

Northwest Bancshares, Inc.  
Form 10-Q  
November 08, 2013  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-Q**

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

**For the quarterly period ended September 30, 2013**

**or**

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

**For the transition period from            to**

**Commission File Number 001-34582**

**NORTHWEST BANCSHARES, INC.**

(Exact name of registrant as specified in its charter)

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**Maryland**

(State or other jurisdiction of incorporation or organization)

**27-0950358**

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

**100 Liberty Street, Warren, Pennsylvania**

(Address of principal executive offices)

**16365**

(Zip Code)

**(814) 726-2140**

(Registrant's telephone number, including area code)

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

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

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

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

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller reporting company

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

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

Common Stock (\$0.01 par value) 94,193,125 shares outstanding as of November 4, 2013



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## ITEM 1. FINANCIAL STATEMENTS

## NORTHWEST BANCSHARES, INC.

## CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(in thousands, except share data)

	(Unaudited) September 30, 2013	December 31, 2012
<b>Assets</b>		
Cash and due from banks	\$ 93,335	88,277
Interest-earning deposits in other financial institutions	321,344	362,794
Federal funds sold and other short-term investments	634	633
Marketable securities available-for-sale (amortized cost of \$1,084,596 and \$1,053,122)	1,092,799	1,079,074
Marketable securities held-to-maturity (fair value of \$129,580 and \$161,969)	125,937	155,081
Total cash and investments	1,634,049	1,685,859
<b>Personal Banking:</b>		
Residential mortgage loans held for sale		15,441
Residential mortgage loans	2,453,109	2,400,208
Home equity loans	1,072,388	1,076,637
Other consumer loans	225,978	235,367
Total Personal Banking	3,751,475	3,727,653
<b>Business Banking:</b>		
Commercial real estate loans	1,586,991	1,585,833
Commercial loans	392,636	388,994
Total Business Banking	1,979,627	1,974,827
Total loans receivable	5,731,102	5,702,480
Allowance for loan losses	(75,865)	(73,219)
Loans receivable, net	5,655,237	5,629,261
Federal Home Loan Bank stock, at cost	43,716	46,834
Accrued interest receivable	22,560	23,313
Real estate owned, net	20,173	26,165
Premises and equipment, net	142,487	138,824
Bank owned life insurance	140,389	137,044
Goodwill	174,463	174,461
Other intangible assets	2,541	3,529
Other assets	72,764	77,310
Total assets	\$ 7,908,379	7,942,600
<b>Liabilities and Shareholders equity</b>		
<b>Liabilities:</b>		
Noninterest-bearing demand deposits	\$ 803,498	755,429
Interest-bearing demand deposits	854,288	851,771
Savings deposits	2,348,805	2,271,311
Time deposits	1,718,774	1,886,089
Total deposits	5,725,365	5,764,600

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Borrowed funds	865,096	860,047
Junior subordinated deferrable interest debentures held by trusts that issued guaranteed capital debt securities	103,094	103,094
Advances by borrowers for taxes and insurance	14,152	23,325
Accrued interest payable	861	888
Other liabilities	61,277	62,177
Total liabilities	6,769,845	6,814,131
Shareholders' equity:		
Preferred stock, \$0.01 par value: 50,000,000 authorized, no shares issued		
Common stock, \$0.01 par value: 500,000,000 shares authorized, 94,152,042 and 93,652,960 shares issued and outstanding, respectively	942	937
Paid-in capital	617,180	613,249
Retained earnings	562,758	550,296
Unallocated common stock of employee stock ownership plan	(23,305)	(24,525)
Accumulated other comprehensive loss	(19,041)	(11,488)
Total shareholders' equity	1,138,534	1,128,469
Total liabilities and shareholders' equity	\$ 7,908,379	7,942,600

See accompanying notes to unaudited consolidated financial statements

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

	Quarter ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
<b>Interest income:</b>				
Loans receivable	\$ 71,480	76,771	216,440	231,888
Mortgage-backed securities	3,113	3,941	9,862	13,041
Taxable investment securities	1,030	577	2,969	1,585
Tax-free investment securities	1,912	2,223	6,069	6,987
Interest-earning deposits	253	364	844	1,217
Total interest income	77,788	83,876	236,184	254,718
<b>Interest expense:</b>				
Deposits	7,150	10,207	22,368	34,335
Borrowed funds	8,126	8,013	23,989	23,824
Total interest expense	15,276	18,220	46,357	58,159
Net interest income	62,512	65,656	189,827	196,559
Provision for loan losses	4,992	6,915	17,555	18,165
Net interest income after provision for loan losses	57,520	58,741	172,272	178,394
<b>Noninterest income:</b>				
Impairment losses on securities		(340)		(885)
Noncredit related losses on securities not expected to be sold (recognized in other comprehensive income)		247		554
Net impairment losses		(93)		(331)
Gain on sale of investments, net	109	260	229	260
Service charges and fees	9,282	9,110	27,010	26,701
Trust and other financial services income	2,380	2,122	6,847	6,256
Insurance commission income	2,019	1,480	6,504	4,801
Loss on real estate owned, net	(111)	(1,187)	(2,526)	(2,839)
Income from bank owned life insurance	1,178	1,148	3,351	3,372
Mortgage banking income	203	1,484	1,395	2,804
Other operating income	1,049	949	3,090	3,190
Total noninterest income	16,109	15,273	45,900	44,214
<b>Noninterest expense:</b>				
Compensation and employee benefits	27,629	28,171	83,715	83,425
Premises and occupancy costs	5,633	5,498	17,530	16,729
Office operations	3,497	3,141	10,631	9,805
Processing expenses	6,036	6,340	19,279	18,541
Marketing expenses	1,032	1,830	5,025	7,695
Federal deposit insurance premiums	1,377	1,305	4,239	4,343
Professional services	1,331	1,939	4,223	5,136
Amortization of other intangible assets	291	219	988	793
Real estate owned expense	681	832	1,880	2,143
Other expenses	2,770	2,528	7,044	6,435
Total noninterest expense	50,277	51,803	154,554	155,045

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Income before income taxes	23,352	22,211	63,618	67,563
Federal and state income taxes	5,752	6,518	17,242	20,328
Net income	\$ 17,600	15,693	46,376	47,235
Basic earnings per share	\$ 0.19	0.17	0.51	0.50
Diluted earnings per share	\$ 0.19	0.17	0.51	0.50

See accompanying notes to unaudited consolidated financial statements



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

(in thousands)

	Quarter ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Net Income	\$ 17,600	15,693	46,376	47,235
Other comprehensive income net of tax:				
Net unrealized holding gains/ (losses) on marketable securities:				
Unrealized holding gains/ (losses) net of tax of \$(73), \$(998), \$6,767 and \$(2,471), respectively	110	1,550	(10,619)	3,805
Other-than-temporary impairment on securities included in net income, net of tax of \$0, \$(36), \$0 and \$(129), respectively		57		202
Reclassification adjustment for gains included in net income, net of tax of \$55, \$16, \$142 and \$138 respectively	(87)	(25)	(221)	(215)
Net unrealized holding gains/ (losses) on marketable securities	23	1,582	(10,840)	3,792
Change in fair value of interest rate swaps, net of tax of \$(159), \$55, \$(1,400) and \$103, respectively	294	(102)	2,600	(192)
Defined benefit plan:				
Reclassification adjustment for prior period service costs included in net income, net of tax of \$(123), \$(232), \$(369) and \$(695), respectively	229	431	687	1,293
Other comprehensive income/ (loss)	546	1,911	(7,553)	4,893
Total comprehensive income	\$ 18,146	17,604	38,823	52,128

See accompanying notes to unaudited consolidated financial statements

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## NORTHWEST BANCSHARES, INC.

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

(dollars in thousands, except per share data)

Quarter ended September 30, 2012	Shares	Common Stock Amount	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income/ (loss)	Unallocated common stock of ESOP	Total Shareholders Equity
Beginning balance at June 30, 2012	97,880,874	\$ 979	662,183	552,278	(20,244)	(25,192)	1,170,004
Comprehensive income:							
Net income				15,693			15,693
Other comprehensive income, net of tax of \$(1,195)					1,911		1,911
Total comprehensive income				15,693	1,911		17,604
Exercise of stock options	147,288		1	897			898
Stock compensation expense				713		375	1,088
Share repurchases	(183,780)		(2)	(2,204)			(2,206)
Dividends paid (\$0.12 per share)				(11,469)			(11,469)
Ending balance at September 30, 2012	97,844,382	\$ 978	661,589	556,502	(18,333)	(24,817)	1,175,919
Quarter ended September 30, 2013	Shares	Common Stock Amount	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income/ (loss)	Unallocated common stock of ESOP	Total Shareholders Equity
Beginning balance at June 30, 2013	93,877,847	\$ 939	613,520	557,104	(19,587)	(23,743)	1,128,233
Comprehensive income:							
Net income				17,600			17,600
Other comprehensive income, net of tax of \$(300)					546		546
Total comprehensive income				17,600	546		18,146
Exercise of stock options	274,195		3	2,657			2,660
Stock compensation expense				1,003		438	1,441
Share repurchases							
Dividends paid (\$0.13 per share)				(11,946)			(11,946)
Ending balance at September 30, 2013	94,152,042	\$ 942	617,180	562,758	(19,041)	(23,305)	1,138,534

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See accompanying notes to unaudited consolidated financial statements

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## NORTHWEST BANCSHARES, INC.

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

(dollars in thousands, except per share data)

Nine months ended September 30, 2012	Common Stock		Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income/ (loss)	Unallocated common stock of ESOP	Total Shareholders Equity
	Shares	Amount					
Beginning balance at December 31, 2011	97,493,046	\$ 975	659,523	543,598	(23,226)	(25,966)	1,154,904
Comprehensive income:							
Net income				47,235			47,235
Other comprehensive income, net of tax of \$(3,054)					4,893		4,893
Total comprehensive income				47,235	4,893		52,128
Exercise of stock options	271,739	2	1,891				1,893
Stock-based compensation expense	263,377	3	2,379			1,149	3,531
Share repurchases	(183,780)	(2)	(2,204)				(2,206)
Dividends paid (\$0.36 per share)				(34,331)			(34,331)
Ending balance at September 30, 2012	97,844,382	\$ 978	661,589	556,502	(18,333)	(24,817)	1,175,919

Nine months ended September 30, 2013	Common Stock		Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income/ (loss)	Unallocated common stock of ESOP	Total Shareholders Equity
	Shares	Amount					
Beginning balance at December 31, 2012	93,652,960	\$ 937	613,249	550,296	(11,488)	(24,525)	1,128,469
Comprehensive income:							
Net income				46,376			46,376
Other comprehensive loss, net of tax of \$5,140					(7,553)		(7,553)
Total comprehensive income				46,376	(7,553)		38,823
Exercise of stock options	598,562	6	5,555				5,561
Stock-based compensation expense	269,320	3	2,831			1,220	4,054
Share repurchases	(368,800)	(4)	(4,455)				(4,459)
Dividends paid (\$0.37 per share)				(33,914)			(33,914)
Ending balance at September 30, 2013	94,152,042	\$ 942	617,180	562,758	(19,041)	(23,305)	1,138,534

See accompanying notes to unaudited consolidated financial statements



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## NORTHWEST BANCSHARES, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(in thousands)

	Nine months ended September 30,	
	2013	2012
<b>OPERATING ACTIVITIES:</b>		
Net Income	\$ 46,376	47,235
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	17,555	18,165
Net gain on sale of assets	(813)	(490)
Net depreciation, amortization and accretion	6,638	7,166
Decrease in other assets	5,665	16,641
Increase in other liabilities	4,131	9,892
Net amortization/ (accretion) on marketable securities	204	(59)
Deferred income tax benefit	(52)	(36)
Noncash impairment losses on investment securities		331
Noncash write-down of real estate owned	3,580	2,129
Origination of loans held for sale	(36,411)	(180,319)
Proceeds from sale of loans held for sale	52,408	168,442
Noncash compensation expense related to stock benefit plans	4,054	3,531
Net cash provided by operating activities	103,335	92,628
<b>INVESTING ACTIVITIES:</b>		
Purchase of marketable securities available-for-sale	(233,606)	(299,414)
Proceeds from maturities and principal reductions of marketable securities available-for-sale	202,109	262,192
Proceeds from maturities and principal reductions of marketable securities held-to-maturity	29,193	63,583
Loan originations	(1,536,087)	(1,568,290)
Proceeds from loan maturities and principal reductions	1,469,752	1,371,874
Redemption of Federal Home Loan Bank stock	3,118	2,101
Proceeds from sale of real estate owned	14,134	11,145
Sale of real estate owned for investment, net	485	343
Purchase of premises and equipment	(12,653)	(11,804)
Net cash used in investing activities	(63,555)	(168,270)

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

	<b>Nine months ended September 30,</b>	
	<b>2013</b>	<b>2012</b>
<b>FINANCING ACTIVITIES:</b>		
(Decrease)/ increase in deposits, net	\$ (39,235)	44,431
Proceeds from long-term borrowings	30,000	
Repayments of long-term borrowings	(51)	(52)
Net increase/ (decrease) in short-term borrowings	(24,900)	27,679
Decrease in advances by borrowers for taxes and insurance	(9,173)	(12,001)
Cash dividends paid	(33,914)	(34,331)
Purchase of common stock for retirement	(4,459)	(2,206)
Proceeds from stock options exercised	5,561	1,893
Net cash provided by financing activities	(76,171)	25,413
Net decrease in cash and cash equivalents	\$ (36,391)	(50,229)
Cash and cash equivalents at beginning of period	\$ 451,704	688,297
Net decrease in cash and cash equivalents	(36,391)	(50,229)
Cash and cash equivalents at end of period	\$ 415,313	638,068
Cash and cash equivalents:		
Cash and due from banks	\$ 93,335	91,286
Interest-earning deposits in other financial institutions	321,344	546,149
Federal funds sold and other short-term investments	634	633
Total cash and cash equivalents	\$ 415,313	638,068
Cash paid during the period for:		
Interest on deposits and borrowings (including interest credited to deposit accounts of \$20,126 and \$29,606, respectively)	\$ 46,384	58,152
Income taxes	\$ 22,177	10,389
Non-cash activities:		
Loans foreclosures and repossessions	\$ 11,667	17,141
Sale of real estate owned financed by the Company	\$ 888	428

See accompanying notes to unaudited consolidated financial statements

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Unaudited**

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

Northwest Bancshares, Inc. (the Company) or ( NWBI ), a Maryland corporation headquartered in Warren, Pennsylvania, is a savings and loan holding company regulated by the Board of Governors of the Federal Reserve System. The Company was incorporated to be the successor to Northwest Bancorp, Inc. upon the completion of the mutual-to-stock conversion of Northwest Bancorp, MHC in December 2009. The primary activity of the Company is the ownership of all of the issued and outstanding common stock of Northwest Savings Bank, a Pennsylvania-chartered savings bank ( Northwest ). Northwest is regulated by the FDIC and the Pennsylvania Department of Banking. At September 30, 2013, Northwest operated 165 community-banking offices throughout Pennsylvania, western New York, eastern Ohio and Maryland.

The accompanying unaudited consolidated financial statements include the accounts of the Company and its subsidiary, Northwest, and Northwest's subsidiaries Northwest Settlement Agency, LLC, Northwest Consumer Discount Company, Northwest Financial Services, Inc., Northwest Advisors, Inc., Northwest Capital Group, Inc., Boetger & Associates, Inc., Allegheny Services, Inc., Great Northwest Corporation, Veracity Benefit Designs, Inc. and The Bert Company. The unaudited consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles for interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information or footnotes required for complete annual financial statements. In the opinion of management, all adjustments necessary for the fair presentation of the Company's financial position and results of operations have been included. The consolidated statements have been prepared using the accounting policies described in the financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012 updated, as required, for any new pronouncements or changes. The following sections of our **Summary of Significant Accounting Principals** have been updated since the filing of our form 10K and are included herein.

**Investment Securities**

We classify marketable securities at the time of purchase as held-to-maturity, available-for-sale, or trading securities. Securities for which management has the intent and we have the ability to hold until their maturity are classified as held-to-maturity and are carried at cost, adjusted for amortization of premiums and accretion of discounts on a level yield basis (amortized cost). If it is management's intent at the time of purchase to hold securities for an indefinite period of time and/or to use such securities as part of its asset/liability management strategy, the securities are classified as available-for-sale and are carried at fair value, with unrealized gains and losses reported as accumulated other comprehensive income/ (loss), a separate component of shareholders' equity, net of tax. Securities classified as available-for-sale include securities that may be sold in response to changes in interest rates, resultant prepayment risk, or other market factors. Securities that are bought and held principally for the purpose of selling them in the near term are classified as trading and are reported at fair value, with changes in fair value included in earnings. The cost of securities sold is determined on a specific identification basis. We held no securities classified as trading at September 30, 2013 or December 31, 2012.

On at least a quarterly basis, we review our investments that are in an unrealized loss position for other-than-temporary impairment ( OTTI ). An investment security is deemed impaired if the fair value of the investment is less than its amortized cost. If an investment security is determined to be impaired, we evaluate whether the decline in value is other-than-temporary. We also consider whether or not we expect to receive all of the contractual cash flows from the investment security based on factors that include, but are not limited to: the credit worthiness of the issuer and the historical and projected performance of the underlying collateral. Also, we may evaluate the business and financial outlook of the issuer,



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as well as broader economic performance indicators. We consider our intent to sell the investment securities and the

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likelihood that we will not have to sell the investment securities before recovery of their cost basis during our evaluation. Declines in fair value of investment securities that are deemed credit related are recognized in earnings while declines in fair value of investment securities deemed noncredit related are recorded in accumulated other comprehensive income, if we do not intend to sell and it is not likely we will be required to sell. If we intend to sell the security or if it is more likely than not that we will be required to sell the security the entire unrealized loss is recorded in earnings.

Federal law requires a member institution of the Federal Home Loan Bank (FHLB) system to hold stock of its district FHLB according to a predetermined formula. This stock is recorded at cost. Quarterly, we evaluate our investment in the FHLB of Pittsburgh for impairment. We evaluate recent and long-term operating performance, liquidity, funding and capital positions, stock repurchase history, dividend history and impact of legislative and regulatory changes. Based on our most recent evaluation, we have determined that no impairment write-downs are currently required.

**Loans Receivable**

Our loan portfolio segments consist of Personal Banking loans and Business Banking loans. Personal Banking loans include the following classes: residential mortgage loans, home equity loans and other consumer loans. Business Banking loans include the following classes: commercial real estate loans and commercial loans. All classes of loans are carried at their unpaid principal balance net of any deferred origination fees or costs and the allowance for estimated loan losses. Interest income on loans is credited to income as earned. Interest earned on loans for which no payments were received during the month is accrued at month end. Accrued interest on loans more than 90 days delinquent is reversed, and such loans are placed on nonaccrual.

All classes of loans are placed on nonaccrual when principal or interest is 90 days or more delinquent, or when there is reasonable doubt that interest or principal will not be collected in accordance with the contractual terms. Interest receipts on all classes of nonaccrual and impaired loans are recognized as interest revenue when it has been determined that all principal and interest will be collected or are applied to principal when collectability of principal is in doubt. Nonaccrual loans generally are restored to an accrual basis when principal and interest become current and a period of performance has been established in accordance with the contractual terms, typically six months.

A loan (from any class) is considered to be a trouble-debt restructured loan (TDR) when the restructuring constitutes a concession and the borrower is experiencing financial difficulties. TDRs may include certain modifications of terms of loans, receipts of assets from borrowers in partial or full satisfaction of loans, or a combination thereof. TDRs are impaired loans and are measured for impairment until the loan has performed in accordance with its modified terms for a reasonable period of time, generally six consecutive months. A modified loan is determined to be a TDR based on the contractual terms as specified by the original loan agreements of the most recent modification. Once classified a TDR, a loan is only removed from such classification under three circumstances: (1) the loan is paid off, (2) the loan is charged off, or (3) if, at the beginning of the current fiscal year, the loan has performed in accordance with the modified terms for a minimum of six consecutive months and at the time of modification the loan's interest rate represented a then current market interest rate for a loan of similar risk.

For all classes of loans, delinquency is measured based on the number of days since the payment due date. For all classes of loans, past due status is measured using the loan's contractual maturity date.



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Loan fees and certain direct loan origination costs are deferred, and the net deferred fee or cost is then recognized using the level-yield method over the contractual life of the loan as an adjustment to interest income.

The results of operations for the quarter ended and nine months ended September 30, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013, or any other period.

**Stock-Based Compensation**

On May 15, 2013, we awarded employees 511,100 stock options and directors 79,200 stock options with an exercise price of \$12.44 and a grant date fair value of \$1.03 per stock option. On May 15, 2013, we also awarded employees 240,700 restricted common shares and directors 29,700 restricted common shares with a grant date fair value of \$12.55. Awarded stock options and common shares vest over a ten-year period with the first vesting occurring on the grant date. Stock-based compensation expense of \$1.2 million and \$1.1 million for the quarter ended September 30, 2013 and 2012, respectively, and \$3.8 million and \$3.5 million for the nine months ended September 30, 2013 and 2012, respectively, was recognized in compensation expense relating to our stock benefit plans. At September 30, 2013 there was compensation expense of \$5.4 million to be recognized for awarded but unvested stock options and \$15.8 million for unvested common shares.

**Income Taxes- Uncertain Tax Positions**

Accounting standards prescribe a comprehensive model for how a company should recognize, measure, present and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return. A tax benefit from an uncertain position may be recognized only if it is more likely than not that the position is sustainable, based on its technical merits. The tax benefit of a qualifying position is the largest amount of tax benefit that is greater than 50% likely of being realized upon ultimate settlement with a taxing authority having full knowledge of all relevant information. As of September 30, 2013 we had no liability for unrecognized tax benefits.

We recognize interest accrued related to: (1) unrecognized tax benefits in federal and state income taxes and (2) refund claims in other operating income. We recognize penalties (if any) in federal and state income taxes. There is no amount accrued for the payment of interest or penalties at September 30, 2013. We are subject to audit by the Internal Revenue Service and any state in which we conduct business for the tax periods ended December 31, 2012, 2011 and 2010.

(2) **Business Segments**

We operate in two reportable business segments: Community Banking and Consumer Finance. The Community Banking segment provides services traditionally offered by full-service community banks, including business and personal deposit accounts and business and personal loans, as well as insurance, brokerage and investment management and trust services. The Consumer Finance segment, which is comprised of Northwest Consumer Discount Company, a subsidiary of Northwest, operates 50 offices in Pennsylvania and offers personal installment loans for a variety of consumer and real estate products. This activity is funded primarily through an intercompany borrowing relationship with Allegheny Services, Inc., a subsidiary of Northwest. Net income is the primary measure used by management to measure segment performance.

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The following tables provide financial information for these reportable segments. The "All Other" column represents the parent company and elimination entries necessary to reconcile to the consolidated amounts presented in the financial statements.

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At or for the quarter ended:

<b>September 30, 2013 (\$ in 000 s)</b>	<b>Community Banking</b>	<b>Consumer Finance</b>	<b>All other (1)</b>	<b>Consolidated</b>
External interest income	\$ 72,451	5,077	260	77,788
Intersegment interest income	670		(670)	
Interest expense	13,975	670	631	15,276
Provision for loan losses	4,000	992		4,992
Noninterest income	15,651	445	13	16,109
Noninterest expense	47,102	2,998	177	50,277
Income tax expense (benefit)	5,842	343	(433)	5,752
Net income	17,853	519	(772)	17,600
Total assets	\$ 7,757,940	110,003	40,436	7,908,379

<b>September 30, 2012 (\$ in 000 s)</b>	<b>Community Banking</b>	<b>Consumer Finance</b>	<b>All other (1)</b>	<b>Consolidated</b>
External interest income	\$ 78,048	5,513	315	83,876
Intersegment interest income	748		(748)	
Interest expense	16,881	748	591	18,220
Provision for loan losses	6,000	915		6,915
Noninterest income	14,750	509	14	15,273
Noninterest expense	48,484	3,120	199	51,803
Income tax expense (benefit)	6,442	507	(431)	6,518
Net income	15,739	732	(778)	15,693
Total assets	\$ 7,889,245	116,112	42,314	8,047,671

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(1) Eliminations consist of intercompany loans, interest income and interest expense.

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At or for the nine months ended:

<b>September 30, 2013 (\$ in 000 s)</b>	<b>Community Banking</b>	<b>Consumer Finance</b>	<b>All other (1)</b>	<b>Consolidated</b>
External interest income	\$ 219,781	15,496	907	236,184
Intersegment interest income	2,046		(2,046)	
Interest expense	42,531	2,046	1,780	46,357
Provision for loan losses	15,006	2,549		17,555
Noninterest income	44,661	1,178	61	45,900
Noninterest expense	144,661	9,286	607	154,554
Income tax expense (benefit)	17,377	1,144	(1,279)	17,242
Net income	46,913	1,649	(2,186)	46,376
Total assets	\$ 7,757,940	110,003	40,436	7,908,379

<b>September 30, 2012 (\$ in 000 s)</b>	<b>Community Banking</b>	<b>Consumer Finance</b>	<b>All other (1)</b>	<b>Consolidated</b>
External interest income	\$ 237,279	16,556	883	254,718
Intersegment interest income	2,234		(2,234)	
Interest expense	54,206	2,234	1,719	58,159
Provision for loan losses	15,750	2,415		18,165
Noninterest income	42,537	1,601	76	44,214
Noninterest expense	144,949	9,496	600	155,045
Income tax expense (benefit)	19,967	1,658		