Northwest Bancshares, Inc.
Form 10-K
March 01, 2019

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, 2018
OR
o Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.
For the transition period from _____ to _____
Commission File No. 001-34582
NORTHWEST BANCSHARES, INC.
(Exact name of registrant as specified in its charter)

Maryland	27-0950358
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
100 Liberty Street, Warren, Pennsylvania	16365
(Address of Principal Executive Offices)	(Zip Code)

(814) 726-2140
(Registrant’s telephone number)
Securities Registered Pursuant to Section 12(b) of the Act:

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

Securities Registered Pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES x NO o
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES o NO x
Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such requirements for the past 90 days. YES x NO o
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 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, smaller reporting company, or an emerging growth company. See the definition of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and "emerging growth company" in Rule 12b-2 of the Exchange Act.
x Large accelerated filer o Accelerated filer
o Non-accelerated filer o Smaller reporting company
o Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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

As of February 22, 2019, there were 103,689,288 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, 2018, as reported by the Nasdaq Global Select Market, was approximately $1.793 billion.

DOCUMENTS INCORPORATED BY REFERENCE

Proxy Statement for the 2019 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 different than expected;
- 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;
- cyber-security concerns, including an interruption or breach in the security of our website or other information systems;
- technological changes that may be more difficult or expensive than expected;
- the ability of third-party providers to perform their obligations to us;
- competition among depository and other financial institutions;
- our ability to enter new markets successfully and capitalize on growth opportunities;
- our ability to manage our internal growth and our ability to successfully integrate acquired entities, businesses or branch offices;
- changes in consumer spending, borrowing and saving habits;
- our ability to continue to increase and manage our commercial and personal loans;
- possible impairments of securities held by us, including those issued by government entities and government sponsored enterprises;
- the impact of the economy on our loan portfolio (including cash flow and collateral values), investment portfolio, customers and capital market activities;
- our ability to receive regulatory approvals for proposed transactions or new lines of business;
- the effects of any federal government shutdown;
- 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.
- changes in the level and direction of loan delinquencies and write-offs and changes in estimates of the adequacy of the allowance for loan losses;
- our ability to access cost-effective funding;
- our ability to manage market risk, credit risk and operational risk in the current economic environment;

- our ability to retain key employees;
- our compensation expense associated with equity allocated or awarded to our employees

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 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, 2018, the Company had 103,354,030 shares outstanding and a market capitalization of approximately $1.751 billion.

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

The Company’s website (www.northwest.com) contains a direct link to Northwest Bancshares, 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 of our filings may 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. Northwest Bank’s mutual savings bank predecessor was founded in 1896.

As of December 31, 2018, Northwest Bank operated 172 community-banking locations throughout its market area in central and western Pennsylvania, western New York and eastern Ohio. Northwest Bank also offers investment management and trust services and employee benefits and property and casualty 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 16365, and its telephone number at that address is (814) 726-2140.

Market Area and Competition

We are headquartered in northwestern Pennsylvania and have expanded primarily through acquisitions, into the southwestern and central regions of Pennsylvania, as well as western New York and northeastern Ohio. As of December 31, 2018, we operated 114 community banking locations in Pennsylvania, 22 community banking offices in Ohio and 36 community banking offices in New York. 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 loans. Our most direct competition for deposits comes from other banks, brokerage houses 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.

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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. 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 approximately18.8 million and total households of approximately 5.1 million as of December 31, 2018. The Pennsylvania markets in which we operate our retail branches contain approximately half of Pennsylvania's population and a similar percentage of households. These markets have experienced a 2.6% decrease in population between 2010 and 2018. As of December 31, 2018, the market's average median household income had increased over the last year by 2.4%, to $54,530, compared to the national median income level of $63,174. The household income growth rate in Pennsylvania of 8.7%, is projected to be slightly below the national average growth rates during the next five years of 8.8%. As of December 31, 2018, the market's unemployment rate was 3.9%, below the state of Pennsylvania rate of 4.0%, and slightly equivalent to the national average of 3.9%.

As of September 30, 2018, the House Price Index for the last four quarters in the state of Pennsylvania increased by 4.3%, compared to an increase in the national average of 6.3%. Nationally, foreclosures have receded from their record highs to the lowest levels since the fourth quarter of 2006. As of September 30, 2018, the foreclosure rate for mortgage loans on one-to-four unit residential properties in the state of Pennsylvania was 1.3%, compared to the national average of 1.0%.

Western New York Market Area. Our retail branch network of 36 community banking offices 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 2.7 million and total households of approximately 877,000 as of December 31, 2018. This area has experienced a decrease in population between 2010 and 2018, of 0.66%. The average median household income in this market decreased by 2.6% over the last year to $57,223 as of December 31, 2018, compared to the national median income level of $63,174. As of December 31, 2018, the unemployment rate for our New York market area was 4.0%, compared to the national average of 3.9%.

As of September 30, 2018, the House Price Index for the last four quarters in our New York market increased by 5.9%, compared to an increase in the national average of 6.3%. As of September 30, 2018, the foreclosure rate for mortgage loans on one-to-four unit residential properties in the state of New York was 2.6%, compared to the national average of 1.0%.

Northeastern Ohio Market Area. Our branch network includes 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, 2018. This area has experienced an increase in population between 2010 and 2018, of 2.0%. The median household income for our Ohio market increased 1.6% over the last year to $58,926 as of December 31, 2018, compared to the national median income level of $63,174. As of December 31, 2018, the unemployment rate for our Ohio market was 5.0%, compared to the national average of 3.9%.

As of September 30, 2018, the House Price Index for the last four quarters in our Ohio market area increased by 6.6%, compared to an increase in the national average of 6.3%. As of September 30, 2018, the foreclosure rate for mortgage loans on one-to-four unit residential properties in the state of Ohio was 1.3%, compared to the national average of 1.0%.

Lending Activities

General. Our principal lending activities are the origination of fixed and adjustable-rate loans collateralized by one-to four-family residential real estate, shorter term consumer loans and loans collateralized by multi-family residential and commercial real estate as well as 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. 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 faster 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 relatively 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. Our mortgage loans are amortized on a monthly basis with both principal and interest due monthly. 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 $43.0 million, or 0.5%, of our gross loan portfolio at December 31, 2018.

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 risk. 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.

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. Such regulations permit a maximum loan-to-value of 95% for residential properties and 80% for all other real estate secured loans. We generally limit 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%. The appraisal process is managed by Northwest Appraisal Services, and appraisals are performed by in-house appraiser staff or by appraisers deemed qualified by our chief appraiser. 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 $2.864 billion portfolio of residential mortgage loans are construction loans of $18.0 million, or 0.2% of our gross loan portfolio. We offer fixed-rate and adjustable-rate residential construction-to-permanent loans primarily for the construction of owner-occupied one-to four-family residences in our market area to builders or owners who have a contract for construction. Construction loans 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, and interest is charged on the total amount of credit extended. At the end of the construction period, repayment terms convert to fully amortizing payments, with both principal and interest due monthly. 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%, and the maximum loan-to-value ratio for construction loans is 95% of the lower of cost to build or as-completed appraised value.

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 ten years. The maximum loan-to-value ratio for these loans is 80% of the as-completed appraised value.

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.

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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. We generally underwrite home equity loans and lines of credit in a manner similar to our underwriting of residential mortgage loans.

Home equity loans are offered on a fixed-rate basis with amortized terms of up to 20 years. Principal and interest is due monthly. At December 31, 2018, our fixed-rate home equity loans totaled $710.4 million, or 8.8% of gross loans.

Home equity lines of credit are offered on an adjustable-rate basis with terms of up to 30 years, including draw and repayment periods of up to 15 years each. Although home equity lines of credit require interest-only payments during draw periods, they are underwritten using amortizing principal and interest payments based on current rates of equivalent fixed-rate products. The disbursed portion of home equity lines of credit totaled $548.0 million, or 6.8% of gross loans, with $660.0 million remaining undisbursed as of December 31, 2018.

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, 2018, other consumer loans totaled $837.9 million, or 10.2% 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, medical buildings, manufacturing facilities and retail establishments. At December 31, 2018, 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, 2018 had a principal balance of $24.1 million. This loan was performing in accordance with its terms as of December 31, 2018. Our largest commercial real estate loan relationship at December 31, 2018 had a principal balance of $94.4 million and was secured by 25 commercial real estate properties including hotels, retail, office, and self-storage. These loans were performing in accordance with their terms as of December 31, 2018. Multi-family commercial and commercial real estate loans are offered with both adjustable 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, 2018, our largest commercial loan relationship had a principal balance of $34.6 million, and was secured with business assets. This loan was performing in accordance with its terms as of December 31, 2018.

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 is also assessed through a review of financial statements provided by the applicant.

We originate commercial loans through our network of Small Business and Commercial Loan Officers located in our areas. In addition, our Commercial Finance group originates loans where multiple banks may be involved in the credit facilities. These loans are made to companies operating in our market area. Many of these companies carry public debt ratings.

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 strive to 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 centrally 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.

Aggregate credit exposures over $750,000 are underwritten by Credit Administration. Our commercial loan policy assigns individual lending limits for our various commercial loan officers and dual authority consisting of an individual from Commercial Lending and Credit Administration. Lending authorities are established by the Credit Committee. The Senior Loan Committee may approve extensions of credit in excess of the maximum dual authority. 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 $30.0 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. Loans exceeding $5.0 million or unusual loan requests are reviewed with the Risk Management Committee of the Board of Directors at each quarterly meeting. 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. 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 a loan is approved, a loan commitment letter is promptly issued to the borrower. At December 31, 2018, we had commitments to originate $136.8 million of loans.

The commitment letter specifies the terms and conditions of the proposed loan including the amount, interest rate, amortization period, maturity, a description of the required collateral and required insurance coverage. 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, 2018, we had $27.8 million of net deferred loan origination fees. 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 $11.2 million, $11.6 million and $11.3 million for the years ended December 31, 2018, 2017 and 2016, respectively.

Loans-to-One Borrower. As of December 31, 2018, the largest aggregate amount loaned to one borrower, or related borrowers, totaled $94.4 million and was secured by 25 commercial real estate properties including hotels, retail, office multi-family and self-storage. Our second largest lending relationship totaled $82.4 million and was secured by 12 commercial real estate properties including student housing, medical office, senior housing, office, industrial and retail. Our third largest lending relationship totaled $43.9 million and was primarily secured with commercial real estate properties including multi-family and office. Our fourth largest lending relationship totaled $41.6 million and was partially secured with office properties. Our fifth largest lending relationship totaled $41.5 million and was secured two commercial real estate properties including student housing and retail . All of these loans were performing in accordance with their terms at December 31, 2018.

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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, 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. 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 carried at fair value and securities held-to-maturity are carried 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 3 to the Consolidated Financial Statements for a detailed analysis and description of our investment portfolio and valuation techniques.

We purchase debentures and mortgage-backed securities that generally are issued by the Federal Home Loan Bank ("FHLB"), Fannie Mae ("FNMA"), Freddie Mac ("FHLMC") or Ginnie Mae ("GNMA"). Historically, we have 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 FHLMC, FNMA or GNMA.

Sources of Funds

General. Deposits are the primary funding source for lending and other investing purposes. In addition to deposits, we derive funds from the amortization, prepayment and sale 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 and sales 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, 2018, we had deposits through the CDARS program with an aggregate balance of $3.6 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 may utilize 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.

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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"). At December 31, 2018, 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, 2018, Northwest Bancshares, Inc.'s investment in the Trusts totaled $3.3 million, and the Trusts had assets of $111.2 million.

At December 31, 2018, Northwest Bank had four active wholly-owned subsidiaries - Great Northwest Corporation, Allegheny Services, 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.

Great Northwest Corporation holds equity investments in government-assisted, low-income housing projects in various locations throughout our market area. At December 31, 2018, Northwest Bank had an equity investment in Great Northwest Corporation of $12.0 million. For the year ended December 31, 2018, Great Northwest Corporation had net income of $635,000, generated primarily from federal low-income housing tax credits.

Allegheny Services, Inc. is a Delaware investment company that holds mortgage loans originated through our wholesale lending operation as well as municipal bonds. At December 31, 2018, Northwest Bank had an equity investment in Allegheny Services, Inc. of $818.9 million, and for the year ended December 31, 2018, Allegheny Services, Inc. had net income of $22.1 million.

Northwest Capital Group, Inc's principal activity is to own, operate and ultimately divest of properties that were acquired in foreclosure. At December 31, 2018, Northwest Bank had an equity investment of $11.7 million in Northwest Capital Group, Inc., with a $0 net income reported for the year ended December 31, 2018.

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, 2018, Northwest Bank had an equity investment of $11.2 million in The Bert Company and for the year ended December 31, 2018, The Bert Company had net income of $323,000.

During 2018 and 2017, Northwest Bank strategically ceased operating several business lines.

Northwest Advisors, Inc., a federally registered investment advisor, which provided investment management programs and investment portfolio planning services, ceased operations and became inactive during 2018. At December 31, 2018, Northwest Bank had an equity investment in Northwest Advisors, Inc. of $1.7 million.

Northwest Settlement Agency, LLC ceased writing new title insurance business during the fourth quarter of 2016 and ceased operations and became inactive during 2017. At December 31, 2018, Northwest Bank had an equity investment in Northwest Settlement Agency, LLC of $3.9 million.

On July 14, 2017, Northwest Consumer Discount Company, Inc. became inactive as all consumer finance offices were closed. At December 31, 2018, Northwest Bank had an equity investment in Northwest Consumer Discount Company of $44.3 million.

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, 2018, we had 1,997 full-time and 261 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.

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SUPERVISION AND REGULATION

General

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.

Northwest Bank is a Pennsylvania-chartered stock savings bank and our deposit accounts are insured up to applicable limits by the FDIC’s Deposit Insurance Fund (the "DIF"). 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 DIF and depositors. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and with their examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes. Any change in these laws or regulations, whether by the Department of Banking or the FDIC, could have a material adverse impact on the Company, Northwest Bank and their respective operations. Additionally, when the consolidated assets of a financial institution and its holding company exceed $10 billion, the financial institution becomes subject to additional statutory and regulatory requirements that will result in additional costs. This includes enhanced risk management and corporate governance processes, stress-testing based on scenarios specified by the federal regulatory agencies and examination for compliance with federal financial consumer protection laws by the Consumer Financial Protection Bureau rather than the FDIC. As of December 31, 2018, our consolidated assets were $9.608 billion.

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.

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 joint examinations with the FDIC. 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 in 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 certain lending requirements and pricing restrictions and changed the procedure for a Pennsylvania state chartered institution to close 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.

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Federal Deposit Insurance

The FDIC currently maintains the Deposit Insurance Fund ("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 charges insured depository institutions premiums to maintain the Deposit Insurance Fund. Under the FDIC's risk-based assessment system, insured institutions were assigned a risk category based on supervisory evaluations, regulatory capital levels and certain other factors. An institution's rate depended upon the category to which it is assigned, and certain adjustments specified by FDIC regulations. Institutions deemed less risky pay lower FDIC assessments.

Assessments for most institutions are now based on financial measures and supervisory ratings derived from statistical modeling estimating the probability of failure within three years. In conjunction with the Deposit Insurance Fund reserve ratio achieving 1.15%, the assessment range was reduced for most banks and savings associations of less than $10 billion in total assets to 1.5 basis points from 30 basis points (inclusive of possible adjustments), effective July 1, 2016. The Dodd-Frank Act specifies that banks with greater than $10 billion in assets be required to bear the burden of raising the reserve ratio from 1.15% to 1.35%. Such institutions are subject to an annual surcharge of 4.5 basis points of total assets exceeding $10 billion. This surcharge will remain in place until the earlier of the Deposit Insurance Fund reaching the 1.35% ratio or December 31, 2018, at which point a shortfall assessment would be applied. The FDIC indicated that the 1.35% ratio was exceeded in November 2018. The Dodd-Frank Act eliminated the 1.5% maximum fund ratio, instead leaving it to the discretion of the FDIC, and the FDIC has exercised that discretion by establishing a long-range fund ratio of 2%.

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 the third quarter of 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.

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.

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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. 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 assets above the amount necessary to meet its minimum risk-based capital requirements. The capital conservation buffer requirement was phased in beginning January 1, 2016 at 0.625% of risk-weighted assets and will increase each year until fully implemented at 2.5% on January 1, 2019.

The following table shows the Basel III regulatory capital levels that must be maintained to avoid limitations on capital distributions and discretionary bonus payments, effective January 1, 2019.

	January 1, 2019
Common equity Tier 1 ratio plus capital conservation buffer	7.000 %
Tier 1 risk-based capital ratio plus capital conservation buffer	8.500 %
Total risk-based capital ratio plus capital conservation buffer	10.500 %

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. Under applicable 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, 2018, 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. The Credit Committee has 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, 2018 we had 23 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

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

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 and Federal Reserve Board regulations specify 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 and files an election with the Federal Reserve Board. Northwest Bancshares, Inc. has not chosen to be regulated as a financial holding company up to this time. 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.

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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 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, 2018, 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 apply to savings and loan holding companies (of greater than $3 billion in consolidated assets). As is the case with institutions themselves, the capital conservation buffer was 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. The ability of a holding company to pay dividends may be restricted if a subsidiary depository institution becomes undercapitalized. Regulatory guidance provides for prior regulatory consultation with respect to dividends 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 guidance similarly provides for regulatory review of stock repurchases or redemptions under certain circumstances. 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

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reporting; they have made certain disclosures to our auditors and the audit committee of the board of directors about our internal control over financial reporting; and they have included information in our quarterly and annual reports about their evaluation and whether there have been changes in our internal control over financial reporting or in other factors that could materially affect internal control over financial reporting.

FEDERAL AND STATE TAXATION

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

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

On December 22, 2017, H.R.1, commonly known as the Tax Cuts and Jobs Act (the “Act”), was signed into law. The Act includes many provisions that will affect our income tax expense, including reducing our federal tax rate from 35.0% to 21.0% effective January 1, 2018. As a result of the rate reduction, we are required to re-measure, through income tax expense in the period of enactment, our deferred tax assets and liabilities using the enacted rate at which we expect them to be recovered or settled. The re-measurement of our net deferred tax liability resulted in a 2017 income tax benefit of $3.1 million.
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. 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 tax-free 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 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 and Ohio. At December 31, 2018, 57.5% 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 and Ohio. 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 affect 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.

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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, reclassify assets, determine the adequacy of Northwest Bank's allowance for loan losses and determine the level of deposit insurance premiums assessed. The laws and regulations applicable to us 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.

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 established a "capital conservation buffer" of 2.5%, which has resulted 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%, all of which were 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 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. As a result, our stockholders may not have the opportunity to participate in such a transaction, which could provide a premium over the prevailing price of our common stock. The provisions that may discourage takeover attempts or make them more difficult include that 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, 2018, the fair value of our investment and mortgage-backed securities portfolio totaled $823.9 million. Net unrealized losses on these securities totaled $9.9 million at December 31, 2018.

Any increase in market interest rates may reduce our mortgage banking income. We generate revenues primarily from gains on the sale of mortgage loans to investors, and from the amortization of deferred mortgage servicing rights. We recognized noninterest income of $596,000 on mortgage banking activities during the year ended December 31, 2018. We also earn interest on loans held for sale while awaiting delivery to our investors. In a rising or higher interest rate environment, our mortgage loan originations may decrease, resulting in fewer loans that are available for sale. This would result in a decrease in interest income and a decrease in revenues from loan sales. In addition, our results of operations are affected by the amount of noninterest expense associated with mortgage banking activities, such as salaries and employee benefits, occupancy, equipment, data processing and other operating costs. During periods of reduced loan demand, our results of operations may be adversely affected to the extent that we are unable to reduce expenses commensurate with the decline in mortgage loan origination activity.

At December 31, 2018, our interest rate risk analysis indicated that the market value of our equity would decrease by 7.3% if there was an instant parallel 200 basis point increase in market interest rates. See “Item 7A. Quantitative and Qualitative Disclosures About Market Risk.”

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 loan 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 loan 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.

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

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 negatively impact earnings and capital.

Commercial loans generally expose a lender to greater risk of non-payment and loss than one- to four-family residential mortgage loans because repayment of the loans often depends on the successful operation of the business and the income stream of the borrowers. Such loans typically involve larger loan balances to single borrowers or groups of related borrowers compared to one- to four-family residential mortgage loans. Also, many of our commercial borrowers have more than one loan outstanding with us. Consequently, an adverse development with respect to one loan or one credit relationship can expose us to a significantly greater risk of loss compared to an adverse development with respect to a one- to four-family residential mortgage loan. Commercial business loans expose us to additional risk since they typically are dependent on the borrower's ability to make repayments from the cash flows of the business and are secured by non-real estate collateral that may depreciate over time. Further, our commercial business loans may be secured by collateral other than real estate, such as inventory and accounts receivable, the value of which may be more difficult to appraise, control or collect and may be more susceptible to fluctuation in value at the time of default.

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 deteriorates 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.

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 or affect our ability to pursue further acquisition opportunities. 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.

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We are subject to the Community Reinvestment Act and fair lending laws, and failure to comply with these laws could lead to material penalties.

The Community Reinvestment Act ("CRA"), the Equal Credit Opportunity Act, the Fair Housing Act and other fair lending laws and regulations impose nondiscriminatory lending requirements on financial institutions. A successful regulatory challenge to an institution's performance under the CRA or fair lending laws and regulations could result in a wide variety of sanctions, including the required payment of damages and civil money penalties, injunctive relief, imposition of restrictions on mergers and acquisitions activity and restrictions on expansion. Private parties may also have the ability to challenge an institution's performance under fair lending laws in private class action litigation. Such actions could have a material adverse effect on our business, financial condition and results of operations.

The Federal Reserve Board may require us to commit capital resources to support Northwest Bank.

Federal law requires that a holding company act as a source of financial and managerial strength to its subsidiary bank and to commit resources to support such subsidiary bank. Under the "source of strength" doctrine, the Federal Reserve Board may require a holding company to make capital injections into a troubled subsidiary bank and may charge the holding company with engaging in unsafe and unsound practices for failure to commit resources to a subsidiary bank. A capital injection may be required at times when the holding company may not have the resources to provide it and therefore may be required to borrow the funds or raise capital. Any loans by a holding company to its subsidiary bank are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary bank. In the event of a holding company's bankruptcy, the bankruptcy trustee will assume any commitment by the holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank. Moreover, bankruptcy law provides that claims based on any such commitment will be entitled to a priority of payment over the claims of the institution's general unsecured creditors, including the holders of its note obligations. Thus, any borrowing that must be done by the Company to make a required capital injection becomes more difficult and expensive and could have an adverse effect on our business, financial condition and results of operations.

If our intangible assets, including goodwill, are either partially or fully impaired in the future, it 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 stock, 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, fintech 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 are 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

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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.

Monetary policies and regulations of the Federal Reserve Board could adversely affect our business, financial condition and results of operations.

In addition to being affected by general economic conditions, our earnings and growth are affected by the policies of the Federal Reserve Board. An important function of the Federal Reserve Board is to regulate the money supply and credit conditions. Among the instruments used by the Federal Reserve Board to implement these objectives are open market purchases and sales of U.S. government securities, adjustments of the discount rate and changes in banks' reserve requirements against bank deposits. These instruments are used in varying combinations to influence overall economic growth and the distribution of credit, bank loans, investments and deposits. Their use also affects interest rates charged on loans or paid on deposits.

The monetary policies and regulations of the Federal Reserve Board have had a significant effect on the operating results of financial institutions in the past and are expected to continue to do so in the future. The effects of such policies upon our business, financial condition and results of operations cannot be predicted.

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, 2017, we had $51.0 million invested in debt obligations of states, municipalities and political subdivisions (collectively referred to as our municipal bond portfolio). We also had $157.2 million of loans outstanding to municipalities and political subdivisions. Widespread concern currently exists regarding the stress on state and local governments emanating from: (i) declining revenues; (ii) large unfunded liabilities to government workers; and (iii) entrenched cost structures. Debt-to-gross domestic product ratios for the majority of states have been deteriorating due to, among other factors, declines in federal monetary assistance provided as the United States is currently experiencing the largest deficit in its history. 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.

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

Within our investment portfolio, we have a significant amount of 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.

Our business is subject to the Gramm-Leach-Bliley Act which, among other things: (i) imposes certain limitations on our ability to share nonpublic personal information about our customers with nonaffiliated third parties; (ii) requires that we provide certain disclosures to customers about our information collection, sharing and security practices and afford customers the right to “opt out” of any information sharing by us with nonaffiliated third parties (with certain exceptions); and (iii) requires that we develop, implement and maintain a written comprehensive information security program containing appropriate safeguards based on our size and complexity, the nature and scope of our activities, and the sensitivity of customer information we process, as well as plans for responding to data security breaches. Ensuring that our collection, use, transfer and storage of personal information complies with all applicable laws and regulations can increase our costs. Despite the defensive measures we take to manage our internal technological and operational infrastructure, threats may originate externally from third parties such as foreign governments, organized crime and other hackers, and outsource or infrastructure-support providers and application developers, or may originate internally from within our organization. Furthermore, we may not be able to ensure that all of our clients, suppliers, counterparties and other third parties have appropriate controls in place to protect the confidentiality of the information that they exchange with us, particularly where such information is transmitted by electronic means.

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In addition, we outsource a significant amount 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.

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.

Acquisitions may not enhance our cash flows, business, financial condition, results of operations or prospects as expected and such acquisitions may have an adverse effect on our results of operations, particularly during periods in which the acquisitions are being integrated into our operations.

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Our continued pace of growth may require us to raise additional capital in the future, but that capital may not be available when it is needed.

We are required by federal regulatory authorities to maintain adequate levels of capital to support our operations. We anticipate that we will have sufficient capital resources to satisfy our capital requirements for the foreseeable future. We may at some point, however, need to raise additional capital to support our continued growth. If we raise capital through the issuance of additional shares of our common stock or other securities, it would dilute the ownership interests of existing stockholders and may dilute the per share book value of our common stock. New investors may also have rights, preferences and privileges senior to our current stockholders, which may adversely impact our current stockholders. Also, the need to raise additional capital may force our management to spend more time in managerial and financing-related activities than in operational activities.

Our ability to raise additional capital, if needed, will depend on conditions in the capital markets at that time, which are outside of our control, and on our financial performance. Accordingly, we may not be able to raise additional capital, if needed, with favorable terms. If we cannot raise additional capital when needed, our ability to further expand our operations through internal growth and acquisitions could be materially impaired.

Provisions of the Dodd-Frank Act that are applicable to savings banks and their holding companies with $10 billion or more in assets may decrease our fee income and increase our operating costs or otherwise have a material effect on our business, financial condition or results of operations.

The Dodd-Frank Act resulted in several new requirements for banking institutions with $10 billion or more in assets. As of December 31, 2018, we had consolidated assets of $9.608 billion. If we surpass this threshold, these provisions, subject to a phase-in period, may significantly increase our compliance or operating costs or otherwise have a significant impact on our business, financial condition and results of operations. Such provisions include:

- The Dodd-Frank Act created the Consumer Financial Protection Bureau (the “CFPB”), which has broad powers to supervise and enforce consumer protection laws. The CFPB has broad rule-making authority for a wide range of consumer protection laws that apply to all banks, including the authority to prohibit “unfair, deceptive or abusive” acts and practices. Currently, the Pennsylvania Department of Banking and the FDIC examine Northwest Bank for compliance with consumer protection laws. However, the CFPB has examination and enforcement authority over all banks with more than $10 billion in assets, and accordingly would assume examination and enforcement authority over us in the event our consolidated assets exceed $10 billion in the future.
- Interchange fees for electronic debt transactions by a payment card issuer would be limited to $0.21 plus five basis points times the value of the transaction, plus up to $0.01 for fraud prevention costs. This would lower significantly our interchange or “swipe” revenue. Currently, we estimate this decrease in interchange fee income to be approximately $8.0 million, before tax.
- The Dodd-Frank Act established 1.35% as the minimum Deposit Insurance Fund reserve ratio and the FDIC has adopted a plan under which it will meet the statutory minimum fund reserve ratio of 1.35% by September 30, 2020. The Dodd-Frank Act requires the FDIC to offset the effect of the increase in the statutory minimum fund reserve ratio to 1.35% from the former statutory minimum of 1.15% on institutions with assets less than $10 billion. We would not be entitled to benefit from the offset.
- The Dodd-Frank Act requires a publicly traded savings and loan holding company with $10 billion or more in assets to establish and maintain a risk committee responsible for oversight of enterprise-wide risk management practices, which must be commensurate with the bank’s structure, risk profile, complexity, activities and size.
- A savings and loan holding company with more than $10 billion in assets is required under the Dodd-Frank Act to conduct annual stress tests to determine whether the capital planning of the combined company, assessment of its capital adequacy and risk management practices adequately protect it and its affiliates in the event of an economic downturn. A company is required to report the results of its annual stress tests to the Federal Reserve Board, and is

required to consider the results of the stress tests as part of its capital planning and risk management practices. In advance of the date a company is subject to the DFAST regime, the company needs to undertake the planning and other actions that it deems reasonably necessary to achieve timely compliance. Currently, we estimate this additional cost to be approximately $3.0 million, before tax.

It is difficult to predict the overall compliance cost of these provisions. However, compliance with these provisions would likely require additional staffing, engagement of external consultants and other operating costs that could have a material adverse effect on our future financial condition and results of operations.

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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.

Uncertainties associated with increased loan originations may result in errors in our judgment of collectability, which may lead to additional provisions for loan losses or charge-offs, which would negatively affect our operations. Increasing loan originations would likely require us to lend to borrowers with which we have limited experience. Accordingly, we would not have a significant payment history pattern with which to judge future collectability. Further, newly originated loans have not been subjected to unfavorable economic conditions. As a result, it may be difficult to predict the future performance of newly originated loans. These loans may have delinquency or charge-off levels above our recent historical experience, which could adversely affect our future performance.

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

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

Changes in card network rules or standards could adversely affect our business.

In order to provide our debit card and cash management solutions, we are members of the Visa network. As such, we are subject to card network rules that could subject us to a variety of fines or penalties that may be assessed on us. The termination of our membership or any changes in card network rules or standards, including interpretation and implementation of existing rules or standards, could increase the cost of operating our merchant services business or limit our ability to provide debit card and cash management solutions to or through our customers, and could have a material adverse effect on our business, financial condition and results of operations.

Changes in card network fees could impact our operations.

From time to time, the card networks increase the fees (known as interchange fees) that they charge to acquirers and that we charge to our merchants. It is possible that competitive pressures will result in us absorbing a portion of such increases in the future, which would increase our costs, reduce our profit margin and adversely affect our business and financial condition. In addition, the card networks require certain capital requirements. An increase in the required capital level would further limit our use of capital for other purposes.

Our business could suffer if there is a decline in the use of debit cards as a payment mechanism or if there are adverse developments with respect to the financial services industry in general.

As the financial services industry evolves, consumers may find debit financial services to be less attractive than traditional or other financial services. Consumers might not use debit card financial services for any number of reasons, including the general perception of our industry. If consumers do not continue or increase their usage of debit cards, including making changes in the way debit cards are loaded, our operating revenues and debit card deposits may remain at current levels or decline. Any projected growth for the industry may not occur or may occur more slowly than estimated. If consumer acceptance of debit financial services does not continue to develop or develops more slowly than expected or if there is a shift in the mix of payment forms, such as cash, credit cards, traditional debit cards and debit cards, away from our products and services, it could have a material adverse effect on our financial position and results of operations.

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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 could be adversely affected by the soundness of other financial institutions and other third parties we rely on.

Financial services institutions are interrelated as a result of trading, clearing, counterparty or other relationships. We have exposure to many different industries and counterparties, and routinely execute transactions with counterparties in the financial services industry, including commercial banks, brokers and dealers, investment banks and other institutional customers. Many of these transactions expose us to credit risk in the event of a default by a counterparty or client. In addition, our credit risk may be exacerbated when our collateral cannot be foreclosed upon or is liquidated at prices not sufficient to recover the full amount of the credit or derivative exposure due. Furthermore, successful operation of our debit card and cash management solutions business depends on the soundness of third party processors, clearing agents and others that we rely on to conduct our merchant business. Any losses resulting from such third parties could adversely affect our business, financial condition and results of operations.

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.

We may be required to transition from the use of the LIBOR interest rate index in the future.

We have certain loans indexed to LIBOR to calculate the loan interest rate. The continued availability of the LIBOR index is not guaranteed after 2021. It is impossible to predict whether and to what extent banks will continue to provide LIBOR submissions to the administrator of LIBOR or whether any additional reforms to LIBOR may be enacted. At this time, no consensus exists as to what rate or rates may become acceptable alternatives to LIBOR. The implementation of a substitute index or indices for the calculation of interest rates under our loan agreements with our borrowers may incur significant expenses in effecting the transition, may result in reduced loan balances if borrowers do not accept the substitute index or indices, and may result in disputes or litigation with customers over the

appropriateness or comparability to LIBOR of the substitute index or indices, which could have an adverse effect on our results of operations.

A protracted government shutdown may result in reduced loan originations and related gains on sale and could negatively affect our financial condition and results of operations.

During any protracted federal government shutdown, we may not be able to close certain loans and we may not be able to recognize non-interest income on the sale of loans. Some of the loans we originate are sold directly to government agencies, and some of these sales may be unable to be consummated during the shutdown. In addition, we believe that some borrowers may determine not to proceed with their home purchase and not close on their loans, which would result in a permanent loss of the related non-interest income. A federal government shutdown could also result in reduced income for government employees or employees of companies that engage in business with the federal government, which could result in greater loan delinquencies, increases in our nonperforming, criticized and classified assets and a decline in demand for our products and services.

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ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

As of December 31, 2018, we conducted our business through our main office located in Warren, Pennsylvania, 106 other full-service offices and seven free-standing drive-though locations throughout our market area in central and western Pennsylvania, 34 full-service offices and two free-standing drive-through location in western New York and 21 full-service offices and one free-standing drive-through location in eastern Ohio. At December 31, 2018, our premises and equipment had an aggregate net book value of approximately $143.4 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 18 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 22, 2019, we had 20 registered market makers, 12,996 stockholders of record (excluding the number of persons or entities holding stock in street name through various brokerage firms), and 103,689,288 shares outstanding.

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, 2018. Additionally, there were no repurchases of shares of common stock during the quarter ended December 31, 2018.

On December 13, 2012, the board of directors approved a program that authorizes the repurchase of approximately 5,000,000 shares. This program does not have expiration date. During the quarter ended December 31, 2018, we did not repurchase any shares and there are a maximum of 4,834,089 shares that can be purchased under the repurchase program.

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Stock Performance Graph

The following stock performance graph compares (a) the cumulative total return on our Common Stock between December 31, 2013 and December 31, 2018, (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 12/31/2013 in stock or index, including reinvestment of dividends.
Fiscal year ending December 31.

	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2018
Northwest Bancshares, Inc.	100.00	95.42	106.60	149.87	144.58	152.38
NASDAQ Composite	100.00	114.62	122.81	133.19	172.11	165.84
NASDAQ Bank	100.00	104.89	113.29	155.71	164.24	136.99

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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, 2018 and 2017 and for the years ended December 31, 2018, 2017 and 2016 is derived in part from the audited consolidated financial statements that appear in this document. The information at December 31, 2016, 2015 and 2014, and for the years ended December 31, 2015 and 2014, is derived in part from audited consolidated financial statements that do not appear in this document.

	At December 31,				
	2018	2017	2016	2015	2014
	(In thousands)				
Selected Consolidated Financial Data:					
Total assets	$9,607,773	9,363,934	9,623,640	8,951,899	7,775,033
Cash and cash equivalents	68,789	77,710	389,867	167,408	240,706
Investment securities held-to-maturity	—	—	4,808	6,610	66,752
Investment securities available-for-sale	224,192	261,809	378,666	395,688	427,259
Mortgage-backed securities held-to-maturity	22,765	29,677	15,170	25,079	36,943
Mortgage-backed securities available-for-sale	577,258	530,726	447,534	478,717	485,112
Loans receivable net of allowance for loan losses:					
Residential mortgage loans	2,860,333	2,772,248	2,693,439	2,717,385	2,494,724
Home equity	1,254,890	1,305,521	1,340,837	1,201,861	1,082,732
Consumer loans	848,214	658,056	634,334	512,691	236,626
Commercial real estate loans	2,443,446	2,431,266	2,315,414	2,317,647	1,767,795
Commercial loans	589,342	569,523	512,384	409,865	344,861
Total loans receivable, net (1)	7,996,225	7,736,614	7,496,408	7,159,449	5,922,373
Deposits	7,894,179	7,826,989	7,882,321	6,612,581	5,632,542
Borrowed funds	234,389	108,238	142,899	975,007	888,109
Shareholders' equity	1,257,638	1,207,724	1,170,663	1,163,163	1,062,647

(1) Total includes unallocated allowance for loan losses of $4.4 million and $4.4 million for December 31, 2015 and 2014, respectively.

	For the year ended December 31,				
	2018	2017	2016	2015	2014
	(In thousands except per share data)				
Selected Consolidated Operating Data:					
Total interest income	$375,781	358,856	345,634	319,580	305,427
Total interest expense	37,140	28,071	38,299	56,327	56,587
Net interest income	338,641	330,785	307,335	263,253	248,840
Provision for loan losses	20,332	19,751	13,542	9,712	20,314
Net interest income after provision for loan losses	318,309	311,034	293,793	253,541	228,526
Noninterest income	91,702	110,480	85,360	68,836	70,766
Noninterest expense	276,098	285,603	307,838	233,877	215,535
Income before income tax expense	133,913	135,911	71,315	88,500	83,757
Income tax expense	28,422	41,444	21,648	27,960	21,795
Net income	$105,491	94,467	49,667	60,540	61,962
Earnings per share:					

Basic	$1.03	0.94	0.50	0.64	0.68
Diluted	$1.02	0.92	0.49	0.64	0.67

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	At or for the year ended December 31,				
	2018	2017	2016	2015	2014
Selected Financial Ratios and Other Data:					
Return on average assets (1), (5), (6), (7), (8)	1.11 %	0.99 %	0.55 %	0.73 %	0.79 %
Return on average equity (2), (5), (6), (7), (8)	8.61 %	7.95 %	4.28 %	5.49 %	5.69 %
Average capital to average assets	12.87 %	12.51 %	12.73 %	13.25 %	13.80 %
Capital to total assets	13.09 %	12.90 %	12.16 %	12.99 %	13.67 %
Tangible common equity to tangible assets	10.03 %	9.68 %	8.95 %	10.28 %	11.64 %
Net interest rate spread (3)	3.73 %	3.72 %	3.60 %	3.29 %	3.27 %
Net interest margin (4)	3.88 %	3.82 %	3.73 %	3.49 %	3.47 %
Noninterest expense to average assets (5), (6), (8)	2.90 %	3.01 %	3.38 %	2.81 %	2.73 %
Efficiency ratio (5), (6), (7), (8)	62.80 %	63.19 %	77.31 %	69.92 %	67.02 %
Noninterest income to average assets (7)	0.96 %	1.16 %	0.94 %	0.83 %	0.92 %
Net interest income to noninterest expense (5), (6), (8)	1.23x	1.16x	1.00x	1.13x	1.15x
Dividend payout ratio	66.67 %	69.60 %	122.45 %	87.50 %	241.80 %
Nonperforming loans to net loans receivable	0.91 %	0.84 %	1.07 %	1.02 %	1.35 %
Nonperforming assets to total assets	0.78 %	0.75 %	0.88 %	0.91 %	1.25 %
Allowance for loan losses to nonperforming loans	76.21 %	87.43 %	76.00 %	85.86 %	84.35 %
Allowance for loan losses to net loans receivable	0.69 %	0.73 %	0.81 %	0.88 %	1.14 %
Average interest-earning assets to average interest-bearing liabilities	1.35x	1.31x	1.28 x	1.26 x	1.25x
Number of banking offices	172	172	176	181	162
Number of consumer finance offices	—	—	49	51	51

(1) Represents net income divided by average assets.
(2) Represents net income divided by average equity.
(3) Represents average yield on interest-earning assets less average cost of interest-bearing liabilities (shown on an fully taxable equivalent ("FTE" basis).
(4) Represents net interest income as a percentage of average interest-earning assets (shown on a FTE basis).
(5) 2016 includes $37.0 million FHLB prepayment penalty, $12.2 million restructuring/acquisition expense and $5.1 million ESOP termination expense.
(6) 2017 includes $4.4 million restructuring/acquisition expense.
(7) 2017 includes $17.2 million gain on sale of offices.
(8) 2018 includes $1.0 million restructuring/acquisition expense.

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

Overview

Our principal business consists of collecting 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 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 processing costs, as well as by state and federal income tax expense.

Our net income was $105.5 million, or $1.02 per diluted share, for the year ended December 31, 2018 compared to $94.5 million, or $0.92 per diluted share, for the year ended December 31, 2017 and $49.7 million, or $0.49 per diluted share, for the year ended December 31, 2016. The loan loss provision was $20.3 million for the year ended December 31, 2018 compared to $19.8 million for the year ended December 31, 2017 and $13.5 million for the year ended December 31, 2016.

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.

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Valuation of Investment Securities. Our investment securities are classified as either held-to-maturity or available-for-sale. Held-to-maturity securities are carried at amortized cost, while available-for-sale securities are carried at fair value. Unrealized gains or losses on available-for-sale securities, net of deferred taxes, are reported in other comprehensive income. Fair values are determined as described in note 15 of the notes to the Consolidated Financial Statements. Semi-annually (at May 31 and November 30), we validate the prices received from 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 is tested for impairment at least annually and possibly more frequently if certain events occur or changes in circumstances arise. In testing goodwill for impairment, we have the option to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If, after assessing the totality of events and circumstances, we determine if it is not more likely than not that the fair value of a reporting unit is less than its carrying value, then performing the impairment test would be unnecessary. However, if we conclude otherwise, it would then be required to perform the quantitative impairment test. In the quantitative impairment test, the fair value of each reporting unit be compared to its carrying amount in order to determine if impairment is indicated. If the estimated fair value exceeds the carrying amount, the reporting unit is not deemed to be impaired. If the estimated fair value is below the carrying value of the reporting unit, the difference is the amount of impairment. Determining the fair value of a reporting unit requires a high degree of subjective judgment, including developing cash flow projections, selecting appropriate discount rates, identifying relevant market comparables, incorporating general economic and market conditions and selecting an appropriate control premium.

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 goodwill. 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 the reporting unit. We have determined that goodwill was not impaired as of June 30, 2018.

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 depend 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, 2018 and 2017, we used a discount rate of 4.15% and 3.53%, 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

Assets. Total assets at December 31, 2018 were $9.608 billion, an increase of $243.8 million, or 2.6%, from $9.364 billion at December 31, 2017. This increase in assets was due primarily to an increase in net loans receivable of $259.6 million. A discussion of significant changes follows.

Cash and cash equivalents. Cash and cash equivalents decreased by $8.9 million, or 11.5%, to $68.8 million at December 31, 2018, from $77.7 million at December 31, 2017. This decrease was a result of funding gross loan growth of $258.0 million, partially offset by increases in deposits of $67.2 million and borrowings of $126.2 million.

Investment securities. Investment securities increased by $2.0 million, or 2.2%, to $824.2 million at December 31, 2018, from $822.2 million at December 31, 2017. This increase was a result of using the cash flow generated from these portfolios to purchase higher yielding investment securities.

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,					
	2018		2017		2016	
	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	$130,172	126,627	144,411	142,702	175,398	174,567
Variable-rate pass through certificates	24,761	25,759	33,079	34,537	43,587	45,588
Fixed-rate non-agency CMOs	—	—	15	15	100	101
Fixed-rate agency CMOs	365,427	360,371	284,320	279,086	165,535	162,265
Variable-rate agency CMOs	64,246	64,501	74,274	74,386	64,874	65,013
Total residential mortgage-backed securities available for sale	$584,606	577,258	536,099	530,726	449,494	447,534
Investment securities available for sale:						
U.S. Government, agency and GSEs	$204,469	202,115	212,024	209,270	296,508	294,176
Municipal securities	21,026	21,163	50,511	51,056	61,832	63,070
Corporate debt issues	914	914	909	909	14,367	16,980
Equity securities and mutual funds	—	—	551	574	3,351	4,440
Total investment securities available for sale	$226,409	224,192	263,995	261,809	376,058	378,666

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

	At December 31,					
	2018		2017		2016	
	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	$2,896	2,949	3,760	3,900	4,807	5,024
Variable-rate pass through certificates	1,666	1,705	2,283	2,347	2,848	2,906
Fixed-rate agency CMOs	17,552	17,130	22,906	22,678	6,674	6,768
Variable-rate agency CMOs	651	662	729	742	841	855
Total residential mortgage-backed securities held to maturity	$22,765	22,446	29,678	29,667	15,170	15,553
Investment securities held to maturity:						
Municipal securities	$—	—	—	—	4,808	4,873
Total investment securities held to maturity	$—	—	—	—	4,808	4,873

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,		
	2018	2017	2016
	(In thousands)		
Residential mortgage-backed securities:			
FNMA	$288,825	286,031	210,373
GNMA	81,444	37,796	42,221
FHLMC	229,226	236,007	202,822
SBA	—	—	6,608
Other (non-agency)	528	570	680
Total mortgage-backed securities	$600,023	560,404	462,704

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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, 2018. 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	$85,089	1.20%	$101,078	2.03%	$—	— %	$3,546	2.32%	$189,713	187,335	1.66 %
U.S. Government and agency obligations	—	— %	14,756	2.71%	—	— %	—	— %	14,756	14,780	2.71 %
Municipal securities	1,333	2.99%	3,985	2.63%	10,603	3.27 %	5,105	3.51%	21,026	21,163	3.19 %
Corporate debt issues	—	— %	—	— %	914	10.35%	—	— %	914	914	10.35%
Equity securities and mutual funds	—	— %	—	— %	—	— %	—	— %	—	—	— %
Total investment securities available-for-sale	86,422	1.23%	119,819	2.14%	11,517	3.83 %	8,651	3.02%	226,409	224,192	1.91 %
Residential mortgage-backed securities available-for-sale:											
Pass through certificates	24,805	3.72%	11,898	2.22%	40,363	2.06 %	77,867	2.74%	154,933	152,386	2.68 %
CMOs	73,099	2.73%	31,819	2.12%	67,665	1.51 %	257,090	2.85%	429,673	424,872	2.57 %
Total residential mortgage-backed securities available-for-sale	97,904	2.98%	43,717	2.14%	108,028	1.72 %	334,957	2.83%	584,606	577,258	2.60 %
Investment securities held-to-maturity:											
Residential mortgage-backed securities held-to-maturity:											
	1,666	2.96%	—	— %	2,092	3.63 %	804	4.51%	4,562	4,654	3.54 %

Pass through certificates											
CMOs	652	3.05%	163	2.43%	—	— %	17,388	2.50%	18,203	17,792	2.52 %
Total residential mortgage-backed securities held-to-maturity	2,318	2.98%	163	2.43%	2,092	3.63 %	18,192	2.59%	22,765	22,446	2.72 %
Total investment securities and mortgage-backed	$186,644	2.17%	$163,699	2.14%	$121,637	1.95 %	$361,800	2.82%	$833,780	823,896	2.41 %

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

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Loans Receivable. Net loans receivable increased by $259.6 million, or 3.4%, to $7.996 billion at December 31, 2018, from $7.737 billion at December 31, 2017. This increase was due primarily to success in growing our commercial banking platform loan and our continued emphasis on indirect retail lending through dealer channels on decreased sales of residential mortgage loans.

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,									
	2018		2017		2016		2015		2014	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Perc
	(Dollars in thousands)									
Personal Banking:										
Residential mortgage loans	$2,860,212	34.6 %	$2,772,549	34.8 %	$2,699,131	34.8 %	$2,722,480	36.8 %	$2,505,089	40.9
Home equity loans	1,258,422	15.2 %	1,310,355	16.4 %	1,345,370	17.4 %	1,205,903	16.3 %	1,087,282	17.7
Consumer loans:										
Automobile	703,874	8.5 %	492,464	6.2 %	431,802	5.6 %	345,794	4.7 %	92,659	1.5
Education loans	—	— %	4,200	0.1 %	5,720	0.1 %	7,541	0.1 %	9,890	0.2
Loans on savings accounts	6,498	0.1 %	6,846	0.1 %	7,443	0.1 %	7,918	0.1 %	8,466	0.1
Other (1)	127,494	1.6 %	153,818	1.9 %	186,294	2.4 %	149,364	2.0 %	131,729	2.1
Total Consumer loans	837,866	10.2 %	657,328	8.3 %	631,259	8.2 %	510,617	6.9 %	242,744	4.0
Total Personal Banking	4,956,500	60.0 %	4,740,232	59.5 %	4,675,760	60.4 %	4,439,000	60.0 %	3,835,115	62.6
Commercial Banking:										
Commercial real estate	2,639,374	32.0 %	2,599,340	32.6 %	2,513,669	32.4 %	2,524,274	34.1 %	1,874,944	30.6
Commercial loans	661,778	8.0 %	633,163	7.9 %	557,219	7.2 %	437,715	5.9 %	419,525	6.8
Total Commercial Banking	3,301,152	40.0 %	3,232,503	40.5 %	3,070,888	39.6 %	2,961,989	40.0 %	2,294,469	37.4
Total loans receivable, gross	8,257,652	100.0%	7,972,735	100.0%	7,746,648	100.0%	7,400,989	100.0%	6,129,584	100.
Deferred loan costs	37,618		27,782		22,375		20,065		6,095	
Undisbursed loan proceeds	(243,831)		(207,108)		(211,676)		(198,933)		(145,788)	
Allowance for loan losses:										
Personal Banking:										
Residential mortgage loans	(4,137)		(3,955)		(4,727)		(4,710)		(5,581)	
Home equity loans	(3,532)		(4,834)		(4,533)		(4,042)		(4,550)	

Consumer loans:	(11,499)	(13,333)	(8,627)	(7,598)	(6,118)
Total Personal Banking	(19,168)	(22,122)	(17,887)	(16,350)	(16,249)
Commercial Banking:					
Commercial real estate	(28,375)	(23,460)	(26,675)	(33,787)	(32,937)
Commercial loans	(7,671)	(11,213)	(16,377)	(12,535)	(13,967)
Total Commercial Banking	(36,046)	(34,673)	(43,052)	(46,322)	(46,904)
Unallocated	—	—	—	—	(4,662)
Total allowance for loan losses	(55,214)	(56,795)	(60,939)	(62,672)	(67,815)
Total loans receivable, net	$7,996,225	$7,736,614	$7,496,408	$7,159,449	$5,922,076

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

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The following table sets forth the maturity of our loan portfolio at December 31, 2018. 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 they contractually mature, and fixed-rate loans are included in the period in which the contractual repayment is due.

At December 31, 2018 (In thousands)	Due in one year or less	Due after one year through two years	Due after two years through three years	Due after three years through five years	Due after five years	Total
Personal Banking:						
Residential mortgage loans	$119,951	123,190	126,110	261,058	2,229,905	2,860,214
Home equity loans	101,875	82,689	79,162	137,627	857,071	1,258,424
Consumer loans	209,612	177,860	169,342	202,494	78,559	837,867
Total Personal Banking	431,438	383,739	374,614	601,179	3,165,535	4,956,505
Commercial Banking:						
Commercial real estate loans	610,662	400,241	310,259	511,005	807,208	2,639,375
Commercial loans	261,075	100,386	86,878	106,137	107,303	661,779
Total Commercial Banking	871,737	500,627	397,137	617,142	914,511	3,301,154
Total	$1,303,175	884,366	771,751	1,218,321	4,080,046	8,257,659

The following table sets forth at December 31, 2018, the dollar amount of all fixed-rate and adjustable-rate loans due one year or more after December 31, 2018. Adjustable and floating-rate loans are included in the table based on the contractual due date of the loan.

At December 31, 2018 (In thousands)	Fixed	Adjustable	Total
Personal Banking:			
Residential mortgage loans	$2,698,108	42,155	2,740,263
Home equity loans	670,146	486,402	1,156,548
Consumer loans	588,354	39,901	628,255
Total Personal Banking	3,956,608	568,458	4,525,066
Commercial Banking:			
Commercial real estate loans	927,663	1,101,049	2,028,712
Commercial loans	147,016	253,688	400,704
Total Commercial Banking	1,074,679	1,354,737	2,429,416
Total	$5,031,287	1,923,195	6,954,482

Deposits. Total deposits increased by $67.2 million, or 0.9%, to $7.894 billion at December 31, 2018 from $7.827 billion at December 31, 2017. Demand deposits increased by $138.3 million, or 4.5%, to $3.192 billion at December 31, 2018 from $3.053 billion at December 31, 2017 due to continued efforts to attract low cost accounts to whom we can also cross-sell other products and services. Partially offsetting these increases was a decrease in time deposits of $7.8 million, or 0.6%, to $1.405 billion at December 31, 2018 from $1.413 billion at December 31, 2017. Money market deposit accounts decreased by $45.8 million, or 2.7%, to $1.662 billion at December 31, 2018 from $1.707 billion at December 31, 2017. Additionally, savings deposits decreased by $17.5 million, or 1.1%, to $1.636 billion at December 31, 2018 from $1.654 billion at December 31, 2017 as a result of recent increased market interest rate competition for interest rate sensitive customers.

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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,			2017			2016		
	2018								
	Balance	Percent (1)	Rate (2)	Balance	Percent (1)	Rate (2)	Balance	Percent (1)	Rate (2)
	(Dollars in thousands)								
Savings deposits	$1,636,099	20.7 %	0.18 %	$1,653,579	21.1 %	0.18 %	$1,622,879	20.6 %	0.18 %
Demand deposits	3,191,616	40.4 %	0.13 %	3,053,337	39.0 %	0.08 %	2,877,289	36.5 %	0.01 %
Money market deposit accounts	1,661,623	21.0 %	0.50 %	1,707,450	21.8 %	0.24 %	1,841,567	23.4 %	0.24 %
Time deposits:									
Maturing within 1 year	553,173	7.0 %	1.19 %	666,348	8.5 %	0.83 %	836,525	10.6 %	0.85 %
Maturing 1 to 3 years	565,665	7.2 %	1.69 %	427,825	5.5 %	1.26 %	465,684	5.9 %	1.08 %
Maturing more than 3 years	286,003	3.6 %	2.03 %	318,450	4.1 %	1.70 %	238,377	3.0 %	1.51 %
Total certificates	1,404,841	17.8 %	1.57 %	1,412,623	18.0 %	1.16 %	1,540,586	19.5 %	1.01 %
Total deposits	$7,894,179	100.0 %	0.47 %	$7,826,989	100.0 %	0.33 %	$7,882,321	100.0 %	0.30 %

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

The following table sets forth the dollar amount of deposits in each state by branch location as of December 31, 2018.

State	Balance	Percent
	(Dollars in thousands)	
Pennsylvania	$4,824,999	61.1 %
New York	2,149,025	27.2 %
Ohio	920,155	11.7 %
Total	$7,894,179	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, 2018.

Maturity period	Certificates of deposit
	(In thousands)
Three months or less	$ 55,521
Over three months through six months	31,231
Over six months through twelve months	112,796
Over twelve months	261,304
Total	$ 460,852

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Borrowings. Borrowings increased by $126.2 million, or 116.5%, to $234.4 million at December 31, 2018 from $108.2 million at December 31, 2017, in order to fund internal loan growth.

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

	During the years ended December 31,			
	2018		2017	2016
	(Dollars in thousands)			
Federal Home Loan Bank of Pittsburgh borrowings:				
Average balance outstanding	$ 43,428		11,331	450,917
Maximum outstanding at end of any month during year	134,300		87,300	820,317
Balance outstanding at end of year	128,600		—	—
Weighted average interest rate during year	2.33	%	1.34%	2.27%
Weighted average interest rate at end of year	2.60	%	—%	—%
Collateralized borrowings:				
Average balance outstanding	$ 102,792		121,019	141,664
Maximum outstanding at end of any month during year	110,309		137,191	158,367
Balance outstanding at end of year	105,789		108,238	142,899
Weighted average interest rate during year	0.20	%	0.18%	0.19%
Weighted average interest rate at end of year	0.24	%	0.20%	0.17%
Total borrowings:				
Average balance outstanding	$ 146,220		132,350	592,581
Maximum outstanding at end of any month during year	239,894		199,247	959,696
Balance outstanding at end of year	234,389		108,238	142,899
Weighted average interest rate during year	0.82	%	0.26%	1.73%
Weighted average interest rate at end of year	1.53	%	0.20%	0.17%

Shareholders' equity. Total shareholders' equity at December 31, 2018 was $1.258 billion, an increase of $49.9 million, or 4.1%, from $1.208 billion at December 31, 2017. This increase in equity was primarily the result of net income of $105.5 million, which was partially offset by the payment of cash dividends of $69.9 million.

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Average Balance Sheets

The following tables set forth average balance sheets, average yields (on FTE) basis) 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,											
	2018				2017				2016			
	Average outstanding balance	Interest	Average yield/cost (11)		Average outstanding balance	Interest	Average yield/cost (11)		Average outstanding balance	Interest	Average yield/cost (11)	
	(Dollars in thousands)											
Interest-earning assets:												
Loans receivable (includes FTE adjustments of $1,332, $2,188 and $2,283, respectively) (1), (2), (3)	$7,883,944	357,903	4.54	%	$7,664,288	342,180	4.46	%	$7,391,456	331,322	4.48	%
Mortgage-backed securities (4)	586,613	13,781	2.35	%	563,696	11,343	2.01	%	467,560	8,540	1.83	%
Investment securities (includes FTE adjustments of $287, $1,090 and $1,471, respectively) (4), (5)	240,989	4,429	1.84	%	350,870	6,862	1.96	%	344,575	7,612	2.21	%
Federal Home Loan Bank stock	10,354	452	4.37	%	8,186	250	3.05	%	26,386	1,371	5.20	%
Interest-earning deposits	41,079	835	2.00	%	158,229	1,499	0.93	%	100,336	543	0.53	%
Total interest-earning assets (includes FTE adjustments of $1,619, $3,278 and $3,754, respectively)	8,762,979	377,400	4.30	%	8,745,269	362,134	4.14	%	8,330,313	349,388	4.19	%
Non-interest-earning assets (6)	752,007				757,249				781,274			
Total assets	$9,514,986				$9,502,518				$9,111,587			
Interest-bearing liabilities:												
Savings deposits	$1,669,930	3,064	0.18	%	$1,688,451	3,062	0.18	%	$1,500,655	3,218	0.21	%
Interest-bearing demand deposits	1,447,809	3,607	0.25	%	1,432,134	1,027	0.07	%	1,209,325	462	0.04	%
Money market deposit accounts	1,690,481	5,740	0.34	%	1,810,083	4,203	0.23	%	1,473,897	3,621	0.25	%
Time deposits	1,415,187	18,574	1.31	%	1,490,378	14,765	0.99	%	1,630,424	16,164	0.99	%
Borrowed funds (7)	146,220	1,194	0.82	%	132,350	348	0.26	%	592,581	10,274	1.73	%
	111,213	4,961	4.40	%	111,213	4,666	4.14	%	111,213	4,560	4.03	%

Junior subordinated deferrable interest debentures									
Total interest-bearing liabilities	6,480,840	37,140	0.57 %	6,664,609	28,071	0.42 %	6,518,095	38,299	0.59 %
Non-interest-bearing checking (8)	1,710,841			1,556,511			1,245,320		
Non-interest-bearing liabilities	98,550			92,611			188,381		
Total liabilities	8,290,231			8,313,731			7,951,796		
Shareholders’ equity	1,224,755			1,188,787			1,159,791		
Total liabilities and stockholders’ equity	$9,514,986			$9,502,518			$9,111,587		
Net interest income		340,260			334,063			311,089	
Net interest rate spread (9)			3.73 %			3.72 %			3.60 %
Net interest-earning assets/net interest margin (10)	$2,282,139		3.88 %	$2,080,660		3.82 %	$1,812,218		3.73 %
Ratio of average interest-earning assets to average interest-bearing liabilities	1.35x			1.31	x		1.28	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) Average balances do not include the effect of unrealized gains or losses on securities held as available-for-sale.
(5) Interest income on tax-free investment securities is presented on a taxable equivalent basis including adjustments as indicated.
(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) Average cost of deposits were 0.39%, 0.29% and 0.33%, respectively.
(9) Net interest rate spread represents the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities.
(10) Net interest margin represents net interest income as a percentage of average interest-earning assets.
(11) Shown on a FTE basis. GAAP basis yields for the years ended December 31, 2018, 2017 and 2016 were: loans - 4.52%, 4.44% and 4.45%, respectively, investment securities - 1.72%, 1.65% and 1.78%, respectively, interest-earning assets - 4.29%, 4.10% and 4.15%, respectively, GAAP basis net interest rate spreads were 3.72%, 3.68% and 3.56%, respectively, and GAAP basis net interest margins were 3.86%, 3.78% and 3.69%, respectively.

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Rate/Volume Analysis

The following table presents, on an FTE basis, 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, 2018 compared to 2017 and for the year ended December 31, 2017 compared to 2016. 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, 2018 vs. 2017			Years ended December 31, 2017 vs. 2016		
	Increase (decrease) Due to		Total increase	Increase (decrease) Due to		Total increase
	Rate	Volume	(decrease)	Rate	Volume	(decrease)
	(In thousands)					
Interest-earning assets:						
Loans receivable	$5,751	9,972	15,723	(1,323)	12,181	10,858
Mortgage-backed securities	1,900	538	2,438	1,047	1,756	2,803
Investment securities	(414)	(2,019)	(2,433)	(873)	123	(750)
Federal Home Loan Bank stock	108	94	202	(370)	(751)	(1,121)
Interest-earning deposits	1,717	(2,381)	(664)	643	313	956
Total interest-earning assets	9,062	6,204	15,266	(876)	13,622	12,746
Interest-bearing liabilities:						
Savings deposits	36	(34)	2	(497)	341	(156)
Interest-bearing demand deposits	2,541	39	2,580	405	160	565
Money market deposit accounts	1,943	(406)	1,537	(199)	781	582
Time deposits	4,796	(987)	3,809	(12)	(1,387)	(1,399)
Borrowed funds	733	113	846	(3,216)	(6,710)	(9,926)
Junior subordinated deferrable interest debentures	295	—	295	106	—	106
Total interest-bearing liabilities	10,344	(1,275)	9,069	(3,413)	(6,815)	(10,228)
Net change in net interest income	$(1,282)	7,479	6,197	2,537	20,437	22,974

Comparison of Results of Operations for the Years Ended December 31, 2018 and 2017

General. Net income for the year ended December 31, 2018 was $105.5 million, or $1.02 per diluted share, an increase of $11.0 million, or 11.7%, from $94.5 million, or $0.92 per diluted share, for the year ended December 31, 2017. The increase in net income resulted from an increase in net interest income of $7.9 million, or 2.4% and decreases in noninterest expense of $9.5 million, or 3.3%, and income tax expense of $13.0 million, or 31.4%. Partially offsetting these factors was a decrease in noninterest income of $18.8 million or 17.0%, and an increase in provision for loan losses of $581,000, or 2.9%.

Net income for the year ended December 31, 2018 represents returns on average equity and average assets of 8.61% and 1.11%, respectively, compared to 7.95% and 0.99% for the year ended December 31, 2017. A discussion of significant changes follows.

Interest Income. Total interest income increased by $16.9 million, or 4.7%, to $375.8 million for the year ended December 31, 2018 from $358.9 million for the year ended December 31, 2017. This increase is the result of an increase in the average balance of interest earning assets of $17.7 million, or 0.20%, to $8.763 billion for the year

ended December 31, 2018 from $8.745 billion for the year ended December 31, 2017 and an increase in the average yield on interest-earning assets to 4.30% for the year ended December 31, 2018 from 4.14% for the year ended December 31, 2017.

Interest income on loans receivable increased by $16.6 million, or 4.9%, to $356.6 million for the year ended December 31, 2018 from $340.0 million for the year ended December 31, 2017. This increase in interest income on loans receivable is attributed to increases in the average balance and average yield of loans receivable. The average balance increased by $219.7 million, or 2.9%, to $7.884 billion for the year ended December 31, 2018 from $7.664 billion for the year ended December 31, 2017. This increase is due primarily to $258.0 million of organic loan growth during 2018, as we continue our focus on expanding

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our commercial banking and indirect consumer portfolios, as well as a reduction in the sale of residential mortgage loans into the secondary market. Additionally, the average yield on loans receivable increased to 4.54% for the year ended December 31, 2018 from 4.46% for the year ended December 31, 2017. The average loan yield was positively affected by an increase in rates on adjustable rate loans in response to increases in short-term rates by the Federal Reserve.

Interest income on mortgage-backed securities increased by $2.4 million, or 21.5%, to $13.8 million for the year ended December 31, 2018 from $11.3 million for the year ended December 31, 2017. This increase is the result of increases in both the average balance and average yield. The average balance of mortgage-backed securities increased by $22.9 million, or 4.1%, to $586.6 million for the year ended December 31, 2018 from $563.7 million for the year ended December 31, 2017. The increase in the average balance was due to the purchase of higher yielding mortgage-backed securities with the cash flow from our investment securities. The average yield on mortgage-backed securities increased to 2.35% for the year ended December 31, 2018 from 2.01% for the year ended December 31, 2017 due to both an increase in short-term market interest rates that positively impacted the yield of adjustable rate mortgage-backed securities and the purchase of fixed rate mortgage-backed securities with yields higher than the existing portfolio.

Interest income on investment securities decreased by $1.7 million, or 28.2%, to $4.1 million for year ended December 31, 2018 from $5.8 million for the year ended December 31, 2017. This decrease is the result of a decrease in the average balance of investment securities of $109.9 million, or 31.3%, to $241.0 million for the year ended December 31, 2018 from $350.9 million for the year ended December 31, 2017 which was primarily due to the maturity or call of municipal and government agency securities. Partially offsetting this decrease was an increase in the average yield on investment securities to 1.72% for the year ended December 31, 2018 from 1.65% for the year ended December 31, 2017, due primarily to an increase in short-term market interest rates.

Dividends on FHLB stock increased by $202,000, or 80.8%, to $452,000 for the year ended December 31, 2018 from $250,000 for the year ended December 31, 2017. This increase is the result of increases in both the average balance and average yield. The average balance on FHLB stock increased by $2.2 million, or 26.5%, to $10.4 million for the year ended December 31, 2018 from $8.2 million for the year ended December 31, 2017. Additionally, the average yield on FHLB stock increased to 4.37% for the year ended December 31, 2018 from 3.05% for the year ended December 31, 2017. 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 $664,000, or 44.3%, to $835,000 for the year ended December 31, 2018 from $1.5 million for the year ended December 31, 2017. This decrease is attributable to a decrease in the average balance of interest-earning deposits. The average balance decreased by $117.2 million, or 74.0%, to $41.1 million for the year ended December 31, 2018 from $158.2 million for the year ended December 31, 2017, due to the utilization of excess cash to fund loan growth. Partially offsetting this decrease was an increase in the average yield on interesting-earning deposits to 2.00% for the year ended December 31, 2018 from 0.93% for the year ended December 31, 2017, as a result of recent increases in the targeted Federal Funds rate by the Federal Reserve Board.

Interest Expense. Interest expense increased by $9.1 million, or 32.3%, to $37.1 million for the year ended December 31, 2018 from $28.1 million for the year ended December 31, 2017. This increase in interest expense was due to an increase in the average cost of interest-bearing liabilities to 0.57% for the year ended December 31, 2018 from 0.42% for the year ended December 31, 2017. This increase resulted from increases in the interest rates paid on deposits and borrowed funds in response to increases in market interest rates. Partially offsetting this increase in cost was a decrease in the average balance of interest bearing liabilities of $183.8 million, or 2.8%, to $6.481 billion for the year ended December 31, 2018 from $6.665 billion for the year ended December 31, 2017. This decrease is due

primarily to the sale of our three Maryland offices in May 2017 with deposits of $211.7 million as well as intensified competition for rate sensitive customers. In addition, our efforts to grow noninterest-bearing checking accounts have been successful, increasing the average balance by $154.3 million, or 9.9%, to $1.711 billion for the year ended December 31, 2018 from $1.557 billion for the year ended December 31, 2017.

Net Interest Income. Net interest income increased by $7.9 million, or 2.4%, to $338.6 million for the year ended December 31, 2018 from $330.8 million for the year ended December 31, 2017. This increase is attributable to the factors discussed above. As a result of loan growth and the continued change in our deposit mix toward lower cost accounts, both our interest rate spread and net interest margin increased. Net interest rate spread increased to 3.72% for the year ended December 31, 2018 from 3.68% for the year ended December 31, 2017 while net interest margin increased to 3.86% for the year ended December 31, 2018 from 3.78% for the year ended December 31, 2017.

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 $581,000, or 2.9%, to $20.3 million for the year ended December 31, 2018 from $19.8 million for the year ended December 31, 2017. This increase is due primarily to a $4.6

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million write-down on one commercial real estate loan. Additionally, total nonaccrual loans increased by $7.8 million, or 12.1%, to $72.3 million, or 0.90% of total loans, at December 31, 2018 from $64.5 million, or 0.83% of total loans, at December 31, 2017. Total loan delinquency increased to $121.5 million, or 1.51% of total loans at December 31, 2018 from $117.5 million, or 1.51% of total loans at December 31, 2017. Partially offsetting these trends was a reduction in loans risk rated substandard by $53.7 million, or 22.7%, to $184.1 million at December 31, 2018 from $237.8 million at December 31, 2017 as well as the recalculation of the quantitative and qualitative factors used to determine the allowance for loan losses.

In determining the amount of the current period provision, we considered current economic conditions, including unemployment levels, bankruptcy filings, and changes in real estate values, and assessed the impact of these factors on the quality of our loan portfolio and historical loss factors. We analyze the allowance for loan losses as described in the section entitled “Allowance for Loan Losses.” The provision that is recorded is sufficient, in our judgment, to bring this reserve to a level that reflects the losses inherent in our loan portfolio relative to loan mix, economic conditions and historical loss experience as of December 31, 2018..

Noninterest Income. Noninterest income decreased by $18.8 million, or 17.0%, to $91.7 million for the year ended December 31, 2018 from $110.5 million for the year ended December 31, 2017. This decrease is primarily attributable to the $17.2 million gain on the sale of our three Maryland offices in May 2017. Additionally, trust and other financial services income decreased by $1.4 million, or 7.8%, to $16.6 million for the year ended December 31, 2018 from $18.0 million for the year ended December 31, 2017, due primarily to the sale of our retirement services subsidiary in December 2017. Also, investment securities sold during 2018 resulted in profits of $157,000 compared to a $1.1 million gain during 2017. Mortgage banking income also decreased by $822,000, or 58.0%, to $596,000 for the year ended December 31, 2018 from $1.4 million for the year ended December 31, 2017, as a result of a reduction in the sale of residential mortgage loans into the secondary market. Positively impacting noninterest income was an increase in service charges and fees of $1.1 million, or 2.2%, to $50.8 million for the year ended December 31, 2018 from $49.7 million for the year ended December 31, 2017, due primarily to increased transaction volume. Additionally, other operating income increased by $880,000, or 10.1%, due primarily to the growth in fee income associated with commercial lending activity and fees earned from debit and credit card volume-based incentives.

Noninterest Expense. Noninterest expense decreased by $9.5 million, or 3.3%, to $276.1 million for the year ended December 31, 2018 from $285.6 million for the year ended December 31, 2017. All noninterest expense categories, with the exception of compensation and employee benefits, professional services and other expense, decreased compared to last year. Most of these decreases are a result of the restructuring that occurred during 2017, including a reduction of acquisition and restructuring costs of $3.4 million, or 77.1%, related to the sale of our three Maryland region offices and retirement services business along with the closure of our consumer finance subsidiary. Office operations decreased by $2.2 million, or 13.5% to $14.1 million for the year ended December 31, 2018 from $16.3 million for the year ended December 31, 2017, due to an enhanced fraud monitoring program implemented during 2018. Additionally, marketing expense decreased by $1.2 million, or 12.2%, to $8.4 million for the year ended December 31, 2018 from $9.6 million for the year ended December 31, 2017, primarily due to the timing of checking account acquisition campaigns. Partially offsetting this decrease was an increase in compensation and employee benefits of $99,000, or 0.1%, to $152.4 million for the year ended December 31, 2018 from $152.3 million for the year ended December 31, 2017. This increase is due primarily to normal salary increases as well as increases in the cost of other employee benefits offset by the impact of the restructuring that occurred during 2017. Professional services expenses increased by $305,000, or 3.0% primarily as a result of consulting engagements related to the implementation of ASU 2016-13 - Financial Instruments - Credit Losses (Topic 326) - Measurement of Credit Losses on Financial Instruments, and legal fees associated with the completion of several lawsuits, including the successful conclusion of the Northwest Insurance Services lawsuit. Additionally, other noninterest expense increased by $771,000, or 7.3%, to $11.3 million for the year ended December 31, 2018 from $10.6 million for the year ended December 31, 2017, due primarily to an increase in the reserve for unfunded loan commitments by approximately

$800,000.

Income Taxes. The provision for income taxes decreased by $13.0 million, or 31.4%, to $28.4 million for the year ended December 31, 2018 from $41.4 million for the year ended December 31, 2017. This decrease in income tax expense is primarily the result of the enactment of the Tax Cuts and Jobs Act in December 2017, which decreased our corporate tax rate to 21% for the year ended December 31, 2018 from 35% for the year ended December 31, 2017. Additionally, pretax income decreased by $2.0 million, or 1.5%, to $133.9 million for the year ended December 31, 2018 from $135.9 million for the year ended December 31, 2017.

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Comparison of Results of Operations for the Years Ended December 31, 2017 and 2016

General. Net income for the year ended December 31, 2017 was $94.5 million, or $0.92 per diluted share, an increase of $44.8 million, or 90.2%, from $49.7 million, or $0.49 per diluted share, for the year ended December 31, 2016. The increase in net income resulted from increases in noninterest income of $25.1 million, or 29.4%, and net interest income of $23.5 million, or 7.6%, and a decrease in noninterest expense of $22.2 million, or 7.2%. Partially offsetting these factors were increases in income tax expense of $19.8 million, or 91.4%, and provision for loan losses of $6.2 million, or 45.8%.

Net income for the year ended December 31, 2017 represents returns on average equity and average assets of 7.95% and 0.99%, respectively, compared to 4.28% and 0.55% for the year ended December 31, 2016. A discussion of significant changes follows.

Interest Income. Total interest income increased by $13.3 million, or 3.8%, to $358.9 million for the year ended December 31, 2017 from $345.6 million for the year ended December 31, 2016. This increase is the result of an increase in the average balance of interest earning assets of $415.0 million, or 5.0%, to $8.745 billion for the year ended December 31, 2017 from $8.330 billion for the year ended December 31, 2016. Partially offsetting this increase was a decrease in the average yield on interest earning assets to 4.10% for the year ended December 31, 2017 from 4.15% for the year ended December 31, 2016.

Interest income on loans receivable increased by $11.0 million, or 3.3%, to $340.0 million for the year ended December 31, 2017 from $329.0 million for the year ended December 31, 2016. This increase in interest income on loans receivable is attributed to an increase in the average balance of loans receivable of $272.8 million, or 3.7%, to $7.664 billion for the year ended December 31, 2017 from $7.391 billion for the year ended December 31, 2016. This increase is due primarily to $236.1 million of organic loan growth during 2017, as we continue our focus on expanding commercial banking and indirect consumer portfolios, as well as a reduction in the sale of residential mortgage loans into the secondary market. Partially offsetting this increase was a decrease in the average yield on loans receivable to 4.44% for the year ended December 31, 2017 from 4.45% for the year ended December 31, 2016. The average loan yield was negatively affected by the origination of fixed rate residential mortgage loans at lower rates than the existing portfolio yield as well as the runoff of higher rate consumer loans originated by our consumer discount subsidiary prior to its closure. Partially offsetting these declines was the increase in rates on adjustable rate loans in response to increases in short-term rates by the Federal Reserve.

Interest income on mortgage-backed securities increased by $2.8 million, or 32.8%, to $11.3 million for the year ended December 31, 2017 from $8.5 million for the year ended December 31, 2016. This increase is the result of increases in both the average balance and average yield. The average balance of mortgage-backed securities increased by $96.1 million, or 20.6%, to $563.7 million for the year ended December 31, 2017 from $467.6 million for the year ended December 31, 2016. The increase in the average balance was due to the investment of excess cash during the first half of 2017. The average yield on mortgage- backed securities increased to 2.01% for the year ended December 31, 2017 from 1.83% for the year ended December 31, 2016 due to both an increase in short-term market interest rates that positively impacted the yield of adjustable rate mortgage-backed securities and the purchase of fixed rate mortgage-backed securities with yields higher than the existing portfolio.

Interest income on investment securities decreased by $369,000, or 6.0%, to $5.8 million for year ended December 31, 2017 from $6.1 million for the year ended December 31, 2016. This decrease was the result of a decrease in the average yield on investment securities to 1.65% for the year ended December 31, 2017 from 1.78% for the year ended December 31, 2016. This decrease is primarily the result of higher rate, tax-free, municipal securities maturing or being called and being replaced by lower yielding, shorter duration, government agency securities. Partially offsetting this decrease was an increase in the average balance of investment securities of $6.3 million, or 1.8%, to $350.9

million for the year ended December 31, 2017 from $344.6 million for the year ended December 31, 2016. This increase is due primarily to the investment of excess cash during the first half of 2017.

Dividends on FHLB stock decreased by $1.1 million, or 81.8%, to $250,000 for the year ended December 31, 2017 from $1.4 million for the year ended December 31, 2016. This decrease is the result of decreases in both the average balance and average yield. The average balance on FHLB stock decreased by $18.2 million, or 69.0%, to $8.2 million for the year ended December 31, 2017 from $26.4 million for the year ended December 31, 2016. Additionally, the average yield on FHLB stock decreased to 3.05% for the year ended December 31, 2017 from 5.20% for the year ended December 31, 2016. 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 increased by $956,000 to $1.5 million for the year ended December 31, 2017 from $543,000 for the year ended December 31, 2016. This increase is the result of increases in both the average balance of and average yield earned on interest-earning deposits. The average balance increased by $57.9 million, or 57.7%, to $158.2 million for the year ended December 31, 2017 from $100.3 million for the year ended December 31, 2016, due to the excess cash received

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from the December 2016 office acquisition. Additionally, the average yield on interest-earning deposits increased to 0.93% for the year ended December 31, 2017 from 0.53% for the year ended December 31, 2016, as a result of recent increases in the targeted Federal Funds rate by the Federal Reserve Board.

Interest Expense. Interest expense decreased by $10.2 million, or 26.7%, to $28.1 million for the year ended December 31, 2017 from $38.3 million for the year ended December 31, 2016. This decrease in interest expense was due to a decrease in the average cost of interest-bearing liabilities to 0.42% for the year ended December 31, 2017 from 0.59% for the year ended December 31, 2016, and a decrease in the average balance of borrowed funds of $460.2 million, or 77.7%. The decrease in both the average cost of interest-bearing liabilities and the average balance of borrowed funds is due primarily to the payoff of all FHLB advances in the third quarter of 2016 with the cash received from acquiring 18 offices and related deposits in western New York. Additionally, the continued change in our deposit mix from time deposits to lower cost savings and checking products lowered our interest-bearing deposit cost to 0.36% from 0.40%. Partially offsetting the decrease in cost was an increase in the average balance of interest-bearing deposits of $146.5 million, or 2.2%, to $6.665 billion for the year ended December 31, 2017 from $6.518 billion for the year ended December 31, 2016. This increase is due primarily to the addition of $1.643 billion, at fair value, of deposit balances from the office acquisition in the third quarter of 2016, which was augmented by the success in our efforts to procure new checking relationships.

Net Interest Income. Net interest income increased by $23.5 million, or 7.6%, to $330.8 million for the year ended December 31, 2017 from $307.3 million for the year ended December 31, 2016. This increase is attributable to the factors discussed above. The repayment of all FHLB advances with funds received from the aforementioned office acquisition improved net interest spread and margin. Net interest rate spread increased to 3.68% for the year ended December 31, 2017 from 3.56% for the year ended December 31, 2016 while net interest margin increased to 3.78% for the year ended December 31, 2017 from 3.69% for the year ended December 31, 2016.

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 $6.3 million, or 45.8%, to $19.8 million for the year ended December 31, 2017 from $13.5 million for the year ended December 31, 2016. This increase is due primarily to reserves related to the closure of our consumer finance subsidiary, as well as growth in our commercial loan and indirect automobile portfolios. Partially offsetting these factors was a decrease in total nonaccrual loans of $15.0 million, or 19.0%, to $64.5 million, or 0.83% of total loans, at December 31, 2017 from $79.5 million, or 1.05% of total loans, at December 31, 2016. Additionally, total loan delinquency decreased to $117.5 million, or 1.51% of total loans at December 31, 2017 from $121.6 million, or 1.61% of total loans at December 31, 2016.

In determining the amount of the current period provision, we considered current economic conditions, including unemployment levels, bankruptcy filings, and changes in real estate values, and assessed the impact of these factors on the quality of our loan portfolio and historical loss factors. We analyze the allowance for loan losses as described in the section entitled “Allowance for Loan Losses.” The provision that was recorded was 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 as of December 31,2016.

Noninterest Income. Noninterest income increased by $25.1 million, or 29.4%, to $110.5 million for the year ended December 31, 2017 from $85.4 million for the year ended December 31, 2016. The increase is primarily attributable to the $17.2 million gain on the sale of our three Maryland offices in May 2017. Additionally, service charges and fees increased by $5.6 million, or 12.7%, to $49.7 million for the year ended December 31, 2017 from $44.1 million for the year ended December 31, 2016, due primarily to the growth in checking accounts from the September 2016 office acquisition and the successful execution of organic checking account growth initiatives. Trust and other financial services income increased by $3.9 million, or 27.5%, to $18.0 million for the year ended December 31, 2017 from $14.1 million for the year ended December 31, 2016, due to an increase in assets under management from both the

2016 office acquisition and organic growth. Additionally, other operating income increased by $2.9 million, or 50.8%, due primarily to gains on the sale of properties closed during our recent restructuring. Partially offsetting these increases in non-interest income was a decrease in mortgage banking income of $3.5 million, or 71.0%, as a result of a reduction in the sale of residential mortgage loans into the secondary market. Additionally, insurance commission income decreased by $1.5 million, or 14.3%, due primarily to the closure of our consumer finance subsidiary and the discontinuance of related consumer loan originations.

Noninterest Expense. Noninterest expense decreased by $22.2 million, or 7.2%, to $285.6 million for the year ended December 31, 2017 from $307.8 million for the year ended December 31, 2016. This decrease is primarily the result of the $37.0 million prepayment penalty incurred as a result of paying off $715.0 million of FHLB long-term advances during the second quarter of 2016. In addition, acquisition and restructuring costs decreased by $7.8 million, or 63.8% to $4.4 million for the current

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year related to the sale of our Maryland region offices and the closure of our consumer finance subsidiary. These same costs totaled $12.2 million in the prior year, which included costs associated with the consolidation of 24 legacy Northwest offices, as well as the expense related to the purchase of 18 western New York offices. Partially offsetting this decrease was an increase in compensation and employee benefits of $9.7 million, or 6.8%, to $152.3 million for the year ended December 31, 2017 from $142.6 million for the year ended December 31, 2016. This increase is due primarily to the employees added from the aforementioned branch acquisition, as well as increases in health-care costs and other employee benefits. Additionally, processing expenses increased by $4.2 million, amortization of intangible assets increased by $2.5 million, premises and occupancy costs increased by $2.7 million, and office operations increased by $1.4 million, due primarily to the incremental costs associated with the 18 offices acquired in the third quarter of 2016.

Income Taxes. The provision for income taxes increased by $19.8 million, or 91.4%, to $41.4 million for the year ended December 31, 2017 from $21.6 million for the year ended December 31, 2016. This increase in income tax expense is primarily the result of an increase in pretax income of $64.6 million. Partially offsetting this increase was a $3.1 million tax benefit due to the re-measurement of our net deferred tax liability as a result of the Act, which was signed into law on December 22, 2017.

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 at 15 days notice of late charges 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 30 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 authorities. When a loan continues in a delinquent status for 60 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, providing for cure periods of at least 30 days. 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 becomes 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, 2018, we expected 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,				
	2018	2017	2016	2015	2014
	(Dollars in thousands)				
Loans 90 days or more past due:					
Residential mortgage loans	$12,985	13,890	13,621	16,354	17,704
Home equity loans	6,037	7,469	5,756	6,112	6,606
Consumer loans	3,254	4,208	3,923	3,902	2,656
Commercial real estate loans	25,587	16,284	21,834	19,237	10,215
Commercial loans	3,010	3,140	3,520	2,747	4,380
Total loans 90 days or more past due	$50,873	44,991	48,654	48,352	41,561
Total real estate owned (REO)	$2,498	5,666	4,889	8,725	16,759
Total loans 90 days or more past due and REO	53,371	50,657	53,543	57,077	58,320
Total loans 90 days or more past due to net loans receivable	0.64 %	0.58 %	0.65 %	0.68 %	0.70 %
Total loans 90 days or more past due and REO to total assets	0.56 %	0.54 %	0.56 %	0.64 %	0.75 %
Nonperforming assets:					
Nonaccrual loans - loans 90 days or more past due	$50,730	43,077	45,181	43,268	41,326
Nonaccrual loans - loans less than 90 days past due	21,552	21,378	34,355	28,394	38,482
Loans 90 days or more past due still accruing	166	502	649	1,334	235
Total nonperforming loans	72,448	64,957	80,185	72,996	80,043
Total nonperforming assets	$74,946	70,623	85,074	81,721	96,802
Nonaccrual troubled debt restructured loans (1)	$15,306	12,285	16,346	21,118	24,459
Accruing troubled debt restructured loans	18,302	19,819	26,580	29,997	37,329
Total troubled debt restructured loans	$33,608	32,104	42,926	51,115	61,788

(1) Also included in nonaccrual loans above.

During the year ended December 31, 2018, gross interest income of approximately $3.7 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 $1.0 million of interest income on nonaccrual and troubled debt restructured loans during the year ended December 31, 2018.

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, 2018, we had 154 loans, with an aggregate principal balance of $114.0 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.

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

	At December 31,		
	2018	2017	2016
	(In thousands)		
Substandard assets	$198,179	261,692	223,681
Doubtful assets	—	—	—
Loss assets	—	—	—
Total classified assets	$198,179	261,692	223,681

Allowance for Loan Losses. Our Board of Directors has adopted an "Allowance for Loan and Lease Losses" ("ALL") policy designed to provide management with a systematic methodology for determining and documenting the ALL each reporting period. This methodology was developed to provide a consistent process and review procedure to ensure that the ALL is in conformity with GAAP, our policies and procedures and other supervisory and regulatory guidelines.

On an ongoing basis, the Credit Administration department, as well as loan officers, branch managers and department heads, review and monitor the loan portfolio for problem loans. This portfolio monitoring includes a review of the monthly delinquency reports as well as historical comparisons and trend analysis. In addition, a meeting is held every quarter with each region to monitor the performance and status of loans on an internal watch list. On an on-going basis the loan officer, in conjunction with a portfolio manager, grades or classifies problem loans or potential problem loans based upon their knowledge of the lending relationship and other information previously accumulated. This rating is also reviewed independently by our Loan Review department on a periodic basis. Our loan grading system for problem loans is consistent with industry regulatory guidelines which classify loans as "substandard", "doubtful" or "loss." Loans that do not expose us to risk sufficient to warrant classification in one of the previous categories, but which possess some weaknesses, are designated as "special mention". A "substandard" loan is any loan that is 90 days or more contractually delinquent or is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified as "doubtful" have all the weaknesses inherent in those classified as "substandard" with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, conditions or values, highly questionable and improbable. Loans classified as "loss" are considered uncollectible so that their continuance as assets without the establishment of a specific loss allowance is not warranted.

Credit relationships that have been classified as substandard or doubtful and are greater than or equal to $1.0 million are reviewed by the Credit Administration department for possible impairment. A loan is considered impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement, including both contractual principal and interest payments.

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

If a substandard or doubtful loan is not considered individually for impairment, it is grouped with other loans that possess common characteristics for impairment evaluation and analysis. This segmentation is accomplished by grouping loans of similar product types, risk characteristics and industry concentration into homogeneous pools. Historical loss ratios are analyzed and adjusted based on delinquency trends as well as the current economic, political, regulatory, and interest rate environment and used to estimate the current measure of impairment.

The individual impairment measures along with the estimated loss for each homogeneous pool are consolidated into one summary document. This summary schedule along with the support documentation used to establish this schedule is presented to management’s Allowances for loan losses ("ALL Committee") monthly. The ALL Committee reviews and approves the processes and ALL documentation presented. Based on this review and discussion, the appropriate amount of ALL is estimated and any adjustments to reconcile the actual ALL with this estimate are determined. The ALL Committee also considers if any changes to the methodology are needed. In addition to the ALL Committees. review and approval, a review is performed by the Risk Management Committee of the Board of Directors on a quarterly basis, and annually by Internal Audit.

In addition to the reviews by management’s ALL Committee and the Board of Directors’ Risk Management Committee, regulators from either the FDIC and/or the Pennsylvania Department of Banking and Securities perform an extensive review on at least an annual basis for the adequacy of the ALL and its conformity with regulatory guidelines and pronouncements. Any

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recommendations or enhancements from these independent parties are considered by management and the ALL Committee and implemented accordingly.

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

We utilize a structured methodology each period when analyzing the adequacy of the allowance for loan losses and the related provision for loan losses, which the ALL Committee assesses regularly for appropriateness. As part of the analysis as of December 31, 2018, we considered the economic conditions in our markets, such as unemployment and bankruptcy levels as well as changes in estimates of real estate collateral values, and no material changes in methodology were determined to be necessary. In addition, we considered the overall trends in asset quality, specific reserves already established for criticized loans, historical loss rates and collateral valuations. The ALL decreased by $1.6 million, or 2.8%, to $55.2 million, or 0.69% of total loans at December 31, 2018 from $56.8 million, or 0.73% of total loans, at December 31, 2017. This decrease is due primarily to improvements in the historical loss rates used to calculate the ALL for home equity loans and a runoff of the consumer loans originated by our consumer discount subsidiary.

Quarterly, management's Credit Committee reviews the concentration of credit by industry and customer, lending products and activity, competition and collateral values, as well as economic conditions in general and in each of our market areas. The Credit Committee also reviews and discusses delinquency trends, nonperforming asset amounts and ALL levels and ratios compared to our peer group as well as state and national statistics.

We also consider how the levels of non-accrual loans and historical charge-offs have influenced the required amount of ALL. Nonaccrual loans of $72.3 million, or 0.90% of total loans receivable at December 31, 2018, increased by $7.8 million, or 12.1%, from $64.5 million, or 0.83% of total loans receivable, at December 31, 2017. This increase is due primarily to the downgrading of one commercial loan relationship totaling $8.4 million. As a percentage of average loans, net charge-offs decreased to 0.28% for the year ended December 31, 2018 compared to 0.31% for the year ended December 31, 2017.

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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,				
	2018	2017	2016	2015	2014
	(Dollars in thousands)				
Net loans receivable	$7,996,225	7,736,614	7,496,408	7,159,449	5,922,373
Average loans outstanding	7,883,944	7,664,288	7,391,456	6,460,078	5,883,244
Allowance for loan losses					
Balance at beginning of period	56,795	60,939	62,672	67,518	71,348
Provision for loan losses	20,332	19,751	13,542	9,712	20,314
Charge offs:					
Residential mortgage loans	(1,179)	(1,039)	(3,480)	(1,126)	(2,181)
Home equity loans	(1,785)	(2,259)	(2,539)	(2,424)	(1,783)
Consumer loans	(15,965)	(20,292)	(10,905)	(8,274)	(6,423)
Commercial real estate loans	(7,387)	(4,174)	(3,740)	(6,326)	(8,422)
Commercial loans	(3,325)	(3,490)	(4,217)	(8,183)	(11,936)
Total charge-offs	(29,641)	(31,254)	(24,881)	(26,333)	(30,745)
Recoveries:					
Residential mortgage loans	614	472	445	304	443
Home equity loans	531	583	672	976	194
Consumer loans	3,597	2,188	1,810	1,581	1,190
Commercial real estate loans	1,420	1,991	4,331	4,639	2,195
Commercial loans	1,566	2,125	2,348	4,275	2,579
Total recoveries	7,728	7,359	9,606	11,775	6,601
Balance at end of period	$55,214	56,795	60,939	62,672	67,518
Allowance for loan losses as a percentage of net loans receivable	0.69 %	0.73 %	0.81 %	0.88 %	1.14 %
Net charge-offs as a percentage of average loans outstanding	0.28 %	0.31 %	0.21 %	0.23 %	0.41 %
Allowance for loan losses as a percentage of nonperforming loans	76.21 %	87.43 %	76.00 %	85.86 %	84.35 %
Allowance for loan losses as a percentage of nonperforming loans and real estate owned	73.67 %	80.42 %	71.63 %	76.79 %	69.75 %

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

	At December 31,								
	2018			2017			2016		
	Amount	% of total loans (1)		Amount	% of total loans (1)		Amount	% of total loans (1)	
	(Dollars in thousands)								
Balance at end of year applicable to:									
Residential mortgage loans	$4,137	34.6	%	$3,955	34.8	%	$4,727	35.1	%
Home equity loans	3,532	15.2	%	4,834	16.4	%	4,533	17.2	%
Consumer loans	11,499	10.2	%	13,333	8.3	%	8,627	8.1	%
Commercial real estate loans	28,375	32.0	%	23,460	32.6	%	26,675	32.4	%
Commercial loans	7,671	8.0	%	11,213	7.9	%	16,377	7.2	%
Total allocated allowance	55,214			56,795			60,939		
Total	$55,214	100.0	%	$56,795	100	%	$60,939	100.0	%

	At December 31,					
	2015			2014		
	Amount	% of total loans (1)		Amount	% of total loans (1)	
	(Dollars in thousands)					
Balance at end of year applicable to:						
Residential mortgage loans	$4,710	37.1	%	$5,581	41.2	%
Home equity loans	4,042	16.0	%	4,550	17.4	%
Consumer loans	7,598	6.9	%	6,118	4.0	%
Commercial real estate loans	33,787	34.1	%	33,389	29.8	%
Commercial loans	12,535	5.9	%	13,515	7.6	%
Total allocated allowance	62,672			63,153		
Unallocated	—	—		4,365	—	
Total	$62,672	100.0	%	$67,518	100	%

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

Liquidity and Capital Resources

Northwest Bank is required to maintain a sufficient level of liquid assets, as determined by management and defined and reviewed for adequacy by the Federal Deposit Insurance Corporation during their regular examinations. The Federal Deposit Insurance Corporation, however, does not prescribe by regulation a minimum amount or percentage of liquid assets. The Federal Deposit Insurance Corporation allows us to consider any unencumbered, available-for-sale marketable security, whose sale would not impair our capital adequacy, to be eligible for liquidity. Liquidity is monitored through the use of a standard liquidity ratio of liquid assets to borrowings plus deposits. Using this formula, Northwest Bank’s liquidity ratio was 9.1% as of December 31, 2018. We adjust our liquidity level in order to meet funding needs of deposit outflows, repayment of borrowings and loan commitments. We also adjust liquidity as appropriate to meet our asset and liability management objectives. Liquidity needs can also be met by temporarily drawing upon lines-of-credit established for such reasons. As of December 31, 2018, Northwest Bank had $3.1 billion of additional borrowing capacity available with the Federal Home Loan Bank of Pittsburgh, including a $250.0 million overnight line of credit, which had a balance of $128.6 million, as well as $51.6 million of borrowing capacity available with the Federal Reserve Bank and $80.0 million with two correspondent banks.

In addition to deposits, our primary sources of funds are the amortization and repayment of loans and mortgage-backed securities, maturities of investment securities and other short-term investments, and earnings and funds provided from operations. While scheduled principal repayments on loans and mortgage-backed securities are a relatively predictable source of funds, deposit flows and loan prepayments are greatly influenced by general interest rate levels, economic conditions, and competition. We manage the pricing of our deposits to maintain a desired deposit balance. In addition, we invest excess funds in short-term interest earning and other assets, which provide liquidity to meet lending requirements. Short-term interest-earning deposits amounted to $4.7 million at December 31, 2018. For additional information about our cash flows from operating, financing, and investing activities, see the Statements of Cash Flows included in the Consolidated Financial Statements.

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

Liquidity management is both a daily and long-term function of business management. If we require funds beyond our ability to generate them internally, borrowing agreements exist with the Federal Home Loan Bank of Pittsburgh and the Federal Reserve Bank of Cleveland, which provide an additional source of funds. At December 31, 2018, Northwest Bank had advances of $128.6 million from the Federal Home Loan Bank of Pittsburgh. We borrow from these sources to reduce interest rate risk and to provide liquidity when necessary.

At December 31, 2018, our customers had $788.3 million of unused lines of credit available and $136.8 million in loan commitments. This amount does not include the unfunded portion of loans in process. Time deposits scheduled to mature in less than one year at December 31, 2018, totaled $553.2 million. We believe that a significant portion of such deposits will remain with us.

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

Deposits are our primary source of externally generated funds. The level of deposit inflows during any given period is heavily influenced by factors outside of our control, such as consumer savings tendencies, the general level of short-term and long- term market interest rates, as well as higher alternative yields that investors may obtain on competing investments such as money market mutual funds. Financial institutions, such as Northwest Bank, are also subject to deposit outflows. Our net deposits increased by $67.2 million for the year ended December 31, 2018, decreased by $55.3 million for the year ended December 31, 2017 and increased by $1.270 billion for the year ended December 31, 2016, with $1.643 billion of deposits coming from the First Niagara Bank N.A. ("FNFG") branch acquisition.

Similarly, the amount of principal repayments on loans and the amount of new loan originations is heavily influenced by the general level of market interest rates, consumer confidence and consumer spending. Funds received from loan maturities and principal payments on loans for the years ended December 31, 2018, 2017 and 2016 were $2.726 billion, $2.657 billion and $2.673 billion, respectively. Loan originations for the years ended December 31, 2018, 2017 and 2016 were $3.004 billion, $2.844 billion and $2.959 billion, respectively. We also sell a portion of the loans we originate, and the cash flows from such sales for the years ended December 31, 2018, 2017 and 2016 were $4.5 million, $73.1 million and $242.4 million, respectively.

We experience significant cash flows from our portfolio of marketable securities as principal payments are received on mortgage-backed securities and as investment securities mature or are called. Cash flow from the repayment of principal and the maturity or call of marketable securities for the years ended December 31, 2018, 2017 and 2016 were $217.3 million, $220.0 million and $290.3 million, respectively.

When necessary, we utilize borrowings as a source of liquidity and as a source of funds for long-term investment when market conditions permit. The net cash flow from the receipt and repayment of borrowings was a net increase of $126.2 million, a net decrease of $34.7 million and a net decrease of $856.6 million for the years ended December 31, 2018, 2017 and 2016, respectively.

Northwest Bancshares, Inc. is a separate legal entity from Northwest Bank and must provide for its own liquidity to pay dividends to shareholders, to repurchase its common stock and for other corporate purposes. Northwest Bancshares' primary source of liquidity is the dividend payments it receives from Northwest Bank. The payment of dividends by Northwest Bank is subject to regulatory requirements. At December 31, 2018, Northwest Bancshares,

Inc. (on an unconsolidated basis) had liquid assets of $155.5 million.

Other activity with respect to cash flow was the payment of cash dividends on common stock in the amount of $69.9 million, $65.2 million and $60.2 million for the ended December 31, 2018, 2017 and 2016, respectively.

At December 31, 2018, stockholders' equity totaled $1.258 billion. During 2018, our Board of Directors declared regular quarterly dividends totaling $0.68 per share of common stock.

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We monitor the capital levels of Northwest Bank to provide for current and future business opportunities and to meet regulatory guidelines for "well capitalized" institutions. Northwest Bank is required by the Pennsylvania Department of Banking and Securities and the FDIC to meet minimum capital adequacy requirements. At December 31, 2018, Northwest Bank exceeded all regulatory minimum capital requirements and is considered to be "well capitalized." In addition, as of December 31, 2018, we were not aware of any recommendation by a regulatory authority that, if it were implemented, would have a material effect on liquidity, capital resources or operations.

Regulatory Capital Requirements

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

	At December 31,	
	2018	2017
	(Dollars in thousands)	
Total shareholders' equity (GAAP capital)	$1,207,920	1,197,461
Accumulated other comprehensive income	27,997	19,686
Less: non-qualifying intangible assets	(265,104)	(256,704)
CET 1 capital	970,813	960,443
Additions to Tier 1 capital	—	—
Leverage or Tier 1 capital	970,813	960,443
Plus: Tier 2 capital (1)	55,214	56,808
Total risk-based capital	$1,026,027	1,017,251
Average assets for leverage ratio	$9,480,909	9,237,051
Net risk-weighted assets including off-balance sheet items	$7,469,841	7,169,503
CET 1 capital ratio	12.996 %	13.396 %
Minimum requirement	6.375 %	5.750 %
Leverage capital ratio	10.240 %	10.400 %
Minimum requirement	4.000 %	4.000 %
Total risk-based capital ratio	13.736 %	14.890 %
Minimum requirement	9.875 %	9.250 %

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

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

Contractual Obligations

We are obligated to make future payments according to various contracts. The following table presents the expected future payments of the contractual obligations aggregated by obligation type at December 31, 2018.

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

		three years	five years		
	(In thousands)				
Long-term debt (1)	$128,600	—	—	—	128,600
Junior subordinated debentures (1)	—	—	—	111,213	111,213
Operating leases (2)	4,677	7,063	4,505	7,784	24,029
Total	$133,277	7,063	4,505	118,997	263,842
Commitments to extend credit	$136,760	—	—	—	136,760

(1) See note 10 to the consolidated financial statements, Borrowed Funds, for additional information.
(2) See note 7 to the consolidated financial statements, Premises and Equipment, for additional information.

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Impact of Inflation and Changing Prices

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

Off-Balance Sheet Arrangements

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk Management

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

Our practice is to reduce our exposure to interest rate risk generally by matching the maturities of our interest rate sensitive assets and liabilities and by increasing the interest rate sensitivity of our interest-earning assets. We purchase adjustable-rate investment securities and mortgage-backed securities, which at December 31, 2018, totaled $96.0 million, and originate adjustable-rate loans, which at December 31, 2018, totaled $2.810 billion or 34.0% of our gross loan portfolio. Of our $8.846 billion of interest-earning assets at December 31, 2018, $2.914 billion, or 32.9%, consisted of assets with adjustable rates of interest. When market conditions are favorable, we also attempt to reduce interest rate risk by lengthening the maturities of our interest-bearing liabilities by using FHLB advances as a source of long-term fixed-rate funds, if necessary, and by promoting longer-term certificates of deposit.

At December 31, 2018, total interest-earning assets maturing or re-pricing within one year exceeded total interest-bearing liabilities maturing or re-pricing in the same period by $278.4 million, representing a positive one-year gap ratio of 2.90%.

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The following table sets forth, on a carrying value basis, the amounts of interest-earning assets and interest-bearing liabilities outstanding at December 31, 2018, which are expected to re-price or mature, based upon certain assumptions, in each of the future time periods shown. Except as stated below, the amounts of assets and liabilities shown that re-price or mature during a particular period were determined in accordance with the earlier of the term of re-pricing or the contractual term of the asset or liability. We believe that these assumptions approximate the standards used in the financial services industry and consider them appropriate and reasonable.

	Amounts maturing or re-pricing					
	Within 1 year	Over 1-3 years	Over 3-5 years	Over 5-10 years	Over 10-20 years	Total
	(Dollars in thousands)					
Rate-sensitive assets:						
Interest-earning deposits	$4,664	—	—	—	—	4,664
Mortgage-backed securities:						
Fixed rate	96,682	162,032	99,833	148,899	—	507,446
Variable-rate	92,577	—	—	—	—	92,577
Investment securities	97,718	118,971	1,707	5,796	—	224,192
Mortgage loans:						
Adjustable rate	25,114	9,562	6,114	1,955	—	42,745
Fixed-rate	371,519	677,457	594,089	964,703	198,186	2,805,954
Home equity loans:						
Adjustable rate	547,981	—	—	—	—	547,981
Fixed-rate	136,116	274,807	187,055	112,422	41	710,441
Consumer loans	397,607	402,020	38,172	69	—	837,868
Commercial real estate loans	1,246,862	756,924	415,937	51,493	605	2,471,821
Commercial loans	408,956	111,171	52,426	21,139	3,321	597,013
Total rate-sensitive assets	3,425,796	2,512,944	1,395,333	1,306,476	202,153	8,842,702
Rate-sensitive liabilities:						
Time deposits	585,991	562,376	251,578	4,807	89	1,404,841
Money market demand accounts	1,622,564	—	—	—	39,059	1,661,623
Savings deposits	202,359	339,274	339,274	755,192	—	1,636,099
Interest-bearing demand deposits	390,833	175,874	175,874	439,685	273,194	1,455,460
FHLB advances	128,600	—	—	—	—	128,600
Other borrowings	105,789	—	—	—	—	105,789
Trust preferred securities	111,213	—	—	—	—	111,213
Total rate-sensitive liabilities	3,147,349	1,077,524	766,726	1,199,684	312,342	6,503,625
Interest sensitivity gap per period	$278,447	1,435,420	628,607	106,792	(110,189)	2,339,077
Cumulative interest sensitivity gap	$278,447	1,713,867	2,342,474	2,449,266	2,339,077	2,339,077
Cumulative interest sensitivity gap as a percentage of total assets	2.90 %	17.83 %	24.38 %	25.49 %	24.34 %	24.34 %
Cumulative interest-earning assets as a percent of cumulative interest-bearing liabilities	108.85 %	140.57 %	146.93 %	139.56 %	135.97 %	135.97 %

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

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

In an effort to assess interest rate risk, we use a simulation model to determine the effect of immediate incremental increases and decreases in interest rates on net interest income, net income and the market value of our equity. Certain assumptions

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are made regarding loan prepayments and decay rates of savings and interest-bearing demand deposit accounts. Because it is difficult to accurately project the market reaction of depositors and borrowers, the effect of actual changes in interest rates on these assumptions may differ from simulated results. We have established the following guidelines for assessing interest rate risk:

Net interest income simulation. Given a parallel shift of 100 basis points ("bps"), 200 bps, and 300 bps in interest rates, the estimated net interest income may not decrease by more than 5%, 10%, and 15%, respectively, within a one-year period.

Net income simulation. Given a parallel shift of 100 bps, 200 bps, and 300 bps in interest rates, the estimated net income may not decrease by more than 10%, 20%, and 30%, respectively, within a one-year period.

Market value of equity simulation. The market value of our equity is the present value of our assets and liabilities. Given a parallel shift of 100 bps, 200 bps, and 300 bps in interest rates, the market value of equity may not decrease by more than 15%, 30%, and 35%, respectively, from the computed economic value at current interest rate levels.

The following table illustrates the simulated impact of a parallel 100 bps, 200 bps or 300 bps upward or 100 bps downward movement in interest rates on net interest income, net income, return on average equity, earnings per share, and market value of equity. These analyses were prepared assuming that total interest-earning asset and interest-bearing liability levels at December 31, 2018 remain constant. The impact of the rate movements was computed by simulating the effect of an immediate and sustained shift in interest rates over a twelve-month period from December 31, 2018 levels.

	Increase			Decrease
Parallel shift in interest rates over the next 12 months	100 bps	200 bps	300 bps	100 bps
Projected percentage decrease in net interest income	(0.6)%	(0.7)%	(1.1)%	(3.7)%
Projected percentage decrease in net income	(1.2)%	(1.3)%	(2.2)%	(9.2)%
Projected decrease in return on average equity	(1.2)%	(1.2)%	(2.1)%	(8.8)%
Projected decrease in earnings per share	$(0.01)	$(0.01)	$(0.02)	$(0.10)
Projected percentage decrease in market value of equity	(3.4)%	(6.3)%	(9.5)%	(0.3)%

The following table illustrates the simulated impact of a parallel 100 bps, 200 bps or 300 bps upward or 100 bps downward movement in interest rates on net interest income, net income, return on average equity, earnings per share, and market value of equity. These analyses were prepared assuming that total interest-earning asset and interest-bearing liability levels at December 31, 2017 remain constant. The impact of the rate movements was computed by simulating the effect of an immediate and sustained shift in interest rates over a twelve-month period from December 31, 2017 levels.

	Increase			Decrease
Parallel shift in interest rates over the next 12 months	100 bps	200 bps	300 bps	100 bps
Projected percentage increase/(decrease) in net interest income	0.2 %	0.8 %	0.8 %	(6.0)%
Projected percentage increase/(decrease) in net income	2.0 %	4.8 %	5.5 %	(14.9)%
Projected increase/(decrease) in return on average equity	1.9 %	4.6 %	5.3 %	(14.3)%
Projected increase/(decrease) in earnings per share	$0.02	$0.06	$0.06	$(0.17)
Projected percentage decrease in market value of equity	(3.9)%	(7.3)%	(11.4)%	0.3 %

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

timing, magnitude and frequency of interest rate changes and changes in market conditions.

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When assessing our interest rate sensitivity, analysis of historical trends indicates that loans will prepay at various speeds (or annual rates) depending on the variance between the weighted average portfolio rates and the current market rates. In preparing the table above, the following assumptions were used: (i) adjustable-rate mortgage loans will prepay at an annual rate of 6% to 14%; (ii) fixed-rate mortgage loans will prepay at an annual rate of 5% to 14%, depending on the type of loan; (iii) commercial loans will prepay at an annual rate of 8% to 14%; (iv) consumer loans held by Northwest Bank will prepay at an annual rate of 18% to 24%; and (v) consumer loans that were formerly held by Northwest Consumer Discount Company will prepay at an annual rate of 55% to 70%. In regards to our deposits, it has been assumed that (i) fixed maturity deposits will not be withdrawn prior to maturity; (ii) a significant majority of money market accounts will re-price immediately; (iii) savings accounts will gradually re-price over three years; and (iv) checking accounts will re-price either when the rates on such accounts re-price as interest rate levels change, or when deposit holders withdraw funds from such accounts and select other types of deposit accounts, such as certificate accounts, which may have higher interest rates. For purposes of this analysis, management has estimated, based on historical trends, that $390.8 million, or 26.9%, of our interest-bearing demand accounts and $202.4 million, or 12.4%, of our savings deposits are interest sensitive and may re-price in one year or less, and that the remainder may re-price over longer time periods.

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

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

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Management's Report on Internal Control Over Financial Reporting

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

Management, including the principal executive officer and principal financial officer, has assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2018. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control — Integrated Framework (2013). Based on such assessment, management concluded that, as of December 31, 2018, the Company's internal control over financial reporting is effective based upon those criteria.

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

/s/ Ronald J. Seiffert	/s/ William W. Harvey, Jr.
Ronald J. Seiffert	William W. Harvey, Jr.
Chief Executive Officer	Chief Financial Officer

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders
Northwest Bancshares, Inc.:

Opinion on Internal Control Over Financial Reporting

We have audited Northwest Bancshares, Inc.'s (the "Company") internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control -Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated statements of financial condition of the Company as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2018, and the related notes (collectively, the consolidated financial statements), and our report dated March 1, 2019 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Form 10-K Management Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

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

Definition and Limitations of Internal Control Over Financial Reporting

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

prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

/s/ KPMG LLP

Pittsburgh, Pennsylvania
March 1, 2019

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders
Northwest Bancshares, Inc.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated statements of financial condition of Northwest Bancshares, Inc. (the "Company") as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the years in the three year period ended December 31, 2018, and the related notes (collectively, the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the three year period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 1, 2019 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP

We have served as the Company's auditor since 1963.

Pittsburgh, Pennsylvania
March 1, 2019

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NORTHWEST BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(Amounts in thousands, excluding per share data)

	December 31,	
	2018	2017
Assets		
Cash and cash equivalents	$68,789	77,710
Marketable securities available-for-sale (amortized cost of $811,015 and $800,094)	801,450	792,535
Marketable securities held-to-maturity (fair value of $22,446 and $29,667)	22,765	29,678
Loans receivable, net of allowance for loan losses of $55,214 and $56,795	7,996,225	7,736,614
Accrued interest receivable	24,490	23,352
Real estate owned, net	2,498	5,666
Federal Home Loan Bank stock, at cost	15,635	11,733
Premises and equipment, net	143,390	151,944
Bank owned life insurance	171,079	171,547
Goodwill	307,420	307,420
Other intangible assets	19,821	25,669
Other assets	34,211	30,066
Total assets	$9,607,773	9,363,934
Liabilities and Shareholders' equity		
Liabilities:		
Deposits	$7,894,179	7,826,989
Borrowed funds	234,389	108,238
Advances by borrowers for taxes and insurance	43,298	40,825
Accrued interest payable	744	460
Other liabilities	66,312	68,485
Junior subordinated deferrable interest debentures held by trusts that issued guaranteed capital debt securities	111,213	111,213
Total liabilities	8,350,135	8,156,210
Shareholders' equity:		
Preferred stock, $0.01 par value: 50,000,000 authorized, no shares issued	—	—
Common stock, $0.01 par value: 500,000,000 shares authorized, 103,354,030, and 102,394,828 shares issued, respectively	1,034	1,027
Paid-in capital	745,926	730,719
Retained earnings	550,374	508,058
Accumulated other comprehensive loss	(39,696)	(32,080)
Total shareholders' equity	1,257,638	1,207,724
Total liabilities and shareholders' equity	$9,607,773	9,363,934

See accompanying notes to consolidated financial statements

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NORTHWEST BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF INCOME
(Amounts in thousands, excluding per share data)

	Years ended December 31,		
	2018	2017	2016
Interest income:			
Loans receivable	$356,571	339,992	329,039
Mortgage-backed securities	13,781	11,343	8,540
Taxable investment securities	3,064	3,749	3,409
Tax-free investment securities	1,078	2,023	2,732
FHLB dividends	452	250	1,371
Interest-earning deposits	835	1,499	543
Total interest income	375,781	358,856	345,634
Interest expense:			
Deposits	30,985	23,057	23,465
Borrowed funds	6,155	5,014	14,834
Total interest expense	37,140	28,071	38,299
Net interest income	338,641	330,785	307,335
Provision for loan losses	20,332	19,751	13,542
Net interest income after provision for loan losses	318,309	311,034	293,793
Noninterest income:			
Gain on sale of investments, net	157	1,148	625
Service charges and fees	50,792	49,717	44,113
Trust and other financial services income	16,581	17,987	14,103
Insurance commission income	8,791	9,013	10,522
Loss on real estate owned, net	(631)	(797)	(39)
Income from bank owned life insurance	5,821	6,093	5,361
Mortgage banking income	596	1,418	4,894
Gain on sale of offices	—	17,186	—
Other operating income	9,595	8,715	5,781
Total noninterest income	91,702	110,480	85,360
Noninterest expense:			
Compensation and employee benefits	152,395	152,296	142,595
Premises and occupancy costs	27,519	28,863	26,134
Office operations	14,139	16,342	14,898
Collections expense	2,209	2,849	2,431
Processing expenses	39,046	39,086	34,859
Marketing expenses	8,434	9,607	8,852
Federal deposit insurance premiums	2,746	3,518	4,404
Professional services	10,598	10,293	7,865
Amortization of intangible assets	5,848	6,764	4,259
Real estate owned expense	817	1,004	1,004
Restructuring/acquisition expense	1,014	4,419	12,213
FHLB prepayment penalty	—	—	36,978
Other expense	11,333	10,562	11,346
Total noninterest expense	276,098	285,603	307,838

Income before income taxes	133,913	135,911	71,315
Provision for income taxes:			
Federal	21,948	34,801	20,313
State	6,474	6,643	1,335
Total provision for income taxes	28,422	41,444	21,648
Net income	$105,491	94,467	49,667
Basic earnings per share	$1.03	0.94	0.50
Diluted earnings per share	$1.02	0.92	0.49

See accompanying notes to consolidated financial statements

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NORTHWEST BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in thousands)

	Years ended December 31,		
	2018	2017	2016
Net Income	$105,491	94,467	49,667
Other comprehensive income net of tax:			
Net unrealized holding losses on marketable securities:			
Unrealized holding losses, net of tax of $513, $1,915 and $1,742, respectively	(1,277)	(2,478)	(2,728)
Reclassification adjustment for gains included in net income, net of tax of $60, $1,488 and $129, respectively	(155)	(2,326)	(202)
Net unrealized holding losses on marketable securities	(1,432)	(4,804)	(2,930)
Change in fair value of interest rate swaps, net of tax of $(223), $(585) and $(539), respectively	840	1,087	1,001
Defined benefit plans:			
Net loss, net of tax of $770, $826 and $3,061, respectively	(1,181)	(1,254)	(2,399)
Amortization of prior service costs, net of tax of $(746), $(613) and $(606), respectively	903	882	872
Net loss on defined benefit plans	(278)	(372)	(1,527)
Other comprehensive loss	(870)	(4,089)	(3,456)
Total comprehensive income	$104,621	90,378	46,211

See accompanying notes to consolidated financial statements

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NORTHWEST BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the years ended December 31, 2018, 2017 and 2016
(Amounts in thousands, excluding per share data)

	Common stock	Paid-in capital	Retained earnings	Accumulated other comprehensive income/(loss)	Unallocated common stock of ESOP	Total shareholders' equity
Balance at December 31, 2015	$ 1,019	717,603	489,292	(24,535)	(20,216)	1,163,163
Comprehensive income:						
Net income	—	—	49,667	—	—	49,667
Other comprehensive loss, net of tax of $3,787	—	—	—	(3,456)	—	(3,456)
Total comprehensive income	—	—	49,667	(3,456)	—	46,211
Shares issued to acquire LNB Bancorp, Inc.	(14)	(13,896)	—	—	13,910	—
Exercise of stock options	11	10,845	—	—	—	10,856
Share repurchases	(2)	(1,750)	—	—	—	(1,752)
Stock-based compensation expense, including tax benefits of $1,425	3	6,032	—	—	6,306	12,341
Dividends paid ($0.60 per share)	—	—	(60,156)	—	—	(60,156)
Balance at December 31, 2016	1,017	718,834	478,803	(27,991)	—	1,170,663
Comprehensive income:						
Net income	—	—	94,467	—	—	94,467
Other comprehensive loss, net of tax of $3,031						