

Northwest Bancshares, Inc.  
Form 10-Q  
August 03, 2012  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-Q**

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

**For the quarterly period ended June 30, 2012**

**or**

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

**For the transition period from            to**

**Commission File Number 001-34582**

**Northwest Bancshares, Inc.**

(Exact name of registrant as specified in its charter)

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**Maryland**

(State or other jurisdiction of incorporation or organization)

**27-0950358**

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

**100 Liberty Street, Warren, Pennsylvania**

(Address of principal executive offices)

**16365**

(Zip Code)

**(814) 726-2140**

(Registrant's telephone number, including area code)

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

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

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

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

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller reporting company

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

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

Common Stock (\$0.01 par value) 97,895,728 shares outstanding as of July 31, 2012



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## ITEM 1. FINANCIAL STATEMENTS

## NORTHWEST BANCSHARES, INC.

## CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(in thousands, except share data)

	(Unaudited) June 30, 2012	December 31, 2011
<b>Assets</b>		
Cash and due from banks	\$ 82,295	94,276
Interest-earning deposits in other financial institutions	638,940	593,388
Federal funds sold and other short-term investments	633	633
Marketable securities available-for-sale (amortized cost of \$874,048 and \$885,408)	900,643	908,349
Marketable securities held-to-maturity (fair value of \$187,043 and \$239,412)	180,134	231,389
Total cash and investments	1,802,645	1,828,035
<b>Personal Banking:</b>		
Residential mortgage loans held for sale	12,800	967
Residential mortgage loans	2,418,756	2,396,399
Home equity loans	1,102,936	1,084,786
Other consumer loans	240,992	245,689
Total Personal Banking	3,775,484	3,727,841
<b>Business Banking:</b>		
Commercial real estate loans	1,494,781	1,435,767
Commercial loans	399,470	387,911
Total Business Banking	1,894,251	1,823,678
Total loans	5,669,735	5,551,519
Allowance for loan losses	(70,110)	(71,138)
Total loans, net	5,599,625	5,480,381
Federal Home Loan Bank stock, at cost	46,834	48,935
Accrued interest receivable	23,871	24,599
Real estate owned, net	30,470	26,887
Premises and equipment, net	135,004	132,152
Bank owned life insurance	135,722	133,524
Goodwill	171,882	171,882
Other intangible assets	1,549	2,123
Other assets	90,394	109,187
Total assets	\$ 8,037,996	7,957,705
<b>Liabilities and Shareholders equity</b>		
<b>Liabilities:</b>		
Noninterest-bearing demand deposits	\$ 732,200	658,560
Interest-bearing demand deposits	845,209	800,676
Savings deposits	2,195,095	2,036,272
Time deposits	2,033,366	2,284,817
Total deposits	5,805,870	5,780,325

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Borrowed funds	853,114	827,925
Junior subordinated deferrable interest debentures held by trusts that issued guaranteed capital debt securities	103,094	103,094
Advances by borrowers for taxes and insurance	32,324	23,571
Accrued interest payable	1,242	1,104
Other liabilities	73,210	66,782
Total liabilities	6,868,854	6,802,801
Shareholders' equity:		
Preferred stock, \$0.01 par value: 50,000,000 authorized, no shares issued		
Common stock, \$0.01 par value: 500,000,000 shares authorized, 97,880,874 and 97,493,046 shares issued and outstanding, respectively	979	975
Paid-in capital	662,183	659,523
Retained earnings	552,278	543,598
Unallocated common stock of employee stock ownership plan	(25,192)	(25,966)
Accumulated other comprehensive loss	(21,106)	(23,226)
	1,169,142	1,154,904
Total liabilities and shareholders' equity	\$ 8,037,996	7,957,705

See accompanying notes to consolidated financial statements - unaudited

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

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
<b>Interest income:</b>				
Loans receivable	\$ 77,422	79,993	155,581	160,450
Mortgage-backed securities	4,409	6,073	9,100	12,829
Taxable investment securities	435	594	1,008	992
Tax-free investment securities	2,318	2,992	4,764	6,066
Interest-earning deposits	473	489	853	896
Total interest income	85,057	90,141	171,306	181,233
<b>Interest expense:</b>				
Deposits	11,184	15,473	24,128	31,536
Borrowed funds	7,912	7,989	15,811	15,978
Total interest expense	19,096	23,462	39,939	47,514
Net interest income	65,961	66,679	131,367	133,719
Provision for loan losses	4,963	8,367	11,250	15,611
Net interest income after provision for loan losses	60,998	58,312	120,117	118,108
<b>Noninterest income:</b>				
Impairment losses on securities		(577)	(545)	(577)
Noncredit related losses on securities not expected to be sold (recognized in other comprehensive income)		70	307	70
Net impairment losses		(507)	(238)	(507)
Gain/ (loss) on sale of investments, net	(44)	45		49
Service charges and fees	8,702	9,321	17,127	18,249
Trust and other financial services income	2,018	2,185	4,134	4,095
Insurance commission income	1,603	1,790	3,321	3,170
Loss on real estate owned, net	(582)	(593)	(1,652)	(620)
Income from bank owned life insurance	1,107	1,716	2,224	2,882
Mortgage banking income	789	290	1,320	487
Other operating income	1,244	1,015	2,241	1,783
Total noninterest income	14,837	15,262	28,477	29,588
<b>Noninterest expense:</b>				
Compensation and employee benefits	27,416	29,658	55,254	55,157
Premises and occupancy costs	5,483	5,650	11,231	11,841
Office operations	3,340	3,255	6,664	6,355
Processing expenses	6,059	5,687	12,201	11,454
Marketing expenses	3,829	2,108	5,865	4,067
Federal deposit insurance premiums	1,418	2,355	3,038	4,782
Professional services	1,500	1,289	3,197	2,545
Amortization of other intangible assets	279	479	574	970
Real estate owned expense	571	249	1,311	680
Other expenses	2,071	1,760	3,907	4,017

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Total noninterest expense	51,966	52,490	103,242	101,868
Income before income taxes	23,869	21,084	45,352	45,828
Federal and state income taxes	7,508	6,081	13,810	13,572
Net income	\$ 16,361	\$ 15,003	31,542	32,256
Basic earnings per share	\$ 0.17	0.15	0.33	0.31
Diluted earnings per share	\$ 0.17	0.15	0.33	0.31

See accompanying notes to unaudited consolidated financial statements



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

(in thousands)

	<b>Three months ended June 30,</b>		
	<b>2012</b>	<b>2011</b>	
Net Income	\$	16,361	15,003
Other comprehensive income net of tax:			
Net unrealized holding gains on marketable securities:			
Unrealized holding gains net of tax of \$(572) and \$(2,488), respectively		894	4,620
Other-than-temporary impairment on securities included in net income, net of tax of \$0 and \$(177), respectively			330
Reclassification adjustment for (gains)/ losses included in net income, net of tax of \$91 and \$(100), respectively		(141)	188
Net unrealized holding gains on marketable securities		753	5,138
Change in fair value of interest rate swaps, net of tax of \$410 and \$705, respectively		(641)	(1,309)
Other comprehensive income		112	3,829
Total comprehensive income	\$	16,473	18,832

	<b>Six months ended June 30,</b>		
	<b>2012</b>	<b>2011</b>	
Net Income	\$	31,542	32,256
Other comprehensive income net of tax:			
Net unrealized holding gains on marketable securities:			
Unrealized holding gains net of tax of \$(1,473) and \$(3,619), respectively		2,255	6,721
Other-than-temporary impairment on securities included in net income, net of tax of \$(93) and \$(177), respectively		145	330
Reclassification adjustment for (gains)/ losses included in net income, net of tax of \$122 and \$(92), respectively		(190)	172
Net unrealized holding gains on marketable securities		2,210	7,223
Change in fair value of interest rate swaps, net of tax of \$48 and \$223, respectively		(90)	(415)
Other comprehensive income		2,120	6,808
Total comprehensive income	\$	33,662	39,064

See accompanying notes to unaudited consolidated financial statements

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## NORTHWEST BANCSHARES, INC.

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY (Unaudited)

(dollars in thousands)

## Three months ended June 30, 2011

	Common Stock Shares	Common Stock Amount	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income/ (loss)	Unallocated common stock of ESOP	Total Shareholders Equity
Beginning balance at March 31, 2011	107,733,432	\$ 1,078	793,951	529,630	(10,518)	(27,025)	1,287,116
Comprehensive income:							
Net income				15,003			15,003
Other comprehensive income, net of tax of \$(2,060)					3,829		3,829
Total comprehensive income				15,003	3,829		18,832
Exercise of stock options	72,230	1	386				387
Stock compensation expense	1,273,949	12	3,384			386	3,782
Share repurchases	(5,813,566)	(58)	(71,514)				(71,572)
Dividends paid (\$0.11 per share)				(11,404)			(11,404)
Ending balance at June 30, 2011	103,266,045	\$ 1,033	726,207	533,229	(6,689)	(26,639)	1,227,141

## Three months ended June 30, 2012

	Common Stock Shares	Common Stock Amount	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income/ (loss)	Unallocated common stock of ESOP	Total Shareholders Equity
Beginning balance at March 31, 2012	97,593,396	\$ 976	660,933	547,352	(21,218)	(25,568)	1,162,475

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Comprehensive income:								
Net income				16,361			16,361	
Other comprehensive income, net of tax of \$(71)					112		112	
Total comprehensive income				16,361	112		16,473	
Exercise of stock options	24,101			209			209	
Stock compensation expense	263,377	3	1,041			376	1,420	
Dividends paid (\$0.12 per share)					(11,435)		(11,435)	
Ending balance at June 30, 2012	97,880,874	\$	979	662,183	552,278	(21,106)	(25,192)	1,169,142

See accompanying notes to unaudited consolidated financial statements

Table of Contents**NORTHWEST BANCSHARES, INC.****CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY (unaudited)**

(dollars in thousands)

Six months ended June 30, 2011	Common Stock		Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income/ (loss)	Unallocated common stock of ESOP	Total Shareholders Equity
	Shares	Amount					
Beginning balance at December 31, 2010	110,295,117	\$ 1,103	824,164	523,089	(13,497)	(27,409)	1,307,450
Comprehensive income:							
Net income				32,256			32,256
Other comprehensive income, net of tax of \$(3,665)					6,808		6,808
Total comprehensive income				32,256	6,808		39,064
Exercise of stock options	128,968	2	738				740
Stock-based compensation expense	1,273,949	12	3,867			770	4,649
Share repurchases	(8,431,989)	(84)	(102,562)				(102,646)
Dividends paid (\$0.21 per share)				(22,116)			(22,116)
Ending balance at June 30, 2011	103,266,045	\$ 1,033	726,207	533,229	(6,689)	(26,639)	1,227,141

Six months ended June 30, 2012	Common Stock		Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income/ (loss)	Unallocated common stock of ESOP	Total Shareholders Equity
	Shares	Amount					
Beginning balance at December 31, 2011	97,493,046	\$ 975	659,523	543,598	(23,226)	(25,966)	1,154,904
Comprehensive income:							
Net income				31,542			31,542
Other comprehensive income, net of tax of \$(1,396)					2,120		2,120
Total comprehensive income				31,542	2,120		33,662
Exercise of stock options	124,451	1	994				995
Stock-based compensation expense	263,377	3	1,666			774	2,443
Dividends paid (\$0.24 per share)				(22,862)			(22,862)

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Ending balance at June 30, 2012	97,880,874	\$	979	662,183	552,278	(21,106)	(25,192)	1,169,142
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See accompanying notes to unaudited consolidated financial statements

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

	<b>Six months ended</b>	
	<b>June 30,</b>	
	<b>2012</b>	<b>2011</b>
<b>OPERATING ACTIVITIES:</b>		
Net Income	\$ 31,542	32,256
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	11,250	15,611
Net loss on sale of assets	1,718	1,597
Net depreciation, amortization and accretion	3,691	4,634
Decrease in other assets	14,578	10,597
Increase in other liabilities	6,428	233
Net amortization of premium on marketable securities	(19)	(258)
Noncash impairment losses on investment securities	238	507
Noncash write-down of real estate owned	886	416
Origination of loans held for sale	(106,900)	(46,254)
Proceeds from sale of loans held for sale	95,315	49,655
Noncash compensation expense related to stock benefit plans	2,443	4,649
Net cash provided by operating activities	61,170	73,643
<b>INVESTING ACTIVITIES:</b>		
Purchase of marketable securities available-for-sale	(144,666)	(184,770)
Purchase of marketable securities held-to-maturity		
Proceeds from maturities and principal reductions of marketable securities available-for-sale	155,891	106,668
Proceeds from maturities and principal reductions of marketable securities held-to-maturity	51,170	76,783
Proceeds from sale of marketable securities available-for-sale		
Loan originations	(1,030,529)	(801,314)
Proceeds from loan maturities and principal reductions	902,818	820,330
Proceeds from redemption of Federal Home Loan Bank stock	2,101	5,858
Proceeds from sale of real estate owned	6,329	4,594
Sale/ (purchase) of real estate owned for investment, net	228	(251)
Purchase of premises and equipment	(8,561)	(1,781)
Net cash provided by/ (used in) investing activities	(65,219)	26,117

Table of Contents**NORTHWEST BANCSHARES, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited) (continued)**

(in thousands)

	Six months ended June 30,	
	2012	2011
<b>FINANCING ACTIVITIES:</b>		
Increase in deposits, net	\$ 25,545	54,970
Repayments of long-term borrowings	(34)	(50,033)
Net increase in short-term borrowings	25,223	6,190
Increase in advances by borrowers for taxes and insurance	8,753	7,503
Cash dividends paid	(22,862)	(22,116)
Purchase of common stock for retirement		(102,646)
Proceeds from stock options exercised	995	740
Net cash provided by/ (used in) financing activities	37,620	(105,392)
Net increase/ (decrease) in cash and cash equivalents	\$ 33,571	(5,632)
Cash and cash equivalents at beginning of period	\$ 688,297	719,111
Net increase/ (decrease) in cash and cash equivalents	33,571	(5,632)
Cash and cash equivalents at end of period	\$ 721,868	713,479
<b>Cash and cash equivalents:</b>		
Cash and due from banks	\$ 82,295	80,889
Interest-earning deposits in other financial institutions	638,940	631,957
Federal funds sold and other short-term investments	633	633
Total cash and cash equivalents	\$ 721,868	713,479
<b>Cash paid during the period for:</b>		
Interest on deposits and borrowings (including interest credited to deposit accounts of \$20,736 and \$26,828, respectively)	\$ 39,801	48,075
Income taxes	\$ 4,292	10,135
<b>Non-cash activities:</b>		
Loans foreclosures and repossessions	\$ 12,038	6,395
Sale of real estate owned financed by the Company	\$ 380	266

See accompanying notes to unaudited consolidated financial statements

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Unaudited**

**(1) Basis of Presentation and Informational Disclosures**

Northwest Bancshares, Inc. (the Company) or ( NWBI ), a Maryland corporation headquartered in Warren, Pennsylvania, is a savings and loan holding company regulated by the Board of Governors of the Federal Reserve System. The Company was incorporated to be the successor to Northwest Bancorp, Inc. upon the completion of the mutual-to-stock conversion of Northwest Bancorp, MHC in December 2009. The primary activity of the Company is the ownership of all of the issued and outstanding common stock of Northwest Savings Bank, a Pennsylvania-chartered savings bank ( Northwest ). Northwest is regulated by the FDIC and the Pennsylvania Department of Banking. At June 30, 2012, Northwest operated 167 community-banking offices throughout Pennsylvania, western New York, eastern Ohio and Maryland.

The accompanying unaudited consolidated financial statements include the accounts of the Company and its subsidiary, Northwest, and Northwest's subsidiaries Northwest Settlement Agency, LLC, Northwest Consumer Discount Company, Northwest Financial Services, Inc., Northwest Advisors, Inc., Northwest Capital Group, Inc., Boetger & Associates, Inc., Allegheny Services, Inc., Great Northwest Corporation and Veracity Benefits Design. The unaudited consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles for interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required for complete annual financial statements. In the opinion of management, all adjustments necessary for the fair presentation of the Company's financial position and results of operations have been included. The consolidated statements have been prepared using the accounting policies described in the financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011 updated, as required, for any new pronouncements or changes.

The results of operations for the quarter ended and six months ended June 30, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012.

Stock-Based Compensation

On May 23, 2012, we awarded employees 508,573 stock options and directors 64,800 stock options with an exercise price of \$11.70 and a grant date fair value of \$1.23 per stock option. On May 23, 2012, we also awarded employees 239,077 common shares and directors 24,300 common shares with a grant date fair value of \$11.64. Awarded stock options and common shares vest over a ten-year period with the first vesting occurring on the grant date. Stock-based compensation expense of \$1.4 million and \$3.8 million for the three months ended June 30, 2012 and 2011, respectively, and \$2.4 million and \$4.6 million for the six months ended June 30, 2012 and 2011, respectively, was recognized in compensation expense relating to our stock benefit plans. At June 30, 2012 there was compensation expense of \$6.0 million to be recognized for awarded but unvested stock options and \$15.1 million for unvested common shares.

Income Taxes- Uncertain Tax Positions



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Accounting standards prescribe a comprehensive model for how a company should recognize, measure, present and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return. A tax benefit from an uncertain position may be recognized only if it is more likely than not that the position is sustainable, based on its technical merits. The tax benefit of a qualifying position is the largest amount of tax benefit that is greater than 50% likely of being realized upon ultimate settlement with a taxing authority having full knowledge of all relevant information. As of June 30, 2012 we had no liability for unrecognized tax benefits.

We recognize interest accrued related to: (1) unrecognized tax benefits in federal and state income taxes and (2) refund claims in other operating income. We recognize penalties (if any) in federal and state

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income taxes. There is no amount accrued for the payment of interest or penalties at June 30, 2012. We are subject to audit by the Internal Revenue Service and any state in which we conduct business for the tax periods ended December 31, 2010, 2009 and 2008.

**(2) Business Segments**

We operate in two reportable business segments: Community Banking and Consumer Finance. The Community Banking segment provides services traditionally offered by full-service community banks, including commercial and personal demand, savings and time deposit accounts and commercial and personal loans, as well as insurance, brokerage and investment management and trust services. The Consumer Finance segment, which is comprised of Northwest Consumer Discount Company, a subsidiary of Northwest, operates 52 offices in Pennsylvania and offers personal installment loans for a variety of consumer and real estate products. This activity is funded primarily through an intercompany borrowing relationship with Allegheny Services, Inc., a subsidiary of Northwest. Net income is the primary measure used by management to measure segment performance. The following tables provide financial information for these reportable segments. The All Other column represents the parent company and elimination entries necessary to reconcile to the consolidated amounts presented in the financial statements.

At or for the quarter ended:

June 30, 2012 (\$ in 000 s)	Community Banking	Consumer Finance	All other *	Consolidated
External interest income	\$ 79,290	5,512	255	85,057
Intersegment interest income	738		(738)	
Interest expense	17,785	738	573	19,096
Provision for loan losses	4,250	713		4,963
Noninterest income	14,241	581	15	14,837
Noninterest expense	48,587	3,180	199	51,966
Income tax expense (benefit)	7,304	647	(443)	7,508
Net income	16,343	815	(797)	16,361
Total assets	\$ 7,881,277	116,262	40,457	8,037,996

June 30, 2011 (\$ in 000 s)	Community Banking	Consumer Finance	All other *	Consolidated
External interest income	\$ 84,520	5,385	236	90,141
Intersegment interest income	766		(766)	
Interest expense	22,243	766	453	23,462
Provision for loan losses	7,650	717		8,367
Noninterest income	14,677	572	13	15,262
Noninterest expense	49,332	3,005	153	52,490
Income tax expense (benefit)	5,865	611	(395)	6,081
Net income	14,873	858	(728)	15,003
Total assets	\$ 7,944,536	115,428	27,381	8,087,345

\* Eliminations consist of intercompany loans, interest income and interest expense.



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At or for the six months ended:

<b>June 30, 2012 (\$ in 000 s)</b>	<b>Community Banking</b>	<b>Consumer Finance</b>	<b>All other *</b>	<b>Consolidated</b>
External interest income	\$ 159,695	11,043	568	171,306
Intersegment interest income	1,486		(1,486)	
Interest expense	37,325	1,486	1,128	39,939
Provision for loan losses	9,750	1,500		11,250
Noninterest income	27,323	1,092	62	28,477
Noninterest expense	96,465	6,376	401	103,242
Income tax expense (benefit)	13,525	1,151	(866)	13,810
Net income	31,439	1,622	(1,519)	31,542
Total assets	\$ 7,881,277	116,262	40,457	8,037,996

<b>June 30, 2011 (\$ in 000 s)</b>	<b>Community Banking</b>	<b>Consumer Finance</b>	<b>All other *</b>	<b>Consolidated</b>
External interest income	\$ 170,136	10,632	465	181,233
Intersegment interest income	1,536		(1,536)	
Interest expense	45,203	1,536	775	47,514
Provision for loan losses	14,150	1,461		15,611
Noninterest income	28,537	1,025	26	29,588
Noninterest expense	95,433	6,042	393	101,868
Income tax expense (benefit)	13,261	1,088	(777)	13,572
Net income	32,162	1,530	(1,436)	32,256
Total assets	\$ 7,944,536	115,428	27,381	8,087,345

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\* Eliminations consist of intercompany loans, interest income and interest expense.

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The following table shows the portfolio of investment securities available-for-sale at June 30, 2012 (in thousands):

	Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
Debt issued by the U.S. government and agencies:				
Due in one year or less	\$ 54			54
Debt issued by government sponsored enterprises:				
Due in one year - five years	27,496	35	(24)	27,507
Due in five years - ten years	38,727	620	(1)	39,346
Due after ten years	8,486		(23)	8,463
Equity securities	12,398	5,964	(4)	18,358
Municipal securities:				
Due in one year - five years	6,948	228		7,176
Due in five years - ten years	23,191	941		24,132
Due after ten years	112,287	5,759	(107)	117,939
Corporate debt issues:				
Due after ten years	25,025	229	(5,597)	19,657
Residential mortgage-backed securities:				
Fixed rate pass-through	102,252	7,368		109,620
Variable rate pass-through	120,805	6,374	(2)	127,177
Fixed rate non-agency CMOs	7,186	170	(345)	7,011
Fixed rate agency CMOs	131,500	3,174		134,674
Variable rate non-agency CMOs	934		(22)	912
Variable rate agency CMOs	256,759	2,033	(175)	258,617
Total residential mortgage-backed securities	619,436	19,119	(544)	638,011
Total marketable securities available-for-sale	\$ 874,048	32,895	(6,300)	900,643

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The following table shows the portfolio of investment securities available-for-sale at December 31, 2011 (in thousands):

	Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
Debt issued by the U.S. government and agencies:				
Due in one year or less	\$ 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 CMOs	112,670	3,466		116,136
Variable rate non-agency CMOs	1,104		(154)	950
Variable rate 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 table shows the portfolio of investment securities held-to-maturity at June 30, 2012 (in thousands):

	Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
Municipal securities:				
Due in five years - ten years	\$ 3,678	157		3,835
Due after ten years	65,591	3,355		68,946
Residential mortgage-backed securities:				
Fixed rate pass-through	20,040	1,066		21,106
Variable rate pass-through	7,782	22		7,804
Fixed rate agency CMOs	72,758	2,095		74,853

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Variable rate agency CMOs	10,285	214	10,499
Total residential mortgage-backed securities	110,865	3,397	114,262
Total marketable securities held-to-maturity	\$ 180,134	6,909	187,043

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The following table shows the portfolio of investment securities held-to-maturity at December 31, 2011 (in thousands):

	Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
<b>Municipal securities:</b>				
Due in five years - ten years	\$ 3,677	174		3,851
Due after ten years	71,015	3,615		74,630
<b>Residential mortgage-backed securities:</b>				
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

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 amortized cost, the financial condition and near-term prospects of the issuer, including any specific events which may influence the operations of the issuer, and the intent to hold the investments for a period of time sufficient to allow for a recovery in value. Certain investments are evaluated using our best estimate of future cash flows. If the estimate of cash flows indicates that an adverse change has occurred, other-than-temporary impairment would be recognized for the amount of the unrealized loss that was deemed credit related.

The following table shows the fair value of and gross unrealized losses on investment securities, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position at June 30, 2012 (in thousands):

	Less than 12 months		12 months or more		Total Fair value	Total Unrealized loss
	Fair value	Unrealized loss	Fair value	Unrealized loss		
U.S. government and agencies	\$ 34,976	(24)	8,462	(24)	43,438	(48)
Municipal securities	890	(26)	1,501	(81)	2,391	(107)
Corporate issues	1,802	(69)	13,898	(5,528)	15,700	(5,597)
Equity securities			15	(4)	15	(4)
Residential mortgage-backed securities - non-agency			4,681	(367)	4,681	(367)
Residential mortgage-backed securities - agency	64,061	(166)	14,171	(11)	78,232	(177)
Total temporarily impaired securities	\$ 101,729	(285)	42,728	(6,015)	144,457	(6,300)





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

	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
U.S. government and agencies	\$ 24,601	(61)	9,648	(49)	34,249	(110)
Municipal securities			2,317	(180)	2,317	(180)
Corporate issues	3,537	(219)	15,067	(4,416)	18,604	(4,635)
Equities	4,178	(258)	18	(1)	4,196	(259)
Residential mortgage-backed securities - non-agency			4,971	(889)	4,971	(889)
Residential mortgage-backed securities - agency	85,921	(100)	14,353	(37)	100,274	(137)
Total temporarily impaired securities	\$ 118,237	(638)	46,374	(5,572)	164,611	(6,210)

### Corporate issues

As of June 30, 2012, we had six investments with a total book value of \$19.4 million and total fair value of \$13.9 million, where the book value exceeded the carrying value for more than 12 months. These investments were two single issuer trust preferred investments and four pooled trust preferred investments. The single issuer trust preferred investments were evaluated for other-than-temporary impairment by determining the strength of the underlying issuer. In both cases, the underlying issuer was well-capitalized for regulatory purposes. Neither of the issuers have deferred interest payments or announced the intention to defer interest payments. We believe the decline in fair value is related to the spread over three month LIBOR, on which the quarterly interest payments are based, as the spread over LIBOR is significantly lower than current market spreads on similar investments. We concluded the impairment of these two investments was considered noncredit related and temporary. In making that determination, we also considered the duration and the severity of the losses and whether we intend to hold these securities until the value is recovered, the securities are redeemed or maturity. The pooled trust preferred investments were evaluated for other-than-temporary impairment by considering the duration and severity of the losses, actual cash flows, projected cash flows, performing collateral, the class of investment owned and the amount of additional defaults the structure could withstand prior to the investment experiencing a disruption in cash flows. None of these investments experienced a cash flow disruption or are projecting a cash flow disruption.

We concluded, based on all facts evaluated, the impairment of these investments was considered noncredit related and temporary. Management asserts that we do not have the intent to sell these investments and that it is more likely than not, we will not have to sell the investments before recovery of their cost basis.

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The following table provides class, book value, fair value and ratings information for our portfolio of corporate securities that have an unrealized loss, both greater than and less than twelve months, at June 30, 2012 (in thousands):

Description	Class	Book value	Total Fair value	Unrealized losses	Moody s/ Fitch ratings
Bank Boston Capital Trust					
(1)	N/A	\$ 988	693	(295)	Ba2/ BB
Huntington Capital Trust	N/A	1,426	1,028	(398)	Baa3/ BB
North Fork Capital Trust					
(2)	N/A	1,006	1,002	(4)	Baa3/ BB+
Ocean Shore Capital Trust	N/A	865	800	(65)	Not rated
I-PreTSL I	Mezzanine	1,500	442	(1,058)	Not rated/ CCC
I-PreTSL II	Mezzanine	1,500	604	(896)	Not rated/ B
PreTSL XIX	Senior A-1	8,613	6,622	(1,991)	Baa2/ BBB
PreTSL XX	Senior A-1	5,399	4,509	(890)	Ba2/ BB
		\$ 21,297	15,700	(5,597)	

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

(2) North Fork was acquired by Capital One.

The following table provides collateral information on the entire pool for the trust preferred securities included in the previous table at June 30, 2012 (in thousands):

Description	Total collateral	Current deferrals and defaults	Performing collateral	Additional immediate defaults before causing an interest shortfall
I-PreTSL I	\$ 188,500	32,500	156,000	94,338
I-PreTSL II	340,500	17,500	323,000	323,000
PreTSL XIX	649,881	179,150	470,731	149,500
PreTSL XX	552,238	174,500	377,738	99,000

### Mortgage-backed securities

Mortgage-backed securities include agency (FNMA, FHLMC and GNMA) mortgage-backed securities and non-agency collateralized mortgage obligations ( CMOs ). We review our portfolio of mortgage-backed securities quarterly for impairment. As of June 30, 2012, we believe that the impairment within our portfolio of agency mortgage-backed securities is noncredit related and temporary. As of June 30, 2012, we had seven non-agency CMOs with a total book value of \$8.1 million and a total fair value of \$7.9 million, including two non-agency CMOs with a book value of \$5.0 million and a fair value of \$4.7 million, where the book value exceeded the carrying value for more than 12 months. During the six months ended June, 2012, we recognized other-than-temporary credit related impairment of \$238,000 related to one of these investments. After recognizing the other-than-temporary impairment, our book value on this investment was \$4.1 million, with a fair value of \$3.8 million.

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We determined how much of the impairment was credit related and noncredit related by analyzing cash flow estimates, estimated prepayment speeds, loss severity

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and conditional default rates. We consider the discounted cash flow analysis to be our primary evidence when determining whether credit related other-than-temporary impairment exists. After this review, we determined that the remaining impairment on these securities was noncredit related and temporary.

The following table shows issuer specific information, book value, fair value, unrealized gain or loss and other-than-temporary impairment recorded in earnings for the portfolio of non-agency CMOs at June 30, 2012 (in thousands):

Description	Book value	Fair value	Unrealized gain/ (loss)	Impairment recorded in current period earnings	Total impairment recorded in prior period earnings
AMAC 2003-6 2A2	\$ 282	291	9		
AMAC 2003-6 2A8	584	603	19		
BOAMS 2005-11 1A8	1,236	1,348	112		(146)
CWALT 2005-J14 A3	4,115	3,770	(345)		(914)
CFSB 2003-17 2A2	565	580	15		
WAMU 2003-S2 A4	404	419	15		
WFMBS 2003-B A2	934	912	(22)		
	\$ 8,120	7,923	(197)		(1,060)

Municipal Securities

At June 30, 2012, we had two investments in municipal securities with a total book value of \$1.6 million and a total fair value of \$1.5 million, where book value exceeded fair value for more than 12 months. We initially evaluate municipal securities for other-than-temporary impairment by comparing the fair value, provided to us by two third party pricing sources using quoted prices for similar assets that are actively traded, to the carrying value. When an investment's fair value is below 80% of the carrying value we then look at the stated interest rate and compare the stated interest rate to current market interest rates to determine if the decline in fair value is considered to be attributable to interest rates. If the interest rate approximates current interest rates for similar securities, we determine if the investment is rated and if so, if the rating has changed in the current period. If the rating has not changed during the current period, we review publicly available information to determine if there has been any negative change in the underlying municipality. At June 30, 2012, we have determined that all of the impairment in our municipal securities portfolio is noncredit related and temporary. The two investments in municipal securities discussed above were issued by two Pennsylvania municipalities.

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The following table provides information for our portfolio of municipal securities that have unrealized losses for greater than 12 months at June 30, 2012 (in thousands):

Description	State	Book value	Total Fair value	Unrealized losses	Rating
Cambridge Area JT Revenue	PA	\$ 595	581	(14)	Not rated
West Reading General Obligation	PA	987	920	(67)	BBB
		\$ 1,582	1,501	(81)	

Credit related other-than-temporary impairment on debt securities is recognized in earnings while noncredit related other-than-temporary impairment on debt securities, not expected to be sold, is recognized in other comprehensive income.

The table below shows a cumulative roll forward of credit losses recognized in earnings for debt securities held and not intended to be sold for the three months ended (in thousands):

	2012	2011
Beginning balance at April 1, (a)	\$ 16,620	15,445
Credit losses on debt securities for which other-than-temporary impairment was not previously recognized		
Additional credit losses on debt securities for which other-than-temporary impairment was previously recognized		507
Ending balance at June 30,	\$ 16,620	15,952

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

The table below shows a cumulative roll forward of credit losses recognized in earnings for debt securities held and not intended to be sold for the six months ended (in thousands):

	2012	2011
Beginning balance at January 1, (a)	\$ 16,382	15,445
Credit losses on debt securities for which other-than-temporary impairment was not previously recognized		
Additional credit losses on debt securities for which other-than-temporary impairment was previously recognized	238	507
Ending balance at June 30,	\$ 16,620	15,952

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



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We have defined our portfolio segments as Personal Banking loans and Business Banking loans. Classes of Personal Banking loans are residential mortgage loans, home equity loans and other consumer loans. Classes of Business Banking loans are commercial real estate loans and commercial loans. The following table shows a summary of our loans receivable at June 30, 2012 and December 31, 2011 (in thousands):

	June 30, 2012	December 31, 2011
<b>Personal Banking:</b>		
Residential mortgage loans	\$ 2,452,633	2,414,992
Home equity loans	1,102,936	1,084,786
Other consumer loans	240,992	245,689
<b>Total Personal Banking</b>	<b>3,796,561</b>	<b>3,745,467</b>
<b>Business Banking:</b>		
Commercial real estate	1,536,978	1,481,127
Commercial loans	422,231	408,462
<b>Total Business Banking</b>	<b>1,959,209</b>	<b>1,889,589</b>
<b>Total loans receivable, gross</b>	<b>5,755,770</b>	<b>5,635,056</b>
Deferred loan fees	(2,161)	(4,752)
Allowance for loan losses	(70,110)	(71,138)
<b>Undisbursed loan proceeds:</b>		
Residential mortgage loans	(18,916)	(12,874)
Commercial real estate	(42,197)	(45,360)
Commercial loans	(22,761)	(20,551)
<b>Total loans receivable, net</b>	<b>\$ 5,599,625</b>	<b>5,480,381</b>



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The following table provides information related to the allowance for loan losses by portfolio segment and by class of financing receivable

	Balance March 31, 2012	Current period provision	Charge-offs	Recoveries	Balance June 30, 2012
<b>Personal Banking:</b>					
Residential mortgage loans	\$ 7,864	1,250	(1,219)	102	7,997
Home equity loans	7,947	1,240	(589)	36	8,634
Other consumer loans	4,589	1,339	(1,504)	241	4,665
<b>Total Personal Banking</b>	<b>20,400</b>	<b>3,829</b>	<b>(3,312)</b>	<b>379</b>	<b>21,296</b>
<b>Business Banking:</b>					
Commercial real estate loans	35,291	1,774	(2,959)	675	34,781
Commercial loans	12,720	(712)	(2,719)	142	9,431
<b>Total Business Banking</b>	<b>48,011</b>	<b>1,062</b>	<b>(5,678)</b>	<b>817</b>	<b>44,212</b>
Unallocated	4,530	72			4,602
<b>Total</b>	<b>\$ 72,941</b>	<b>4,963</b>	<b>(8,990)</b>	<b>1,196</b>	<b>70,110</b>

The following table provides information related to the allowance for loan losses by portfolio segment and by class of financing receivable for the quarter ended June 30, 2011 (in thousands):

	Balance March 31, 2011	Current period provision	Charge-offs	Recoveries	Balance June 30, 2011
<b>Personal Banking:</b>					
Residential mortgage loans	\$ 8,006	1,197	(829)	89	8,463
Home equity loans	6,840	1,718	(893)	34	7,699
Other consumer loans	5,556	557	(1,277)	308	5,144
<b>Total Personal Banking</b>	<b>20,402</b>	<b>3,472</b>	<b>(2,999)</b>	<b>431</b>	<b>21,306</b>
<b>Business Banking:</b>					
Commercial real estate loans	34,040	(374)	(2,269)	293	31,690
Commercial loans	17,710	5,071	(4,874)	56	17,963
<b>Total Business Banking</b>	<b>51,750</b>	<b>4,697</b>	<b>(7,143)</b>	<b>349</b>	<b>49,653</b>
Unallocated	4,298	198			4,496
<b>Total</b>	<b>\$ 76,450</b>	<b>8,367</b>	<b>(10,142)</b>	<b>780</b>	<b>75,455</b>

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The following table provides information related to the allowance for loan losses by portfolio segment and by class of financing receivable for the six months ended June 30, 2012 (in thousands):

	Balance December 31, 2011	Current period provision	Charge-offs	Recoveries	Balance June 30, 2012
<b>Personal Banking:</b>					
Residential mortgage loans	\$ 8,482	1,577	(2,262)	200	7,997
Home equity loans	8,687	1,368	(1,481)	60	8,634
Other consumer loans	5,325	1,546	(2,791)	585	4,665
<b>Total Personal Banking</b>	<b>22,494</b>	<b>4,491</b>	<b>(6,534)</b>	<b>845</b>	<b>21,296</b>
<b>Business Banking:</b>					
Commercial real estate loans	32,148	6,093	(4,432)	972	34,781
Commercial loans	12,080	480	(3,368)	239	9,431
<b>Total Business Banking</b>	<b>44,228</b>	<b>6,573</b>	<b>(7,800)</b>	<b>1,211</b>	<b>44,212</b>
Unallocated	4,416	186			4,602
<b>Total</b>	<b>\$ 71,138</b>	<b>11,250</b>	<b>(14,334)</b>	<b>2,056</b>	<b>70,110</b>

The following table provides information related to the allowance for loan losses by portfolio segment and by class of financing receivable for the six months ended June 30, 2011 (in thousands):

**Balance  
December 31,  
2010**