Northwest Bancshares, Inc.
Form 10-K
February 29, 2016

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, 2015
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	16,365
(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 12, 2016, there were 101,775,187 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, 2015, as reported by the Nasdaq Global Select Market, was approximately $1.215 billion.

DOCUMENTS INCORPORATED BY REFERENCE

Proxy Statement for the 2016 Annual Meeting of Stockholders of the Registrant (Part III).

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FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements, which can be identified by the use of words such as “estimate,” “project,” “believe,” “intend,” “anticipate,” “plan,” “seek,” “expect” and words of similar meaning. These forward-looking stat 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 and credit markets;
- our ability to enter new markets successfully and capitalize on growth opportunities;
- our ability to successfully integrate acquired entities;
- changes in consumer spending, borrowing and savings habits;
- our ability to continue to increase and manage our business and personal loans;
- possible impairments of securities held by us, including those issued by government entities and government sponsored enterprises;
- the impact of the economy on our loan portfolio (including cash flow and collateral values), investment portfolio, customers and capital market activities;
- the impact of the current governmental effort to restructure the U.S. financial and regulatory system;
- changes in the financial performance and/or condition of our borrowers; and
- the effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Securities and Exchange Commission, the Public Company Accounting Oversight Board, the Financial Accounting Standards Board and other accounting standard setters.

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

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

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ITEM 1. BUSINESS

Northwest Bancshares, Inc.

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

The conversion was completed December 18, 2009 when the Company sold 68,878,267 shares of common stock at $10.00 per share in the related offering. Concurrent with the completion of the offering, shares of Northwest Bancorp, Inc. common stock owned by public stockholders were exchanged for 2.25 shares of Northwest Bancshares, Inc.’s common stock. We also issued 1,277,565 shares of common stock and contributed $1.0 million in cash from the offering proceeds to Northwest Charitable Foundation, a charitable foundation that we established for the benefit of the communities in which Northwest Bank operates. As of December 31, 2015, the Company had 101,871,737 shares outstanding and a market capitalization of approximately $1.346 billion.

On August 14, 2015, we acquired LNB Bancorp, Inc. ("LNB"), the parent company of The Lorain National Bank, for total consideration of $181.0 million, and thereby acquired LNB’s 21 branch locations in the counties of Lorain, Cuyahoga and Summit in northeastern Ohio. We acquired assets with a fair value of $1.211 billion, including investment securities with a fair value of $184.2 million, loans with a fair value of $928.1 million, and we assumed deposits of $1.034 billion and borrowings of $63.2 million. The acquisition of LNB enables us to expand our northeastern Ohio presence, improve our core deposit base, and add additional scale in our banking operations. The result of LNB’s operations are included in the Consolidated Statements of Income from the date of acquisition. Under the terms of the merger agreement, each outstanding share of LNB stock was converted into the right to receive either 1.461 shares of common stock of the Company, or $18.70 in cash. As a result, LNB stockholders received 7,056,074 shares of Company common stock, valued at $90.6 million, based on the $12.84 closing price of the Company’s stock on August 14, 2015, and cash consideration of $90.4 million.

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

The Company’s website (www.northwest.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 our website shall not be considered a part of this report. Copies may also be obtained, without charge, by written request to Shareholder Relations, P.O. Box 128, Warren, Pennsylvania 16365.

Northwest Bank

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

As of December 31, 2015, Northwest Bank operated 181 community-banking locations throughout its market area in central and western Pennsylvania, western New York, eastern Ohio and Maryland. Northwest Consumer Discount Company operates 51 consumer finance offices in Pennsylvania. Northwest Bank also offers investment management

and trust services and through wholly-owned subsidiaries, actuarial and benefit plan administration services, as well as property and casualty and employer benefit plan insurance. Our principal lending activities are the origination of loans secured by first mortgages on owner-occupied, one-to-four-family residences, shorter term consumer loans, and commercial business and commercial real estate loans.

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

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

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Market Area and Competition

We are headquartered in Warren, Pennsylvania, which is located in northwestern Pennsylvania, and have our highest concentration of deposits and loans in this area. Since the early 1990s, we have expanded, primarily through acquisitions, into the southwestern and central regions of Pennsylvania, as well as western New York, northeastern Ohio and Maryland. As of December 31, 2015, we operated 133 community banking locations and 51 consumer finance offices in Pennsylvania, 25 community banking offices in Ohio, 19 community banking offices in New York and four community banking offices in Maryland. All of the aforementioned market areas are served by a number of competing financial institutions. As a result, we encounter strong competition both in attracting deposits and in originating personal and business loans. Our most direct competition for deposits comes from commercial banks, brokerage houses, other thrift institutions and credit unions in our market areas. We expect continued competition from these financial institutions in the foreseeable future. With the continued acceptance of internet banking by our customers and consumers generally, competition for deposits has increased from institutions operating outside of our market area as well as from insurance companies.

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

Pennsylvania Market Area. Our retail branch network within the state of Pennsylvania encompasses 28 counties. In addition, through our consumer finance offices we operate in 12 additional counties in the state. Our western Pennsylvania market has a diverse economy driven by healthcare and education industries, service businesses, technology companies and small manufacturing operations. Our southeastern Pennsylvania market is primarily driven by service businesses but also serves as a bedroom community to the cities of Baltimore, Maryland and Philadelphia, Pennsylvania.

Pennsylvania is a stable banking market with a total population of approximately 12.8 million and total households of approximately 5.1 million as of December 31, 2015. The Pennsylvania markets in which we operate our retail branch and consumer finance offices contain more than half of Pennsylvania’s population and a similar percentage of households. These markets have experienced a 1.2% decrease in population between 2010 and 2015. As of December 31, 2015, the markets' average median household income increased over the last year by 5.3%, to $49,585, compared to the national median income level of $55,551. However, the household income growth rate in Pennsylvania is projected to increase above the expected national average growth rates during the next five years by approximately 4.1%. As of December 31, 2015, the unemployment rate for the state of Pennsylvania was 4.8%, slightly below the national average of 5.0%.

As of September 30, 2015 the House Price Index for the last four quarters in the state of Pennsylvania increased by 2.6%, compared to an increase in the national average of 5.7%. Foreclosures have receded from their record highs to the lowest levels since the third quarter of 2007. As of September 30, 2015, the foreclosure rate for mortgage loans on one-to-four unit residential properties in the state of Pennsylvania was 2.3%, compared to the national average of 1.9%.

Western New York Market Area. Our retail branch network in New York encompasses five counties in the western portion of the state. This market has a diverse economy driven by healthcare and education industries,service businesses, technology companies and small manufacturing operations.

Our New York market area has a total population of approximately 2.1 million and total households of approximately 874,000 as of December 31, 2015. This area has experienced a decrease in population between 2010 and 2015, of 0.9%. The average median household income in this market increased by 5.4% over the last year to $48,642 as of

December 31, 2015, compared to the national median income level of $55,551. As of December 31, 2015 the unemployment rate for our New York market area was 4.8%, compared to the national average of 5.0%.

As of September 30, 2015 the House Price Index for the last four quarters in our New York market increased by 2.1%, compared to an increase in the national average of 5.7%. As of September 30, 2015, the foreclosure rate for mortgage loans on one-to-four unit residential properties in the state of New York was 4.8%, compared to the national average of 1.9%.

Northeastern Ohio Market Area. With the acquisition of LNB our retail branch network increased from four to 25 community banking offices, which encompasses five counties in northeastern Ohio, including the Cleveland metro area. The major employment sectors in this market are similar to the contiguous market in western Pennsylvania.

Our Ohio market area has a total population of approximately 2.4 million and total households of approximately 1.0 million as of December 31, 2015. This area has experienced an increase in population between 2010 and 2015, of 1.0%. The median household income for the counties in which we conduct business in Ohio was $55,533 as of December 31, 2015, compared

to the national median income level of $55,551. As of December 31, 2015 the unemployment rate for our Ohio market was 4.3%, below the national average of 5.0%.

As of September 30, 2015 the House Price Index for the last four quarters in our Ohio market area increased by 3.9%, compared to an increase in the national average of 5.7%. As of September 30, 2015, the foreclosure rate for mortgage loans on one-to-four unit residential properties in the state of Ohio was 2.3%, compared to the national average of 1.9%.

Maryland Market Area. We operate four community banking offices in Baltimore and Howard counties in Maryland. The economy in these two counties consists primarily of service businesses, industries related to government, and heath care. This market has an expanding population base, as well as median household income levels and projected income growth rates comparable to or exceeding the state and national averages as of December 31, 2015. As of December 31, 2015 the unemployment rate for our Maryland market was 4.5%, compared to the national average of 5.0%.

As of September 30, 2015 the House Price Index for the last four quarters for our Maryland market area increased by 2.1%, compared to an increase in the national average of 5.7%. As of September 30, 2015 the foreclosure rate in the state of Maryland was 2.5%, compared to the national average of 1.9%.

Lending Activities

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

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

Residential Mortgage Loans. We offer residential mortgage loans with terms typically ranging from 15 to 30 years, with either fixed or adjustable interest rates. Originations of fixed rate residential mortgage loans versus adjustable rate residential mortgage loans are monitored on an ongoing basis. The percentage of adjustable rate residential

mortgage originations to total originations is affected significantly by the level of market interest rates, customer preference, our interest rate sensitivity and liquidity position, as well as loan products offered by our competitors. Therefore, even when our strategy is to increase the origination of adjustable rate residential mortgage loans, market conditions may be such that there is greater demand for fixed rate mortgage loans. Adjustable rate residential mortgage loans totaled $40.1 million, or 0.5%, of our gross loan portfolio at December 31, 2015.

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

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

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

Included in our $2.741 billion portfolio of residential mortgage loans are construction loans of $16.1 million, or 0.1% of our gross loan portfolio. We offer fixed-rate and adjustable-rate residential construction loans primarily for the construction of owner-occupied one-to-four-family residences in our market area to builders or to owners who have a contract for construction. Construction loans are generally structured to become permanent mortgages, and are originated with terms of up to 30 years with an allowance of up to one year for construction. Advances are made as construction is completed. In addition, we originate loans within our market area that are secured by individual unimproved or improved lots. Land loans for the construction of owner-occupied residential real estate properties are currently offered with fixed-rates for terms of up to 10 years. The maximum loan-to-value ratio for these loans is 80% of the as-completed appraised value, and the maximum loan-to-value ratio for construction loans is 95% of the lower of cost to build or as-completed appraised value. Construction lending generally involves a greater degree of credit risk than permanent residential mortgage lending, as repayment of construction loans is often dependent upon the successful completion of construction projects. Construction delays or the inability of borrowers to sell properties once construction is completed may impair borrowers' ability to repay loans. Private mortgage insurance is required for construction loans with loan-to-value ratios in excess of 80%.

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

Some financial institutions we have acquired have held loans that are serviced by others and are secured by one-to-four-family residences. At December 31, 2015, our portfolio of residential mortgage loans serviced by others totaled $3.5 million. We currently have no plans to enter into new residential mortgage loan participations.

Home Equity Loans. Generally, our home equity loans are secured by the borrower's principal residence with a maximum loan-to-value ratio, including the principal balances of both the first and second mortgage loans, of 90% or less. Home equity loans are offered on a fixed rate basis with terms of up to 20 years. Home equity lines of credit are offered on an adjustable-rate basis with terms of up to 25 years. All home equity lines of credit are underwritten assuming the borrower is required to immediately begin making principal and interest payments using the current rates on our equivalent fixed rate products. At December 31, 2015, the disbursed portion of home equity lines of credit totaled $462.0 million, or 6.2% of gross loans, with $198.8 million remaining undisbursed, and our fixed-rate home equity loans totaled $725.1 million, or 9.8% of gross loans. We generally underwrite home equity loans and lines of credit in a manner similar to our underwriting of residential mortgage loans.

Other Consumer Loans. The principal types of other consumer loans we offer are direct and indirect 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, 2015, other consumer loans totaled $510.6 million, or 6.9% 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, commercial offices, manufacturing facilities and retail establishments. At December 31, 2015, 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, 2015 had a principal balance of $40.5 million, and was secured by eight multi-family residential properties. This loan was performing in accordance with its terms as of December 31, 2015. Our largest commercial real estate loan relationship at December 31, 2015, had a principal balance of $84.6 million and was secured by 18 commercial real estate properties including hotels, office and retail space. These loans were performing in accordance with their terms as of December 31, 2015. 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, 2015 our largest commercial loan relationship had a principal balance of $20.0 million, and was secured by equipment and real estate. This loan was performing in accordance with its terms as of December 31, 2015.

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

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

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

For our personal loans, including residential mortgage loans, home equity loans and lines of credit, automobile loans, credit cards and other unsecured loans, we have implemented a credit approval process based on a laddered individual loan authority system. Real estate secured loans are underwritten by our licensed mortgage loan originators. Non-real estate loans are underwritten by local loan officers who are granted various levels of authority based on their lending experience and expertise. These authority levels are reviewed by the Credit Committee on at least an annual basis. As part of the approval process, we assign independent credit officers to review the creditworthiness of all loans exceeding $500,000. If the credit officer has concerns regarding a loan that has been approved at a specific level, they have the authority to request that the loan be reviewed and approved at the next higher level.

Our commercial loan policy assigns lending limits for our various commercial loan officers and stacked authorities for commercial loan officers with the approval of senior management. These individual and stacked authorities are

established by the Credit Committee. The Senior Loan Committee may approve extensions of credit in excess of the stacked loan authorities. The Credit Committee meets quarterly to review the assigned lending limits and to monitor our lending policies, loan activity, economic conditions and concentrations of credit.

Our general policy is to make no loans either individually or in the aggregate to one customer in excess of $20.0 million. Under certain circumstances; for instance well qualified customers or customers with multiple individually qualified projects, this limit may be exceeded subject to the approval of the Senior Loan Committee. The Chief Credit Officer reviews any loans exceeding $20.0 million or unusual loan requests with the Board of Directors. In addition, the Chief Credit Officer has the authority to require that the Board of Directors review any loan that has been approved by the Senior Loan Committee with which the Chief Credit Officer has specific concerns. Also, all loans originated during a calendar quarter of $5.0 million or more are reported to the Risk Management Committee of the Board of Directors at the end of each quarter. Fire and casualty insurance is required at the time the loan is made and throughout the term of the loan, and flood insurance is required as determined by regulation. After the loan

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is approved, a loan commitment letter is promptly issued to the borrower. At December 31, 2015, we had commitments to originate $186.7 million of loans.

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

Loan Origination Fees. We defer loan origination fees received from borrowers and costs to originate loans and amortize such amounts as an adjustment of yield over the life of the loan by using the level yield method. Deferred loan fees and costs are recognized as part of interest income immediately upon prepayment or the sale of the related loan. At December 31, 2015, we had $20.1 million of net deferred loan origination costs. Loan origination fees vary with the volume and type of loans and commitments originated and purchased, principal repayments, and competitive conditions in the marketplace.

Income from net loan origination fees was $9.2 million, $8.2 million and $8.4 million for the years ended December 31, 2015, 2014 and 2013, respectively.

Loans-to-One Borrower. As of December 31, 2015, the largest aggregate amount loaned to one borrower, or related borrowers, totaled $84.6 million and was secured by 18 commercial real estate properties including hotels, office and retail space. Our second largest lending relationship totaled $65.3 million and was secured by seven commercial office buildings. Our third largest lending relationship totaled $49.3 million and was secured by eight commercial office buildings. Our fourth largest lending relationship totaled $44.8 million and was secured by a residential development. Our fifth largest lending relationship totaled $40.5 million and was secured by eight multi-family residential properties. All of these loans were performing in accordance with their terms at December 31, 2015.

Investment Activities

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

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

At the time of purchase, we designate a security as either held-to-maturity or available-for-sale based upon our ability and intentions. Securities available-for-sale are reported at fair 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 note 4 to the Consolidated Financial Statements for a detailed analysis and description of our investment portfolio and valuation techniques.

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

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Sources of Funds

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

Deposits. Personal and business deposits are generated from our market area by offering a broad selection of deposit instruments including checking accounts, savings accounts, money market deposit accounts, term certificate accounts and individual retirement accounts. While we accept deposits of $250,000 or more, we do not offer premium rates for such deposits. We accept brokered deposits through the CDARS program, but generally do not solicit funds outside our market area. As of December 31, 2015, we had deposits through the CDARS program with an aggregate balance of $50.1 million. 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 general market interest rates, competition, and liquidity requirements.

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

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

Subsidiary Activities

Northwest Bancshares, Inc.’s sole direct consolidated subsidiary is Northwest Bank. Northwest Bancshares, Inc. also owns all of the common stock of three statutory business trusts: Northwest Bancorp Capital Trust III, a Delaware statutory business trust, Northwest Bancorp Statutory Trust IV, a Connecticut statutory business trust, and LNB Trust II, a Delaware statutory business trust (the “Trusts”). The Trusts have issued a total of $107.9 million of trust preferred securities. The Trusts are not consolidated with Northwest Bancshares, Inc. At December 31, 2015, Northwest Bancshares, Inc.’s investment in the Trusts totaled $3.3 million, and the Trusts had assets of $111.2 million.

Northwest 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., Northwest Capital Group, Inc., and The Bert Company. For financial reporting purposes all of these companies are included in the consolidated financial statements of Northwest Bancshares, Inc.

Northwest Settlement Agency, LLC provides title insurance to borrowers of Northwest Bank and other lenders. At December 31, 2015, Northwest Bank had an equity investment in Northwest Settlement Agency, LLC of $3.7 million. For the year ended December 31, 2015, Northwest Settlement Agency, LLC had net income of $285,000.

Great Northwest Corporation holds equity investments in government-assisted, low-income housing projects in various locations throughout our market area. At December 31, 2015, Northwest Bank had an equity investment in Great Northwest Corporation of $10.2 million. For the year ended December 31, 2015, Great Northwest Corporation had net income of $860,000, generated primarily from federal low-income housing tax credits.

Northwest Financial Services, Inc. provides retail brokerage services. At December 31, 2015, Northwest Bank had an equity investment in Northwest Financial Services, Inc. of $9.1 million, and for the year ended December 31, 2015, Northwest Financial Services, Inc. had net income of $479,000.

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Northwest Advisors, Inc., a federally registered investment advisor ("RIA") provides investment management programs and investment portfolio planning services. At December 31, 2015, Northwest Bank had an equity investment in Northwest Advisors, Inc. of $2.2 million, and for the year ended December 31, 2015, Northwest Advisors, Inc. had a net loss of $139,000.

Northwest Consumer Discount Company, Inc. operates 51 consumer finance offices throughout Pennsylvania. At December 31, 2015, Northwest Bank had an equity investment in Northwest Consumer Discount Company of $44.3 million and the net income of Northwest Consumer Discount Company, Inc. for the year ended December 31, 2015 was $1.6 million.

Allegheny Services, Inc. is a Delaware investment company that holds mortgage loans originated through our wholesale lending operation as well as municipal bonds. In addition, Allegheny Services, Inc. funds the operation of the Northwest Consumer Discount Company through an intercompany loan relationship. At December 31, 2015, Northwest Bank had an equity investment in Allegheny Services, Inc. of $762.4 million, and for the year ended December 31, 2015, Allegheny Services, Inc. had net income of $17.9 million.

Boetger and Associates, Inc. (doing business as Northwest Retirement Services) is an actuarial and employee benefits consulting firm that specializes in the design, implementation and administration of qualified and non-qualified retirement plan programs. At December 31, 2015, Northwest Bank had an equity investment of $2.7 million in Boetger and Associates, Inc. and for the year ended December 31, 2015, Boetger and Associates, Inc. had net income of $85,000.

Northwest Capital Group, Inc's principal activity is to own, operate and ultimately divest of properties that were acquired in foreclosure. At December 31, 2015, Northwest Bank had an equity investment of $11.8 million in Northwest Capital Group, Inc. which reported net income of $264,000 for the year ended December 31, 2015.

The Bert Company (doing business as Northwest Insurance Services) is an employee benefits and property and casualty insurance agency specializing in commercial and personal insurance as well as retirement benefit plans. At December 31, 2015, Northwest Bank had an equity investment of $8.9 million in The Bert Company and for the year ended December 31, 2015, The Bert Company had net income of $964,000.

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

Personnel

As of December 31, 2015, we had 2,007 full-time and 357 part-time employees. None of our employees are represented by a collective bargaining group. We believe we have a good working relationship with our employees.

SUPERVISION AND REGULATION

General

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

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

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

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

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

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

Federal Deposit Insurance

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

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

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

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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.

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 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

Federal regulations require federally insured depository institutions to meet several minimum capital standards: a common equity Tier 1 capital to risk-based assets ratio of 4.5%, a Tier 1 capital to risk-based assets ratio of 6.0%, a total capital to risk-based assets of 8.0%, and a 4.0% Tier 1 capital to total assets leverage ratio. These capital requirements were effective January 1, 2015 and are the result of a final rule implementing recommendations of the Basel Committee on Banking Supervision and certain requirements of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act").

In determining the amount of risk-weighted assets for purposes of calculating risk-based capital ratios, all assets, including certain off-balance sheet assets (e.g., recourse obligations, direct credit substitutes, residual interests) are multiplied by a risk weight factor assigned by the regulations based on the risks believed inherent in the type of asset. Higher levels of capital are required for asset categories believed to present greater risk. Common equity Tier 1 capital is generally defined as common stockholders' equity and retained earnings. Tier 1 capital is generally defined as common equity Tier 1 and additional Tier 1 capital. Additional Tier 1 capital includes certain noncumulative perpetual preferred stock and related surplus and minority interests in equity accounts of consolidated subsidiaries. Total capital includes Tier 1 capital (common equity Tier 1 capital plus additional Tier 1 capital) and Tier 2 capital. Tier 2 capital is comprised of capital instruments and related surplus, meeting specified requirements, and may include cumulative preferred stock and long-term perpetual preferred stock, mandatory convertible securities, intermediate preferred stock and subordinated debt. Also included in Tier 2 capital is the allowance for loan and lease losses limited to a maximum of 1.25% of risk-weighted assets and, for institutions that have exercised an opt-out election regarding the treatment of Accumulated Other Comprehensive Income, up to 45% of net unrealized gains on available-for-sale equity securities with readily determinable fair market values. Calculation of all types of regulatory capital is subject to deductions and adjustments specified in the regulations. In assessing an institution's capital adequacy, the FDIC takes into consideration, not only these numeric factors, but qualitative factors as well, and has the authority to establish higher capital requirements for individual institutions where deemed necessary.

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

In addition to establishing the minimum regulatory capital requirements, the regulations limit capital distributions and certain discretionary bonus payments to management if the institution does not hold a "capital conservation buffer" consisting of 2.5% of common equity Tier 1 capital to risk-weighted asset above the amount necessary to meet its minimum risk-based capital requirements. The capital conservation buffer requirement is being phased in beginning January 1, 2016 at 0.625% of risk-weighted assets and increasing each year until fully implemented at 2.5% on January 1, 2019.

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

	January 1, 2016		January 1, 2017		January 1, 2018		January 1, 2019	
Common equity Tier 1 ratio plus capital conservation buffer	5.125	%	5.75	%	6.375	%	7.00	%
Tier 1 risk-based capital ratio plus capital conservation buffer	6.625	%	7.25	%	7.875	%	8.50	%
Total risk-based capital ratio plus capital conservation buffer	8.625	%	9.25	%	9.875	%	10.50	%

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

Prompt Corrective Action

Federal law requires, among other things, that federal bank regulators take “prompt corrective action” with respect to institutions that do not meet minimum capital requirements. For this purpose, the law establishes five capital categories: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. The applicable FDIC regulations were amended to incorporate the previously mentioned increased regulatory capital standards that were effective January 1, 2015. Under the amended regulations, an institution is deemed to be “well capitalized” if it has a total risk-based capital ratio of 10.0% or greater, a Tier 1 risk-based capital ratio of 8.0% or greater, a leverage ratio of 5.0% or greater and a common equity Tier 1 ratio of 6.5% or greater. An institution is “adequately capitalized” if it has a total risk-based capital ratio of 8.0% or greater, a Tier 1 risk-based capital ratio of 6.0% or greater, a leverage ratio of 4.0% or greater and a common equity Tier 1 ratio of 4.5% or greater. An institution is “undercapitalized” if it has a total risk-based capital ratio of less than 8.0%, a Tier 1 risk-based capital ratio of less than 6.0%, a leverage ratio of less than 4.0% or a common equity Tier 1 ratio of less than 4.5%. An institution is deemed to be “significantly undercapitalized” if it has a total risk-based capital ratio of less than 6.0%, a Tier 1 risk-based capital ratio of less than 4.0%, a leverage ratio of less than 3.0% or a common equity Tier 1 ratio of less than 3.0%. An institution is considered to be “critically undercapitalized” if it has a ratio of tangible equity (as defined in the regulations) to total assets that 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, 2015, Northwest Bank was “well-capitalized” for this purpose.

Loans-to-One Borrower Limitation

In accordance with the Banking Code, a Pennsylvania chartered savings bank, with certain limited exceptions, may lend to a single or related group of borrowers on an “unsecured” basis an amount equal to 15% of its capital accounts, the aggregate of capital, surplus, undivided profits, capital securities and reserve for loan losses. We have established an internal lending limit, either individually or in the aggregate to one customer, of $20.0 million. Under certain circumstances, for instance well qualified customers or customers with multiple individually qualified projects, this limit may be exceeded subject to the approval of the Senior Loan Committee. As of December 31, 2015 we had 15 credit relationships that equal or exceed our $20.0 million internal limit.

Activities and Investments of Insured State-Chartered Banks

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

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and their subsidiaries are generally limited to those permissible for national banks. Exceptions include where the bank meets applicable regulatory capital requirements and the FDIC determines that the proposed activity does not pose a significant risk to the deposit insurance fund.

The USA PATRIOT Act

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

Holding Company Regulation

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

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

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

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

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

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

Qualified Thrift Lender Test. To be regulated as a savings and loan holding company (rather than as a bank holding company), Northwest Bank must qualify as a Qualified Thrift Lender. To qualify as a Qualified Thrift Lender, Northwest Bank must be a "domestic building and loan association," as defined in the Internal Revenue Code, or comply with the Qualified Thrift Lender test. Under the Qualified Thrift Lender test, a savings institution is required to maintain at least 65% of its "portfolio assets" (total assets less: (1) specified liquid assets up to 20% of total assets; (2) intangibles, including goodwill; and (3) the value

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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, 2015, Northwest Bank met the Qualified Thrift Lender test.

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

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

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

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

Federal Securities Laws

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

Sarbanes-Oxley Act of 2002

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

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

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FEDERAL AND STATE TAXATION

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

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

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

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

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

ITEM 1A. RISK FACTORS

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

A worsening of economic conditions in our market area could reduce demand for our products and services and/or result in increases in our level of non-performing loans, which could adversely affect our operations, financial condition and earnings.

Our performance is significantly impacted by the general economic conditions in our primary markets in Pennsylvania, New York, Ohio and Maryland. At December 31, 2015, 65.2% 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. Local economic conditions have a significant impact on the ability of our borrowers to repay loans and the value of the collateral securing loans.
A deterioration in economic conditions could result in the following consequences, any of which could have a material adverse effect on our business, financial condition, liquidity and results of operations:

- demand for our products and services may decline;
- loan delinquencies, problem assets and foreclosures may increase;
- collateral for loans, especially real estate, may decline in value, in turn reducing customers' future borrowing power, and reducing the value of assets and collateral associated with existing loans; and

- the net worth and liquidity of loan guarantors may decline, impairing their ability to honor commitments to us.

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

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

The Company and Northwest Bank are subject to extensive regulation, supervision and examination by the Federal Reserve Board, the Department of Banking and the FDIC. These regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities, including the ability to impose restrictions on Northwest Bank’s operations,

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reclassify assets, determine the adequacy of Northwest Bank's allowance for loan losses and determine the level of deposit insurance premiums assessed. Because our business is highly regulated, the laws and applicable regulations are subject to frequent change and interpretations. Any change in these regulations and oversight, whether in the form of regulatory policy, new regulations or legislation or additional deposit insurance premiums could have a material impact on our operations.

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

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

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

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

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

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.

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

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

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

Changes in interest rates also affect the current fair value of our interest-earning investment securities portfolio. Generally, the value of securities moves inversely with changes in interest rates. At December 31, 2015, the fair value of our investment and mortgage-backed securities portfolio totaled $907.0 million. Net unrealized gains on these securities totaled $6.3 million at December 31, 2015.

At December 31, 2015, our interest rate risk analysis indicated that the market value of our equity would decrease by 7.6% if there was an instant non-parallel 200 basis point increase in market interest rates. See “Item 7A. Quantitative and Qualitative Disclosures About Market Risk.”

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

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

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

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

associates. If our reputation is negatively affected, by the actions of our employees, by our inability to conduct our operations in a manner that is appealing to current or prospective customers, or otherwise, our business and operating results may be adversely affected.

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

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

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

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

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

Over the past two years our commercial loan portfolio, which includes commercial real estate, multi-family, commercial business and construction loans, has increased by $859.2 million, or 40.8%, to $2.962 billion December 31, 2015 from $2.103 billion at December 31, 2013. A large portion of our commercial loan portfolio is unseasoned, meaning they were originated recently. Our limited experience with these borrowers does not provide us with a significant payment history pattern with which to judge future collectability. Further, these loans have not been subjected to unfavorable economic conditions. As a result, it is difficult to predict the future performance of this part of our loan portfolio. These loans may have delinquency or charge-off levels above our historical experience, which could adversely affect our future performance.

We could record future losses on our investment securities portfolio.

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

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

Recently adopted regulations could restrict our ability to originate and sell loans.

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

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

Also, to meet the definition of a “qualified mortgage,” a borrower’s total monthly debt-to-income ratio may not exceed 43%. Lenders must also verify and document the income and financial resources relied upon to qualify the borrower for the loan and underwrite the loan based on a fully amortizing payment schedule and maximum interest rate during the first five years, taking into account all applicable taxes, insurance and assessments.

In addition, the Dodd-Frank Act requires the regulatory agencies to issue regulations that require securitizers of loans to retain “not less than 5% of the credit risk for any asset that is not a qualified residential mortgage.” The regulatory agencies have issued a final rule to implement this requirement. The final rule provides that the definition of “qualified residential mortgage” includes loans that meet the definition of qualified mortgage issued by the Consumer Financial Protection Bureau.

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The final rule could have a significant effect on the secondary market for loans and the types of loans we originate, and restrict our ability to make loans. Similarly, the Consumer Financial Protection Bureau's rule on qualified mortgages could limit our ability or desire to make certain types of loans or loans to certain borrowers, which could limit our growth or profitability.

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

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

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

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

Strong competition may limit growth and profitability.

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

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

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

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

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

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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, 2015, we had $89.5 million invested in debt obligations of states, municipalities and political subdivisions (collectively referred to as our municipal bond portfolio). We also had $143.4 million of loans outstanding to municipalities and political subdivisions. Widespread concern currently exists regarding the stress on state and local governments emanating from: (i) declining revenues; (ii) large unfunded liabilities to government workers; and (iii) entrenched cost structures. Debt-to-gross domestic product ratios for the majority of states have been deteriorating due to, among other factors: (i) declines in federal monetary assistance provided as the United States is currently experiencing the largest deficit in its history; and (ii) lower levels of sales and property tax revenue as unemployment remains elevated and the housing market continues to remain unstable. This concern has led to speculation about the potential for a significant deterioration in the municipal bond market, which could materially affect our results of operations, financial condition and liquidity. We may not be able to mitigate the exposure in our municipal portfolio if state and local governments are unable to fulfill their obligations. The risk of widespread issuer defaults may also increase if there are changes in legislation that permit states, or additional municipalities and political subdivisions, to file for bankruptcy protection or if there are judicial interpretations that, in a bankruptcy or other proceeding, lessen the value of any structural protections.

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

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

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

Within our investment portfolio, we have a significant amount of marketable equity, corporate debt and mortgage-backed securities issued by companies in the financial services sector. Given current market conditions, this sector has an enhanced level of credit risk.

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

Information technology systems are critical to our business. We use various technology systems to manage our customer relationships, general ledger, deposits, and loans. We have established policies and procedures to prevent or limit the impact of system failures, interruptions, and security breaches, but such events may still occur or may not be adequately addressed if they do occur. In addition, any compromise of our systems could deter customers from using

our products and services. Although we rely on security systems to provide security and authentication necessary to effect the secure transmission of data, these precautions may not protect our systems from compromises or breaches of security.

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

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

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

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

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

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

Acquisitions may disrupt our business and dilute stockholder value.

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

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

- difficulty in estimating the value of the target company;
- payment of a premium over book and market values that may dilute our tangible book value and earnings per share in the short and long term;
- potential exposure to unknown or contingent liabilities of the target company;
- exposure to potential asset quality problems of the target company;
- potential volatility in reported income associated with goodwill impairment losses;
- difficulty and expense of integrating the operations and personnel of the target company;
- inability to realize the expected revenue increases, cost savings, increases in geographic or product presence, and/or other projected benefits of the acquisition;
- potential disruption to our business;
- potential diversion of our management’s time and attention;
- the possible loss of key employees and customers of the target company; and
- potential changes in banking or tax laws or regulations that may affect the target company.

Our business strategy includes growth, and our financial condition and results of operations could be negatively affected if we fail to grow or fail to manage our growth effectively.

Our business strategy includes growth in assets, deposits and the scale of our operations. Achieving our growth targets will require us to attract customers that currently bank at other financial institutions in our market, thereby increasing

our share of the market. Our ability to successfully grow will depend on a variety of factors, including our ability to attract and retain experienced bankers, the continued availability of desirable business opportunities, the competitive responses from other financial institutions in our market area and our ability to manage our growth. Growth opportunities may not be available or we may not be able to manage our growth successfully. If we do not manage our growth effectively, our financial condition and operating results could be negatively affected.

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

We must maintain sufficient funds to respond to the needs of depositors and borrowers. As a part of our liquidity management, we use a number of funding sources in addition to core deposit growth and repayments and maturities of loans and investments. As we continue to grow, we are likely to become more dependent on these sources, which may include Federal Home Loan Bank advances, proceeds from the sale of loans, federal funds purchased and brokered certificates of deposit. Adverse operating results or changes in industry conditions could lead to difficulty or an inability to access these additional funding sources. Our financial flexibility will be severely constrained if we are unable to maintain our access to funding or if adequate financing

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is not available to accommodate future growth at acceptable interest rates. If we are required to rely more heavily on more expensive funding sources to support future growth, our revenues may not increase proportionately to cover our costs. In this case, our operating margins and profitability would be adversely affected.

Changes in management’s estimates and assumptions may have a material impact on our consolidated financial statements and our financial condition or operating results.

In preparing this annual report as well as periodic reports we are required to file under the Securities Exchange Act of 1934, including our consolidated financial statements, our management is and will be required under applicable rules and regulations to make estimates and assumptions as of a specified date. These estimates and assumptions are based on management’s best estimates and experience as of that date and are subject to substantial risk and uncertainty. Materially different results may occur as circumstances change and additional information becomes known. Areas requiring significant estimates and assumptions by management include our valuation of investment securities, our determination of our income tax provision and goodwill, and our evaluation of the adequacy of our allowance for loan losses.

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

As of December 31, 2015, we conducted our business through our main office located in Warren, Pennsylvania, 127 other full-service offices and five free-standing drive-up locations throughout our market area in central and western Pennsylvania, 19 offices in western New York, 25 offices in eastern Ohio and four offices in Maryland. Northwest Bancshares, Inc. and its wholly-owned subsidiaries also operated 51 consumer finance offices located throughout Pennsylvania. At December 31, 2015, our premises and equipment had an aggregate net book value of approximately $154.4 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 financial condition and/or results of operations. See note 19 in the notes to the Consolidated Financial Statements.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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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 12, 2016, we had 20 registered market makers, 14,311 stockholders of record (excluding the number of persons or entities holding stock in street name through various brokerage firms), and 101,775,187 shares outstanding. The following table sets forth market price and dividend information for our common stock.

Year Ended December 31, 2015	High	Low	Cash Dividends Declared
First Quarter	$12.62	$11.52	$0.14
Second Quarter	$13.03	$11.71	$0.14
Third Quarter	$13.21	$12.32	$0.14
Fourth Quarter	$14.11	$12.55	$0.14

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

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

There were no sales of unregistered securities during the quarter ended December 31, 2015.

The following tables disclose information regarding repurchases of shares of common stock during the quarter ended December 31, 2015, and includes the repurchase program announced on December 13, 2012, which is for approximately 5,000,000 shares and does not have an expiration date.

Month	Number of shares purchased	Average price paid per share	Total number of shares purchased as part of a publicly announced repurchase plan (1)	Maximum number of shares yet to be purchased under the plan (1)
October	—	$—	—	4,979,989
November	—	—	—	4,979,989
December	—	—	—	4,979,989
	—	—		

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Stock Performance Graph

Set forth hereunder is a stock performance graph comparing (a) the cumulative total return on our Common Stock between December 31, 2010 and December 31, 2015, (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.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*
Among Northwest Bancshares, Inc., the NASDAQ Composite Index, and the NASDAQ Bank Index
*$100 invested on 12/31/2010 in stock or index, including reinvestment of dividends.
Fiscal year ending December 31.

	12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014	12/31/2015
Northwest Bancshares, Inc.	100.00	109.43	112.24	141.90	135.41	151.27
NASDAQ Composite	100.00	100.53	116.92	166.19	188.78	199.95
NASDAQ Bank	100.00	90.68	104.29	147.41	153.18	166.77

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ITEM 6. SELECTED FINANCIAL DATA

Selected Financial and Other Data

The summary financial information presented below is derived in part from the Company's consolidated financial statements. The following is only a summary and should be read in conjunction with the consolidated financial statements and notes included elsewhere in this document. The information at December 31, 2015 and 2014 and for the years ended December 31, 2015, 2014 and 2013 is derived in part from the audited consolidated financial statements that appear in this document. The information at December 31, 2013, 2012 and 2011, and for the years ended December 31, 2012 and 2011, is derived in part from audited consolidated financial statements that do not appear in this document.

	At December 31,				
	2015	2014	2013	2012	2011
	(In thousands)				
Selected Consolidated Financial Data:					
Total assets	$8,951,899	7,775,033	7,879,859	7,941,163	7,956,439
Investment securities held-to-maturity	6,610	66,752	69,316	69,275	74,692
Investment securities available-for-sale	395,688	427,259	439,693	414,569	279,125
Mortgage-backed securities held-to-maturity	25,079	36,943	52,050	85,806	156,697
Mortgage-backed securities available-for-sale	478,717	485,112	577,074	664,505	629,224
Loans receivable net:					
Residential mortgage loans	2,736,182	2,515,875	2,475,129	2,407,647	2,388,884
Home equity	1,183,064	1,061,581	1,076,694	1,075,360	1,085,514
Other consumer loans	512,691	236,626	222,861	223,194	230,949
Commerial real estate loans	2,317,647	1,767,795	1,597,308	1,562,098	1,410,171
Commercial loans	409,865	344,861	367,613	364,988	369,279
Total loans receivable, net (1)	7,159,449	5,922,373	5,734,943	5,629,261	5,480,381
Deposits	6,612,581	5,632,542	5,668,879	5,764,600	5,780,325
Advances from Federal Home Loan Bank and other borrowed funds	975,007	888,109	881,645	860,047	827,925
Shareholders' equity	1,163,163	1,062,647	1,155,185	1,127,032	1,153,638

	For the Year Ended December 31,				
	2015	2014	2013	2012	2011
	(In thousands except per share data)				
Selected Consolidated Operating Data:					
Total interest income	$319,580	305,427	313,097	337,829	358,967
Total interest expense	56,327	56,587	61,162	75,199	92,801
Net interest income	263,253	248,840	251,935	262,630	266,166
Provision for loan losses	9,712	20,314	18,519	26,338	34,170
Net interest income after provision for loan losses	253,541	228,526	233,416	236,292	231,996
Noninterest income	68,836	70,766	66,476	58,817	58,978
Noninterest expense	233,877	215,535	207,134	205,477	200,227
Income before income tax expense	88,500	83,757	92,758	89,632	90,747
Income tax expense	27,960	21,795	26,199	26,243	26,747

Net income	$60,540	61,962	66,559	63,389	64,000
Earnings per share:					
Basic	$0.64	0.68	0.73	0.68	0.64
Diluted	$0.64	0.67	0.73	0.67	0.64

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	At or For the Year Ended December 31,				
	2015	2014	2013	2012	2011
Selected Financial Ratios and Other Data:					
Return on average assets (1)	0.73 %	0.79 %	0.84 %	0.79 %	0.79 %
Return on average equity (2)	5.49 %	5.69 %	5.87 %	5.48 %	5.24 %
Average capital to average assets	13.25 %	13.80 %	14.30 %	14.45 %	15.17 %
Capital to total assets	12.99 %	13.67 %	14.66 %	14.19 %	14.50 %
Tangible common equity to tangible assets	10.28 %	11.64 %	12.70 %	12.22 %	12.59 %
Net interest rate spread (3)	3.29 %	3.27 %	3.31 %	3.39 %	3.38 %
Net interest margin (4)	3.49 %	3.47 %	3.51 %	3.63 %	3.66 %
Noninterest expense to average assets	2.81 %	2.73 %	2.61 %	2.56 %	2.49 %
Efficiency ratio	69.05 %	67.44 %	64.99 %	63.86 %	61.53 %
Noninterest income to average assets	0.83 %	0.92 %	0.84 %	0.74 %	0.73 %
Net interest income to noninterest expense	1.13x	1.15x	1.22x	1.28x	1.35x
Dividend payout ratio	87.50 %	241.80 %	68.49 %	89.55 %	67.19 %
Nonperforming loans to net loans receivable	1.02 %	1.35 %	1.88 %	2.16 %	2.40 %
Nonperforming assets to total assets	0.91 %	1.25 %	1.60 %	1.86 %	1.99 %
Allowance for loan losses to nonperforming loans	85.86 %	84.35 %	66.12 %	60.06 %	54.05 %
Allowance for loan losses to net loans receivable	0.88 %	1.14 %	1.24 %	1.30 %	1.30 %
Average interest-earning assets to average interest-bearing liabilities	1.26 x	1.25x	1.24x	1.23x	1.22x
Number of full-service offices	181	162	165	165	168
Number of consumer finance offices	51	51	50	52	52

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

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

Overview

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

operations.

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

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Our net income was $60.5 million, or $0.64 per diluted share, for the year ended December 31, 2015 compared to $62.0 million, or $0.67 per diluted share, for the year ended December 31, 2014 and $66.6 million, or $0.73 per diluted share, for the year ended December 31, 2013. The loan loss provision was $9.7 million for the year ended December 31, 2015 compared to $20.3 million for the year ended December 31, 2014 and $18.5 million for the year ended December 31, 2013. We recorded other-than-temporary impairment losses on securities, which were reflected as a reduction of noninterest income, of $713,000 for the year ended December 31, 2013.

Other than our loans for the construction of one-to-four family residential mortgage loans, we do not solicit "interest only" mortgage loans on one-to-four family residential properties (where the borrower pays interest for an initial period, after which the loan converts to a fully amortizing loan). We also do not offer loans that provide for negative amortization of principal, such as "Option ARM" loans, where the borrower can pay less than the interest owed on the loan, resulting in an increased principal balance during the life of the loan. We do not directly solicit "subprime loans" (loans that generally target borrowers with FICO scores of less than 660) or Alt-A loans (traditionally defined as loans having less than full documentation). However, a portion of the loans originated by one of our subsidiaries, Northwest Consumer Discount Company ("NCDC"), consists of loans to persons with credit scores that would cause such loans to be considered subprime. NCDC has been in operation for over 25 years and has 51 offices throughout Pennsylvania. NCDC offers a variety of consumer loans for automobiles, appliances and furniture as well as residential mortgage loans. At December 31, 2015, NCDC's total loan portfolio was approximately $106.9 million with an average loan size of $4,479, an average FICO score of 627 and an average yield of approximately 15.5%. NCDC's total delinquency is approximately 4.9% of outstanding loans, with loans delinquent for 90 days or more at 1.3% of loans outstanding. Annual net charge-offs average approximately $3.2 million, or 3.0% of outstanding loans, and it maintains an allowance for loan losses of $4.1 million, or 3.9% of loans. Although loans originated through NCDC have higher average rates of delinquency and charge-offs than similar loans originated directly by Northwest Bank, management believes that the higher yields on loans originated through NCDC compensate for the incremental credit risk exposure.

Critical Accounting Policies

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

Allowance for Loan Losses. We recognize that losses will be experienced on loans and that the risk of loss varies with the type of loan, the creditworthiness of the borrower, general economic conditions and the quality of the collateral for the loan. We maintain an allowance for losses inherent in the loan portfolio. The allowance for loan losses represents management's estimate of probable losses based on all available information. The allowance for loan losses is based on management's evaluation of the collectability of the loan portfolio, including past loan loss experience, known and inherent losses, information about specific borrower situations, estimated collateral values, and current economic conditions. The loan portfolio is reviewed regularly by management in its determination of the allowance for loan losses. The methodology for assessing the appropriateness of the allowance includes a review of historical losses, peer group comparisons, industry data and economic conditions. As an integral part of their examination process, regulatory agencies periodically review our allowance for loan losses and may require us to make additional provisions for estimated losses based upon judgments different from those of management. In establishing the allowance for loan losses, loss factors are applied to various pools of outstanding loans. Loss factors are derived using our historical loss experience and may be adjusted for factors that affect the collectability of the portfolio as of the evaluation date. Commercial loans over $1.0 million that are criticized are evaluated individually to

determine the required allowance for loan losses and to evaluate the potential impairment. Although management believes that it uses the best information available to establish the allowance for loan losses, future adjustments to the allowance for loan losses may be necessary and results of operations could be adversely affected if circumstances differ substantially from the assumptions used in making the determinations. Because future events affecting borrowers and collateral cannot be predicted with certainty, there can be no assurance that the existing allowance for loan losses is adequate or that increases will not be necessary should the quality of loans deteriorate as a result of the factors discussed previously. Any material increase in the allowance for loan losses may adversely affect our financial condition and results of operations. The allowance is based on information known at the time of the review. Changes in factors underlying the assessment could have a material impact on the amount of the allowance that is necessary and the amount of provision to be charged against earnings. Such changes could impact future results. For further information related to our allowance for loan losses, see note 1(f) of the notes to the Consolidated Financial Statements.

Valuation of Investment Securities. Our investment securities are classified as either held-to-maturity or available-for-sale. Held-to-maturity securities are carried at amortized cost, while available-for-sale securities are carried at fair value. Unrealized gains or losses on available-for-sale securities, net of deferred taxes, are reported in other comprehensive income. Fair values are determined as described in note 16 of the notes to the Consolidated Financial Statements. Semi-annually (at May 31

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and November 30), we validate the prices received from these third parties by comparing them to prices provided by a different independent pricing service. We have reviewed the detailed valuation methodologies provided to us by our pricing services. Additional information related to our investment securities can be found in note 1(d) of the notes to the Consolidated Financial Statements.

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

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

Future changes in the economic environment or the operations of the reporting units could cause changes to these variables, which could give rise to declines in the estimated fair value of the reporting unit. Declines in fair value could result in impairment being identified. We have established June 30 of each year as the date for conducting our annual goodwill impairment assessment. Quarterly, we evaluate if there are any triggering events that would require an update to our previous assessment. The variables are selected as of June 30 and the valuation model is run to determine the fair value of each reporting unit. We did not identify any individual reporting unit where the fair value was less than the carrying value as of June 30, 2015.

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, 2015 and 2014, we used a discount rate of 4.25% and 3.89%, respectively. We use the Citigroup Pension Liability Index rates matching the duration of our benefit payments as of the measurement date, December 31, to determine the discount rate.

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Balance Sheet Analysis

On August 14, 2015, we acquired LNB, the parent company of The Lorain National Bank. As a result, we acquired assets with a fair value of $1.211 billion, including investment securities with a fair value of $184.2 million, loans with a fair value of $928.1 million, and we assumed deposits of $1.034 billion and borrowings of $63.2 million. The following table shows certain assets and liabilities at the dates indicated for comparative purposes:

	Balance at December 31, 2015	LNB acquired, at fair value August 14, 2015	Adjusted balance at December 31, 2015	Balance at December 31, 2014
		(In thousands)		
Assets:				
Total marketable securities available-for-sale	874,405	184,169	690,236	912,371
Total marketable securities held-to-maturity	31,689	—	31,689	103,695
Total marketable securities	$906,094	184,169	721,925	1,016,066
Personal Banking:				
Residential mortgage loans	$2,740,892	48,128	2,692,764	2,521,456
Home equity loans	1,187,106	153,986	1,033,120	1,066,131
Other consumer loams	520,289	222,708	297,581	242,744
Total Personal Banking	4,448,287	424,822	4,023,465	3,830,331
Business Banking:				
Commercial real estate loans	2,351,434	429,039	1,922,395	1,801,184
Commercial loans	422,400	74,240	348,160	358,376
Total Business Banking	2,773,834	503,279	2,270,555	2,159,560
Total loans	$7,222,121	928,101	6,294,020	5,989,891
Liabilities:				
Noninterest-bearing demand deposits	$1,177,256	142,087	1,035,169	891,248
Interest-bearing demand deposits	1,080,086	185,849	894,237	874,623
Money market deposit accounts	1,274,504	142,878	1,131,626	1,179,070
Savings deposits	1,386,017	127,532	1,258,485	1,209,287
Time deposits	1,694,718	435,646	1,259,072	1,478,314
Total deposits	$6,612,581	1,033,992	5,578,589	5,632,542
FHLB advances	$750,343	62,500	687,843	725,395
FHLB overnight advances	106,000	—	106,000	—
Collateralized borrowings	118,664	669	117,995	162,714
Total borrowed funds	$975,007	63,169	911,838	888,109

Assets. Total assets at December 31, 2015 were $8.952 billion, an increase of $1.177 billion, or 15.1%, from $7.775 billion at December 31, 2014. This increase in assets was due primarily to the addition of $1.211 billion, at fair value, of assets related to the LNB acquisition. Additionally, originated net loans receivable increased by $304.1 million during 2015. Partially offsetting these increases were decreases in marketable securities and interest-earning deposits in other financial institutions of $110.0 million and $73.3 million, respectively. A discussion of significant changes follows.

Cash and interest-earning deposits in other financial institutions. Total cash decreased by $73.3 million, or 30.5%, to $167.4 million at December 31, 2015, from $240.7 million at December 31, 2014. This decrease was a result of using cash to pay for merger considerations for LNB and to fund loan growth.

Investment securities. Investment securities decreased by $110.0 million, or 10.8%, to $906.1 billion at December 31, 2015 from $1.016 billion at December 31, 2014. This decrease was a result of using the cash flow generated from these portfolios to fund loan growth, the LNB acquisition, and to payoff FHLB term advances. During the year ended December 31, 2015, we did not have any other-than-temporary credit related impairment charges within our investment portfolio.

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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,					
	2015		2014		2013	
	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	$118,266	120,326	72,852	75,877	85,306	87,272
Variable-rate pass through certificates	54,292	56,901	66,140	69,598	78,890	82,399
Fixed-rate non-agency CMOs	2,519	2,749	3,162	3,408	3,894	3,998
Fixed-rate agency CMOs	215,719	212,227	226,413	221,767	265,769	255,393
Variable-rate non-agency CMOs	—	—	—	—	660	651
Variable-rate agency CMOs	86,090	86,514	113,842	114,462	146,908	147,361
Total residential mortgage-backed securities available for sale	$476,886	478,717	482,409	485,112	581,427	577,074
Investment securities available for sale:						
U.S. Government, agency and GSEs	$295,510	294,451	335,943	333,530	322,754	316,089
Municipal securities	80,697	82,868	67,492	70,145	91,449	92,578
Corporate debt issues	14,463	16,475	18,267	20,427	21,150	21,176
Equity securities and mutual funds	1,400	1,894	2,591	3,157	5,298	9,850
Total investment securities available for sale	$392,070	395,688	424,293	427,259	440,651	439,693

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,					
	2015		2014		2013	
	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	$6,458	6,809	8,236	8,713	11,101	11,645
Variable-rate pass through certificates	3,618	3,659	4,273	4,395	5,172	5,243
Fixed-rate agency CMOs	14,033	14,252	23,382	23,913	34,425	35,172
Variable-rate agency CMOs	970	982	1,052	1,064	1,352	1,362
Total residential mortgage-backed securities held to maturity	$25,079	25,702	36,943	38,085	52,050	53,422
Investment securities held to maturity:						
Municipal securities	$6,610	6,850	66,752	68,207	69,316	70,639
Total investment securities held to maturity	$6,610	6,850	66,752	68,207	69,316	70,639

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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,		
	2015	2014	2013
	(In thousands)		
Residential mortgage-backed securities:			
FNMA	$234,204	230,051	279,684
GNMA	48,283	54,422	66,802
FHLMC	209,788	223,479	264,752
SBA	8,166	10,052	12,569
Other (non-agency)	3,355	4,051	5,317
Total mortgage-backed securities	$503,796	522,055	629,124

Further information and analysis of our investment portfolio, including tables with information related to gross unrealized gains and losses on available-for sale and held-to-maturity investment securities and tables showing the fair value and gross unrealized losses on investment securities aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position are located in note 4 of the notes to the Consolidated Financial Statements.

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Investment Portfolio Maturities and Yields. The following table sets forth the scheduled maturities, carrying values, amortized cost, market values and weighted average yields for our investment securities and mortgage-backed securities portfolios at December 31, 2015. Adjustable-rate mortgage-backed securities are included in the period in which interest rates are next scheduled to adjust.

	One year or less		More than one year to five years		More than five years to ten years		More than ten years		Total		
	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	$15,500	0.56%	$257,463	1.24%	$12,721	1.84%	$9,815	2.96%	$295,499	294,440	1.28%
U.S. Government and agency obligations	11	1.18%	—	—	—	—	—	—	11	11	1.18%
Municipal securities	1,684	4.05%	14,327	2.32%	12,400	3.20%	52,286	3.67%	80,697	82,868	3.36%
Corporate debt issues	—	—	—	—	—	—	14,463	2.51%	14,463	16,475	2.51%
Equity securities and mutual funds	—	—	—		—	—	1,400	6.23%	1,400	1,894	3.23%
Total investment securities available for sale	17,195	0.91%	271,790	1.29%	25,121	2.51%	77,964	3.41%	392,070	395,688	1.78%
Residential mortgage-backed securities available for sale:											
Pass through certificates	54,293	2.19%	4,347	1.81%	45,426	2.05%	68,492	3.01%	172,558	177,227	2.47%
CMOs	86,090	0.88%	23,533	1.96%	37,356	1.48%	157,349	1.62%	304,328	301,490	1.42%
Total residential mortgage-backed securities available for sale	140,383	1.33%	27,880	1.93%	82,782	1.79%	225,841	2.04%	476,886	478,717	1.80%
Investment securities held-to-maturity:											
Municipal securities	—	—	—	—	274	3.85%	6,336	4.18%	6,610	6,850	4.16%
Total investment securities held-to-maturity	—	—	—	—	274	3.85%	6,336	4.18%	6,610	6,850	4.16%

Residential mortgage-backed securities held-to-maturity:											
Pass through certificates	3,618	1.43%	—	—	5,006	3.62%	1,452	4.44%	10,076	10,468	2.95%
CMOs	970	1.15%	818	2.03%	2,710	2.35%	10,505	3.01%	15,003	15,234	2.42%
Total residential mortgage-backed securities held-to-maturity	4,588	1.37%	818	2.03%	7,716	3.18%	11,957	3.18%	25,079	25,702	2.81%
Total investment securities and mortgage-backed	$162,166	1.33%	$300,488	1.35%	$115,893	2.04%	$322,098	2.46%	$900,645	906,957	1.83%

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Loans receivable. Net loans receivable increased by $1.237 billion, or 20.9%, to $7.159 billion at December 31, 2015, from $5.922 billion at December 31, 2015. This increase was due primarily to the addition of $928.1 million, at fair value, of loans related to the LNB acquisition. Additionally, originated loans increased by $304.1 million, or 5.1%, with retail banking loans increasing by $193.1 million, or 5.0%, and commercial banking loans increasing by $111.0 million, or 5.1%. The increase in retail banking loans occurred primarily in our residential mortgage loan portfolio, which increased by $171.3 million, or 6.8%, as a result of refocusing on our traditional lending niche and improving our application and underwriting processes. In addition, our efforts to expand beyond traditional residential mortgage lending continued to produce results as our commercial real estate loan portfolio increased by $121.2 million, or 6.7%.

The following table sets forth the recorded investment in loans receivable by state (based on borrowers' domicile) at December 31, 2015.

(Dollars in thousands)	Residential mortgage	(1)		Home equity	(2)		Other consumer	(3)		Commercial real estate loans	(4)		Commercial loans	(5)	
Pennsylvania	$2,310,860	84.3	%	$879,447	74.0	%	$260,170	49.9	%	$965,090	41.0	%	$284,611	67.4	%
New York	171,790	6.3	%	124,291	10.5	%	12,244	2.4	%	749,435	31.9	%	53,420	12.6	%
Ohio	70,209	2.6	%	154,003	13.0	%	102,034	19.6	%	453,180	19.3	%	68,327	16.2	%
Maryland	129,129	4.7	%	24,458	2.1	%	1,870	0.4	%	122,775	5.2	%	5,662	1.3	%
All other	58,904	2.1	%	4,907	0.4	%	143,971	27.7	%	60,954	2.6	%	10,380	2.5	%
Total	$2,740,892	100.0	%	$1,187,106	100.0	%	$520,289	100.0	%	$2,351,434	100.0	%	$422,400	100.0	%

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

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

	At December 31,									
	2015		2014		2013		2012		2011	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Perc
	(Dollars in thousands)									
Personal Banking:										
Residential mortgage loans	$2,741,277	37.0 %	$2,526,240	41.2 %	$2,492,138	42.2 %	$2,431,860	42.0 %	$2,414,992	42.9
Home equity loans	1,187,106	16.1 %	1,066,131	17.4 %	1,083,939	18.3 %	1,083,654	18.7 %	1,094,201	19.4
Other consumer loans:										
Automobile	345,794	4.7 %	92,659	1.5 %	82,194	1.4 %	78,577	1.3 %	80,839	1.4
Education loans	7,541	0.1 %	9,890	0.2 %	12,394	0.2 %	14,606	0.3 %	18,840	0.3
Loans on savings accounts	7,918	0.1 %	8,466	0.1 %	9,040	0.2 %	9,759	0.2 %	11,764	0.2
Other (1)	149,364	2.0 %	131,729	2.2 %	124,720	2.1 %	125,408	2.2 %	124,831	2.3
Total other consumer loans	510,617	6.9 %	242,744	4.0 %	228,348	3.9 %	228,350	4.0 %	236,274	4.2
Total Personal Banking	4,439,000	60.0 %	3,835,115	62.6 %	3,804,425	64.4 %	3,743,864	64.7 %	3,745,467	66.5
Business Banking:										
Commercial real estate	2,524,274	34.1 %	1,874,944	30.6 %	1,689,382	28.6 %	1,626,555	28.1 %	1,487,757	26.4
Commercial loans	437,715	5.9 %	419,525	6.8 %	413,451	7.0 %	422,090	7.2 %	401,832	7.1
Total Business Banking	2,961,989	40.0 %	2,294,469	37.4 %	2,102,833	35.6 %	2,048,645	35.3 %	1,889,589	33.5
Total loans receivable, gross	7,400,989	100.0 %	6,129,584	100.0 %	5,907,258	100.0 %	5,792,509	100.0 %	5,635,056	100.
Deferred loan costs/ (fees)	20,065		6,095		2,461		(1,624)		(4,752)	
Undisbursed loan proceeds	(198,933)		(145,788)		(103,428)		(88,405)		(78,785)	
Allowance for loan losses:										
Personal Banking:										
Residential mortgage loans	(4,710)		(5,581)		(7,875)		(8,002)		(8,482)	
Home equity loans	(4,042)		(4,550)		(7,245)		(8,294)		(8,687)	
Other consumer loans:	(7,598)		(6,118)		(5,487)		(5,156)		(5,325)	
	(16,350)		(16,249)		(20,607)		(21,452)		(22,494)	

Total Personal Banking					
Business Banking:					
Commercial real estate	(33,787)	(32,937)	(34,969)	(34,499)	(32,148)
Commercial loans	(12,535)	(13,967)	(11,110)	(13,242)	(12,080)
Total Business Banking	(46,322)	(46,904)	(46,079)	(47,741)	(44,228)
Unallocated	—	(4,365)	(4,662)	(4,026)	(4,416)
Total allowance for loan losses	(62,672)	(67,518)	(71,348)	(73,219)	(71,138)
Total loans receivable, net	$7,159,449	$5,922,373	$5,734,943	$5,629,261	$5,480,381

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

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The following table sets forth the maturity or period of re-pricing of our loan portfolio at December 31, 2015. 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, 2015 (In thousands)	Due in one year or less	Due after one year through two years	Due after two years through three years	Due after three years through five years	Due after five years	Total
Personal Banking:						
Residental mortgage loans	$146,261	123,634	121,564	246,054	2,103,764	2,741,277
Home equity loans	522,214	74,434	71,645	126,755	392,058	1,187,106
Other consumer loans	159,575	100,483	91,448	138,365	20,746	510,617
Total Personal Banking	828,050	298,551	284,657	511,174	2,516,568	4,439,000
Business Banking:						
Commercial real estate loans	1,058,547	385,743	344,038	527,986	207,960	2,524,274
Commercial loans	241,268	44,602	44,649	64,941	42,255	437,715
Total Business Banking	1,299,815	430,345	388,687	592,927	250,215	2,961,989
Total	$2,127,865	728,896	673,344	1,104,101	2,766,783	7,400,989

The following table sets forth at December 31, 2015, the dollar amount of all fixed-rate and adjustable-rate loans due one year or more after the date indicated. Adjustable and floating-rate loans are included in the table based on the contractual due date of the loan.

At December 31, 2015 (In thousands)	Fixed	Adjustable	Total
Personal Banking:			
Residental mortgage loans	$2,619,884	39,234	2,659,118
Home equity loans	936,456	413,194	1,349,650
Other consumer loans	364,019	29,507	393,526
Total Personal Banking	3,920,359	481,935	4,402,294
Business Banking:			
Commercial real estate loans	691,696	1,242,857	1,934,553
Commercial loans	109,844	118,030	227,874
Total Business Banking	801,540	1,360,887	2,162,427
Total	$4,721,899	1,842,822	6,564,721

Deposits. Total deposits increased by $980.0 million, or 17.4%, to $6.613 billion at December 31, 2015 from $5.633 billion at December 31, 2014, due to the addition of $1.034 billion of deposits, at fair value, related to the LNB acquisition. Excluding acquired deposits, total deposits decreased by $54.0 million. Excluding the LNB acquisition, time deposits decreased by $219.2 million, or 14.8%, to $1.259 billion at December 31, 2015 from $1.478 billion at December 31, 2014 and money market demand accounts decreased by $47.4 million, or 4.0%, to $1.132 billion at December 31, 2015 from $1.179 billion at December 31, 2014, as customers continue to favor more liquid accounts, such as savings deposits and checking accounts. As a result savings deposits increased by $49.2 million, or 4.1%, to $1.258 billion at December 31, 2015 from $1.209 billion at December 31, 2014. Demand deposits increased by $163.5

million, or 9.3%, to $1.929 billion at December 31, 2015 from $1.766 billion at December 31, 2014. The increase in demand deposits is primarily the result of our efforts to procure new checking account customers and increase low-cost deposits.

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The following table sets forth the dollar amount of deposits in each state indicated as of December 31, 2015.

State	Balance	Percent
	(Dollars in thousands)	
Pennsylvania	$4,841,243	73.2 %
New York	600,547	9.1 %
Ohio	944,193	14.3 %
Maryland	226,598	3.4 %
Total	$6,612,581	100.0 %

The following table indicates the amount of our certificates of deposit of $100,000 or more by time remaining until maturity at December 31, 2015.

Maturity period	Certificates of deposit
	(In thousands)
Three months or less	$102,939
Over three months through six months	71,425
Over six months through twelve months	126,470
Over twelve months	217,856
Total	$518,690

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

	At December 31,								
	2015			2014			2013		
	Balance	Percent (1)	Rate (2)	Balance	Percent (1)	Rate (2)	Balance	Percent (1)	Rate (2)
	(Dollars in thousands)								
Savings deposits	$1,386,017	21.0 %	0.24 %	$1,209,287	21.5 %	0.26 %	$1,191,584	21.0 %	0.28 %
Demand deposits	2,257,342	34.1 %	0.03 %	1,765,871	31.4	0.03 %	1,641,944	29.0	0.03 %
Money market demand accounts	1,274,504	19.3 %	0.28 %	1,179,070	20.9	0.28 %	1,167,954	20.6	0.28 %
Time deposits:									
Maturing within 1 year	929,351	14.0 %	0.95 %	647,699	11.5	0.77 %	665,779	11.7	0.60 %
Maturing 1 to 3 years	654,132	9.9 %	1.20 %	712,479	12.6	1.51 %	622,934	11.0	1.64 %
Maturing more than 3 years	111,235	1.7 %	1.45 %	118,136	2.1	1.10 %	378,684	6.7	1.50 %
Total certificates	1,694,718	25.6 %	1.08 %	1,478,314	26.2	1.15 %	1,667,397	29.4	1.19 %
Total deposits	$6,612,581	100.0 %	0.39 %	$5,632,542	100.0 %	0.42 %	$5,668,879	100.0 %	0.46 %

(1) Represents percentage of total deposits.
(2) Represents weighted average nominal rate at year end.

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Borrowings. Borrowings increased by $86.9 million, or 9.8%, to $975.0 million at December 31, 2015 from $888.1 million at December 31, 2014. During 2015 we borrowed $120.0 million from the FHLB with an average maturity of 7.9 years and an average interest rate of 2.34%. Our intention was to lock in long-term, low-cost borrowings in order to fund the FHLB advances that matured in 2015. Additionally, at December 31, 2015 we had $106.0 million outstanding in FHLB overnight advances. Partially offsetting this increase was a decrease of $47.7 million in collateralized borrowings and the maturity of $110.0 million of FHLB advances, and the payoff of $62.5 million of acquired LNB FHLB advances.

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

	During the years ended December 31,		
	2015	2014	2013
	(Dollars in thousands)		
Federal Home Loan Bank of Pittsburgh borrowings:			
Average balance outstanding	$780,946	725,420	718,559
Maximum outstanding at end of any month during year	856,343	725,441	725,493
Balance outstanding at end of year	856,343	725,395	725,447
Weighted average interest rate during year	3.44 %	3.60 %	3.61 %
Weighted average interest rate at end of year	3.12 %	3.60 %	3.60 %
Collateralized borrowings:			
Average balance outstanding	$144,737	155,698	150,079
Maximum outstanding at end of any month during year	166,403	174,155	171,815
Balance outstanding at end of year	118,664	162,714	156,198
Weighted average interest rate during year	0.23 %	0.29 %	0.31 %
Weighted average interest rate at end of year	0.22 %	0.27 %	0.31 %
Total borrowings:			
Average balance outstanding	$925,683	881,118	868,638
Maximum outstanding at end of any month during year	976,794	899,554	897,268
Balance outstanding at end of year	975,007	888,109	881,645
Weighted average interest rate during year	2.95 %	3.02 %	3.04 %
Weighted average interest rate at end of year	2.77 %	2.99 %	3.02 %

Shareholders’ equity. Total shareholders’ equity at December 31, 2015 was $1.163 billion, an increase of $100.5 million, or 9.5%, from $1.063 billion at December 31, 2014. This increase in equity was primarily the result of the issuance of 7,056,704 shares of our common stock at $12.84 per share for the LNB acquisition, as well as net income of $60.5 million. These increases were partially offset by the payment of cash dividends of $52.8 million.

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Average Balance Sheets

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

	For the Years Ended December 31,								
	2015			2014			2013		
	Average Outstanding Balance	Interest	Average Yield/ Cost (10)	Average Outstanding Balance	Interest	Average Yield/ Cost (10)	Average Outstanding Balance	Interest	Average Yield/ Cost (10)
	(Dollars in thousands)								
Interest-earning assets:									
Loans receivable (includes FTE adjustments of $1,973, $2,057 and $2,258, respectively) (1)(2)(3)	$6,460,078	300,638	4.65 %	$5,883,244	284,107	4.83 %	$5,682,431	289,235	5.09 %
Mortgage-backed securities (5)	500,797	8,823	1.76 %	581,906	10,320	1.77 %	701,589	12,818	1.83 %
Investment securities (includes FTE adjustments of $2,322, $3,381 and $4,210, respectively) (4)(5)	469,568	11,155	2.38 %	499,718	13,792	2.76 %	518,753	16,047	3.09 %
Federal Home Loan Bank stock (11)	37,500	1,788	4.77 %	41,975	1,809	4.31 %	46,580	371	0.80 %
Interest-earning deposits	179,201	431	0.24 %	325,201	837	0.25 %	410,022	1,093	0.26 %
Total interest-earning assets (includes FTE adjustments of $4,295 $5,438 and $6,468, respectively)	7,647,144	322,835	4.22 %	7,332,044	310,865	4.24 %	7,359,375	319,564	4.34 %
Non-interest-earning assets (6)	677,441			561,107			570,555		
Total assets	$8,324,585			$7,893,151			$7,929,930		
Interest-bearing liabilities:									
Savings deposits	$1,300,102	3,387	0.26 %	$1,221,304	3,286	0.27 %	$1,197,931	3,595	0.30 %
Interest-bearing demand deposits	976,789	568	0.06 %	882,980	587	0.07 %	855,031	576	0.07 %
Money market demand accounts	1,202,143	3,222	0.27 %	1,181,235	3,174	0.27 %	1,133,584	3,042	0.27 %
Time deposits	1,540,905	16,878	1.10 %	1,575,595	18,275	1.16 %	1,766,219	22,066	1.25 %

Borrowed funds (7)	925,683	27,347	2.95 %	881,118	26,574	3.02 %	868,638	26,439	3.04 %
Junior subordinated deferrable interest debentures	108,507	4,925	4.48 %	103,094	4,691	4.49 %	103,094	5,444	5.21 %
Total interest-bearing liabilities	6,054,129	56,327	0.93 %	5,845,326	56,587	0.97 %	5,924,497	61,162	1.03 %
Non-interest-bearing checking	1,001,263			864,322			784,279		
Non-interest-bearing liabilities	166,531			94,298			87,193		
Total liabilities	7,221,923			6,803,946			6,795,969		
Shareholders’ equity	1,102,662			1,089,205			1,133,961		
Total liabilities and stockholders’ equity	$8,324,585			$7,893,151			$7,929,930		
Net interest income		266,508			254,278			258,402	
Net interest rate spread (8)			3.29 %			3.27 %			3.31 %
Net interest earning assets/ Net interest margin (9)	$1,593,015		3.49 %	$1,486,718		3.47 %	$1,434,878		3.51 %
Ratio of average interest-earning assets to average interest-bearing liabilities	1.26 x			1.25 x			1.24 x		

(1) Average gross loans receivable includes loans held as available-for-sale and loans placed on nonaccrual status.
(2) Interest income includes accretion/amortization of deferred loan fees/expenses, which was not material.
(3) Interest income on tax-free loans is presented on a taxable equivalent basis including adjustments as indicated.
(4) Interest income on tax-free investment securities is presented on a taxable equivalent basis including adjustments as indicated.
(5) Average balances do not include the effect of unrealized gains or losses on securities held as available-for-sale.
(6) Average balances include the effect of unrealized gains or losses on securities held as available-for-sale.
(7) Average balances include Federal Home Loan Bank advances and collateralized borrowings.
(8) Net interest rate spread represents the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities.
(9) Net interest margin represents net interest income as a percentage of average interest-earning assets.
(10) Shown on a FTE basis. GAAP basis yields for the years ended December 31, 2015, 2014 and 2013 were: Loans — 4.62%, 4.79% and 5.05%, respectively, Investment securities — 1.88%, 2.08% and 2.28%, respectively, interest-earning assets — 4.17%, 4.17% and 4.25%, respectively, GAAP basis net interest rate spreads were 3.24%, 3.20% and 3.22%, respectively, and GAAP basis net interest margins were 3.43%, 3.39% and 3.42%, respectively.
(11) Excludes from the average yield calculation the $1.0 million special dividend paid in February 2015.

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Rate/Volume Analysis

The following table presents the changes in interest income and interest expense for major components of interest-earning assets and interest-bearing liabilities for the year ended December 31, 2015 compared to 2014 and for the year ended December 31, 2014 compared to 2013. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to: (1) changes in volume multiplied by the prior year rate; (2) changes in rate multiplied by the prior year volume; and (3) the total increase or decrease. Changes not solely attributable to rate or volume have been allocated proportionately to the change due to volume and the change due to rate.

	Years ended December 31, 2015 vs. 2014			Years ended December 31, 2014 vs. 2013		
	Increase (decrease) Due to		Total increase (decrease)	Increase (decrease) Due to		Total increase (decrease)
	Rate	Volume		Rate	Volume	
	(In thousands)					
Interest-earning assets:						
Loans receivable	$(11,325)	27,856	16,531	$(15,349)	10,221	(5,128)
Mortgage-backed securities	(59)	(1,438)	(1,497)	(375)	(2,123)	(2,498)
Investment securities	(1,805)	(832)	(2,637)	(1,666)	(589)	(2,255)
Federal Home Loan Bank stock	172	(193)	(21)	1,636	(198)	1,438
Interest-earning deposits	(30)	(376)	(406)	(30)	(226)	(256)
Total interest-earning assets	(13,047)	25,017	11,970	(15,784)	7,085	(8,699)
Interest-bearing liabilities:						
Savings deposits	(104)	205	101	(372)	63	(309)
Interest-bearing demand deposits	(74)	55	(19)	(8)	19	11
Money market demand accounts	(8)	56	48	4	128	132
Time deposits	(1,017)	(380)	(1,397)	(1,580)	(2,211)	(3,791)
Borrowed funds	(544)	1,317	773	(241)	376	135
Junior subordinated deferrable interest debentures	(12)	246	234	(753)	—	(753)
Total interest-bearing liabilities	(1,759)	1,499	(260)	(2,950)	(1,625)	(4,575)
Net change in net interest income	$(11,288)	23,518	12,230	$(12,834)	8,710	(4,124)

Comparison of Results of Operations for the Years Ended December 31, 2015 and 2014

General. Net income for the year ended December 31, 2015 was $60.5 million, or $0.64 per diluted share, a decrease of $1.5 million, or 2.3%, from $62.0 million, or $0.67 per diluted share, for the year ended December 31, 2014. The decrease in net income resulted from increases in noninterest expense of $18.4 million, or 8.5%, and income tax expense of $6.2 million, or 28.3%, and a decrease in noninterest income of $2.0 million, or 2.7%. Partially offsetting these factors was a decrease in provision for loan losses of $10.6 million, or 52.2%, and an increase in net interest income of $14.5 million, or 5.8%.

Net income for the year ended December 31, 2015 represents returns on average equity and on average assets of 5.49% and 0.73%, respectively, compared to 5.69% and 0.79% for the year ended December 31, 2014. A discussion of significant changes follows.

Interest income. Total interest income increased by $14.2 million, or 4.6%, to $319.6 million for the year ended December 31, 2015 from $305.4 million for the year ended December 31, 2014. This increase is the result of an increase in the average balance on interest earning assets which increased by $315.1 million, or 4.3%, to $7.647 billion for the year ended December 31, 2015 from $7.332 billion for the year ended December 31, 2014. The average yield on interest-earning assets was 4.17% for both the years ended December 31, 2015 and 2014.

Interest income on loans receivable increased by $16.6 million, or 5.9%, to $298.7 million for the year ended December 31, 2015 from $282.1 million for the year ended December 31, 2014 which is attributed to an increase in the average balance of

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loans receivable of $576.8 million, or 9.8%, to $6.460 billion for the year ended December 31, 2015 from $5.883 billion for the year ended December 31, 2014. This increase is due to continued success in growing business banking relationships, the retention of residential mortgage loan originations, and the addition of nearly $1.0 billion of loans related to the LNB acquisition. Partially offsetting this increase was a decline in the average yield which decreased to 4.62% for the year ended December 31, 2015 from 4.79% for the year ended December 31, 2014. The continued decline in average yield is due primarily to the historically low level of market interest rates.

Interest income on mortgage-backed securities decreased by $1.5 million, or 14.5%, to $8.8 million for the year ended December 31, 2015 from $10.3 million for the year ended December 31, 2014. This decrease is the result of decreases in both the average balance and average yield. The average balance of mortgage-backed securities decreased by $81.1 million, or 13.9%, to $500.8 million for the year ended December 31, 2015 from $581.9 million for the year ended December 31, 2014 due primarily to redirecting cash flows from these securities to fund the LNB acquisition and fund loan growth. The average yield on mortgage-backed securities decreased by one basis point to 1.76% for the year ended December 31, 2015 from 1.77% for the year ended December 31, 2014.

Interest income on investment securities decreased by $1.6 million, or 15.2%, to $8.8 million for the year ended December 31, 2015 from $10.4 million for the year ended December 31, 2014. This decrease is the result of decreases in both the average balance and average yield. The average yield on investment securities decreased to 1.88% for the year ended December 31, 2015 from 2.08% for the year ended December 31, 2014. This decrease is primarily the result of higher rate, tax-free, municipal securities maturing or being called and if replaced, being replaced by lower yielding, shorter duration government agency securities. The average balance of investment securities decreased by $30.1 million, or 6.0%, to $469.6 million for the year ended December 31, 2015 from $499.7 million for the year ended December 31, 2014. This decrease is due primarily to the maturity or call of municipal and government agency securities and the use of these proceeds to fund the LNB acquisition and fund loan growth.

Dividends on FHLB stock increased by $1.0 million, or 56.3%, to $2.8 million for the year ended December 31, 2015 from $1.8 million for the year ended December 31, 2014. This increase is due to a $1.0 million special dividend received in the first quarter of 2015. The average yield paid by the FHLB, exclusive of the special dividend, increased to 4.77% for the year ended December 31, 2015 from 4.31% for the year ended December 31, 2014. Partially offsetting these factors was a decrease in the average balance of $4.5 million, or 10.7%, to $37.5 million for the year ended December 31, 2015 from $42.0 million for the year ended December 31, 2014. Required FHLB stock holdings fluctuate with, among other things, the utilization of our borrowing capacity as well as capital requirements established by the FHLB.

Interest income on interest-earning deposits decreased by $406,000, or 48.5%, to $431,000 for the year ended December 31, 2015 from $837,000 for the year ended December 31, 2014. This decrease is primarily due to a decrease in the average balance of $146.0 million, or 44.9%, to $179.2 million for the year ended December 31, 2015 from $325.2 million for the year ended December 31, 2014, due to the utilization of cash to fund the LNB acquisition and fund loan growth. Additionally, the average yield on interest-earning deposits decreased by one basis point to 0.24% for the year ended December 31, 2015 from 0.25% for the year ended December 31, 2014.

Interest expense. Interest expense decreased by $260,000, or 0.5%, to $56.3 million for the year ended December 31, 2015 from $56.6 million for the year ended December 31, 2014. This decrease in interest expense was due to a decline in the average cost of interest-bearing liabilities, which decreased to 0.93% for the year ended December 31, 2015 from 0.97% for the year ended December 31, 2014. The average cost of every funding source, with the exception of money market demand accounts, declined from the prior year. In addition, there was a shift in deposit mix from time deposits to lower cost non-maturity deposits. Partially offsetting this decrease was an increase in the balance of interest-bearing liabilities of $208.8 million, or 3.6%, to $6.054 billion for the year ended December 31, 2015 from $5.845 billion for the year ended December 31, 2014. The increase in average interest-bearing liabilities resulted

primarily from the addition of $1.034 billion, at fair value, of deposits from the LNB acquisition and an increase in borrowed funds of $44.6 million, or 5.1%.

Net interest income. Net interest income increased by $14.5 million, or 5.8%, to $263.3 million for the year ended December 31, 2015 from $248.8 million for the year ended December 31, 2014. This increase is attributable to the factors discussed above. Loan growth enabled us to redirect cash flows from lower yielding cash and investments which helped offset overall lower market interest rates and increase our net interest spread and margin. Our net interest rate spread increased to 3.24% for the year ended December 31, 2015 from 3.20% for the year ended December 31, 2014 and our net interest margin increased to 3.43% for the year ended December 31, 2015 from 3.39% for the year ended December 31, 2014.

Provision for loan losses. We analyze the allowance for loan losses as described in note 1(f) of the notes to the Consolidated Financial Statements. The provision for loan losses decreased by $10.6 million, or 52.2%, to $9.7 million for the year ended December 31, 2015 from $20.3 million for the year ended December 31, 2014. This decrease is due primarily to continued improvements in overall asset quality as classified loans decreased by $24.3 million, or 11.2%, to $192.7 million at December 31,

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2015 from $217.0 million at December 31, 2014 and total nonaccrual loans decreased by $8.1 million, or 10.2%, to $71.7 million at December 31, 2015 from $79.8 million at December 31, 2014. Net charge-offs declined as well to 0.23% of average loans for the year ended December 31, 2015 from 0.41% for the year ended December 31, 2014. Additionally, during 2014 two troubled business banking loans required combined provisions of $8.2 million.

In determining the amount of the provision, we considered current economic conditions, including unemployment levels and bankruptcy filings, and changes in real estate values and the impact of these factors on the quality of our loan portfolio and historical loss factors. The provision that is recorded is sufficient, in our judgment, to bring this reserve to a level that reflects the losses inherent in our loan portfolio relative to loan mix, economic conditions and historical loss experience.

Noninterest income. Noninterest income decreased by $2.0 million, or 2.7%, to $68.8 million for the year ended December 31, 2015 from $70.8 million for the year ended December 31, 2014. The decrease is primarily attributable to a decrease in the gain on sale of investments and an increase in loss on real estate owned. Gain on sale of investments decreased by $3.9 million, or 79.0%, to $1.0 million for the year ended December 31, 2015 from $4.9 million for the year ended December 31, 2014 as a result of the sale of equity securities during 2014 for a substantial gain. Loss on real estate owned increased by $1.0 million, or 105.7%, to $2.0 million for the year ended December 31, 2015 from $967,000 for the year ended December 31, 2014. This increase is due primarily to the additional write-down of one foreclosed commercial property in the first quarter of 2015. Partially offsetting these factors was an increase in services charges and fees of $2.0 million, or 5.4%, to $38.4 million for the year ended December 31, 2015 from $36.4 million for the year ended December 31, 2014. This increase is due primarily to organic growth in the number of loan and transaction deposit customers and the benefits realized from the LNB acquisition, as well as increases to deposit account fees made in late 2014. In addition, insurance commission income increased by $766,000, or 8.7%, to $9.5 million for the year ended December 31, 2015 from $8.8 million for the year ended December 31, 2014, due primarily to the January 1, 2015 acquisition of our third insurance agency over the past four years.

Noninterest expense. Noninterest expense increased by $18.4 million, or 8.5%, to $233.9 million for the year ended December 31, 2015 from $215.5 million for the year ended December 31, 2014. This increase is primarily the result of increases in acquisition expense, compensation and employee benefits, processing expenses, and premises and occupancy costs. Expenses totaling $9.8 million were incurred during the year ended December 31, 2015 related to the LNB acquisition, primarily for vendor contract buyouts as well as professional service fees. Compensation and employee benefits increased by $3.8 million, or 3.3%, to $119.8 million for the year ended December 31, 2015 from $116.0 million for the year ended December 31, 2014. This increase is primarily the result of the additional employees related to the LNB acquisition and normal annual increases in compensation. Processing expense increased by $4.1 million, or 15.4%, to $30.8 million for the year ended December 31, 2015 from $26.7 million for the year ended December 31, 2014, due primarily to technology upgrades including the implementation of software that provides our customers with enhanced security for online financial transactions and the increased maintenance costs attributable to the addition of the LNB operations. Premises and occupancy costs increased by $1.1 million, or 5.1%, to $24.6 million for the year ended December 31, 2015 from $23.5 million for the year ended December 31, 2014, primarily as a result of the costs associated with the properties acquired in the LNB acquisition. Partially offsetting these increases was a decrease in other expenses of $766,000, or 7.8%, to $9.0 million for the year ended December 31, 2015 from $9.8 million for the year ended December 31, 2014, due primarily to the postponement of charitable contributions which provide state tax credits as a result of the Pennsylvania budget impasse. Professional services also declined from the prior year by $755,000, or 9.9%, to $6.9 million for the year ended December 31, 2015 from $7.7 million for the year ended December 31, 2014 as a result of the completion of a third party engagement to review our compliance management system during 2014.

Income taxes. The provision for income taxes increased by $6.2 million, or 28.3%, to $28.0 million for the year ended December 31, 2015 from $21.8 million for the year ended December 31, 2014. This increase in income tax expense is

primarily the result of an increase in pretax income of $4.7 million, or 5.7%, a reduction in tax free income from municipal bonds, and a reduction in the amount of Pennsylvania state tax credits taken in 2015. Additionally, the prior year benefited from the tax deduction of a large special cash dividend paid on the Companies' common stock held by our benefit plans.

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

General. Net income for the year ended December 31, 2014 was $62.0 million, or $0.67 per diluted share, a decrease of $4.6 million, or 6.9%, from $66.6 million, or $0.73 per diluted share, for the year ended December 31, 2013. The decrease in net income resulted primarily from increases in noninterest expense of $8.4 million and the provision for loan losses of $1.8 million and a decrease in net interest income of $3.1 million. These items were partially offset by an increase in noninterest income of $4.3 million and a decrease in income tax expense of $4.4 million.

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

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Interest income. Interest income decreased by $7.7 million, or 2.4%, to $305.4 million for the year ended December 31, 2014 from $313.1 million for the year ended December 31, 2013. The decrease in interest income was due both to a decrease in the average balance of interest-earning assets and a decrease in the average yield on interest-earning assets. The average balance of interest-earning assets decreased by $27.3 million, or 0.4%, to $7.332 billion for the year ended December 31, 2014 from $7.359 billion for the year ended December 31, 2013. The average rate earned on interest-earnings assets decreased by eight basis points to 4.17% for the year ended December 31, 2014 from 4.25% for the year ended December 31, 2013. An explanation of the changes in the balances of interest-earnings assets and changes in the yield is discussed in each category below.

Interest income on loans receivable decreased by $4.9 million, or 1.7%, to $282.1 million for the year ended December 31, 2014 from $287.0 million for the year ended December 31, 2013. This decrease was attributable to a decrease in the average yield, which was partially offset by an increase in the average balance of loans receivable. The average yield on loans receivable decreased by 26 basis points, to 4.79% for the year ended December 31, 2014, from 5.05% for the year ended December 31, 2013. This decrease is primarily due to the re-pricing of variable rate loans, the refinancing of existing loans to lower market interest rates and the origination of new loans in the continued low and highly competitive interest rate environment. Average loans receivable increased by $200.8 million, or 3.5%, to $5.883 billion for the year ended December 31, 2014 from $5.682 billion for the year ended December 31, 2013. This increase was primarily attributable to our efforts to attract and maintain quality business loan relationships, as well as growth in both our residential mortgage and consumer loan portfolios.

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

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

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

Interest income on interest-earning deposits decreased by $256,000, or 23.4%, to $837,000 for the year ended December 31, 2014 from $1.1 million for the year ended December 31, 2013. This decrease is the result of a decrease in the average balance of interest-earning deposits of $84.8 million, or 20.7%, to $325.2 million for the year ended

December 31, 2014 from $410.0 million for the year ended December 31, 2013. This decrease in the average balance was primarily the result of redirecting cash flows to fund loan growth and pay common stock dividends.

Interest expense. Interest expense decreased by $4.6 million, or 7.5%, to $56.6 million for the year ended December 31, 2014 from $61.2 million for the year ended December 31, 2013. This decrease was primarily attributed to decreases in the interest rate paid on time deposits and junior subordinated debentures as well as a decrease in the average balance of deposits. The average rate paid on all categories of deposit accounts decreased or remained flat during the year ended December 31, 2014, due primarily to the current level of market interest rates which enabled us to reduce the rates paid on time deposit products. The average rate paid on time deposits decreased to 1.16% from 1.25% and the average rate paid on savings deposits decreased to 0.27% from 0.30%. The average rate paid on interest-bearing demand deposits and money market deposit accounts remained unchanged at 0.07% and 0.27%, respectively, from the prior year. Also contributing to the decrease in interest expense was the continued shift in the mix of our deposits with average balances increasing for savings deposits, interest-bearing demand deposits and money market deposit accounts, while decreasing for time deposits. Also contributing to the decrease in interest expense was the maturity of an interest rate swap which was in place to convert the floating interest rate on our junior subordinated debentures to a fixed rate. This maturity reduced the average interest rate to 4.49% in 2014 from 5.21% last year.

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Net interest income. Net interest income decreased by $3.1 million, or 1.2%, to $248.8 million for the year ended December 31, 2014 from $251.9 million for the year ended December 31, 2013. This decrease was a result of the factors previously discussed as well as a decrease in total interest-earning assets. Our net interest rate spread decreased slightly by two basis points, to 3.20% for the year ended December 31, 2014 from 3.22% for the year ended December 31, 2013 and our net interest margin decreased by three basis points, to 3.39% for the year ended December 31, 2014 from 3.42% for the year ended December 31, 2013.

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

In determining the amount of the current period provision, we considered current economic conditions and their impact on our markets, including unemployment levels, bankruptcy filings, and changes in real estate values which ultimately impact the quality of our loan portfolio. Net loan charge-offs increased by $3.7 million, or 18.4%, to $24.1 million for the year ended December 31, 2014 from $20.4 million for the year ended December 31, 2013. This increase was the result of the charge-off of just two business banking loans in the first half of 2014 totaling $8.1 million. As a result, annual net charge-offs to average loans increased to 0.41% for the year ended December 31, 2014 from 0.36% for the year ended December 31, 2013. The provision that is recorded is sufficient, in our judgment, to bring the allowance for loan losses to a level that reflects the losses inherent in our loan portfolio relative to loan mix, economic conditions and historical loss experience.

Noninterest income. Noninterest income increased by $4.3 million, or 6.5%, to $70.8 million for the year ended December 31, 2014 from $66.5 million for the year ended December 31, 2013. This increase is primarily the result of an increase in trust and other financial services income and a decrease in loss on real estate owned. Trust and other financial services income increased by $3.1 million, or 32.6%, to $12.4 million for the year ended December 31, 2014 from $9.3 million for the year ended December 31, 2013 primarily due to changes made to our fee structure and the acquisition of Evans Capital Management, Inc. on January 1, 2014. Losses on real estate owned decreased by $2.2 million, or 69.6%, to $967,000 for the year ended December 31, 2014 from $3.2 million for the year ended December 31, 2013. This decrease is primarily due to an elevated level of write-downs on commercial properties that were taken in 2013. Partially offsetting these factors was a decrease in gains on sale of investments of $1.2 million, or 19.4%, to $4.9 million for the year ended December 31, 2014 from $6.1 million for the year ended December 31, 2013. Additionally, income from bank owned life insurance decreased by $1.0 million, or 19.4%, to $4.2 million for the year ended December 31, 2014 from $5.2 million for the year ended December 31, 2013 as a result of death benefits received in 2013.

Noninterest expense. Noninterest expense increased by $8.4 million, or 4.1%, to $215.5 million for the year ended December 31, 2014 from $207.1 million for the year ended December 31, 2013. This increase is primarily the result of increases in compensation and employee benefits, marketing expenses, professional services and processing expenses. Compensation and employee benefits increased by $3.8 million, or 3.4%, to $116.0 million for the year ended December 31, 2014 from $112.2 million for the year ended December 31, 2013 due to regular annual merit increases, as well as severance paid as a result of the corporate restructuring which was announced in the third quarter of 2014. Marketing expense increased by $1.9 million, or 30.7%, to $8.2 million for the year ended December 31, 2014 from

$6.3 million for the year ended December 31, 2013 due primarily to marketing campaigns directed towards loan and deposit growth as well as the promotion of the JD Power and Associates and Forbes awards recognized throughout the year. Professional services increased by $1.4 million, or 22.2%, to $7.7 million for the year ended December 31, 2014 from $6.3 million for the year ended December 31, 2013 as a result of additional consulting expenses which were incurred as we continue to strengthen our compliance management system. Finally, processing expense increased by $1.2 million, or 4.4%, to $26.7 million for the year ended December 31, 2014 from $25.5 million for the year ended December 31, 2013. This increase is primarily due to software enhancements and the amortization of the costs to upgrade our programs used to address regulatory compliance requirements.

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

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Asset Quality

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

Collection procedures. Our collection procedures for personal loans generally provide that when a loan is five days past due, a computer-generated late notice is sent to the borrower requesting payment. If delinquency continues, at 15 days a delinquent notice, plus a notice of a late charge, is sent and personal contact efforts are attempted by telephone to strengthen the collection process and obtain reasons for the delinquency. Also, plans to establish a payment program are developed. Personal contact efforts are continued throughout the collection process, as necessary. Generally, if a loan becomes 60 days past due, a collection letter is sent and the loan becomes subject to possible legal action if suitable arrangements for payment have not been made. In addition, the borrower is given information which provides access to consumer counseling services to the extent required by the regulations of the Department of Housing and Urban Development and other applicable regulators. When a loan continues in a delinquent status for 90 days or more, and a payment schedule has not been developed or kept by the borrower, we may send the borrower a notice of intent to foreclose, giving 30 days to cure the delinquency. If not cured, foreclosure proceedings are initiated.

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

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

Nonaccrual, Past Due, Restructured Loans and Nonperforming Assets. The following table sets forth information with respect to nonperforming assets. Nonaccrual loans are those loans on which the accrual of interest has ceased. Generally, when a loan is 90 days past due, we fully reverse all accrued interest thereon and cease to accrue interest thereafter. Exceptions are made for loans that have contractually matured, are in the process of being modified to extend the maturity date and are otherwise current as to principal and interest, and well secured loans that are in process of collection. Loans may also be placed on nonaccrual before they reach 90 days past due if conditions exist that call into question our ability to collect all contractual principal and/or interest. Other nonperforming assets represent property acquired through foreclosure or repossession. Foreclosed property is carried at the lower of its fair value less estimated costs to sell, or the principal balance of the related loan.

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At December 31, 2015, we expect to collect the carrying value of our purchased credit impaired loans and have determined that we can reasonably estimate their future cash flows including those loans that are 90 days or more delinquent. As a result, we do not consider these loans to be nonaccrual or impaired and continue to recognize interest income on these loans, including the loans' accretable discount.

	At December 31,				
	2015	2014	2013	2012	2011
	(Dollars in thousands)				
Loans 90 days or more past due:					
Residential mortgage loans	$16,354	17,704	24,625	24,295	28,233
Home equity loans	6,112	6,606	8,345	8,481	9,781
Other consumer loans	3,902	2,656	2,723	2,712	2,944
Commercial real estate loans	19,237	10,215	18,433	24,938	44,603
Commercial loans	2,747	4,380	4,321	9,619	10,785
Total loans 90 days or more past due	$48,352	41,561	58,447	70,045	96,346
Total real estate owned (REO)	8,725	16,759	18,203	26,165	26,887
Total loans 90 days or more past due and REO	57,077	58,320	76,650	96,210	123,233
Total loans 90 days or more past due to net loans receivable	0.68 %	0.70 %	1.02 %	1.24 %	1.76 %
Total loans 90 days or more past due and REO to total assets	0.64 %	0.75 %	0.97 %	1.21 %	1.55 %
Nonperforming assets:					
Nonaccrual loans - loans 90 days or more past due	$43,268	41,326	57,757	68,347	95,836
Nonaccrual loans — loans less than 90 days past due	28,394	38,482	49,464	51,865	35,269
Loans 90 days or more past due still accruing	1,334	235	690	1,698	510
Total nonperforming loans	72,996	80,043	107,911	121,910	131,615
Total nonperforming assets	$81,721	96,802	126,114	148,075	158,502
Nonaccrual troubled debt restructured loans (1)	$21,118	24,459	28,889	41,166	29,575
Accruing troubled debt restructured loans	29,997	37,329	50,277	48,278	39,854
Total troubled debt restructured loans	$51,115	61,788	79,166	89,444	69,429

(1) Also included in nonaccrual loans above.

During the year ended December 31, 2015, gross interest income of approximately $5.5 million would have been recorded on loans accounted for on a nonaccrual basis if the loans had been current and in accordance with their original terms throughout the year. We recognized $2.3 million of interest income on nonaccrual loans during the year ended December 31, 2015.

The following table sets forth loans 90 days or more delinquent by state (based on borrowers' domicile) at December 31, 2015.

(Dollars in thousands)	Residential mortgage	(1)	Home equity	(2)	Other consumer	(3)	Commercial real estate loans	(4)	Commercial loans	(5)	Total	(6)
Pennsylvania	$10,998	0.5 %	$3,204	0.4 %	$2,780	1.1 %	$10,439	1.1 %	$1,582	0.6 %	$29,003	0.6 %
New York	1,801	1.0 %	639	0.5 %	90	0.7 %	3,012	0.4 %	859	1.6 %	6,401	0.6 %

Ohio	1,308	1.9 %	1,294	0.8 %	24	— %	4,823	1.1 %	158	0.2 %	7,607	0.9 %
Maryland	1,341	1.0 %	975	4.0 %	—	— %	251	0.2 %	—	— %	2,567	0.9 %
All other	902	1.5 %	—	— %	32	— %	506	0.8 %	—	— %	1,440	0.5 %
Total	$ 16,350	0.6 %	$ 6,112	0.5 %	$ 2,926	0.6 %	$ 19,031	0.8 %	$ 2,599	0.6 %	$47,018	0.7 %

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

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Classification of Assets. Our policies, consistent with regulatory guidelines, provide for the classification of loans considered to be of lesser quality as “substandard,” “doubtful,” or “loss” assets. An asset is considered “substandard” if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. “Substandard” assets include those characterized by the “distinct possibility” that the financial institution will sustain “some loss” if the deficiencies are not corrected. Assets classified as “doubtful” have all of the weaknesses inherent in those classified “substandard” with the added characteristic that the weaknesses present make “collection or liquidation in full,” on the basis of currently existing facts, conditions, and values, “highly questionable and improbable.” Assets classified as “loss” are those considered “uncollectible” so that their continuance as assets without the establishment of a specific loss reserve is not warranted. Assets that do not expose the savings institution to risk sufficient to warrant classification in one of the aforementioned categories, but which possess some weaknesses, are required to be designated “special mention.” At December 31, 2015, we had 203 loans, with an aggregate principal balance of $77.1 million, designated as special mention.

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

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

	At December 31,		
	2015	2014	2013
	(In thousands)		
Substandard assets	$199,009	229,913	250,545
Doubtful assets	1,225	2,677	3,188
Loss assets	1,340	1,424	1,321
Total classified assets	$201,574	234,014	255,054

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

On an ongoing basis, the Credit Administration department, as well as loan officers and department heads, review and monitor the loan portfolio for problem loans. This portfolio monitoring includes a review of the monthly delinquency reports as well as historical comparisons and trend analysis. On an on-going basis the loan officer along with the Credit Administration department grades or classifies problem loans or potential problem loans based upon their knowledge of the lending relationship and other information previously accumulated. Credit relationships greater than or equal to $1.0 million that have been classified as substandard or doubtful are reviewed by the Credit Administration department for possible impairment. A loan is considered impaired when, based on current information and events it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement including both contractual principal and interest payments. Our loan grading system for problem loans is described above in “Classification of Assets.”

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

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

The individual impairment measures along with the estimated losses for each homogeneous pool are consolidated into one summary document. This summary schedule, along with the supporting documentation used to establish this schedule, is prepared monthly and presented to the Credit Committee on a quarterly basis. The Credit Committee is comprised of members of

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

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

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

We utilize a consistent methodology each period when analyzing the adequacy of the allowance for loan losses and the related provision for loan losses. As part of the analysis, we considered the economic data in our markets such as the unemployment and bankruptcy levels as well as the changes in real estate collateral values. In addition, we considered the overall trend in asset quality, loan charge-offs and the allowance for loan losses as a percentage of nonperforming loans. We also consider the specific reserves already established for criticized loans based upon a three year average of historical charge-offs. During the year ended December 31, 2015 we allocated the previously unallocated allowance using both qualitative and quantitative factors as a result of enhancements in our allowance for loan losses process. As a result, we decreased the allowance for loan losses during the year by $4.8 million, or 7.2%, to $62.7 million, or 0.87% of total loans, at December 31, 2015 from $67.5 million, or 1.13% of total loans, at December 31, 2014. The decrease in the allowance for loan losses and the related provision for loan losses is discussed above in the section “Provision for loan losses.”

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

	Years ended December 31,				
	2015	2014	2013	2012	2011
	(Dollars in thousands)				
Net loans receivable	$7,159,449	5,922,373	5,734,943	5,629,261	5,480,381
Average loans outstanding	6,460,078	5,883,244	5,682,431	5,655,179	5,508,790
Allowance for loan losses					
Balance at beginning of period	67,518	71,348	73,219	71,138	76,412
Provision for loan losses	9,712	20,314	18,519	26,338	34,170
Charge offs:					
Residential mortgage loans	(1,126)	(2,181)	(2,501)	(4,295)	(4,198)
Home equity loans	(2,424)	(1,783)			