected terms are based upon actual exercise and forfeiture experience of previous option grants. The risk-free rate is based on yields on U.S. Treasury securities of a similar maturity to the expected term of the options. During the year ended December 31, 2014 we awarded 534,950 stock options to employees and 57,600 stock options to directors. Option awards are generally granted with an exercise price equal to the closing market price of the Company's stock on the day before the grant date. The options granted in 2014 vest over a ten-year period, with the first vesting occurring on the grant date. New shares are issued when options are exercised.

During the year ended December 31, 2014 we awarded 251,030 common shares to employees and 21,600 common shares to directors. The common share awards granted in 2014 vest over a ten-year period, with the first vesting occurring on the grant date. During the year ended December 31, 2014 we awarded 126,280 common shares to eligible employees from our employee stock ownership plan (ESOP). For additional information regarding grants of stock options and common shares and ESOP distributions see Note 14.

Stock-based employee compensation expense related to common share awards of \$3.0 million, \$2.4 million and \$2.1 million was included in income before income taxes during the years ended December 31, 2014, 2013 and 2012, respectively. The effect on net income for the years ended December 31, 2014, 2013 and 2012 was a reduction of \$1.8 million, \$1.6 million and \$1.4 million, respectively. Total compensation expense for unvested stock options of \$5.0 million has yet to be recognized as of December 31, 2014. The weighted average period over which this remaining stock option expense will be recognized is approximately 4.22 years.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes-Merton option-pricing model with the following weighted average assumptions: (1) dividend yields ranging from 1.6% to 5.1% based on historical dividends and market prices; (2) expected volatility of 17% to 33% based on historical volatility; (3) risk-free interest rates ranging from 1.7% to 6.5%; and (4) expected lives of seven to nine years based on previous grants.

(p) Segment Reporting

We have two reportable segments, Community Banking and Consumer Finance. See note 20 for related disclosures.

(q) Derivative financial instruments interest rate swaps

We recognize all derivative financial instruments as either assets or liabilities in the balance sheet and measure those instruments at fair value. The accounting for changes in the fair value of a derivative depends on

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the intended use of the derivative and the resulting designation. An entity that elects to use hedge accounting is required, at inception, to establish the method it will use for assessing the effectiveness of the hedging derivative and the measurement approach for determining the ineffective aspect of the hedge. Those methods must be consistent with our approach to managing risk.

We utilize interest rate swap agreements as part of the management of interest rate risk to hedge the interest rate risk on our trust preferred debentures. Amounts receivable or payable are recognized as accrued under the terms of the agreements and the differential is recorded as an adjustment to interest expense. The interest rate swaps are designated as cash flow hedges, with the effective portion of the derivative's unrealized gain or loss recorded as a component of other comprehensive income. The ineffective portion of the unrealized gain or loss, if any, would be recorded in other expense. See note 22 for related disclosures.

(r) Off-Balance-Sheet Instruments

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

(s) Use of Estimates

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

(t) ***Reclassification of Prior Years Statements***

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

During the year ended December, 2014, the Company revised the comparative December 31, 2013 accrued interest receivable balance from \$21,821 to \$19,152, the goodwill balance from \$174,463 to \$174,644, the other assets balance from \$69,663 to \$70,534 and the retained earnings balance from \$571,164 to \$569,547 within the consolidated statements of financial condition. Additionally, the Company revised the comparative December 31, 2013 and 2012 interest income loans receivable balance from \$287,289 and \$308,254 on a year to date basis, respectively, to \$286,977 and \$307,958 on a year to date basis, respectively, and revised the comparative December 31, 2013 and 2012 net income balance from \$66,739 and \$63,560 on a year to date basis, respectively, to \$66,559 and \$63,389 on a year to date basis, respectively. The Company has 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.

(2) **Recent Accounting Pronouncements**

In January 2014, the FASB issued ASU No. 2014-01, *Accounting for Investments in Qualified Affordable Housing Projects*. This guidance permits reporting entities to make an accounting policy election to account for investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. The proportional amortization method permits the amortization of the initial cost of

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the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense. This guidance is effective retrospectively for fiscal years and interim periods within those years, beginning after December 15, 2014, 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 January 2014, the FASB issued ASU No. 2014-04, *Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure*. This guidance clarifies that an in substance repossession or foreclosure has occurred, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure. Interim and annual disclosure is required of both the amount of foreclosed residential real estate property held by the creditor and the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure. This guidance is effective using either the modified retrospective transition method or a prospective transition method for fiscal years and interim periods within those years, beginning after December 15, 2014, 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 May 2014 the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. 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, 2016, 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 June 2014 the FASB issued ASU 2014-11, *Transfers and Servicing: Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures*. This guidance requires repurchase-to-maturity transactions to be recorded and accounted for as secured borrowings and also requires separate accounting for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty, which will result in secured borrowing accounting for the repurchase agreement. Additionally, an entity is required to disclose information on transfers accounted for as sales in transactions that are economically similar to repurchase agreements, and provide increased transparency about the types of collateral pledged in repurchase agreements and similar transactions accounted for as secured borrowings. The guidance related to repurchase-to-maturity and repurchase financing transactions, and disclosures for certain transactions accounted for as a sale

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is effective for annual reporting periods beginning after December 15, 2014, including interim periods within those years. The disclosures for repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions accounted for as secured borrowings are required to be presented for annual periods beginning after December 15, 2014, and for interim periods beginning after March 15, 2015. We do not expect that this standard will have a material impact on our results of operations or financial position.

In June 2014 the FASB issued ASU 2014-12, *Compensation - Stock Compensation*. This guidance requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. Specifically, if the performance target becomes probable of being achieved before the end of the requisite service period, the remaining unrecognized compensation cost should be recognized prospectively over the remaining requisite service period. Further, the total amount of compensation cost recognized during and after the requisite service period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest. This guidance is effective for annual periods beginning after December 15, 2015, including interim periods within those years

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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 August 2014, the FASB issued ASU No. 2014-14, *Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure*, which will require creditors to derecognize certain foreclosed government-guaranteed mortgage loans and to recognize a separate other receivable that is measured at the amount the creditor expects to recover from the guarantor, and to treat the guarantee and the receivable as a single unit of account. This guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. An entity can elect a prospective or a modified retrospective transition method, but must use the same transition method that it elected under FASB ASU No. 2014-04, *Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure*. We do not expect that this standard will have a material impact on our results of operations or financial position.

(3) Marketable Securities

Marketable securities available-for-sale at December 31, 2014 are as follows:

	Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
Debt issued by the U.S. government and agencies:				
Due in one year or less	\$ 25			25
Debt issued by government sponsored enterprises:				
Due in one year - five years	310,172	287	(2,672)	307,787
Due in five years - ten years	25,746		(28)	25,718
Equity securities	2,591	682	(116)	3,157
Municipal securities:				

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Due in one year or less	810	15		825
Due in one year - five years	7,878	132		8,010
Due in five years - ten years	6,965	115		7,080
Due after ten years	51,839	2,391		54,230
Corporate debt issues:				
Due after ten years	18,267	2,579	(419)	20,427
Residential mortgage-backed securities:				
Fixed rate pass-through	72,852	3,149	(124)	75,877
Variable rate pass-through	66,140	3,466	(8)	69,598
Fixed rate non-agency CMOs	3,162	246		3,408
Fixed rate agency CMOs	226,413	685	(5,331)	221,767
Variable rate agency CMOs	113,842	657	(37)	114,462
Total residential mortgage-backed securities	482,409	8,203	(5,500)	485,112
Total marketable securities available-for-sale	\$ 906,702	14,404	(8,735)	912,371

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Marketable securities held to maturity at December 31, 2014 are as follows:

	Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
Municipal securities:				
Due in five - ten years	\$ 10,207	141		10,348
Due after ten years	56,545	1,314		57,859
Residential mortgage-backed securities:				
Fixed rate pass-through	8,236	477		8,713
Variable rate pass-through	4,273	122		4,395
Fixed rate agency CMOs	23,382	531		23,913
Variable rate agency CMOs	1,052	12		1,064
Total residential mortgage-backed securities	36,943	1,142		38,085
Total marketable securities held-to-maturity	\$ 103,695	2,597		106,292

Marketable securities available-for-sale at December 31, 2013 are as follows:

	Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
Debt issued by the U.S. government and agencies:				
Due in one year or less	\$ 32			32
Debt issued by government sponsored enterprises:				
Due in one year - five years	227,945	166	(4,041)	224,070
Due in five years - ten years	94,777	72	(2,862)	91,987
Equity securities	5,298	4,622	(70)	9,850

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Municipal securities:				
Due in one year or less	710	10		720
Due in one year - five years	8,443	119		8,562
Due in five years - ten years	11,228	275		11,503
Due after ten years	71,068	1,111	(386)	71,793
Corporate debt issues:				
Due after ten years	21,150	475	(449)	21,176
Residential mortgage-backed securities:				
Fixed rate pass-through	85,306	3,041	(1,075)	87,272
Variable rate pass-through	78,890	3,525	(16)	82,399
Fixed rate non-agency CMOs	3,894	107	(3)	3,998
Fixed rate agency CMOs	265,769	1,060	(11,436)	255,393
Variable rate non-agency CMOs	660		(9)	651
Variable rate agency CMOs	146,908	674	(221)	147,361
Total residential mortgage-backed securities	581,427	8,407	(12,760)	577,074
Total marketable securities available-for-sale	\$ 1,022,078	15,257	(20,568)	1,016,767

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	Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
Municipal securities:				
Due in five - ten years	\$ 8,002	172		8,174
Due after ten years	61,314	1,178	(27)	62,465
Residential mortgage-backed securities:				
Fixed rate pass-through	11,101	544		11,645
Variable rate pass-through	5,172	71		5,243
Fixed rate agency CMOs	34,425	780	(33)	35,172
Variable rate agency CMOs	1,352	10		1,362
Total residential mortgage-backed securities	52,050	1,405	(33)	53,422
Total marketable securities held-to-maturity	\$ 121,366	2,755	(60)	124,061

The following table presents information regarding the issuers and the carrying values of our mortgage-backed securities at December 31, 2014 and 2013:

	2014	December 31, 2013
Residential mortgage backed securities:		
FNMA	\$ 230,051	279,684
GNMA	54,422	66,802
FHLMC	223,479	264,752
SBA	10,052	12,569
Other (including non-agency)	4,051	5,317
Total residential mortgage-backed securities	\$ 522,055	629,124

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Marketable securities having a carrying value of \$706.4 million at December 31, 2014, were pledged under collateral agreements. During the year ended December 31, 2014 we sold marketable securities classified as available-for-sale for \$7.9 million, with gross realized gains of \$4.4 million and gross realized losses of \$0. During the year ended December 31, 2013 we sold marketable securities classified as available-for-sale for \$16.0 million, with gross realized gains of \$5.8 million and gross realized losses of \$0. We did not sell any marketable securities during the year ended December 31, 2012. During the years ended December 31, 2014, 2013 and 2012 we recognized non-cash credit related other-than-temporary-impairment in our investment portfolio resulting in write-downs of \$0, \$713,000 and \$331,000, respectively.

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The following table shows the fair value and gross unrealized losses on investment securities, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position at December 31, 2014:

	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
U.S. government and agencies	\$ 28,878	(67)	244,828	(2,633)	273,706	(2,700)
Corporate debt issues			2,003	(419)	2,003	(419)
Equity securities	506	(116)			506	(116)
Residential mortgage-backed securities - agency	20,832	(79)	195,505	(5,421)	216,337	(5,500)
Total temporarily impaired securities	\$ 50,216	(262)	442,336	(8,473)	492,552	(8,735)

The following table shows the fair value and gross unrealized losses on investment securities, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position at December 31, 2013:

	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
U.S. government and agencies	\$ 213,915	(4,797)	64,635	(2,106)	278,550	(6,903)
Municipal securities	12,666	(413)			12,666	(413)
Corporate debt issues			1,970	(449)	1,970	(449)
Equity securities	552	(70)			552	(70)
Residential mortgage-backed securities - non-agency	1,210	(12)			1,210	(12)
Residential mortgage-backed securities - agency	224,125	(10,398)	109,301	(2,383)	333,426	(12,781)
	\$ 452,468	(15,690)	175,906	(4,938)	628,374	(20,628)

Total temporarily impaired securities

We perform an assessment to determine whether there have been any events or economic circumstances that indicate a security which has an unrealized loss is impaired other-than-temporarily. The assessment considers many factors including the severity and duration of the impairment; recent events specific to the issuer or industry; and for debt securities, external credit ratings, underlying collateral position and recent downgrades. For asset backed securities, we evaluate current characteristics of each security such as delinquency and foreclosure levels, credit enhancement and projected losses and coverage. It is possible that the underlying collateral of these securities will perform worse than current expectations, which may lead to adverse changes in cash flows on these securities and potential future losses. Events that may trigger material declines in fair values for these securities in the future would be, but are not limited to; deterioration of credit metrics, significantly higher levels of default and severity of loss on the underlying collateral, deteriorating credit enhancement and loss coverage ratios, or further illiquidity. For debt securities, credit related other-than-

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temporary impairment is recognized in earnings, while noncredit related other-than-temporary impairment on securities not expected to be sold, or otherwise disposed of, is recognized in other comprehensive income. We assert that we do not have the intent to sell these securities and it is more likely than not that we will not have to sell these securities before a recovery of our cost basis. For these reasons, we consider the unrealized losses to be temporary impairment losses. There are approximately 93 positions that are temporarily impaired at December 31, 2014. The aggregate carrying amount of cost-method investments, including both held-to-maturity and available-for-sale, at December 31, 2014 was \$1.016 billion of which all were evaluated for impairment.

The following table sets forth the categories of investment securities as of December 31, 2014 on which other-than-temporary impairment charges have been recorded in earnings:

Category	Amortized cost	Total Fair value	Unrealized gain	Accumulated impairment charges
Freddie Mac preferred shares	\$ 1	13	12	(119)
Trust preferred investments	14,541	17,031	2,490	(8,302)
Non-agency CMOs	2,682	2,919	237	(592)
Total	\$ 17,224	19,963	2,739	(9,013)

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

	2014	December 31, 2013
Beginning balance as of January 1 (1)	\$ 10,342	9,811
Credit losses on debt securities for which other-than-temporary impairment was not previously recognized		713
Reduction for losses realized during the year	(1,863)	(182)
Additional credit losses on debt securities for which other-than-temporary impairment was previously recognized		
Ending balance as of December 31	\$ 8,479	10,342

(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 and Allowance for Loan Losses

Loans receivable at December 31, 2014 and 2013 are summarized in the table below:

	2014	December 31, 2013
Personal Banking:		
Loans held for sale	\$	221
Residential mortgage loans	2,526,240	2,491,917
Home equity loans	1,066,131	1,083,939
Other consumer loans	242,744	228,348
Total Personal Banking	3,835,115	3,804,425
Business Banking:		
Commercial real estate	1,827,324	1,665,274
Commercial loans	467,145	437,559
Total Business Banking	2,294,469	2,102,833
Total loans receivable, gross	6,129,584	5,907,258
Deferred loan costs	6,095	2,461
Allowance for loan losses	(67,518)	(71,348)
Undisbursed loan proceeds:		
Residential mortgage loans	(10,879)	(11,595)
Commercial real estate	(73,760)	(56,875)
Commercial loans	(61,149)	(34,958)
Total loans receivable, net	\$ 5,922,373	5,734,943

As of December 31, 2014, 2013 and 2012, we serviced loans for others approximating \$734.9 million, \$851.4 million and \$1.036 billion, respectively. These loans serviced for others are not our assets and are not included in our financial statements.

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As of December 31, 2014 and 2013, approximately 76% of our loan portfolio was secured by properties located in Pennsylvania. We do not believe we have significant concentrations of credit risk to any one group of borrowers given our underwriting and collateral requirements.

Loans receivable as of December 31, 2014 and 2013 include \$1.876 billion and \$1.771 billion, respectively, of adjustable rate loans and \$4.254 billion and \$4.136 billion, respectively, of fixed rate loans.

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The following table provides information related to changes in the allowance for losses on loans receivable for the year ended December 31, 2014:

	Balance December 31, 2014	Provision	Charge-offs	Recoveries	Balance December 31, 2013
Personal Banking:					
Residential mortgage loans	\$ 5,581	(556)	(2,181)	443	7,875
Home equity loans	4,550	(1,106)	(1,783)	194	7,245
Other consumer loans	6,118	5,864	(6,423)	1,190	5,487
Total Personal Banking	16,249	4,202	(10,387)	1,827	20,607
Business Banking:					
Commercial real estate loans	32,937	4,195	(8,422)	2,195	34,969
Commercial loans	13,967	12,214	(11,936)	2,579	11,110
Total Business Banking	46,904	16,409	(20,358)	4,774	46,079
Unallocated	4,365	(297)			4,662
Total	\$ 67,518	20,314	(30,745)	6,601	71,348

The following table provides information related to changes in the allowance for losses on loans receivable for the year ended December 31, 2013:

	Balance December 31, 2013	Provision	Charge-offs	Recoveries	Balance December 31, 2012
Personal Banking:					
Residential mortgage loans	\$ 7,875	1,954	(2,501)	420	8,002
Home equity loans	7,245	932	(2,239)	258	8,294
Other consumer loans	5,487	5,304	(6,055)	1,082	5,156
Total Personal Banking	20,607	8,190	(10,795)	1,760	21,452

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Business Banking:					
Commercial real estate loans	34,969	8,207	(10,042)	2,305	34,499
Commercial loans	11,110	1,486	(5,007)	1,389	13,242
Total Business Banking	46,079	9,693	(15,049)	3,694	47,741
Unallocated	4,662	636			4,026
Total	\$ 71,348	18,519	(25,844)	5,454	73,219

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The following table provides information related to changes in the allowance for losses on loans receivable for the year ended December 31, 2012:

	Balance December 31, 2012	Provision	Charge-offs	Recoveries	Balance December 31, 2011
Personal Banking:					
Residential mortgage loans	\$ 8,002	3,287	(4,295)	528	8,482
Home equity loans	8,294	3,376	(4,066)	297	8,687
Other consumer loans	5,156	4,340	(5,919)	1,410	5,325
Total Personal Banking	21,452	11,003	(14,280)	2,235	22,494
Business Banking:					
Commercial real estate loans	34,499	10,447	(9,919)	1,823	32,148
Commercial loans	13,242	5,278	(6,254)	2,138	12,080
Total Business Banking	47,741	15,725	(16,173)	3,961	44,228
Unallocated	4,026	(390)			4,416
Total	\$ 73,219	26,338	(30,453)	6,196	71,138

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

The following table provides information related to the loan portfolio by portfolio segment and by class of financing receivable as of December 31, 2014:

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	Recorded investment in loans receivable	Allowance for loan losses	Recorded investment in loans on nonaccrual (1)	Recorded investment in loans past due 90 days or more and still accruing	TDRs (1)	Allowance for TDRs	Additional commitments to customers with loans classified as TDRs
Personal Banking:							
Residential mortgage loans	\$ 2,521,456	5,581	21,194	8	6,574	1,133	
Home equity loans	1,066,131	4,550	9,569		2,412	229	
Other consumer loans	242,744	6,118	2,820	206			
Total Personal Banking	3,830,331	16,249	33,583	214	8,986	1,362	
Business Banking:							
Commercial real estate loans	1,753,564	32,937	35,809		40,139	3,932	449
Commercial loans	405,996	13,967	10,416	21	12,663	2,101	814
Total Business Banking	2,159,560	46,904	46,225	21	52,802	6,033	1,263
Total	\$ 5,989,891	63,153	79,808	235	61,788	7,395	1,263

(1) Includes \$24.5 million of nonaccrual TDRs.

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The following table provides information related to the loan portfolio by portfolio segment and by class of financing receivable as of December 31, 2013:

	Recorded investment in loans receivable	Allowance for loan losses	Recorded investment in loans on nonaccrual (1)	Recorded investment in loans past due 90 days or more and still accruing	TDRs (1)	Allowance for TDRs	Additional commitments to customers with loans classified as TDRs
Personal Banking:							
Residential mortgage loans	\$ 2,483,004	7,875	27,277		4,004	863	
Home equity loans	1,083,939	7,245	9,863	1	2,240	371	
Other consumer loans	228,348	5,487	2,257	666			
Total Personal Banking	3,795,291	20,607	39,397	667	6,244	1,234	
Business Banking:							
Commercial real estate loans	1,608,399	34,969	41,803		48,829	4,503	301
Commercial loans	402,601	11,110	26,021	23	24,093	2,778	454
Total Business Banking	2,011,000	46,079	67,824	23	72,922	7,281	755
Total	\$ 5,806,291	66,686	107,221	690	79,166	8,515	755

(1) Includes \$28.9 million of nonaccrual TDRs.

A loan is considered to be impaired, when, based on current information and events it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement including both contractual principal and interest payments. This includes non-accrual loans, loans more than 90 days delinquent and still accruing interest, loans for which we perform an impairment review and TDRs. Impairment is measured using one of three methods: (1) the present value of expected future cash flows discounted at the loan's effective interest

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rate; (2) the loan's observable market price; or (3) the fair value of collateral if the loan is collateral dependent, less costs of sale or disposition. If the measure of the impaired loan is less than the recorded investment in the loan, a specific allowance is allocated for the impairment.

The following table provides information related to the composition of impaired loans by portfolio segment and by class of financing receivable at and for the year ended December 31, 2014:

	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	\$ 17,696	3,498		5,845	27,039	28,227	817
Home equity loans	6,606	2,963		1,706	11,275	11,753	485
Other consumer loans	2,450	370			2,820	2,383	66
Total Personal Banking	26,752	6,831		7,551	41,134	42,363	1,368
Business Banking:							
Commercial real estate loans	10,215	25,594	26,400	12,128	74,337	90,187	3,589
Commercial loans	4,359	6,057	5,266	6,026	21,708	27,088	914
Total Business Banking	14,574	31,651	31,666	18,154	96,045	117,275	4,503
Total	\$ 41,326	38,482	31,666	25,705	137,179	159,638	5,871

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The following table provides information related to the composition of impaired loans by portfolio segment and by class of financing receivable at and for the year ended December 31, 2013:

	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	\$ 24,625	2,652		3,372	30,649	29,994	723
Home equity loans	8,344	1,519		1,810	11,673	10,828	383
Other consumer loans	2,057	200			2,257	1,976	44
Total Personal Banking	35,026	4,371		5,182	44,579	42,798	1,150
Business Banking:							
Commercial real estate loans	18,433	23,370	39,199	13,060	94,062	90,912	3,678
Commercial loans	4,298	21,723	5,219	3,963	35,203	41,303	1,127
Total Business Banking	22,731	45,093	44,418	17,023	129,265	132,215	4,805
Total	\$ 57,757	49,464	44,418	22,205	173,844	175,013	5,955

The following table provides information related to the composition of impaired loans by portfolio segment and by class of financing receivable at and for the year ended December 31, 2012:

	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
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Personal Banking:								
Residential								
mortgage loans	\$	24,286	797		3,011	28,094	28,078	683
Home equity loans		8,479	635		1,352	10,466	10,535	342
Other consumer								
loans		1,936	44			1,980	1,841	35
Total Personal Banking		34,701	1,476		4,363	40,540	40,454	1,060
Business Banking:								
Commercial real estate loans								
		24,550	33,311	33,282	16,274	107,417	98,891	3,636
Commercial loans		9,096	17,078		10,180	36,354	51,131	1,828
Total Business Banking								
		33,646	50,389	33,282	26,454	143,771	150,022	5,464
Total	\$	68,347	51,865	33,282	30,817	184,311	190,476	6,524

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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 as of and for the year ended December 31, 2014:

	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	\$ 2,514,060	7,396	7,396	1,116	
Home equity loans	1,063,741	2,390	2,390	246	
Other consumer loans	242,678	66	66	1	
Total Personal Banking	3,820,479	9,852	9,852	1,363	
Business Banking:					
Commercial real estate loans	1,687,244	66,320	42,869	6,189	23,451
Commercial loans	391,036	14,960	10,938	1,378	4,022
Total Business Banking	2,078,280	81,280	53,807	7,567	27,473
Total	\$ 5,898,759	91,132	63,659	8,930	27,473

The following table provides information related to the evaluation of impaired loans by portfolio segment and by class of financing receivable as of and for the year ended December 31, 2013:

	Loans collectively evaluated for impairment	Loans individually evaluated for impairment	Loans individually evaluated for impairment for which there is a	Related impairment reserve	Loans individually evaluated for impairment for which there is no
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			related impairment reserve		related reserve
Personal Banking:					
Residential mortgage loans	\$ 2,477,888	5,116	5,116	1,136	
Home equity loans	1,081,699	2,240	2,240	333	
Other consumer loans	228,227	121	121	1	
Total Personal Banking	3,787,814	7,477	7,477	1,470	
Business Banking:					
Commercial real estate loans	1,532,117	76,282	45,761	6,300	30,521
Commercial loans	371,287	31,314	21,395	4,133	9,919
Total Business Banking	1,903,404	107,596	67,156	10,433	40,440
Total	\$ 5,691,218	115,073	74,633	11,903	40,440

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

When we modify loans in a TDR, we evaluate any possible impairment similar to other impaired loans based on the present value of expected future cash flows, discounted at the contractual interest rate of the original loan agreement, the loan's observable market price or 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:

	2014		For the years ended December 31,		2013	
	Number of contract		Number of contract		Number of contract	
Beginning TDR balance:	262	\$ 79,166	225	\$ 89,444		
New TDRs	46	9,460	107	15,928		

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Re-modified TDRs	11	3,672	14	15,183
Net paydowns		(15,825)		(25,715)
Charge-offs:				
Residential mortgage loans			4	(357)
Home equity loans	1	(130)	5	(120)
Commercial real estate loans				