Northwest Bancshares, Inc.
Form 10-K
February 29, 2012
Table of Contents

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, 2011

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	**27-0950358**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

100 Liberty Street, Warren, Pennsylvania	**16365**
(Address of Principal Executive Offices)	(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 x NO o

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 o NO x

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 x NO o

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. o.

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 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 x NO o

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

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

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

As of February 22, 2012, there were 97,519,701 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, 2011, as reported by the Nasdaq Global Select Market, was approximately $1.299 billion.

DOCUMENTS INCORPORATED BY REFERENCE

(1) Proxy Statement for the 2012 Annual Meeting of Stockholders of the Registrant (Part III).

Table of Contents

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;
- 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 commercial and residential real estate, multi-family, and commercial and industrial loans;
- possible impairments of securities held by us, including those issued by government entities and government sponsored enterprises;
- the level of future deposit premium assessments;
- the impact of the recession 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 1.A. Risk Factors.

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.

Table of Contents

TABLE OF CONTENTS

EX	10.7
EX	23
EX	31.1
EX	31.2
EX	32
EX	101

Table of Contents

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 Savings Bank, upon completion of the mutual-to-stock conversion of Northwest Bancorp, MHC.

The conversion was completed December 18, 2009. Northwest Bancshares, Inc. sold a total of 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. s common stock. In lieu of fractional shares, shareholders were paid in cash. Northwest Bancshares, Inc. 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 Northwest Bancshares, Inc. established for the benefit of the communities in which Northwest Savings Bank operates. As of December 31, 2011, Northwest Bancshares, Inc. had 97,493,046 shares outstanding and a market capitalization of approximately $1.2 billion.

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

Northwest Bancshares, Inc. s website (www.northwestsavingsbank.com) contains a direct link to Northwest Bancshares, Inc. s 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 Northwest Bancshares, Inc. s 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 Savings Bank

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

As of December 31, 2011, Northwest Savings Bank operated 168 community-banking offices throughout its market area in central and western Pennsylvania, western New York, eastern Ohio and Maryland. Effective June 30, 2011 we closed our three community banking offices located in southern Florida. Northwest Savings Bank, through its wholly-owned subsidiary, Northwest Consumer Discount Company, also operates 52 consumer finance offices throughout Pennsylvania. Northwest Savings Bank also offers investment management and trust services and, through wholly-owned subsidiaries, actuarial and benefit plan administration services as well as employer benefit plan insurance. Historically, our principal lending activity was the origination of fixed-rate loans secured by first mortgages on owner-occupied, one- to four-family residences. In an effort to reduce interest rate risk and improve profit margins, we also offer shorter term consumer loans. In recent years, we have greatly increased our emphasis on the origination of commercial business and commercial real estate loans.

Our principal sources of funds are both 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 interest paid on deposits and the cost of employee compensation and benefits.

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

Table of Contents

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 of Pennsylvania. 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, 2011, we operated 141 community banking offices and 52 consumer finance offices in Pennsylvania, four community banking offices in Ohio, 18 community banking offices in New York and five 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 commercial 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.

Using 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. Through our acquisitions and *de novo* branching strategy we have expanded our retail branch footprint throughout 30 counties in Pennsylvania and five counties in western New York. In addition, through our consumer finance offices we operate in 11 additional counties in Pennsylvania. Our northwestern and southwestern Pennsylvania and western New York markets are fueled by 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 12.6 million and total households of approximately 5.0 million. The Pennsylvania markets in which we operate our retail branch and consumer financial 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 833,000. Since 2000, many of the counties served in the Pennsylvania and western New York market area have experienced population declines with population growth rates increasing mainly in the central and southeastern portion of Pennsylvania. However, median household income has increased in all of the counties in which we conduct business in Pennsylvania since 2000 and in our western New York markets. The median household income in Pennsylvania was $52,723 and $50,228 in our western New York market area as of December 31, 2010, the most recent data available, compared to the nationwide median income level of $54,442. The household income growth rate in Pennsylvania is expected to increase above the expected national average growth rates during the next five years by approximately 7%. Our western New York market area is expected to increase above the expected national average growth rates during the next five years by approximately 21%. As of December 31, 2011 the unemployment rate for Pennsylvania was 7.2% and for our western New York market area was 7.6%, both below the national average of 8.5%.

As of September 30, 2011 the changes in the median home price for the last four quarters in Pennsylvania and our western New York markets decreased by 1.1% and 0.8%, respectively, compared to a decrease in the national average of 3.7%. Foreclosures have receded from their record highs but remain elevated when compared to historical averages. The increased level of foreclosures is likely to remain high as the recent decline is due in part to processing delays. As of September 2011, the foreclosure rates in Pennsylvania and New York were 3.5% and 5.8% compared to the national average of 4.4%.

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 five community banking offices in Baltimore, Howard and Anne Arundel counties in Maryland. Our Maryland regional economy consists of service businesses, government, and heath care services. The major employment sectors in our Ohio market are similar to our northwestern Pennsylvania market. With the exception of Ashtabula county in Ohio, these markets have an expanding population base as well as higher median household income levels relative to the state and

Table of Contents

national averages. As of December 31, 2011 the unemployment rate for our Ohio and Maryland market areas was 7.6% and 6.2%, respectively, both below the national average of 8.5%.

As of September 30, 2011 the change in the median home price for the last four quarters for our Ohio and our Maryland markets decreased by 5.2% and 5.1% compared to a decrease in the national average of 3.7%. As of September 30, 2011 the foreclosure rates in Ohio and Maryland were 4.9% and 3.8%, respectively, compared to the national average of 4.4%.

Lending Activities

General. Historically, our principal lending activity has been the origination, for retention in our loan portfolio, of fixed-rate and, to a lesser extent, adjustable-rate mortgage loans collateralized by one- to four-family residential real estate located in our market area. We also originate loans collateralized by multi-family residential and commercial real estate, commercial business loans and consumer 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 in the secondary mortgage market for purposes of managing interest-rate risk and liquidity. We currently sell in the secondary market a limited number of fixed-rate residential mortgage loans with maturities of more than 15 years, and generally retain all adjustable-rate mortgage loans and fixed-rate residential mortgage loans with maturities of 15 years or less. Although we have sold an increased number of the mortgage loans that we originated, we continue to be a portfolio lender and at any one time we 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 risk of certain individual credits and the risk associated with certain businesses or industries.

Residential Mortgage Loans. We currently offer residential mortgage loans with terms typically ranging from 15 to 30 years, with either adjustable or fixed interest rates. Originations of fixed-rate mortgage loans versus adjustable-rate mortgage loans are monitored on an ongoing basis and are affected significantly by such factors as 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 management s strategy is to increase the origination of adjustable-rate mortgage loans, market conditions may be such that there is greater demand for fixed-rate mortgage loans.

Our fixed-rate loans, whenever possible, are originated and underwritten according to standards that permit sale into the secondary mortgage market. Whether we can or will sell fixed-rate loans into the secondary market, however, depends on a number of factors including the yield and the term of the loan, market conditions, and our current liquidity and interest rate sensitivity position. We historically have been primarily a portfolio lender and at any one time we have only a nominal amount of loans identified as held for sale. Our current strategy is to grow the consumer and commercial loan portfolios by more than we grow our portfolio of long-term fixed-rate residential mortgage loans. With this in mind, we generally retain in our portfolio fixed-rate loans with terms of 15 years or less, and sell a portion of fixed-rate loans (servicing retained) with terms of more than 15 years. Our residential mortgage loans are amortized on a monthly basis with principal and interest each due monthly. These loans often remain outstanding for significantly shorter periods than their contractual terms because borrowers may refinance or prepay loans at their option, usually without a prepayment penalty.

Table of Contents

We currently offer adjustable-rate mortgage loans with initial interest rate adjustment periods of one, three and five years, with adjustments based on changes in a designated market index. We determine whether a borrower qualifies for an adjustable-rate mortgage loan based on secondary market guidelines. Adjustable-rate residential mortgage loans totaled $42.8 million, or 0.76% of our gross loan portfolio at December 31, 2011.

Our residential mortgage loans customarily include due-on-sale clauses, which are provisions giving us the right to declare a loan immediately due and payable in the event, among other things, the borrower sells or otherwise disposes of the underlying real property serving as collateral for the loan. Due-on-sale clauses are an important means of adjusting the rates on our fixed-rate mortgage loan portfolio.

Regulations limit the amount that a savings bank may lend relative to the appraised value of the real estate securing the loan, as determined by an appraisal at the time of loan origination. Appraisals are either performed by our in-house appraisal staff or by an appraiser who has been deemed qualified by our chief appraiser. Such regulations permit a maximum loan-to-value ratio of 95% for residential property and 80% for all other real estate loans. We generally limit the maximum loan-to-value ratio on both fixed-rate and adjustable-rate mortgage loans without private mortgage insurance to 80% of the lesser of the appraised value or the purchase price of the real estate that serves as collateral for the loan. We originate a limited amount of residential mortgage loans with loan-to-value ratios in excess of 80%. For residential mortgage loans with loan-to-value ratios in excess of 80%, we generally require the borrower to obtain private mortgage insurance. We require fire and casualty insurance, as well as a title guaranty regarding good title, on all properties securing our real estate 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, 2011, our portfolio of residential mortgage loans serviced by others totaled $6.4 million. We currently have no formal plans to enter into new residential mortgage loan participations.

Included in our $2.415 billion portfolio of residential mortgage loans are construction loans of $8.7 million, or 0.36% of our total 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 loans, 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 our construction loans is 95% of the lower of cost or as-completed appraised value.

Construction lending generally involves a greater degree of credit risk than permanent residential mortgage lending. The repayment of the construction loan is often dependent upon the successful completion of the construction project. Construction delays or the inability of the borrower to sell the property once construction is completed may impair the borrower s ability to repay the loan.

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. At December 31, 2011, the disbursed portion of home equity lines of credit totaled $298.9 million, or 5.3% of gross loans, with $152.6 million remaining undisbursed, and our fixed-rate home equity loans totaled $785.9 million, or 14.0% of gross loans. We generally underwrite home equity loans and lines of credit in a manner similar to our underwriting of residential real estate 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 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, 2011, other consumer loans totaled $245.7 million, or 4.3% of gross loans.

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, church property, manufacturing facilities and retail establishments. At December 31, 2011, 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, 2011 had a principal balance of $7.3 million, and was collateralized by multiple residential real estate rental properties. These loans were performing in accordance with their terms as of December 31, 2011. Our largest commercial real estate loan relationship at December 31, 2011, had a principal balance of $37.9 million and was secured by eleven properties including several hotels and other commercial real estate. These loans were performing in accordance with their terms as of December 31, 2011. 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, 2011 the largest commercial loan relationship had a principal balance of $15.0 million, and was secured by all fixed assets of an oil refinery. This loan was performing in accordance with its terms as of December 31, 2011.

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 normal 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 bear 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.

Table of Contents

Loan Originations, Solicitation, Processing and Commitments. Loan originations are derived from a number of sources such as real estate broker referrals, existing customers, borrowers, builders, attorneys and walk-in customers. All of our loan originators are salaried employees, and we do not pay commissions in connection with loan originations. 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, an in-house appraiser, or an appraiser we approve, appraises the real estate intended to secure the proposed loan. A loan processor in our loan department checks the loan document file for accuracy and completeness, and verifies the information provided.

For our retail 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. Local loan officers are granted various 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.

Our commercial loan policy assigns lending limits for our various commercial loan officers. These individual authorities are established by the Credit Committee. Regional loan committees may approve extensions of credit above those that may be authorized by individual officers, and the Senior Loan Committee may approve extensions of credit in excess of those that may be approved by regional loan committees. 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.

The Board of Directors must approve all loans where the total debt relationship exceeds $7.5 million ($5.0 million for loans exceeding the maximum loan-to-value ratio or not meeting minimum debt service coverage), or as may be required by Regulation O. Loans exceeding the limits established for the Senior Loan Committee must be approved by the Executive Committee of the Board of Directors or by the entire Board of Directors. Our general policy is to make no loans either individually or in the aggregate to one customer in excess of $15.0 million. Exceptions to this policy are permitted with the prior approval from the Board of Directors. 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, 2011, we had commitments to originate $162.9 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. In addition to interest earned on loans, we generally receive loan origination fees. We defer loan origination fees and costs and amortize such amounts as an adjustment of yield over the life of the loan by use of 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, 2011, we had $4.8 million of net deferred loan origination fees. Loan origination fees are volatile sources of income. Such 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 $7.1 million, $6.6 million and $7.6 million for the years ended December 31, 2011, 2010 and 2009, respectively.

***Loans-to-One Borrower*.** We have established our own internal limit of loans to one borrower of $15.0 million, which may be exceeded only with the approval of the Board of Directors. At December 31, 2011, the largest aggregate amount loaned to one borrower, or related borrowers, totaled $37.9 million and was secured by eleven properties including several hotels and other commercial real estate. Our second largest lending relationship totaled $35.4 million and was secured by six different mixed use commercial buildings. Our third largest lending relationship totaled $16.4 million and was secured by a hotel and a residential apartment complex. Our fourth largest lending relationship totaled $16.2 million and was secured by a nursing home. Our fifth largest lending

Table of Contents

relationship totaled $15.0 million and was secured by an oil refinery. All of these loans were performing in accordance with their terms at December 31, 2011.

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 full 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 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 transactions or our Treasurer 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 current investment policy does not permit investment in 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, available-for-sale, or trading, based upon our ability and intentions. Securities available-for-sale and trading securities 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 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 the footnotes to the audited financial statements for a detailed analysis and description of our investment portfolio and valuation techniques.

We purchase mortgage-backed securities that generally are issued by 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 principally 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 $100,000 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, 2011, we had three deposits through the CDARS program with an aggregate balance of $359,000. 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 our stock in the Federal Home Loan Bank of Pittsburgh and 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 reserve bank providing credit for Northwest Savings Bank and other member financial institutions. As a member, Northwest Savings 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 such stock and 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 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 Savings 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, 2011, Northwest Bancshares, Inc. s investment in the Trusts totaled $3.1 million, and the Trusts had assets of $103.1 million at that date.

Northwest Savings Bank has nine 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., Veracity Benefits Design, Inc. and Northwest Capital Group, Inc. 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 Savings Bank and other lenders. At December 31, 2011, Northwest Savings Bank had an equity investment in Northwest Settlement Agency, LLC of $2.3 million. For the year ended December 31, 2011, Northwest Settlement Agency, LLC had net income of $318,000.

Great Northwest s sole activity is holding equity investments in government-assisted low-income housing projects in various locations throughout our market area. At December 31, 2011, Northwest Savings Bank had an equity investment in Great Northwest of $7.3 million. For the year ended December 31, 2011, Great Northwest had net income of $692,000, generated primarily from federal low-income housing tax credits.

Northwest Financial Services principal activities are the operation of retail brokerage activities and insurance products. It also owns the common stock of several financial institutions. In addition, Northwest Financial Services holds an equity investment in one government assisted low-income housing project. At December 31, 2011, Northwest Savings Bank had an equity investment in Northwest Financial Services of $7.3 million, and for the year ended December 31, 2011, Northwest Financial Services had net income of $17,000.

Northwest Advisors, Inc. offers investment programs and portfolio planning services. At December 31, 2011 Northwest Savings Bank had an equity investment in Northwest Advisors Inc. of $92,000, and for the year ended December 31, 2011, Northwest Advisors Inc. had a net loss of $8,000.

Table of Contents

Northwest Consumer Discount Company operates 52 consumer finance offices throughout Pennsylvania. At December 31, 2011, Northwest Savings Bank had an equity investment in Northwest Consumer Discount Company of $35.4 million and the net income of Northwest Consumer Discount Company for the year ended December 31, 2011 was $3.4 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. has loans to both Northwest Savings Bank and Northwest Consumer Discount Company. At December 31, 2011, Northwest Savings Bank had an equity investment in Allegheny Services, Inc. of $692.1 million, and for the year ended December 31, 2011, Allegheny Services, Inc. had net income of $19.1 million.

Boetger and Associates, Inc. is an actuarial and employee benefits consulting firm that specializes in the design, implementation and administration of qualified retirement plan programs. At December 31, 2011, Northwest Savings Bank had an equity investment of $2.1 million in Boetger and Associates and for the year ended December 31, 2011, Boetger and Associates had net income of $169,000.

Veracity Benefits Design, Inc. is an employee benefits firm specializing in insurance services to employer and employee groups. At December 31, 2011, Northwest Savings Bank had an equity investment of $1.9 million in Veracity Benefits Design and for the year ended December 31, 2011, Veracity Benefits Design had a net loss of $26,000.

Northwest Capital Group s principal activity is to own, operate and ultimately divest of properties that were acquired in foreclosure. At December 31, 2011, Northwest Savings Bank had an equity investment of $11.1 million in Northwest Capital Group and reported net income of $186,000 for the year ended December 31, 2011.

Federal regulations require insured institutions to provide 30 days advance notice to the Federal Deposit Insurance Corporation before establishing or acquiring a subsidiary or conducting a new activity in a subsidiary. The insured institution must also provide the Federal Deposit Insurance Corporation such information as may be required by applicable regulations and must conduct the activity in accordance with the rules and orders of the Federal Deposit Insurance Corporation. In addition to other enforcement and supervision powers, the Federal Deposit Insurance Corporation 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 Federal Deposit Insurance Corporation may order the savings bank to divest the subsidiary or take other actions.

Personnel

As of December 31, 2011, we had 1,779 full-time and 342 part-time employees. None of our employees is represented by a collective bargaining group. We believe we have a good working relationship with our employees.

SUPERVISION AND REGULATION

General

Northwest Savings Bank is a Pennsylvania-chartered savings bank and our deposit accounts are insured up to applicable limits by the Federal Deposit Insurance Corporation under the Deposit Insurance Fund. Northwest Savings Bank is subject to extensive regulation by the Department of Banking of the Commonwealth of Pennsylvania (the Department of Banking), as its chartering agency, and by the Federal Deposit Insurance Corporation, as the insurer of its deposit accounts. Northwest Savings Bank must file reports with the Department of Banking and the Federal Deposit Insurance Corporation 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 Savings Bank is examined periodically by the Department of Banking and the Federal Deposit Insurance Corporation to test Northwest Savings 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 Savings Bank may engage and is intended primarily for the protection

Table of Contents

of the Federal Deposit Insurance Corporation 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 Federal Deposit Insurance Corporation, could have a material adverse impact on Northwest Bancshares, Inc., Northwest Savings Bank and their respective operations.

As a savings and loan holding company, Northwest Bancshares, Inc. is required to comply with the rules and regulations of the Board of Governors of the Federal Reserve System (the Federal Reserve Board), and is also required to file certain reports with and is subject to examination by the Federal Reserve Board. Prior to July 21, 2011 Northwest Bancshares, Inc. was regulated by the Office of Thrift Supervision. Northwest Bancshares, Inc. is 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 Savings 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 Savings Bank and Northwest Bancshares, Inc.

Consent Order

On July 20, 2011, we stipulated to the issuance by the FDIC of a Consent Order, Order for Restitution and Order to Pay (the Order) relating to our compliance programs. The Order was effective as of July 20, 2011.

The Order requires us to take certain actions within certain specified time frames, including the following:

• The development and implementation of an effective compliance management system (CMS) that is commensurate with the level of complexity of our operations and a comprehensive written compliance program (Compliance Program).

• The submission to the FDIC for non-objection, and subsequent implementation of, a Compliance Program that, at a minimum:

(i) includes policies, controls, procedures, and processes that ensure consistent compliance with all consumer laws, regulations and regulatory guidance to which we are subject;

(ii) includes effective monitoring procedures that ensure compliance with applicable consumer laws, adherence to internal policies and procedures, and consideration of specified best practices;

(iii) implements and maintains a training program on a continuing basis related to compliance with applicable consumer laws for all employees who have responsibilities that may relate to applicable consumer laws, including senior management and the Board, commensurate with their individual job functions and duties;

(iv) designates a qualified compliance officer (Compliance Officer) to oversee the CMS and monitor the completion and effectiveness of the applicable consumer laws training programs;

(v) designates an appropriate number of compliance personnel with sufficient experience in, and knowledge of, applicable consumer laws to administer the CMS;

(vi) designates compliance responsibilities of the Board and management, compliance

Table of Contents

committee, Compliance Officer, internal audit function, and any third-party auditors; and

(vii) sets forth specific policies and procedures to ensure that consumer complaints, regardless of source, are thoroughly evaluated and addressed and resolved in a timely manner, and that management and compliance personnel provide timely responses to consumers.

- The retention and ongoing training of a qualified Compliance Officer who receives adequate ongoing training and sufficient time and resources, including staff assistance, authority and independence, to effectively oversee, coordinate, and implement the CMS.

- The maintenance of an effective compliance audit function.

- The adoption and implementation of systems and controls to ensure proper management of third-party risk.

- The taking of all action necessary, including thorough reviews of all existing and new deposit products, marketing, and disclosures, to comply with laws and guidance related to unfair or deceptive acts or practices;

- The adoption and implementation of systems and controls to ensure compliance with the Home Mortgage Disclosure Act and related regulations, with specific provisions to accurately collect and record required data on applications for, and originations, purchases, and refinancing of, home purchase and home improvement loans.

- The adoption and implementation of systems and controls to ensure compliance with the Flood Disaster Protection Act and related regulations, with specific provisions to obtain adequate flood insurance when originating, extending or increasing the amounts of loans, when required, and to provide flood insurance notices to borrowers when loans are secured by a building or mobile home located in a special flood hazard area.

- The submission of progress reports with respect to compliance with the Order.

- The payment of restitution in amounts specified by the FDIC to certain identified depositors and former depositors alleged by the FDIC as having not been paid the appropriate amount of interest as described in our disclosures. The total amount of restitution to be paid shall not exceed $375,000.

- The payment of a civil money penalty of $325,000.

We believe that, until we can demonstrate to the satisfaction of the FDIC that we have complied with the terms of the Consent Order, it would be difficult to obtain the necessary regulatory approvals for any application for expansion (such as establishing new offices or through acquisition).

We continue to take the steps we believe are necessary to address the requirements of the Consent Order.

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

Table of Contents

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., 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.

Also effective July 2011 was a provision of the Dodd-Frank Act that eliminated the federal prohibitions on paying interest on demand deposits, thus allowing businesses to have interest bearing checking accounts. Depending on competitive responses, this significant change to existing law could have an adverse effect on our interest expense.

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 depositor, retroactive to January 1, 2009, and non-interest bearing transaction accounts have unlimited deposit insurance through December 31, 2013.

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 origination 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, repealed restrictions on paying interest on checking accounts and contained a number of reforms related to mortgage origination.

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 implementing regulations will increase our operating and compliance costs.

Pennsylvania Savings Bank Law

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 Federal Deposit Insurance Corporation in lieu of its own examination, the current practice is for the Department of Banking to

Table of Contents

conduct individual examinations. The Department of Banking may order any savings bank to discontinue any violation of law or unsafe or unsound business practice and may direct any trustee, officer, attorney, or employee of a savings bank engaged in an objectionable activity, after the Department of Banking has ordered the activity to be terminated, 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.

Federal Deposit Insurance Reform

The FDIC currently maintains the Deposit Insurance Fund (the DIF), which was created in 2006 in 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.

On November 12, 2009, the FDIC adopted regulations that required insured depository institutions to prepay on December 30, 2009, their estimated quarterly risk-based assessments for the fourth quarter of 2009 and all of 2010, 2011 and 2012, along with their quarterly risk-based assessment for the fourth quarter of 2009. The FDIC collected our pre-paid assessment amounting to $32.9 million on December 30, 2009. As of December 31, 2011, our prepaid assessment balance was $16.1 million.

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

Table of Contents

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

Any savings institution that fails any of the Federal Deposit Insurance Corporation capital requirements is subject to enforcement action by the Federal Deposit Insurance Corporation. 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 Federal Deposit Insurance Corporation s capital regulation provides that such action, through enforcement proceedings or otherwise, may require a variety of corrective measures.

Northwest Savings 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 Federal Deposit Insurance Corporation.

Prompt Corrective Action

Under federal 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 6.0% or more, Tier I leverage capital of 5.0% 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 4.0% or more and Tier I leverage capital of 4.0% or more (3.0% under certain circumstances), 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 4.0% or Tier I leverage capital of less than 4.0% (3.0% under certain circumstances); (iv) significantly undercapitalized if it has total risk-based capital of less than 6.0%, Tier I risk-based capital less than 3.0%, or Tier I leverage capital of less than 3.0%; 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, 2011, Northwest Savings 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. Our internal policy, however, is to make no loans either individually or in the aggregate to one customer in excess of $15.0 million. This limit may be exceeded subject to the approval of the Board of Directors. We currently have six credit relationships that equal or exceed our $15.0 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 Federal Deposit Insurance Corporation 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

Table of Contents

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 Federal Deposit Insurance Corporation determines that the proposed activity does not pose a significant risk to the deposit insurance fund.

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 Savings 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 Bancshares, Inc. 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, Northwest Bancshares, Inc. is registered as a savings and loan holding company with the Federal Reserve Board and is subject to Federal Reserve Board regulations, examinations, supervision and reporting requirements. In addition, the Federal Reserve Board has enforcement authority over Northwest Bancshares, Inc. and any non-savings institution subsidiaries of Northwest Bancshares, Inc. 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. 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 the acquisition or retention of, with certain exceptions, 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:

Table of Contents

(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 Savings Bank must qualify as a Qualified Thrift Lender. To qualify as a Qualified Thrift Lender, Northwest Savings 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 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, 2011 Northwest Savings 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 components of Tier 1 capital would be restricted to capital instruments that are currently considered to be Tier 1 capital for insured depository institutions. That would exclude instruments such as trust preferred securities and cumulative preferred stock that are currently permitted for bank holding companies. Instruments issued before May 19, 2010 will be grandfathered for companies of consolidated assets of $15 billion or less. Bank holding companies with assets of less than $500 million are exempt from consolidated capital requirements. Holding companies that were not regulated by the Federal Reserve Board as of May 19, 2010 (which would include most savings and loan holding companies) receive a five-year phase-in from the July 21, 2010 date of enactment of the Dodd-Frank Act. The Federal Reserve Board has not yet adopted such capital requirements.

Source of Strength/Capital Distributions. The Dodd-Frank Act extends to savings and loan holding companies the Federal Reserve Board s source of strength doctrine, which has long applied to bank holding companies. The regulatory agencies must promulgate 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 review of 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 the ability of Northwest Bancshares, Inc. to pay dividends or otherwise engage in capital distributions.

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.

Table of Contents

Sarbanes-Oxley Act of 2002

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.

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. Northwest Bancshares, Inc. is subject to Pennsylvania s corporate net income tax and capital stock tax. Dividends received from Northwest Savings Bank qualify for a 100% dividends received deduction and are not subject to corporate net income tax.

Northwest Savings Bank is subject to a Pennsylvania mutual thrift institutions tax based on Northwest Savings 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 Savings 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 Savings Bank s affairs are conducted in Pennsylvania, taxes paid to other states are not material.

The subsidiaries of Northwest Savings 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.

Table of Contents

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 through 2012. The continuation of difficult market conditions is 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, 2011, 76% 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. 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. 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.

Due to concerns about the stability of the financial markets generally, many lenders and institutional investors have reduced or ceased providing funding to borrowers, including other financial institutions. This tightening of credit and market instability has led to an increased level of commercial and consumer delinquencies, lack of consumer confidence, increased market volatility and widespread reduction of business activity generally. The resulting economic pressure on consumers and lack of confidence in the financial markets may adversely affect our business, financial condition and results of operations.

It cannot be known if conditions in the financial markets will improve in the near future. A worsening of these conditions would likely exacerbate the adverse effects of these difficult market conditions on us and others in the financial industry.

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 into 2012. The economic downturn has been accompanied by deteriorated loan portfolio quality at many financial institutions. In addition, the value of real estate collateral supporting many home mortgages has declined and may continue to decline. 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 implementing 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.

Table of Contents

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) is significantly changing the current bank regulatory structure and affecting the lending, investment, trading and operating activities of financial institutions and their holding companies. The Dodd-Frank Act eliminated the former primary federal regulator for the Company, 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 System (the Federal Reserve Board). The Act also requires the Federal Reserve Board to set minimum capital levels for depository institution holding companies that are 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. There is a five-year transition period (from the July 21, 2010 effective date of the Act) before the new capital requirements will apply to savings and loan holding companies, such as the Company. Under the Dodd-Frank Act, the proceeds of trust preferred securities are excluded from Tier 1 capital unless such securities were issued prior to May 19, 2010 by bank or savings and loan holding companies with less than $15 billion of assets. The legislation also established a floor for capital of insured depository institutions that cannot be lower than the standards in effect on July 21, 2010. The Act also directs the federal banking regulators to implement new leverage and capital requirements that take into account off-balance sheet activities and other risks, including risks relating to securitized products and derivatives.

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. The Act also eliminated the federal prohibitions on paying interest on demand deposits effective July 21, 2011, thus allowing businesses to have interest bearing checking accounts. Depending on competitive responses, this significant change to existing law could have an adverse effect on our interest expense.

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 will be examined by their applicable bank regulators. The new legislation also weakens the federal preemption available for national banks and federal savings banks, and gives state attorneys general the ability to enforce applicable federal consumer protection laws. For additional changes under the Dodd-Frank Act, see Supervision and Regulation Dodd-Frank Wall Street Reform and Consumer Protection Act.

It is difficult to predict at this time the full impact that the Dodd Frank Act and its implementing regulations will have on community banks, including the lending and credit practices of such banks. Moreover, many 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 implementing regulations over the next few years. Although the substance and scope of these regulations cannot be determined at this time, it is expected that the legislation and implementing regulations, particularly those provisions relating to the new Consumer Financial Protection Bureau, may materially increase our operating and compliance costs and could restrict our ability to pay dividends.

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 are subject to extensive regulation, supervision and examination by the Federal Reserve Board, the Department of Banking of the Commonwealth of Pennsylvania (the Department of Banking), and the Federal Deposit Insurance Corporation. These regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities, including the ability to impose restrictions on Northwest s operations, reclassify assets, determine the adequacy of Northwest 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. Any change in these regulations and oversight, whether in the

Table of Contents

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 Federal Deposit Insurance Corporation, 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.

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 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 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 securities portfolio. Generally, the value of securities moves inversely with changes in interest rates. At December 31, 2011, the fair value of our investment and mortgage-backed securities portfolio totaled $1.148 billion. Net unrealized gains on these securities totaled $31.0 million at December 31, 2011.

At December 31, 2011, our interest rate risk analysis indicated that the market value of our equity would decrease by 14.7% if there was an instant parallel 200 basis point increase in market interest rates. See Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Management of 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 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 will be limited at these interest rate levels while the average yield on our interest-earning assets may continue to decrease. The Federal Reserve Board has recently indicated its intention to maintain low interest rates until at least late 2014. Accordingly, our net interest income may be adversely affected and may even decrease, which may have an adverse effect on our profitability.

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.

We could record future losses on our investment securities portfolio.

During the year ended December 31, 2011, we recognized $2.1 million of impairment losses on investment securities, of which $1.1 million was recognized as other comprehensive loss in the equity section of our balance sheet, and $937,000 was recognized as a reduction to noninterest income in our income statement. At December 31, 2011, we held corporate debt securities and non-government agency collateralized mortgage obligations with net unrealized holding losses of $4.4 million and $701,000, respectively.

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 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

Table of Contents

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.

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 core deposit intangible assets for impairment on a periodic 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 core deposit 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.

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. 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.

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, 2011, we had $244.0 million invested in obligations of states, municipalities and political subdivisions (collectively referred to as our municipal bond portfolio). We also had $84.7 million of loans outstanding and $69.6 million of unfunded commitments, open lines of credit and letters of credit 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

Table of Contents

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.

The Standard & Poor s downgrade in the U.S. government s sovereign credit rating, and in the credit ratings of instruments issued, insured or guaranteed by certain related institutions, agencies and instrumentalities, could result in risks to the Company and general economic conditions that we are not able to predict.

On August 5, 2011, Standard & Poor s downgraded the United States long-term debt rating from its AAA rating to AA+. On August 8, 2011, Standard & Poor s downgraded the credit ratings of certain long-term debt instruments issued by Fannie Mae and Freddie Mac and other U.S. government agencies linked to long-term U.S. debt. Instruments of this nature are key assets on the balance sheets of financial institutions, including the Bank. These downgrades could adversely affect the market value of such instruments, and could adversely impact our ability to obtain funding that is collateralized by affected instruments, as well as affecting the pricing of that funding when it is available. We cannot predict if, when or how these changes to the credit ratings will affect economic conditions. These ratings downgrades could result in a significant adverse impact to the Company, and could exacerbate the other risks to which we are subject, including those described above.

Our information systems may experience an interruption or breach in security.

We rely heavily on communications and information systems to conduct our business. Any failure, interruption, or breach in security or operational integrity of these systems could result in failures or disruptions in our customer relationship management, general ledger, deposit, loan, and other systems. While we have policies and procedures designed to prevent or limit the effect of the failure, interruption, or security breach of our information systems, we cannot assure you that any such failures, interruptions, or security breaches will not occur or, if they do occur, that they will be adequately addressed. The occurrence of any failures, interruptions, or security breaches of our information systems could damage our reputation, result in a loss of customer business, subject us to additional regulatory scrutiny, or expose us to civil litigation and possible financial liability, any of which could have a material adverse effect on our financial condition and results of operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

As of December 31, 2011, we conducted our business through our main office located in Warren, Pennsylvania, 132 other full-service offices and eight free-standing drive-up locations throughout our market area in central and western Pennsylvania, 18 offices in western New York, four offices in eastern Ohio and five offices in Maryland. Northwest Bancshares, Inc. and its wholly-owned subsidiaries also operated 52 consumer finance offices located throughout Pennsylvania. At December 31, 2011, our premises and equipment had an aggregate net book value of approximately $132.2 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.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

Table of Contents

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is listed on the Nasdaq Global Select Market under the symbol NWBI. As of February 22, 2012, we had 24 registered market makers, 15,109 stockholders of record (excluding the number of persons or entities holding stock in street name through various brokerage firms), and 97,519,701 shares outstanding. The following table sets forth market price and dividend information for our common stock.

Year Ended December 31, 2011	High	Low	Cash Dividends Declared
First Quarter	$ 12.59	$ 11.47	$ 0.10
Second Quarter	$ 12.67	$ 11.90	$ 0.11
Third Quarter	$ 13.36	$ 10.74	$ 0.11
Fourth Quarter	$ 12.93	$ 11.33	$ 0.11

Year Ended December 31, 2010	High	Low	Cash Dividends Declared
First Quarter	$ 12.04	$ 11.15	$ 0.10
Second Quarter	$ 12.79	$ 11.10	$ 0.10
Third Quarter	$ 12.30	$ 10.55	$ 0.10
Fourth Quarter	$ 11.90	$ 10.24	$ 0.10

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 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, 2011.

Table of Contents

The following tables disclose information regarding repurchases of shares of common stock during the quarter ended December 31, 2011, and includes the repurchase programs announced on August 10, 2011 and September 26, 2011. The repurchase programs are for 5,150,000 and 4,750,000 shares, respectively, and do not have expiration dates.

Month	**Number of shares purchased**		**Avergae 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	100,100	$	11.50	100,100	1,227,747
November	70,000		11.49	70,000	1,157,747
December					1,157,747
	170,100	$	11.50		

Month	**Number of shares purchased**		**Avergae 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		$			4,750,000
November					4,750,000
December					4,750,000
		$			

(1) Reflects program for 5,150,000 shares announced August 10, 2011.
(2) Reflects program for 4,750,000 shares announced September 26, 2011.

Table of Contents

Stock Performance Graph

Set forth hereunder is a stock performance graph comparing (a) the cumulative total return on our Common Stock between December 31, 2006 and December 31, 2011, adjusted to reflect the 2.25-for-one stock split in connection with the mutual-to-stock conversion of Northwest Bancorp, MHC on December 18, 2009, (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.

	12/31/06	12/31/07	12/31/08	12/18/09	12/31/09	12/31/10	12/31/11
Northwest Bancshares, Inc.	**100.00**	**99.76**	**83.04**	**103.71**	**102.98**	**111.34**	**121.84**
NASDAQ Composite	**100.00**	**110.26**	**65.65**	**90.16**	**95.19**	**112.10**	**110.81**
NASDAQ Bank	**100.00**	**76.94**	**64.14**	**52.28**	**53.93**	**61.47**	**54.83**

Table of Contents

ITEM 6. SELECTED FINANCIAL DATA

Selected Financial and Other Data

The summary financial information presented below is derived in part from the consolidated financial statements of Northwest Bancshares, Inc. and subsidiaries after December 18, 2009 (the date of our second-step conversion), and from the consolidated financial statements of Northwest Bancorp, Inc. and subsidiaries prior to December 18, 2009. The following is only a summary and you should read it in conjunction with the consolidated financial statements and notes included elsewhere in this document. The information at December 31, 2011 and 2010 and for the years ended December 31, 2011, 2010 and 2009 is derived in part from the audited consolidated financial statements that appear in this document. The information at December 31, 2009, 2008 and 2007, and for the year ended December 31, 2008 and 2007, is derived in part from audited consolidated financial statements that do not appear in this document.

	At December 31,				
	2011	2010	2009	2008	2007
	(In thousands)				
Selected Consolidated Financial Data:					
Total assets	$ 7,957,705	$ 8,148,155	8,025,298	6,930,241	6,663,516
Investment securities held-to-maturity	74,692	106,520			
Investment securities available-for-sale	279,125	246,765	333,522	393,531	601,620
Mortgage-backed securities held-to-maturity	156,697	251,402			
Mortgage-backed securities available-for-sale	629,224	703,698	733,567	745,639	531,747
Loans receivable net:					
Residential mortgage loans	2,388,884	2,391,450	2,326,354	2,462,106	2,393,744
Home equity	1,076,099	1,088,278	1,073,718	1,031,478	989,321
Other consumer loans	240,364	249,966	267,311	261,398	261,598
Commerial real estate loans	1,403,619	1,314,487	1,214,274	1,050,681	826,180
Commercial loans	375,831	417,883	351,597	340,874	324,779
Total loans receivable, net (1)	5,480,381	5,457,593	5,229,062	5,141,892	4,795,622
Deposits	5,780,325	5,764,336	5,624,424	5,038,211	5,542,334
Advances from Federal Home Loan Bank and other borrowed funds	827,925	891,293	897,326	1,067,945	339,115
Shareholders equity	1,154,904	1,307,450	1,316,515	613,784	612,878

(1) Total includes unallocated allowance for loan losses of $4.4 million, $4.5 million, $4.2 million and $4.6 million for December 31, 2011, 2010, 2009 and 2008, respectively.

Table of Contents

	For the Year Ended December 31, 2011	2010	2009	2008	2007
	(In thousands except per share data)				
Selected Consolidated Operating Data:					
Total interest income	$ 360,070	370,568	364,463	388,659	396,031
Total interest expense	92,801	112,927	135,806	169,293	211,015
Net interest income	267,269	257,641	228,657	219,366	185,016
Provision for loan losses	34,170	40,486	41,847	22,851	8,743
Net interest income after provision for loan losses	233,099	217,155	186,810	196,515	176,273
Noninterest income	58,136	60,398	53,337	38,752	43,022
Noninterest expense	200,227	196,508	200,494	170,128	152,742
Income before income tax expense	91,008	81,045	39,653	65,139	66,553
Income tax expense	26,857	23,522	7,000	16,968	17,456
Net income	$ 64,151	57,523	32,653	48,171	49,097
Earnings per share:					
Basic	$ 0.64	0.53	0.30	0.44	0.44
Diluted	$ 0.64	0.53	0.30	0.44	0.44

	At or For the Year Ended December 31, 2011	2010	2009	2008	2007
Selected Financial Ratios and Other Data:					
Return on average assets (1)	0.80%	0.71%	0.46%	0.70%	0.73%
Return on average equity (2)	5.24%	4.40%	4.71%	7.75%	8.18%
Average capital to average assets	15.18%	16.09%	9.67%	9.04%	8.96%
Capital to total assets	14.51%	16.05%	16.40%	8.86%	9.20%
Tangible common equity to tangible assets	12.60%	14.19%	14.53%	6.36%	6.50%
Net interest rate spread (3)	3.39%	3.19%	3.30%	3.25%	2.74%
Net interest margin (4)	3.68%	3.52%	3.56%	3.57%	3.10%
Noninterest expense to average assets	2.48%	2.42%	2.80%	2.48%	2.28%
Efficiency ratio	61.53%	61.79%	71.10%	65.91%	66.98%
Noninterest income to average assets	0.72%	0.74%	0.74%	0.56%	0.64%
Net interest income to noninterest expense	1.35x	1.31x	1.14x	1.29x	1.21x
Dividend payout ratio (5)	67.19%	75.47%	130.37%	88.89%	84.85%
Nonperforming loans to net loans receivable	2.39%	2.72%	2.38%	1.93%	1.03%
Nonperforming assets to total assets	1.99%	2.08%	1.81%	1.67%	0.87%
Allowance for loan losses to nonperforming loans	54.26%	51.49%	56.49%	55.37%	84.22%
Allowance for loan losses to net loans receivable	1.30%	1.40%	1.35%	1.07%	0.87%
Average interest-earning assets to average interest-bearing liabilities	1.22x	1.22x	1.12x	1.10x	1.10x
Number of full-service offices	168	171	171	167	166
Number of consumer finance offices	52	52	51	51	51

(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.

(4) Represents net interest income as a percentage of average interest-earning assets.

(5) The dividend payout ratio represents dividends declared per share divided by net income per share.

Table of Contents

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

Our principal business consists of attracting deposits from the general public and the business community and making loans secured by various types of collateral, including real estate and other consumer 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 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 $64.2 million, or $0.64 per diluted share, for the year ended December 31, 2011 compared to $57.5 million, or $0.53 per diluted share, for the year ended December 31, 2010 and $32.7 million, or $0.30 per diluted share, for the year ended December 31, 2009. The loan loss provision was $34.2 million for the year ended December 31, 2011 compared to $40.5 million for the year ended December 31, 2010 and $41.8 million for the year ended December 31, 2009. We recorded other-than-temporary impairment charges for securities, which were reflected as a reduction of noninterest income, of $937,000, $1.5 million and $6.1 million for the years ended December 31, 2011, 2010 and 2009, respectively.

We did not significantly change our underwriting standards in the past several years nor did we add controversial residential loan products. 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 offer 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 52 offices throughout Pennsylvania. NCDC offers a variety of consumer loans for automobiles, appliances and furniture as well as residential mortgage loans. At December 31, 2011, NCDC s total loan portfolio was approximately $114.4 million with an average loan size of $4,400, an average FICO score of 620 and an average yield of approximately 17.7%. NCDC s total delinquency has remained steady at approximately 3.7% of outstanding loans, with loans nonperforming for 90 days or more at 1.4% of loans outstanding. Annual net charge-offs average approximately $2.8 million, or 2.5% of outstanding loans, and it maintains an allowance for loan losses of $5.5 million, or 4.9% of loans. Although loans originated through NCDC have higher average rates of delinquency and charge-offs than similar loans originated directly by Northwest Savings Bank, management believes that the higher yields on loans originated through NCDC compensate for the incremental credit risk exposure.

Table of Contents

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.

Allowance for Loan Losses. We recognize that losses will be experienced on loans and that the risk of loss will vary with, among other things, 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 loan 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 and estimated collateral values, and current economic conditions. The loan portfolio and other credit exposures are regularly reviewed 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. Management believes that all known losses as of December 31, 2011 and 2010 have been recorded as of those dates.

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, net of deferred taxes, are reported in other comprehensive income as a separate component of shareholders equity. In general, fair value is based upon quoted market prices of identical assets, when available. If quoted market prices are not available, fair value is based upon valuation models that use cash flow, security structure and other observable information. Where sufficient data is not available to produce a fair valuation, fair value is based on broker quotes for similar assets. Annually, we validate the prices received from these third parties by comparing them to prices provided by a different independent pricing service. We have also reviewed the detailed valuation methodologies provided to us by our pricing services. Broker quotes may be adjusted to ensure that financial instruments are recorded at fair value. Adjustments may include unobservable parameters, among other things. No adjustments were made to any broker quotes received by us.

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 were in a loss position, the percentage decline in comparison to the securities amortized cost, the financial condition of the issuer, if applicable, and the delinquency or default rates of underlying collateral. 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. 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.

Table of Contents

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. 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 that date 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.

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, 2011 and 2010, we used a discount rate of 4.39% and 5.57%, 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.

Table of Contents

Balance Sheet Analysis

Assets. Total assets at December 31, 2011 were $7.958 billion, a decrease of $190.5 million, or 2.3%, from $8.148 billion at December 31, 2010. This decrease in assets was primarily caused by a decrease in our marketable securities portfolio of $168.6 million, or 12.9%, to $1.140 billion at December 31, 2011 from $1.308 billion at December 31, 2010.

***Cash and Investments*.** Total cash and investments decreased by $199.5 million, or 9.8%, to $1.828 billion at December 31, 2011, from $2.028 billion at December 31, 2010. This decrease was a result of the repurchase of 14,437,253 shares of common stock at a total cost of $172.7 million during 2011. We also repaid $50.0 million of FHLB advances that matured in 2011.

***Loans receivable*.** Net loans receivable increased by $22.8 million, or 0.4%, to $5.480 billion at December 31, 2011, from $5.458 billion at December 31, 2010. Loan demand for most of the year was weak, with originations of $1.928 billion nearly offset by loan sales, maturities and repayments of $1.854 billion for the year ended December 31, 2011. We reduced the sale of residential mortgage loans to $88.2 million in 2011 compared to $205.3 million in 2010 due to our strong liquidity position, low loan demand and low yields on investment securities. During the year ended December 31, 2011 gross commercial real estate loans increased by $58.1 million, or 4.1%, while all other loans classes decreased.

Total loans 30 days or more past due decreased by $26.8 million, or 13.3%, to $174.9 million at December 31, 2011 from $201.7 million at December 31, 2010. The December 31, 2011 amount consisted of 3,412 loans, while the December 31, 2010 amount consisted of 3,517 loans. Delinquencies for all classes of loans with the exception of other consumer loans decreased during the year ended December 31, 2011. Delinquencies on residential mortgage loans decreased by $4.4 million, or 5.9%, delinquencies on home equity loans decreased by $1.9 million, or 9.1%, delinquencies on commercial real estate decreased by $17.2 million, or 22.8% and delinquencies on commercial loans decreased by $3.4 million, or 16.0%. Although delinquencies remain at historically elevated levels due primarily to the continued economic downturn, 2011 marks the first year since the economic downturn began in 2008 in which both total delinquency and loans 90 or more days delinquent decreased from the prior year.

Table of Contents

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

	At December 31,									
	2011		2010		2009		2008		2007	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
					(Dollars in thousands)					
Personal Banking:										
Residential mortgage loans	$ 2,414,992	42.9%	2,432,421	42.9%	2,371,996	43.8%	2,492,940	47.2%	2,430,117	48.9%
Home equity loans	1,084,786	19.3%	1,095,953	19.3%	1,080,011	19.9%	1,035,954	19.6%	992,335	20.0%
Other consumer loans:										
Automobile	80,839	1.4%	88,486	1.6%	101,046	1.9%	102,267	2.0%	125,298	2.5%
Education loans	18,840	0.3%	21,957	0.4%	32,860	0.6%	38,152	0.7%	14,551	0.3%
Loans on savings accounts	11,764	0.2%	11,850	0.2%	12,209	0.2%	11,191	0.2%	10,563	0.2%
Other (1)	134,246	2.4%	133,483	2.3%	127,750	2.4%	115,913	2.2%	117,831	2.4%
Total other consumer loans	245,689	4.3%	255,776	4.5%	273,865	5.1%	267,523	5.1%	268,243	5.4%
Total Personal Banking	3,745,467	66.5%	3,784,150	66.7%	3,725,872	68.8%	3,796,417	71.9%	3,690,695	74.3%
Business Banking:										
Commercial real estate	1,481,127	26.3%	1,423,021	25.1%	1,292,145	23.8%	1,100,218	20.8%	906,594	18.3%
Commercial loans	408,462	7.2%	463,006	8.2%	403,589	7.4%	387,145	7.3%	367,459	7.4%
Total Business Banking	1,889,589	33.5%	1,886,027	33.3%	1,695,734	31.2%	1,487,363	28.1%	1,274,053	25.7%
Total loans receivable, gross	5,635,056	100.0%	5,670,177	100.0%	5,421,606	100.0%	5,283,780	100.0%	4,964,748	100.0%
Deferred loan fees	(4,752)		(7,165)		(7,030)		(5,041)		(4,179)	
Undisbursed loan proceeds	(78,785)		(129,007)		(115,111)		(81,918)		(123,163)	
Allowance for loan losses:										
Personal Banking:										
Residential mortgage loans	(8,482)		(6,854)		(9,349)		(4,138)		(6,623)	
Home equity loans	(8,687)		(7,675)		(6,293)		(4,476)		(3,014)	
Other consumer loans:	(5,325)		(5,810)		(6,554)		(6,125)		(6,645)	
Total Personal Banking	(22,494)		(20,339)		(22,196)		(14,739)		(16,282)	
Business Banking:										
Commercial real estate	(32,148)		(35,832)		(23,942)		(20,501)		(19,217)	
Commercial loans	(12,080)		(15,770)		(20,073)		(15,044)		(6,285)	
Total Business Banking	(44,228)		(51,602)		(44,015)		(35,545)		(25,502)	
Unallocated	(4,416)		(4,471)		(4,192)		(4,645)			
Total allowance for loan losses	(71,138)		(76,412)		(70,403)		(54,929)		(41,784)	
	$ 5,480,381		5,457,593		5,229,062		5,141,892		4,795,622	

Total loans
receivable, net

(1) Consists primarily of secured and unsecured personal loans.

Table of Contents

The following table sets forth the recorded investment in loans receivable by state (based on borrowers residence) at December 31, 2011.

(Dollars in thousands)	Residential Mortgage	(1)	Home equity	(2)	Other consumer	(3)	Commercial real estate loans	(4)	Commercial loans	(5)	Total	(6)
Pennsylvania	$ 1,978,512	82.5%	925,368	85.3%	225,827	91.9%	849,702	59.2%	258,775	66.7%	4,238,184	76.3%
New York	159,389	6.7%	104,194	9.6%	11,191	4.6%	356,868	24.9%	56,128	14.5%	687,770	12.4%
Ohio	19,895	0.8%	11,677	1.1%	3,022	1.2%	35,882	2.5%	10,072	2.6%	80,548	1.5%
Maryland	168,247	7.0%	33,816	3.1%	1,417	0.6%	114,839	8.0%	25,942	6.7%	344,261	6.2%
Florida	27,551	1.2%	8,057	0.7%	1,473	0.6%	40,904	2.8%	17,340	4.5%	95,325	1.7%
All other	43,772	1.8%	1,674	0.2%	2,759	1.1%	37,572	2.6%	19,654	5.0%	105,431	1.9%
Total	$ 2,397,366	100.0%	1,084,786	100.0%	245,689	100.0%	1,435,767	100.0%	387,911	100.0%	5,551,519	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

The following table sets forth the maturity or period of re-pricing of our loan portfolio at December 31, 2011. 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, 2011 (In thousands)		Due in one year or less	Due after one year through two years	Due after two year through three years	Due after three year through five years	Due after five years	Total
Personal Banking:							
Residental mortgage loans	$	175,625	130,622	115,237	232,366	1,761,142	2,414,992
Home equity loans		144,346	103,319	92,998	154,115	590,008	1,084,786
Other consumer loans		173,615	13,115	15,952	43,007		245,689
Total Personal Banking		493,586	247,056	224,187	429,488	2,351,150	3,745,467
Business Banking:							
Commercial real estate loans		501,856	225,398	218,859	472,308	62,706	1,481,127
Commercial loans		138,401	62,160	60,356	130,252	17,293	408,462
Total Business Banking		640,257	287,558	279,215	602,560	79,999	1,889,589
Total	$	1,133,843	534,614	503,402	1,032,048	2,431,149	5,635,056

35

Table of Contents

The following table sets forth at December 31, 2011, the dollar amount of all fixed-rate and adjustable-rate loans due after one year or more. Adjustable- and floating-rate loans are included in the table based on the contractual due date of the loan.

At December 31, 2011 (In thousands)		Fixed	Adjustable	Total
Personal Banking:				
Residental mortgage loans	$	2,238,997	38,356	2,277,353
Home equity loans		681,336	259,104	940,440
Other consumer loans		38,874	132,026	170,900
Total Personal Banking		2,959,207	429,486	3,388,693
Business Banking:				
Commercial real estate loans		460,945	823,422	1,284,367
Commercial loans		137,759	216,440	354,199
Total Business Banking		598,704	1,039,862	1,638,566
Total	$	3,557,911	1,469,348	5,027,259

Investment securities. Investment securities decreased by $168.6 million, or 12.9%, to $1.140 billion at December 31, 2011 from $1.308 billion at December 31, 2010. This decrease was a result of our decision to deploy excess funds for the repurchase of 14,437,253 shares of common stock at a total cost of $172.7 million during 2011. During the year ended December 31, 2011, we recognized other-than-temporary credit related impairment charges of $937,000 on three private label collateralized mortgage obligations.

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.

		At December 31,					
		2011		2010		2009	
		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	$	110,364	118,564	111,581	118,722	145,363	151,756
Variable-rate pass through certificates		135,103	141,778	167,685	174,937	231,232	239,041
Fixed-rate non-agency CMOs		9,521	8,974	13,825	13,073	18,919	17,179
Fixed-rate agency CMOs		112,670	116,136	112,483	112,791	19,994	20,976
Variable-rate non-agency CMOs		1,104	950	3,274	2,895	9,075	7,905
Variable-rate agency CMOs		240,963	242,822	277,031	281,280	294,398	296,710
		609,725	629,224	685,879	703,698	718,981	733,567

Total residential mortgage-backed securities available for sale						
Investment securities available for sale:						
U.S. Government, agency and GSEs	75,576	76,238	18,499	18,886	76,632	77,938
Municipal securities	162,491	169,288	214,535	208,293	235,128	237,456
Corporate debt issues	25,536	21,134	26,017	18,860	27,382	17,001
Equity securities and mutual funds	12,080	12,465	641	726	1,054	1,127
Total investment securities available for sale	$ 275,683	279,125	259,692	246,765	340,196	333,522

Table of Contents

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.

	At December 31,					
	2011		2010		2009	
	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	$ 24,160	25,259	29,820	30,226		
Variable-rate pass through certificates	9,066	9,160	9,853	9,932		
Fixed-rate agency CMOs	108,881	111,642	186,948	186,171		
Variable-rate agency CMOs	14,590	14,870	24,781	25,174		
Total residential mortgage-backed securities held to maturity	156,697	160,931	251,402	251,503		
Investment securities held to maturity:						
U.S. Government, agency and GSEs			26,500	26,536		
Municipal securities	74,692	78,481	80,020	76,087		
Total investment securities held to maturity	$ 74,692	78,481	106,520	102,623		

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

	At December 31,		
	2011	2010	2009
	(In thousands)		
Residential mortgage-backed securities:			
FNMA	$ 333,188	355,727	256,981
GNMA	142,774	223,768	126,164
FHLMC	280,686	335,803	324,562
SBA	18,624	23,094	
Other (non-agency)	10,649	16,708	25,860
Total mortgage-backed securities	$ 785,921	955,100	733,567

Table of Contents

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, 2011. Adjustable-rate mortgage-backed securities are included in the period in which interest rates are next scheduled to adjust.

	At December 31, 2011										
	One Year or Less		More than One Year to Five Years		More than Five Years to Ten Years		More than Ten Years		Total		
	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	Annualized Weighted Average Yield
	(Dollars in thousands)										
Investment securities available for sale:											
Government sponsored entities	$		36,295	1.18%	29,557	1.84%	9,665	0.60%	75,517	76,179	1.36%
U.S. Government and agency obligations	59	1.19%							59	59	1.19%
Municipal securities			10,633	3.96%	27,817	4.14%	124,041	4.35%	162,491	169,288	4.29%
Corporate debt issues	500	2.91%					25,036	3.08%	25,536	21,134	3.07%
Equity securities and mutual funds							12,080	1.25%	12,080	12,465	1.25%
Total investment securities available for sale	559	2.73%	46,928	1.18%	57,374	2.95%	170,822	3.73%	275,683	279,125	3.24%
Residential mortgage-backed securities available for sale:											
Pass through certificates	135,145	3.36%	2,458	4.41%	31,690	2.69%	76,174	5.19%	245,467	260,342	3.85%
CMOs	242,067	0.97%	2	6.15%	74,026	2.11%	48,163	2.71%	364,258	368,882	1.43%
Total residential mortgage-backed securities available for sale	377,212	1.82%	2,460	4.41%	105,716	2.28%	124,337	4.23%	609,725	629,224	2.40%
Investment securities held-to-maturity:											
Municipal securities					3,677	3.65%	71,015	4.05%	74,692	78,481	4.03%
Total investment securities held-to-maturity					3,677	3.65%	71,015	4.05%	74,692	78,481	4.03%
Residential mortgage-backed securities held-to-maturity:											

Pass through certificates	9,066	2.70%					24,160	3.29%	33,226	34,419	3.13%
CMOs	14,590	1.31%			19,671	2.22%	89,210	3.26%	123,471	126,512	2.86%
Total residential mortgage-backed securities held-to-maturity	23,656	1.84%			19,671	2.22%	113,370	3.27%	156,697	160,931	2.92%
Total investment securities and mortgage-backed	$ 401,427	1.83%	49,388	1.94%	186,438	2.51%	479,544	3.80%	1,116,797	1,147,761	2.79%

Table of Contents

The following tables set forth information with respect to gross unrealized holding gains and losses on our portfolio of available-for-sale investment securities as of December 31, 2011.

		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	$	59			59
Debt issued by government sponsored enterprises:					
Due in one year - five years		36,295	134		36,429
Due in five years - ten years		29,557	638	(61)	30,134
Due after ten years		9,665		(49)	9,616
Equity securities		12,080	644	(259)	12,465
Municipal securities:					
Due in one year - five years		10,633	291		10,924
Due in five years - ten years		27,817	1,336		29,153
Due after ten years		124,041	5,350	(180)	129,211
Corporate debt issues:					
Due in one year or less		500			500
Due after ten years		25,036	233	(4,635)	20,634
Residential mortgage-backed securities:					
Fixed rate pass-through		110,364	8,201	(1)	118,564
Variable rate pass-through		135,103	6,679	(4)	141,778
Fixed rate non-agency CMOs		9,521	188	(735)	8,974
Fixed rate agency CMOs		112,670	3,466		116,136
Variable rate non-agency CMOs		1,104		(154)	950
Variable rate agency CMOs		240,963	1,991	(132)	242,822
Total residential mortgage-backed securities		609,725	20,525	(1,026)	629,224
Total marketable securities available-for-sale	$	885,408	29,151	(6,210)	908,349

The following tables set forth information with respect to gross unrealized holding gains and losses on our portfolio of held-to-maturity investment securities as of December 31, 2011.

		Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
			(In thousands)		
Municipal securities:					
Due in five - ten years	$	3,677	174		3,851
Due after ten years		71,015	3,615		74,630

Residential mortgage-backed securities:				
Fixed rate pass-through		24,160	1,099	25,259
Variable rate pass-through		9,066	94	9,160
Fixed rate agency CMOs		108,881	2,761	111,642
Variable rate agency CMOs		14,590	280	14,870
Total residential mortgage-backed securities		156,697	4,234	160,931
Total marketable securities held-to-maturity	$	231,389	8,023	239,412

Table of Contents

We review our investment portfolio on a quarterly basis for indications of impairment. This review includes analyzing the length of time and the extent to which the fair value has been lower than the cost, the financial condition and near-term prospects of the issuer, including any specific events which may influence the operations of the issuer. In addition, management must assert that it does not have the intent to sell the security and that it is more likely than not that we will not have to sell the security before recovery of its cost basis. Other investments are evaluated using our best estimate of future cash flows. If our estimate of cash flow determines that it is expected an adverse change has occurred, other-than-temporary impairment would be recognized for the credit loss.

The following table shows the fair value and gross unrealized losses on our investment securities, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position at December 31, 2011.

Less than 12 months	12 months or more	Total