Northwest Bancshares, Inc.
Form 10-K
March 16, 2010

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

þ **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. For the Fiscal Year Ended December 31, 2009**

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 o NO þ

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 þ

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 þ NO o

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

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

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

Large Accelerated Filer o	Accelerated Filer þ	Non-Accelerated Filer o	Smaller reporting company o
		Do not check if a smaller reporting Company	

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

As of March 10, 2010, there were 110,674,899 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, 2009, as reported by the Nasdaq Global Select Market, was approximately $339.1 million.

DOCUMENTS INCORPORATED BY REFERENCE

(1) Proxy Statement for the 2010 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-lookin include, but are not limited to:

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

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

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

- changes in laws or government regulations or policies affecting financial institutions, including changes in regulatory fees and capital requirements;
- general economic conditions, either nationally or in our market areas, that are worse than expected;
- competition among depository and other financial institutions;
- inflation and changes in the interest rate environment that reduce our margins or reduce the fair value of financial instruments;
- adverse changes in the securities markets;
- our ability to enter new markets successfully and capitalize on growth opportunities;
- our ability to successfully integrate acquired entities, if any;
- changes in consumer spending, borrowing and savings habits;
- our ability to continue to increase and manage our commercial and residential real estate, multi-family, and commercial and industrial loans;
- possible impairments of securities held by us, including those issued by government entities and government sponsored enterprises;
- the level of future deposit premium assessments;

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- the impact of the current recession on our loan portfolio (including cash flow and collateral values), investment portfolio, customers and capital market activities;
- the impact of the current governmental effort to restructure the U.S. financial and regulatory system;
- changes in the financial performance and/or condition of our borrowers; and
- the effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Securities and Exchange Commission, the Public Company Accounting Oversight Board, the Financial Accounting Standards Board and other accounting standard setters.

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

ITEM 1. BUSINESS

Northwest Bancshares, Inc.

Northwest Bancshares, Inc. is a Maryland corporation that was incorporated in September 2009 to be the successor corporation to Northwest Bancorp, Inc., the former stock holding company for Northwest Savings Bank, upon completion of the mutual-to-stock conversion of Northwest Bancorp, MHC, the former mutual holding company for Northwest Savings Bank.

The conversion was completed December 18, 2009. Northwest Bancshares, Inc. sold a total of 68,878,267 shares of common stock at $10.00 per share in the related offering. Concurrent with the completion of the offering, shares of Northwest Bancorp, Inc. common stock owned by public stockholders were exchanged for 2.25 shares of Northwest Bancshares, Inc. s common stock. In lieu of fractional shares, shareholders were paid in cash. Northwest Bancshares, Inc. also issued 1,277,565 shares of common stock and contributed $1.0 million in cash from the offering proceeds to Northwest Charitable Foundation, a new charitable foundation that Northwest Bancshares, Inc. established for the benefit of the communities in which Northwest Savings Bank operates. As a result of the offering, the exchange, and the contribution to the charitable foundation, as of December 31, 2009, Northwest Bancshares, Inc. had 110,641,858 shares outstanding and a market capitalization of approximately $1.1 billion. Net proceeds from the offering were $658.7 million.

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

Northwest Bancshares, Inc. s website (www.northwestsavingsbank.com) contains a direct link to Northwest Bancshares, Inc. s and its predecessor Northwest Bancorp, Inc. s filings with the Securities and Exchange Commission, including copies of annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to these filings, if any. Copies may also be obtained, without charge, by written request to Shareholder Relations, P.O. Box 128, 100 Liberty Street, Warren, Pennsylvania 16365.

Northwest Savings Bank

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

As of December 31, 2009, Northwest Savings Bank operated 171 community-banking offices throughout its market area in northwest, southwest and central Pennsylvania, western New York, eastern Ohio, Maryland and southeastern Florida. On October 23, 2009, Northwest Savings Bank completed the acquisition of Keystone State

Savings Bank, with one branch and approximately $25.0 million of assets, located in Sharpsburg, Pennsylvania, a suburb of Pittsburgh. Northwest Savings Bank, through its wholly-owned subsidiary, Northwest Consumer Discount Company, also operates 51 consumer finance offices throughout Pennsylvania. Northwest Savings Bank also offers investment management and trust services and, through wholly-owned subsidiaries, actuarial and benefit plan administration services. Historically, we have focused our lending activities primarily on the origination of fixed-rate loans secured by first mortgages on owner-occupied, one- to four-family residences. In an effort to reduce interest rate risk and improve profit margins, we also offer shorter term consumer and commercial loans.

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

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

Market Area and Competition

We are headquartered in Warren, Pennsylvania, which is located in northwestern Pennsylvania, and have our highest concentration of deposits and loans in this area of Pennsylvania. Since the early 1990s, we have expanded, primarily through acquisitions, into the southwestern and central regions of Pennsylvania, as well as western New York, eastern Ohio, Maryland and southeastern Florida. As of December 31, 2009, we operate 142 community banking offices and 51 consumer finance offices located in Pennsylvania, four community banking offices located in Ohio, 17 community banking offices located in New York, five community banking offices in Maryland and three community banking offices in Florida. All of the aforementioned market areas have a large concentration of financial institutions. As a result, we encounter strong competition both in attracting deposits and in originating retail and commercial loans. Our most direct competition for deposits comes from commercial banks, brokerage houses, other thrift institutions and credit unions in our market areas. We expect continued competition from these financial institutions in the foreseeable future. With the continued acceptance of Internet banking by our customers and consumers generally, competition for deposits has increased from institutions operating outside of our market area as well as from insurance companies.

Pennsylvania and Western New York Market Area. Through our acquisitions and *de novo* branching strategy we have expanded our retail branch footprint throughout 30 counties in Pennsylvania and four counties in western New York. In addition, through our consumer finance offices we operate in 11 additional counties in Pennsylvania. Our northwestern and southwestern Pennsylvania and western New York markets are fueled by a diverse economy driven by service businesses, technology companies and small manufacturing companies. Our southeastern Pennsylvania market is primarily driven by service businesses and serves as a bedroom community to the cities of Baltimore, Maryland and Philadelphia. Our primary market area has remained a stable banking market. As of July 2009, the unemployment rates in Pennsylvania and New York were 8.5% and 8.6% compared to the national average of 9.7% according to the U.S. Bureau of Labor Statistics.

In Pennsylvania, we ranked 6th in terms of deposit market share and total assets for institutions headquartered in Pennsylvania. Pennsylvania is a stable banking market with a total population of approximately 12.6 million and total households of approximately 4.9 million. The Pennsylvania markets in which we operate our retail branch and consumer financial offices contain more than half of Pennsylvania s population and a similar percentage of households. Our western New York market area has a total population of approximately 1.9 million and total households of approximately 748,000 according to SNL Securities. Since 2000, many of the counties served in the Pennsylvania and western New York markets have had, and are projected to continue to have, population declines with population growth rates increasing mainly in the central and southeastern portion of Pennsylvania. However, median household income has increased in all of the counties in which we conduct business in Pennsylvania since 2000 and generally decreased in our western New York markets. The median household income in Pennsylvania was stable at $53,225 as of June 30, 2009, compared to the nationwide median income level of $54,719 according to estimates from SNL Securities. The household income growth rate in Pennsylvania and our western New York market area is expected to increase above the expected national and state average growth rates over the next five years by approximately 4% according to estimates from SNL Securities.

Maryland, Ohio and Florida Market Areas. In addition to operating in Pennsylvania and western New York, we also operate five community banking offices in Ashtabula, Lake and Geauga counties in Ohio, five community banking offices in Baltimore, Howard and Anne Arundel counties in Maryland and three community banking offices in Broward county in Florida. Our Maryland regional economy consists of service businesses, government as well as heath care services while our Florida market is primarily driven by the real estate sector. The major employment sectors in our Ohio market are similar to our northwestern Pennsylvania market. With the exception of Ashtabula county in Ohio, these markets have an expanding population base as well as higher median household income levels relative to the state and national averages. As of June 30, 2009, the median household income levels in these markets ranged from $55,150 to $101,954 according to estimates provided by SNL Securities. Over the next five years, the household income levels in each of these markets are expected to increase above state and national household income averages.

Lending Activities

General. Historically, our principal lending activity has been the origination, for retention in our loan portfolio, of fixed-rate and, to a lesser extent, adjustable-rate mortgage loans collateralized by one- to four-family residential real estate located in our market area. We also originate loans collateralized by multi-family residential and commercial real estate, commercial business loans and consumer loans. Generally, we focus our lending activities in the geographic areas where we maintain offices.

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

One- to Four-Family Residential Mortgage Loans. We currently offer one- to four-family residential mortgage loans with terms typically ranging from 15 to 30 years, with either adjustable or fixed interest rates. Originations of fixed-rate mortgage loans versus adjustable-rate mortgage loans are monitored on an ongoing basis and are affected significantly by such factors as the level of market interest rates, customer preference, our interest rate sensitivity and liquidity position as well as loan products offered by our competitors. Therefore, even when management s strategy is to increase the origination of adjustable-rate mortgage loans, market conditions may be such that there is greater demand for fixed-rate mortgage loans.

Our fixed-rate loans, whenever possible, are originated and underwritten according to standards that permit sale into the secondary mortgage market. Whether we can or will sell fixed-rate loans into the secondary market, however, depends on a number of factors including the yield and the term of the loan, market conditions, and our current liquidity and interest rate sensitivity position. We historically have been primarily a portfolio lender and at any one time we have only a nominal amount of loans as held for sale. Our current strategy is to grow the consumer and commercial loan portfolios by more than we grow our portfolio of long-term fixed-rate residential mortgage loans. With this in mind, we generally retain in our portfolio fixed-rate loans with terms of 15 years or less, and sell a portion of fixed-rate loans (servicing retained) with terms of more than 15 years. Our one- to four-family

residential real estate loans are amortized on a monthly basis with principal and interest each due monthly. These loans often remain outstanding for significantly shorter periods than their contractual terms because borrowers may refinance or prepay loans at their option, usually without a prepayment penalty.

We currently offer adjustable-rate mortgage loans with initial interest rate adjustment periods of one, three and five years, based on changes in a designated market index. We determine whether a borrower qualifies for an adjustable-rate mortgage loan based on secondary market guidelines. One- to four-family adjustable-rate residential mortgage loans totaled $42.0 million, or 0.77% of our gross loan portfolio at December 31, 2009.

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

Regulations limit the amount that a savings bank may lend relative to the appraised value of the real estate securing the loan, as determined by an appraisal at the time of loan origination. Appraisals are either performed by our in-house appraisal staff or by an appraiser who has been deemed qualified by our chief appraiser. Such regulations permit a maximum loan-to-value ratio of 95% for residential property and 80% for all other real estate loans. We generally limit the maximum loan-to-value ratio on both fixed-rate and adjustable-rate mortgage loans without private mortgage insurance to 80% of the lesser of the appraised value or the purchase price of the real estate that serves as collateral for the loan. We originate a limited amount of one- to four-family residential mortgage loans with loan-to-value ratios in excess of 80%. For one- to four-family residential mortgage loans with loan-to-value ratios in excess of 80%, we generally require the borrower to obtain private mortgage insurance. We require fire and casualty insurance, as well as a title guaranty regarding good title, on all properties securing our real estate loans.

Some financial institutions we have acquired have held loans that are serviced by others and are secured by one- to four-family residences. At December 31, 2009, our portfolio of one- to four-family loans serviced by others totaled $10.4 million. We currently have no formal plans to enter into new residential loan participations.

Included in our $2.372 billion portfolio of one- to four-family residential real estate loans are construction loans of $21.7 million, or 0.91% of our total loan portfolio. We offer fixed-rate and adjustable-rate residential construction loans primarily for the construction of owner-occupied one- to four-family residences in our market area to builders or to owners who have a contract for construction. Construction loans are generally structured to become permanent loans, and are originated with terms of up to 30 years with an allowance of up to one year for construction. Advances are made as construction is completed. In addition, we originate loans within our market area that are secured by individual unimproved or improved lots. Land loans for the construction of owner-occupied residential real estate properties are currently offered with fixed-rates for terms of up to 10 years. The maximum loan-to-value ratio for these loans is 80% of the as-completed appraised value, and the maximum loan-to-value ratio for our construction loans is 95% of the lower of cost or as-completed appraised value.

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

Multi-family Residential and Commercial Real Estate Loans. Our multi-family residential real estate loans are secured by multi-family residences, such as rental properties. Our commercial real estate loans are secured by nonresidential properties such as hotels, church property, manufacturing facilities and retail establishments. At December 31, 2009, a significant portion of our multi-family residential and commercial real estate loans were secured by properties located within our market area. Our largest multi-family residential real estate loan relationship at December 31, 2009 had a principal balance of $7.6 million, and was collateralized by multiple residential real estate rental properties. These loans were performing in accordance with their terms as of December 31, 2009. Our largest commercial real estate loan relationship at December 31, 2009, had a principal balance of $38.4 million and was collateralized by six different mixed use commercial buildings. These loans were performing in accordance with their terms as of December 31, 2009. Multi-family residential and commercial real estate loans

are offered with both adjustable interest rates and fixed interest rates. The terms of each multi-family residential and commercial real estate loan are negotiated on a case-by-case basis. We generally originate multi-family residential 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 residential and commercial real estate generally involve a greater degree of credit risk than one- to four-family 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 residential 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.

Home Equity Loans and Lines of Credit. Generally, our home equity loans and home equity lines of credit are secured by the borrower s principal residence with a maximum loan-to-value ratio, including the principal balances of both the first and second mortgage loans, of 90% or less. Home equity loans are offered on a fixed rate basis with terms of up to 20 years. Home equity lines of credit are offered on an adjustable-rate basis with terms of up to 25 years. At December 31, 2009, the disbursed portion of home equity lines of credit totaled $235.3 million, or 4.3% of our total loans, with $254.5 million remaining undisbursed, and our fixed-rate home equity loans totaled $844.7 million, or 15.6% of our total loans. We generally underwrite home equity loans and lines of credit in a manner similar to our underwriting of one- to four-family residential real estate loans.

Consumer Loans. The principal types of consumer loans we offer are automobile loans, sales finance loans, unsecured personal loans, credit card loans, and loans secured by deposit accounts. Consumer 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.

Commercial Business Loans. We offer commercial business loans to finance various activities in our market area, some of which are secured in part by additional real estate collateral. At December 31, 2009 the largest commercial business loan relationship had a principal balance of $10.8 million, and was secured by all fixed assets of a diagnostic imaging center.

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

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

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Loan Originations, Solicitation, Processing and Commitments. Loan originations are derived from a number of sources such as real estate broker referrals, existing customers, borrowers, builders, attorneys and walk-in customers. Historically all of our loan originators were salaried employees, and we did not pay commissions in connection with loan originations. Beginning in 2007, we implemented a program whereby certain commercial lenders were paid commissions based on predetermined goals. This program was discontinued as of December 31, 2009. Upon receiving a retail loan application, we obtain a credit report and employment verification to verify specific information relating to the applicant s employment, income, and credit standing. In the case of a real estate loan, an in-house appraiser or an appraiser we approve appraises the real estate intended to secure the proposed loan. A loan processor in our loan department checks the loan documents file for accuracy and completeness, and verifies the information provided.

For our retail loans, including residential mortgage loans, home equity loans and lines of credit, automobile loans, credit cards, education loans and other unsecured loans, we have implemented a credit approval process based on a laddered individual loan authority system. Local loan officers are granted various levels of authority based on their lending experience and expertise. These authority levels are reviewed by the Credit Committee on at least an annual basis.

Our commercial loan policy assigns lending limits for our various commercial loan officers. These individual authorities are established by the Credit Committee. Regional loan committees may approve extensions of credit above those that may be authorized by individual officers, and the Senior Loan Committee may approve extensions of credit in excess of those that may be approved by regional loan committees. The Credit Committee meets quarterly to review the assigned lending limits and to monitor our lending policies, loan activity, economic conditions and concentrations of credit.

The Board of Directors must approve all loans where the total debt relationship exceeds $7.5 million ($5.0 million for loans exceeding the maximum loan-to-value ratio or not meeting minimum debt service coverage), or as may be required by Regulation O. Loans exceeding the limits established for the Senior Loan Committee must be approved by the Executive Committee of the Board of Directors or by the entire Board of Directors. Our general policy is to make no loans either individually or in the aggregate to one entity in excess of $15.0 million. Exceptions to this policy are permitted with the prior approval from the Board of Directors. Fire and casualty insurance is required at the time the loan is made and throughout the term of the loan, and flood insurance is required as determined by regulation. After the loan is approved, a loan commitment letter is promptly issued to the borrower. At December 31, 2009, we had commitments to originate $134.6 million of loans.

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

Loan Origination Fees. In addition to interest earned on loans, we generally receive loan origination fees. We defer loan origination fees and costs and amortize such amounts as an adjustment of yield over the life of the loan by use of the level yield method. Deferred loan fees are recognized into income immediately upon prepayment or the sale of the related loan. At December 31, 2009, we had $7.0 million of net deferred loan origination fees. Loan origination fees are volatile sources of income. Such fees vary with the volume and type of loans and commitments originated and purchased, principal repayments, and competitive conditions in the marketplace.

Income from loan origination fees was $7.6 million, $7.4 million and $9.3 million for the years ended December 31, 2009, 2008 and 2007, respectively.

Sale of Education Loans. As a service to our customers, we originate education loans in our Pennsylvania markets. These loans are normally sold to the Pennsylvania Department of Education.

Loans-to-One Borrower. Savings banks are subject to the same loans-to-one borrower limits as those applicable to national banks, which restrict loans to one borrower to an amount equal to 15% of unimpaired capital

and unimpaired surplus on an unsecured basis, and an additional amount equal to 10% of unimpaired capital and unimpaired surplus if the loan is secured by readily marketable collateral (generally, financial instruments and bullion, but not real estate). We have established our own internal limit of loans to one borrower of $15.0 million, which may be exceeded only with the approval of the Board of Directors. At December 31, 2009, the largest aggregate amount loaned to one borrower, or related borrowers, totaled $38.4 million and was secured by six different mixed use commercial buildings. Our second largest lending relationship totaled $36.5 million and was secured by nine different properties including multiple hotels and other commercial real estate. Our third largest lending relationship totaled $16.7 million and was secured by a hotel. Our fourth largest lending relationship totaled $15.7 million and was secured by commercial real estate and a residential land development project. Our fifth largest lending relationship totaled $15.0 million and was secured by an oil refinery. All of these loans were performing in accordance with their terms at December 31, 2009.

Investment Activities

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

Our current investment policy does not permit investment in stripped mortgage-backed securities, complex securities and derivatives as defined in federal banking regulations and other high-risk securities. As of December 31, 2009, we held no asset-backed securities other than mortgage-backed securities.

At the time of purchase, we designate a security as either held to maturity, available-for-sale, or trading, based upon our ability and intent. Securities available-for-sale and trading securities are reported at market value and securities held to maturity are reported at amortized cost. A periodic review and evaluation of the available-for-sale and held-to-maturity securities portfolios is conducted to determine if the fair value of any security has declined below its carrying value and whether such decline is other-than-temporary. If impairment exists, credit related impairment losses are recorded in earnings while noncredit related impairment losses are recorded in accumulated other comprehensive income. The fair values of our securities are based on published or securities dealers market values, when available. See the footnotes to the audited financial statements for a detailed analysis and description of our investment portfolio and valuation techniques.

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

Sources of Funds

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

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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*.** Consumer and commercial deposits are generated principally from our market area by offering a broad selection of deposit instruments including checking accounts, savings accounts, money market deposit accounts, term certificate accounts and individual retirement accounts. While we accept deposits of $100,000 or more, we do not offer substantial 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, 2009, we had no deposits through the CDARS program. Deposit account terms vary according to the minimum balance required, the period of time during which the funds must remain on deposit, and the interest rate, among other factors. We regularly execute changes in our deposit rates based upon cash flow requirements, general market interest rates, competition, and liquidity requirements.

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

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

Subsidiary Activities

Northwest Bancshares, Inc. s sole consolidated subsidiary is Northwest Savings Bank. Northwest Bancshares, Inc. also owns all of the common stock of two statutory business trusts: Northwest Bancorp Capital Trust III, a Delaware statutory business trust, and Northwest Bancorp Statutory Trust IV, a Connecticut statutory business trust (the Trusts). The Trusts have issued a total of $100.0 million of trust preferred securities. The Trusts are not consolidated with Northwest Bancshares, Inc. At December 31, 2009, Northwest Bancshares, Inc. s investment in the Trusts totaled $3.1 million, and the Trusts had assets of $103.1 million at that date.

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

Northwest Settlement Agency, LLC provides title insurance to borrowers of Northwest Savings Bank and other lenders. At December 31, 2009, Northwest Savings Bank had an equity investment in Northwest Settlement Agency, LLC of $1.5 million. For the year ended December 31, 2009, Northwest Settlement Agency, LLC had net income of $592,000.

Great Northwest s sole activity is holding equity investments in government-assisted low-income housing projects in various locations in our market area. At December 31, 2009, Northwest Savings Bank had an equity investment in Great Northwest of $6.3 million. For the year ended December 31, 2009, Great Northwest had net income of $240,000 generated primarily from federal low-income housing tax credits.

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Northwest Financial Services principal activity is the operation of retail brokerage activities. It also owns the common stock of several financial institutions. In addition, Northwest Financial Services holds an equity investment in one government assisted low-income housing project. At December 31, 2009, Northwest Savings Bank had an equity investment in Northwest Financial Services of $7.0 million, and for the year ended December 31, 2009, Northwest Financial Services had net income of $61,000.

Northwest Consumer Discount Company operates 51 consumer finance offices throughout Pennsylvania. At December 31, 2009, Northwest Savings Bank had an equity investment in Northwest Consumer Discount Company of $29.6 million and the net income of Northwest Consumer Discount Company for the year ended December 31, 2009 was $2.7 million.

Allegheny Services, Inc. is a Delaware investment company that holds mortgage loans originated through our wholesale lending operation as well as municipal bonds. In addition, Allegheny Services, Inc. has loans to both Northwest Savings Bank and Northwest Consumer Discount Company. At December 31, 2009, Northwest Savings Bank had an equity investment in Allegheny Services, Inc. of $653.6 million, and for the year ended December 31, 2009, Allegheny Services, Inc. had net income of $19.0 million.

Boetger and Associates, Inc. is an actuarial and employee benefits consulting firm that specializes in the design, implementation and administration of qualified retirement plan programs. At December 31, 2009, Northwest Savings Bank had an equity investment of $1.7 million in Boetger and Associates and for the year ended December 31, 2009, Boetger and Associates had net income of $190,000.

Northwest Capital Group s principal activity is to own, operate and ultimately divest of properties that were acquired in foreclosure. At December 31, 2009, Northwest Savings Bank had an equity investment of $3.3 million in Northwest Capital Group and reported no net income for the year ended December 31, 2009.

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

Personnel

As of December 31, 2009, we had 1,711 full-time and 312 part-time employees (including employees of our wholly-owned subsidiaries). None of our employees is represented by a collective bargaining group. We believe we have a good working relationship with our employees.

SUPERVISION AND REGULATION

General

Northwest Savings Bank is a Pennsylvania-chartered savings bank and our deposit accounts are insured up to applicable limits by the Federal Deposit Insurance Corporation under the Deposit Insurance Fund. Northwest Savings Bank is subject to extensive regulation by the Department of Banking of the Commonwealth of Pennsylvania (the Department of Banking), as its chartering agency, and by the Federal Deposit Insurance Corporation, as the insurer of its deposit accounts. Northwest Savings Bank must file reports with the Department of Banking and the Federal Deposit Insurance Corporation concerning its activities and financial condition in addition to obtaining regulatory approvals prior to entering into certain transactions including, acquisitions of other financial institutions. Northwest Savings Bank is examined periodically by the Department of Banking and the Federal Deposit Insurance Corporation to test Northwest Savings Bank s compliance with various laws and

regulations. This regulation and supervision, as well as federal and state law, establishes a comprehensive framework of activities in which Northwest Savings Bank may engage and is intended primarily for the protection of the Federal Deposit Insurance Corporation insurance fund and depositors. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and with their examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes.

Any change in these laws or regulations, whether by the Department of Banking or the Federal Deposit Insurance Corporation, could have a material adverse impact on Northwest Bancshares, Inc., Northwest Savings Bank and their respective operations.

As a savings and loan holding company, Northwest Bancshares, Inc. is required to comply with the rules and regulations of the Office of Thrift Supervision, and is required to file certain reports with and is subject to examination by, the Office of Thrift Supervision. Northwest Bancshares, Inc. is also subject to the rules and regulations of the Securities and Exchange Commission under the federal securities laws.

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

Pennsylvania Savings Bank Law

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

The Department of Banking generally examines each savings bank not less frequently than once every two years. Although the Department of Banking may accept the examinations and reports of the Federal Deposit Insurance Corporation in lieu of its own examination, the current practice is for the Department of Banking to conduct individual examinations. The Department of Banking may order any savings bank to discontinue any violation of law or unsafe or unsound business practice and may direct any trustee, officer, attorney, or employee of a savings bank engaged in an objectionable activity, after the Department of Banking has ordered the activity to be terminated, to show cause at a hearing before the Department of Banking why such person should not be removed.

Insurance of Deposit Accounts

Our deposit accounts are insured by the FDIC up to applicable legal limits under the FDIC s general deposit insurance rules. The FDIC s deposit insurance fund is funded by assessments on insured depository institutions, which depend on the risk category of an institution and the amount of insured deposits that it holds. The FDIC may increase or decrease the assessment rate schedule on a semi-annual basis. Effective April 2009, assessment rates are subject to adjustments based upon the insured depository institution s ratio of (i) long-term unsecured debt to domestic deposits, (ii) secured liabilities to domestic deposits and (iii) brokered deposits to domestic deposits (if greater than 10%).

Federal legislation establishes a range of 1.15% to 1.50% for the FDIC s designated reserve ratio; and grants the FDIC discretion to set insurance premium rates according to the risk for all insured banks regardless of the level of the reserve ratio. The legislation also granted a one-time initial assessment credit to certain banks in recognition of their past contributions to the fund. During 2008 and 2007, our Bank used $600,000 and $3.2 million in credits, respectively, to offset insurance premiums assessed by the FDIC. At December 31, 2009, we had no further credits available to offset assessments by the FDIC.

In conjunction with the October 2008 enactment of the Emergency Economic Stabilization Act of 2008 (EESA), the limit on FDIC insurance coverage was increased to $250,000 for all accounts through December 31, 2009, which Congress has since extended through December 31, 2013.

In addition, in October 2008, the Secretary of the Treasury invoked the systemic risk exception of the FDIC Improvement Act of 1991, allowing the FDIC to provide a 100% guarantee for newly issued senior unsecured debt issued before June 30, 2009 and noninterest bearing transaction deposit accounts through December 31, 2009 at FDIC insured institutions under the Temporary Liquidity Guarantee Program (TLGP). Fees for coverage were waived for the first 30 days of the program. We elected to participate in the program beyond this time period for coverage of noninterest bearing transaction deposit accounts not otherwise covered by the existing deposit insurance limit of $250,000, but not for the guarantee of senior unsecured debt. An annual surcharge of 10 basis points is applied to noninterest bearing transaction deposit amounts in excess of $250,000. On August 26, 2009, the FDIC extended this coverage under the TLGP through June 30, 2010 for noninterest bearing transaction deposit accounts not otherwise covered by the existing deposit insurance limit of $250,000. We did not elect to participate in this extension of the TLGP, and accordingly, such coverage ended on December 31, 2009. On May 22, 2009, the FDIC adopted a rule levying a five basis point special assessment on each insured depository institution s assets minus Tier 1 capital as of June 30, 2009. The special assessment was payable on September 30, 2009. We recorded an expense of $3.3 million during the second quarter of 2009 to reflect the special assessment. On September 29, 2009 the FDIC increased assessment rates on deposit insurance premiums by three basis points effective January 1, 2011. In addition, in lieu of another special assessment, on November 12, 2009, the FDIC board adopted a final rule requiring insured institutions to prepay their estimated quarterly risk-based assessments for the fourth quarter of 2009, as well as for all of 2010, 2011, and 2012 on December 30, 2009, which amounted to $32.8 million for us. The rate increases and special assessment resulted in a significant increase to our FDIC insurance premiums, to $11.6 million in 2009 from $3.9 million in 2008.

FDIC guidance provides that as of December 31, 2009, and each quarter thereafter, each insured institution will be required to record an expense for its regular quarterly assessment and an offsetting credit to the prepaid assessment until the prepaid asset is exhausted. Once the asset is exhausted, the institution will resume paying and accounting for quarterly deposit insurance assessments as it currently does. Any further special assessments that the FDIC levies will be recorded as an expense during the appropriate period.

Capital Requirements

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

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

Prompt Corrective Action

Under federal regulations, a bank is considered to be (i) well capitalized if it has total risk-based capital of 10.0% or more, Tier 1 risk-based capital of 6.0% or more, Tier I leverage capital of 5.0% or more, and is not subject to any written capital order or directive; (ii) adequately capitalized if it has total risk-based capital of 8.0% or more, Tier I risk-based capital of 4.0% or more and Tier I leverage capital of 4.0% or more (3.0% under certain circumstances), and does not meet the definition of well capitalized ; (iii) undercapitalized if it has total risk-based capital of less than 8.0%, Tier I risk-based capital of less than 4.0% or Tier I leverage capital of less than 4.0% (3.0% under certain circumstances); (iv) significantly undercapitalized if it has total risk-based capital of less than 6.0%, Tier I risk-based capital less than 3.0%, or Tier I leverage capital of less than 3.0%; and (v) critically undercapitalized if its ratio of tangible equity to total assets is equal to or less than 2.0%. Federal regulations also

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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, 2009, Northwest Savings Bank was well-capitalized for this purpose.

Loans-to-One Borrower Limitation

Under federal regulations, with certain limited exceptions, a Pennsylvania chartered savings bank may lend to a single or related group of borrowers on an unsecured basis an amount equal to 15% of its unimpaired capital and surplus. An additional amount may be lent, equal to 10% of unimpaired capital and surplus, if such loan is secured by readily marketable collateral, which is defined to include certain securities and bullion, but generally does not include real estate. Our internal policy, however, is to make no loans either individually or in the aggregate to one entity in excess of $15.0 million. This limit may be exceeded subject to the approval of the Board of Directors.

Activities and Investments of Insured State-Chartered Banks

Federal law generally limits the activities and equity investments of state-chartered banks insured by the Federal Deposit Insurance Corporation to those that are permissible for national banks. Under regulations dealing with equity investments, an insured state bank generally may not, directly or indirectly, acquire or retain any equity investment of a type, or in an amount, that is not permissible for a national bank. An insured state bank is not prohibited from, among other things: (i) acquiring or retaining a majority interest in a subsidiary; (ii) investing as a limited partner in a partnership the sole purpose of which is direct or indirect investment in the acquisition, rehabilitation, or new construction of a qualified housing project, provided that such limited partnership investments 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.

The USA PATRIOT Act

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

Holding Company Regulation

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

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Permissible Activities. The business activities of Northwest Bancshares, Inc. are generally limited to those activities permissible for financial holding companies under Section 4(k) of the Bank Holding Company Act of 1956, as amended, or for multiple savings and loan holding companies. A financial holding company may engage in activities that are financial in nature, including underwriting equity securities and insurance as well as activities that are incidental to financial activities or complementary to financial activities. A multiple savings and loan holding company is generally limited to activities permissible for bank holding companies under Section 4(c)(8) of the Bank Holding Company Act, subject to the prior approval of the Office of Thrift Supervision, and certain additional activities authorized by Office of Thrift Supervision 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 Office of Thrift Supervision. It also prohibits the acquisition or retention of, with certain exceptions, more than 5% of a nonsubsidiary 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 Office of Thrift Supervision must consider the financial and managerial resources, future prospects of the company and institution involved, the effect of the acquisition on the risk to the federal deposit insurance fund, the convenience and needs of the community and competitive factors.

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

(i) the approval of interstate supervisory acquisitions by savings and loan holding companies; and

(ii) the acquisition of a savings institution in another state if the laws of the state of the target savings institution specifically permit such acquisition.

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

Qualified Thrift Lender Test. To be regulated as a savings and loan holding company by the Office of Thrift Supervision (rather than as a bank holding company by the Federal Reserve Board), Northwest Savings Bank must qualify as a Qualified Thrift Lender. To qualify as a Qualified Thrift Lender, Northwest Savings Bank must be a domestic building and loan association, as defined in the Internal Revenue Code, or comply with the Qualified Thrift Lender test. Under the Qualified Thrift Lender test, a savings institution is required to maintain at least 65% of its portfolio assets (total assets less: (1) specified liquid assets up to 20% of total assets; (2) intangibles, including goodwill; and (3) the value of property used to conduct business) in certain qualified thrift investments (primarily residential mortgages and related investments, including certain mortgage-backed and related securities) in at least nine months out of each 12-month period. As of December 31, 2009 Northwest Savings Bank met the Qualified Thrift Lender test.

Federal Securities Laws

Shares of our common stock are 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.

The Sarbanes-Oxley Act includes specific additional disclosure requirements, requires the Securities and Exchange Commission and national securities exchanges to adopt extensive additional disclosure, corporate governance and other related rules, and mandates further studies of certain issues by the Securities and Exchange Commission. The Sarbanes-Oxley Act represents significant federal involvement in matters traditionally left to state regulatory systems, such as the regulation of the accounting profession, and to corporate law, such as the relationship between a board of directors and management and between a board of directors and its committees.

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 will be properly allocated to each subsidiary based upon taxable income or loss calculated on a separate company basis.

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

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

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

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

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.

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

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

Changes in interest rates may also affect the average life of loans and mortgage-related securities. Decreases in interest rates can result in increased prepayments of loans and mortgage-related securities, as borrowers refinance to reduce their borrowing costs. Under these circumstances, we are subject to reinvestment risk to the extent that we are unable to reinvest the cash received from such prepayments at rates that are comparable to

the rates on existing loans and securities. Additionally, increases in interest rates may decrease loan demand and make it more difficult for borrowers to repay adjustable rate loans. Also, increases in interest rates may extend the life of fixed rate assets, which would restrict our ability to reinvest in higher yielding alternatives, and may result in customers withdrawing certificates of deposit early so long as the early withdrawal penalty is less than the interest they could receive as a result of the higher interest rates.

Changes in interest rates also affect the current fair value of our interest-earning securities portfolio. Generally, the value of securities moves inversely with changes in interest rates. At December 31, 2009, the fair value of our investment and mortgage-backed securities portfolio totaled $1.067 billion. Net unrealized gains on these securities totaled $7.9 million at December 31, 2009.

At December 31, 2009, our interest rate risk analysis indicated that the market value of our equity would decrease by 7.1% if there was an instantaneous parallel 200 basis point increase in market interest rates. See Item 6. Management s Discussion and Analysis of Financial Condition and Results of Operations Management of Market Risk.

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

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

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

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

We could record future losses on our securities portfolio.

During the year ended December 31, 2009, we recognized $12.4 million of impairment losses on securities, of which $6.3 million was recognized as other comprehensive loss in the equity section of our balance sheet, and $6.1 million was recognized as noninterest expense in our income statement. At December 31, 2009, we held corporate debt securities and non-government agency collateralized mortgage obligations with unrealized holding losses of $10.4 million and $2.9 million, respectively.

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

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

Our contribution to the charitable foundation may not be tax deductible, which could reduce our profits.

The Internal Revenue Service may not grant tax-exempt status to the charitable foundation. If the contribution is not deductible, we would not receive any tax benefit from the contribution. The total value of the contribution was $13.8 million, which resulted in recording an after-tax expense of $8.3 million. In the event that the Internal Revenue Service does not grant tax-exempt status to the charitable foundation or the contribution to the charitable foundation is otherwise not tax deductible, we would have to recognize additional after-tax expense of up to $5.5 million.

In addition, even if the contribution is tax deductible, we may not have sufficient taxable income to be able to use the deduction fully. Under the Internal Revenue Code, a corporate entity is generally permitted to deduct charitable contributions in an amount of up to 10% of its taxable income (taxable income before the charitable contributions deduction) in any one year for charitable contributions. Any contribution in excess of the 10% limit may be deducted for federal income tax purposes over the five years following the year in which the charitable contribution was made. Accordingly, a charitable contribution by a corporate entity could, if necessary, be deducted for federal income tax purposes over a six-year period. Our taxable income over this period may not be sufficient to fully use this deduction. If the deduction is not able to be used we would have to recognize up to $5.5 million of additional after tax expense.

Any future Federal Deposit Insurance Corporation special assessments or increases in insurance premiums will adversely impact our earnings.

On May 22, 2009, the Federal Deposit Insurance Corporation adopted a final rule levying a five basis point special assessment on each insured depository institution s assets minus Tier 1 capital as of June 30, 2009. We recorded an expense of $3.3 million during the quarter ended June 30, 2009, to reflect the special assessment. Any further special assessments that the Federal Deposit Insurance Corporation levies will be recorded as an expense during the appropriate period. In addition, the Federal Deposit Insurance Corporation increased the general assessment rate and, therefore, our Federal Deposit Insurance Corporation general insurance premium expense will increase compared to prior periods.

On November 12, 2009, the Federal Deposit Insurance Corporation adopted a final rule pursuant to which on December 30, 2009 all insured depository institutions were required to prepay their estimated assessments for the fourth quarter of 2009, and for all of 2010, 2011 and 2012. The assessment rate for the fourth quarter of 2009 and for 2010 was based on each institution s total base assessment rate for the third quarter of 2009, modified to assume that the assessment rate in effect on September 30, 2009 had been in effect for the entire third quarter, and the assessment rate for 2011 and 2012 would be equal to the modified third quarter assessment rate plus an additional three basis points. In addition, each institution s base assessment rate for each period was calculated using its third quarter assessment base, adjusted quarterly for an estimated 5% annual growth rate in the assessment base through the end of 2012. We made a payment of $32.8 million to the Federal Deposit Insurance Corporation on December 30, 2009, and recorded the payment as a prepaid expense, which will be amortized to expense over three years.

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

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

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Strong competition may limit growth and profitability.

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

We operate in a highly regulated environment and may be adversely affected by changes in laws and regulations.

We are subject to extensive regulation, supervision and examination by the Federal Deposit Insurance Corporation, the Pennsylvania Department of Banking and the Office of Thrift Supervision. Laws and regulations govern the activities in which we may engage, primarily for the protection of depositors and the Deposit Insurance Fund at the Federal Deposit Insurance Corporation. These regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities, including the ability to impose restrictions on a bank s operations, reclassify assets, determine the adequacy of a bank s allowance for loan losses and determine the level of deposit insurance premiums assessed, and capital levels to be maintained. Any change in such regulation 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. Because our business is highly regulated, the laws and applicable regulations are subject to frequent change. Any new laws, rules and regulations could make compliance more difficult or expensive or otherwise adversely affect our business, financial condition or prospects.

A legislative proposal has been introduced that would eliminate the Office of Thrift Supervision, Northwest Bancshares, Inc. s primary federal regulator, which would require Northwest Bancshares, Inc. to become a bank holding company.

Legislation has been proposed that would implement sweeping changes to the current bank regulatory structure. The proposal would, among other things, merge the Office of Thrift Supervision into the Office of the Comptroller of the Currency. As discussed further under Supervision and Regulation Holding Company Regulation, federal law allows a state savings bank that qualifies as a Qualified Thrift Lender, such as Northwest Savings Bank, to elect to be treated as a savings association for purposes of the savings and loan holding company provisions of the Home Owners Loan Act of 1933, as amended. Such election results in the state savings bank s holding company being regulated as a savings and loan holding company by the Office of Thrift Supervision rather than as a bank holding company regulated by the Board of Governors of the Federal Reserve System. If the Office of Thrift Supervision is eliminated, Northwest Bancshares, Inc. would become a bank holding company subject to regulation and supervision under the Bank Holding Company Act of 1956, and the supervision and regulation of the Board of Governors of the Federal Reserve System, including holding company regulatory capital requirements to which Northwest Bancshares, Inc. is not currently subject.

Continued government action in response to the economic downturn may negatively affect our operations.

In response to the severe economic recession, Congress adopted the Emergency Economic Stabilization Act of 2008, under which the U.S. Department of the Treasury has the authority to expend up to $700 billion to assist in stabilizing and providing liquidity to the U.S. financial system. Although it was originally contemplated that these funds would be used primarily to purchase troubled assets under the Troubled Asset Relief Program, in October 2008 the U.S. Department of the Treasury announced the Capital Purchase Program, pursuant to which it intended to purchase up to $250 billion of non-voting senior preferred shares of qualifying financial institutions to encourage financial institutions to build capital to increase the flow of financing to businesses and consumers and to support the economy. In addition, Congress temporarily increased Federal Deposit Insurance Corporation deposit insurance from $100,000 to $250,000 per depositor through December 31, 2013. The Federal Deposit Insurance Corporation also announced the creation of the Temporary Liquidity Guarantee Program which is intended to strengthen confidence and encourage liquidity in financial institutions by temporarily guaranteeing newly issued senior unsecured debt of participating organizations and providing full insurance coverage for noninterest-bearing

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transaction deposit accounts (such as business checking accounts, interest-bearing transaction accounts paying 50 basis points or less and lawyers trust accounts), regardless of dollar amount until June 30, 2010.

The potential exists for additional federal or state laws and regulations regarding lending and funding practices and liquidity standards, and bank regulatory agencies have responded aggressively in responding to concerns and trends identified in examinations, and have issued many formal enforcement orders. Current legislative and regulatory proposals include the following: limiting the size and activities of financial institutions; including regulatory capital requirements; establishing a new financial services oversight council; establishing greater government powers to regulate risk across the financial system; and establishing greater standards for and scrutiny of compensation policies at financial institutions. Actions taken to date, as well as potential actions, may not have the beneficial effects that are intended. In addition, new laws, regulations, and other regulatory changes may increase our Federal Deposit Insurance Corporation insurance premiums and may also increase our costs of regulatory compliance and of doing business, and otherwise adversely affect our operations. New laws, regulations, and other regulatory changes may significantly affect the markets in which we do business, the markets for and value of our loans and investments, and our ongoing operations, costs and profitability.

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. In addition, there have been legislative proposals to create a federal consumer protection agency that may, among other powers, have the ability to limit our rights as a creditor.

If our investment in the Federal Home Loan Bank of Pittsburgh becomes impaired, our earnings and stockholders equity could decrease.

We are required to own common stock of the Federal Home Loan Bank of Pittsburgh to qualify for membership in the Federal Home Loan Bank System and to be eligible to borrow funds under the Federal Home Loan Bank s advance program. The aggregate cost of our Federal Home Loan Bank common stock as of December 31, 2009 was $63.2 million. Federal Home Loan Bank common stock is not a marketable security and can only be redeemed by the Federal Home Loan Bank.

Federal Home Loan Banks may be subject to accounting rules and asset quality risks that could materially lower their regulatory capital. In an extreme situation, it is possible that the capitalization of a Federal Home Loan Bank, including the Federal Home Loan Bank of Pittsburgh, could be substantially diminished or reduced to zero. Consequently, we believe that there is a risk that our investment in Federal Home Loan Bank of Pittsburgh common stock could be deemed impaired at some time in the future, and if this occurs, it would cause our earnings and stockholders equity to decrease by the amount of the impairment charge.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

As of December 31, 2009, we conducted our business through our main office located in Warren, Pennsylvania, 133 other full-service offices and eight free-standing drive-up locations throughout our market area in northwest, southwest and central Pennsylvania, 17 offices in western New York, four offices in eastern Ohio, five offices in Maryland and three offices in south Florida. Northwest Bancshares, Inc. and its wholly-owned subsidiaries also operated 51 consumer finance offices located throughout Pennsylvania. At December 31, 2009, our premises and equipment had an aggregate net book value of approximately $124.3 million.

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ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. [Reserved]

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 December 31, 2009, we had 29 registered market makers, 19,892 stockholders of record (excluding the number of persons or entities holding stock in street name through various brokerage firms), and 110,641,858 shares outstanding. The following table sets forth market price and dividend information for our common stock, adjusted to reflect the 2.25-for-one stock split in connection with the mutual-to-stock conversion.

Year Ended December 31, 2009	High	Low	Cash Dividends Declared
First Quarter	$ 9.60	$5.81	$0.10
Second Quarter	$ 9.15	$7.12	$0.10
Third Quarter	$10.98	$8.09	$0.10
Fourth Quarter	$11.48	$9.39	$0.10

Year Ended December 31, 2008	High	Low	Cash Dividends Declared
First Quarter	$13.40	$10.44	$0.10
Second Quarter	$12.49	$ 9.68	$0.10
Third Quarter	$15.26	$ 8.91	$0.10
Fourth Quarter	$13.27	$ 8.38	$0.10

Payment of dividends on our shares of common stock is subject to determination and declaration by the Board of Directors and will depend upon a number of factors, including capital requirements, regulatory limitations on the payment of dividends, our results of operations and financial condition, tax considerations and general economic conditions. No assurance can be given that dividends will be declared or, if declared, what the amount of dividends will be, or whether such dividends, once declared, will continue.

There were no sales of unregistered securities during the quarter ended December 31, 2009.

Pursuant to Office of Thrift Supervision regulations, we may not repurchase our shares during the first year following the mutual-to-stock conversion.

There were no repurchases of shares of common stock during the quarter ended December 31, 2009, and we did not have any existing repurchase plans outstanding at December 31, 2009.

Stock Performance Graph

Set forth hereunder is a stock performance graph comparing (a) the cumulative total return on our Common Stock between June 30, 2004 and December 31, 2009, adjusted to reflect the 2.25-for-one stock split in connection with the mutual-to-stock conversion, (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.

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

COMPARISON OF 66 MONTH CUMULATIVE TOTAL RETURN*
Among Northwest Bancshares, Inc., The NASDAQ Composite Index
And The NASDAQ Bank Index

***$100 invested on 6/30/04 in stock or index. including reinvestment of dividends. Fiscal year ending december 31.**

	6/04	6/05	12/05	12/06	12/07	12/08	12/09
Northwest Bancshares, Inc.	100.00	94.89	96.18	127.78	127.47	106.11	131.59
NASDAQ Composite	100.00	101.46	108.92	122.55	132.97	78.59	113.52
NASDAQ Bank	100.00	106.25	108.70	123.43	98.52	78.73	66.69

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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 consolidated financial statements of Northwest Bancshares, Inc. and subsidiaries after December 18, 2009, and from the consolidated financial statements of Northwest Bancorp, Inc. and subsidiaries prior to December 18, 2009. The following is only a summary and you should read it in conjunction with the consolidated financial statements and notes included elsewhere in this document. The information at December 31, 2009 and 2008 and for the years ended December 31, 2009, 2008 and 2007 is derived in part from the audited consolidated financial statements that appear in this document. The information at December 31, 2007, 2006 and 2005, at June 30, 2005, for the year ended December 31, 2006, for the six months ended December 31, 2005 and for the year ended June 30, 2005, is derived in part from audited consolidated financial statements that do not appear in this document. We changed our fiscal year end from June 30 to December 31, effective December 31, 2005.

	At December 31,					At June 30,
	2009	2008	2007	2006	2005	2005
	(In Thousands)					
Selected Consolidated Financial Data:						
Total assets	$8,025,298	$6,930,241	$6,663,516	$6,527,815	$6,447,307	$6,330,482
Investment securities held-to-maturity (1)				465,312	444,407	467,303
Investment securities available-for-sale	333,522	393,531	601,620	388,546	289,871	290,702
Mortgage-backed securities held-to-maturity (1)				251,655	189,851	235,676
Mortgage-backed securities available-for-sale	733,567	745,639	531,747	378,968	323,965	384,481
Loans receivable net:						
Real estate (2)	4,578,235	4,508,393	4,172,850	3,926,859	4,100,754	3,888,287
Consumer	267,311	261,398	261,598	253,490	366,488	348,672
Commercial	383,516	372,101	361,174	232,092	155,027	139,925
Total loans receivable, net	5,229,062	5,141,892	4,795,622	4,412,441	4,622,269	4,376,884
Deposits	5,624,424	5,038,211	5,542,334	5,366,750	5,228,479	5,187,946
Advances from Federal Home Loan Bank and other borrowed funds	897,326	1,067,945	339,115	392,814	417,356	410,344
Shareholders equity	1,316,515	613,784	612,878	604,561	585,658	582,190

(1) In 2007 we divested investment securities that we deemed to have a deteriorating risk profile, including several classified

as held-to-maturity, which required us to reclassify all investment securities as available-for-sale.

(2) Includes one- to four-family residential mortgage loans, home equity loans and commercial real estate loans.

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	For the Year Ended December 31,				For the Six Months Ended December 31,	For the Year Ended June 30,
	2009	2008	2007	2006	2005	2005
	(Dollars in Thousands, except per share amounts)					
Selected Consolidated Operating Data:						
Total interest income	$ 364,463	$ 388,659	$ 396,031	$ 368,573	$ 170,449	$ 321,824
Total interest expense	135,806	169,293	211,015	191,109	79,414	138,047
Net interest income	228,657	219,366	185,016	177,464	91,035	183,777
Provision for loan losses	41,847	22,851	8,743	8,480	4,722	9,566
Net interest income after provision for loan losses	186,810	196,515	176,273	168,984	86,313	174,211
Noninterest income	53,337	38,752	43,022	46,026	19,851	32,004
Noninterest expense	200,494	170,128	152,742	143,682	66,317	128,659
Income before income tax expense	39,653	65,139	66,553	71,328	39,847	77,556
Income tax expense	7,000	16,968	17,456	19,792	10,998	22,741
Net income	$ 32,653	$ 48,171	$ 49,097	$ 51,536	$ 28,849	$ 54,815
Earnings per share:						
Basic	$ 0.30	$ 0.44	$ 0.44	$ 0.46	$ 0.25	$ 0.49
Diluted	$ 0.30	$ 0.44	$ 0.44	$ 0.46	$ 0.25	$ 0.48

	At or For the Year Ended December 31,				At or for the Six Months Ended December 31,	At or for the Year Ended June 30,
	2009	2008	2007	2006	2005 (1)	2005
Selected Financial Ratios and Other Data:						
Return on average assets (2)	0.46%	0.70%	0.73%	0.79%	0.91%	0.86%
Return on average equity (3)	4.71%	7.75%	8.18%	8.60%	9.81%	9.74%
Average capital to average assets	9.67%	9.04%	8.96%	9.19%	9.23%	8.87%
Capital to total assets	16.40%	8.86%	9.20%	9.26%	9.04%	9.20%
Tangible common equity to tangible assets	14.53%	6.36%	6.50%	6.79%	6.66%	6.93%
Net interest rate spread (4)	3.30%	3.25%	2.74%	2.77%	2.99%	3.07%

Net interest margin (5)	3.56%	3.57%	3.10%	3.06%	3.21%	3.24%
Noninterest expense to average assets	2.80%	2.48%	2.28%	2.20%	2.08%	2.03%
Efficiency ratio	71.10%	65.91%	66.98%	64.29%	59.81%	59.62%
Noninterest income to average assets	0.74%	0.56%	0.64%	0.71%	0.63%	0.50%
Net interest income to noninterest expense	1.14x	1.29x	1.21x	1.24x	1.37x	1.43x
Dividend payout ratio (6)	130.37%	88.89%	84.85%	67.96%	53.57%	44.04%
Nonperforming loans to net loans receivable	2.38%	1.93%	1.03%	0.92%	0.93%	0.77%
Nonperforming assets to total assets	1.81%	1.67%	0.87%	0.72%	0.74%	0.64%
Allowance for loan losses to nonperforming loans	56.49%	55.37%	84.22%	92.92%	77.67%	93.91%
Allowance for loan losses to net loans receivable	1.35%	1.07%	0.87%	0.85%	0.72%	0.72%
Average interest-earning assets to average interest-bearing liabilities	1.12x	1.10x	1.10x	1.09x	1.09x	1.08x
Number of full-service offices	171	167	166	160	153	153
Number of consumer finance offices	51	51	51	51	50	49

(1) Ratios are annualized where appropriate.

(2) Represents net income divided by average total assets.

(3) Represents net income divided by average equity.

(4) Represents average yield on interest-earning assets less average cost of interest-bearing liabilities.

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

(6) The dividend payout ratio represents dividends

declared per
share divided by
net income per
share.

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

Overview

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

Our earnings depend primarily on our level of net interest income, which is the difference between interest earned on our interest-earning assets, consisting primarily of loans, mortgage-backed securities and other 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. Interest income and noninterest income are offset by provisions for loan losses, general administrative and other expenses, including employee compensation and benefits and occupancy and equipment costs, as well as by state and federal income tax expense.

Our net income has decreased over the past few years, totaling $32.7 for the year ended December 31, 2009 compared to $48.2 million for the year ended December 31, 2008 and $49.1 million for the year ended December 31, 2007. Much of the reduction in our net income has resulted from increased loan loss reserves and impairment charges on securities caused by deteriorating asset quality, which has affected much of the financial institution industry in recent years. Our provision for loan losses was $41.8 million for the year ended December 31, 2009 compared to $22.9 million for the year ended December 31, 2008 and $8.7 million for the year ended December 31, 2007. In addition, we experienced other-than-temporary impairment charges for securities, which were reflected as a reduction of noninterest income, of $6.1 million, $16.0 million and $8.4 million during the years ended December 31, 2009, 2008 and 2007, respectively. In addition, FDIC premiums and special assessments continue to increase because of the growing number of failed financial institutions. Amounts paid to the FDIC in the years ended December 31, 2009, 2008 and 2007 were $11.6 million, $3.9 million and $663,000, respectively. Lastly, as part of our second-step common stock offering in 2009, we established the Northwest Charitable Foundation for the benefit of the communities where we do business. This contribution of cash and stock resulted in a current year expense of $13.8 million.

We did not significantly change our underwriting standards in the past several years nor did we add controversial residential loan products. Other than our loans for the construction of one- to four-family residential mortgage loans, we do not offer interest only mortgage loans on one- to four-family residential properties (where the borrower pays interest for an initial period, after which the loan converts to a fully amortizing loan). We also do not offer loans that provide for negative amortization of principal, such as Option ARM loans, where the borrower can pay less than the interest owed on the loan, resulting in an increased principal balance during the life of the loan. We do not directly offer subprime loans (loans that generally target borrowers with FICO scores of less than 660) or Alt-A loans (traditionally defined as loans having less than full documentation). However, a portion of the loans originated by one of our subsidiaries, Northwest Consumer Discount Company (NCDC), consists of loans to persons with credit scores that would cause such loans to be considered subprime. NCDC has been in operation for over 25 years and has 51 offices throughout Pennsylvania. NCDC offers a variety of consumer loans for automobiles, appliances and furniture as well as one- to four-family residential real estate loans. At December 31, 2009, NCDC s total loan portfolio was approximately $114.5 million with an average loan size of $3,800, an average FICO score of 616 and an average yield

of approximately 16.9%. NCDC s total delinquency has remained steady at approximately 4.25% of outstanding loans, with loans nonperforming for 90 days or more at 2.12% of loans outstanding. Annual net charge-offs average approximately $3.0 million, or 2.6% of outstanding loans, and it

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maintains an allowance for loan losses of $4.9 million, or 4.3% of loans. Although loans originated through NCDC have higher average rates of delinquency and charge-offs than similar loans originated directly by Northwest Savings Bank, management believes that the higher yields on loans originated through NCDC compensate for the incremental credit risk exposure.

As of December 31, 2009, we held $252,000 of preferred stock issued by Freddie Mac, and $11.0 million of private label collateralized mortgage obligations, some of which are collateralized by ALT-A mortgage loans. As of December 31, 2009, our available credit lines and other sources of liquidity had not been reduced compared to levels from December 31, 2008 or 2007.

Critical Accounting Policies

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

Allowance for Loan Losses. We recognize that losses will be experienced on loans and that the risk of loss will vary with, among other things, the type of loan, the creditworthiness of the borrower, general economic conditions and the quality of the collateral for the loan. We maintain an allowance for loan losses to absorb 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 collectibility of the loan portfolio, including past loan loss experience, known and inherent losses, information about specific borrower situations and estimated collateral values, and current economic conditions. The loan portfolio and other credit exposures are regularly reviewed by management in its determination of the allowance for loan losses. The methodology for assessing the appropriateness of the allowance includes a review of historical losses, peer group comparisons, industry data and economic conditions. As an integral part of their examination process, regulatory agencies periodically review our allowance for loan losses and may require us to make additional provisions for estimated losses based upon judgments different from those of management. In establishing the allowance for loan losses, loss factors are applied to various pools of outstanding loans. Loss factors are derived using our historical loss experience and may be adjusted for factors that affect the collectibility of the portfolio as of the evaluation date. Commercial loans that are criticized are evaluated individually to determine the required allowance for loan losses and to evaluate the potential impairment. Although management believes that it uses the best information available to establish the allowance for loan losses, future adjustments to the allowance for loan losses may be necessary and results of operations could be adversely affected if circumstances differ substantially from the assumptions used in making the determinations. Because future events affecting borrowers and collateral cannot be predicted with certainty, there can be no assurance that the existing allowance for loan losses is adequate or that increases will not be necessary should the quality of loans deteriorate as a result of the factors discussed previously. Any material increase in the allowance for loan losses may adversely affect our financial condition and results of operations. The allowance is based on information known at the time of the review. Changes in factors underlying the assessment could have a material impact on the amount of the allowance that is necessary and the amount of provision to be charged against earnings. Such changes could impact future results. Management believes that all known losses as of December 31, 2009 and 2008 have been recorded as of those dates.

Valuation of Investment Securities. All of our investment securities are classified as available for sale and recorded at current fair value. Unrealized gains or losses, net of deferred taxes, are reported in other comprehensive income as a separate component of shareholders equity. In general, fair value is based upon quoted market prices of identical assets, when available. If quoted market prices are not available, fair value is based upon valuation models that use cash flow, security structure and other observable information. Where sufficient data is not available to produce a fair valuation, fair value is based on broker quotes for similar assets. Broker quotes may be adjusted to ensure that financial instruments are recorded at fair value. Adjustments may include unobservable parameters, among other things. No adjustments were made to any broker quotes received by us.

We conduct a quarterly review and evaluation of our investment securities to determine if any declines in fair value are other than temporary. In making this determination, we consider the period of time the securities were

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

Goodwill. Goodwill is not subject to amortization but must be tested for impairment at least annually, and possibly more frequently if certain events or changes in circumstances arise. Impairment testing requires that the fair value of each reporting unit be compared to its carrying amount, including goodwill. Reporting units are identified based upon analyzing each of our individual operating segments. A reporting unit is defined as any distinct, separately identifiable component of an operating segment for which complete, discrete financial information is available that management regularly reviews. Goodwill is allocated to the carrying value of each reporting unit based on its relative fair value at the time it is acquired. Determining the fair value of a reporting unit requires a high degree of subjective management judgment. We, through the use of an independent third party, evaluate goodwill for possible impairment using four valuation methodologies including a public market peers approach, a comparable transactions approach, a control premium approach and a discounted cash flow approach. Future changes in the economic environment or the operations of the reporting units could cause changes to these variables, which could give rise to declines in the estimated fair value of the reporting unit. Declines in fair value could result in impairment being identified. We have established June 30 of each year as the date for conducting our annual goodwill impairment assessment. Quarterly, we evaluate if there are any triggering events that would require an update to our previous assessment. The variables are selected as of that date and the valuation model is run to determine the fair value of each reporting unit. We did not identify any individual reporting unit where the fair value was less than the carrying value.

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

Other Intangible Assets. Using the purchase method of accounting for acquisitions, we are required to record the assets acquired, including identified intangible assets, and liabilities assumed at their fair values. These fair values often involve estimates based on third-party valuations, including appraisals, or internal valuations based on discounted cash flow analyses or other valuation techniques, which are inherently subjective. Core deposit and other intangible assets are recorded in purchase accounting when a premium is paid to acquire other entities or deposits. Other intangible assets, which are determined to have finite lives, are amortized based on the period of estimated economic benefits received, primarily on an accelerated basis. If it is determined that the value of these intangible assets has deteriorated, amortization expense may be accelerated which could have a negative effect on earnings.

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

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In determining the projected benefit obligations for pension benefits at December 31, 2009 and 2008, we used a discount rate of 6.00%. We use the Citigroup Pension Liability Index rates matching the duration of our benefit payments as of the measurement date to determine the discount rate. Our measurement date is December 31. Our pre-tax pension expense is forecasted to decrease from $7.9 million for the year ended December 31, 2009 to $6.1 million for the year ending December 31, 2010 due primarily to the increase in the value of plan assets.

Balance Sheet Analysis

Assets. Our total assets at December 31, 2009 were $8.025 billion, an increase of $1.095 billion, or 15.8%, from $6.930 billion at December 31, 2008. This increase in assets was primarily attributed to an increase in cash and cash equivalents of $1.028 billion and an increase in net loans of $87.2 million, which were partially offset by a decrease in securities of $72.1 million. The net increase in total assets was funded by the proceeds of our second-step stock offering of $658.7 million and an increase in deposits of $586.2 million, partially offset by a decrease in borrowed funds of $170.6 million.

Cash and Investments. Total cash and investments increased by $955.8 million, or 78.4%, to $2.175 billion at December 31, 2009, from $1.219 billion at December 31, 2008. This increase was a result of the proceeds of our second-step stock offering that closed in December 2009 and deposit growth throughout the year. Management intends to deploy approximately $900 million of cash and investments into loans over a period of time in an effort to improve operating profits. The length of time it will take to accomplish this deployment will depend on a number of factors including loan demand, economic conditions and the general level of interest rates.

Loans receivable. Net loans receivable increased by $87.2 million, or 1.7%, to $5.229 billion at December 31, 2009, from $5.142 billion at December 31, 2008. Loan demand was strong, with originations of $1.811 billion for the year ended December 31, 2009. We sold $595.3 million of one- to four-family residential mortgage loans originated during the year to assist with our interest-rate risk management. As of December 31, 2009, we have substantially reduced selling one- to four-family mortgage loans due to our strong liquidity position. During the year ended December 31, 2009 gross commercial loans increased by $208.4 million, or 14.0%, gross consumer and home equity loans increased by $49.5 million, or 3.8% and gross mortgage loans decreased by $120.9 million, or 4.9%.

Total loans 30 days or more past due decreased by $6.3 million, or 3.2%, to $186.5 million at December 31, 2009 from $192.8 million at December 31, 2008. The December 31, 2009 amount consisted of 3,450 loans, while the December 31, 2008 amount consisted of 3,492 loans. Delinquencies on one- to four-family mortgage loans increased by $3.1 million, or 5.1%, delinquencies on consumer and home equity loans increased by $2.9 million, or 12.2% and delinquencies on commercial real estate and commercial business loans decreased by $12.3 million, or 11.4%. Like most financial institutions, we experienced an increase in the amount of delinquencies during the past 24 months due to deteriorating economic conditions. The largest increases in commercial loan delinquencies have occurred in Florida and Maryland, where real estate values for our loans have suffered the biggest losses in value.

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

	At December 31,									
	2009		2008		2007		2006		2005	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
					(Dollars in Thousands)					
Real estate:										
One- to four-family	$ 2,371,996	43.8%	$ 2,492,940	47.2%	$ 2,430,117	48.9%	$ 2,411,024	53.5%	$ 2,805,900	59.5%
Home equity	1,080,011	19.9	1,035,954	19.6	992,335	20.0	887,352	19.7	780,451	16.5
Multi-family and commercial	1,292,145	23.8	1,100,218	20.8	906,594	18.3	701,951	15.6	594,503	12.6
Total real estate loans	4,744,152	87.5	4,629,112	87.6	4,329,046	87.2	4,000,327	88.8	4,180,854	88.6
Consumer:										
Automobile	101,046	1.9	102,267	2.0	125,298	2.5	138,401	3.1	144,519	3.1
Education loans	32,860	0.6	38,152	0.7	14,551	0.3	11,973	0.3	120,504	2.5
Loans on savings accounts	12,209	0.2	11,191	0.2	10,563	0.2	10,313	0.2	9,066	0.2
Other (1)	127,750	2.4	115,913	2.2	117,831	2.4	109,303	2.4	106,390	2.3
Total consumer loans	273,865	5.1	267,523	5.1	268,243	5.4	269,990	6.0	380,479	8.1
Commercial business	403,589	7.4	387,145	7.3	367,459	7.4	235,311	5.2	157,572	3.3
Total loans receivable, gross	5,421,606	100.0%	5,283,780	100.0%	4,964,748	100.0%	4,505,628	100.0%	4,718,905	100.0%
Deferred loan fees	(7,030)		(5,041)		(4,179)		(3,027)		(3,877)	
Undisbursed loan proceeds	(115,111)		(81,918)							