

FNB CORP/FL/  
Form 10-Q  
November 06, 2015  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 10-Q**

(Mark One)

**Quarterly Report Pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934**  
**For the quarterly period ended September 30, 2015**

**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 001-31940**

**F.N.B. CORPORATION**  
**(Exact name of registrant as specified in its charter)**

**Florida**  
**(State or other jurisdiction of**  
**incorporation or organization)**

**25-1255406**  
**(I.R.S. Employer**  
**Identification No.)**

**One North Shore Center, 12 Federal Street, Pittsburgh,**  
**PA**

**15212**

**(Address of principal executive offices)**

**(Zip Code)**

**Registrant's telephone number, including area code: 800-555-5455**

**(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 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  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

**APPLICABLE ONLY TO CORPORATE ISSUERS:**

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

**Class**  
**Common Stock, \$0.01 Par Value**

**Outstanding at October 31, 2015**  
**175,377,201 Shares**



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**F.N.B. CORPORATION**

**FORM 10-Q**

September 30, 2015

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**Table of Contents****PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS  
F.N.B. CORPORATION AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

Dollars in thousands, except par value

|   | <b>September 30,<br/>2015</b> | <b>December 31,<br/>2014</b> |
|---|-------------------------------|------------------------------|
|   | (Unaudited)                   |                              |
| <b>Assets</b>   |                               |                              |
| Cash and due from banks   | \$ 208,560                    | \$ 196,240                   |
| Interest bearing deposits with banks                                    | 50,206                        | 91,153                       |
| <b>Cash and Cash Equivalents</b>  | 258,766                       | 287,393                      |
| Securities available for sale   | 1,578,526                     | 1,534,065                    |
| Securities held to maturity (fair value of \$1,546,135 and \$1,468,258) | 1,526,290                     | 1,453,355                    |
| Residential mortgage loans held for sale                                | 3,575                         | 6,180                        |
| Loans and leases, net of unearned income of \$48,830 and \$56,131       | 11,873,645                    | 11,247,038                   |
| Allowance for credit losses   | (136,183)                     | (125,926)                    |
| <b>Net Loans and Leases</b>   | 11,737,462                    | 11,121,112                   |
| Premises and equipment, net   | 161,689                       | 168,756                      |
| Goodwill  | 834,141                       | 832,213                      |
| Core deposit and other intangible assets, net                           | 46,417                        | 47,504                       |
| Bank owned life insurance   | 306,061                       | 301,771                      |
| Other assets  | 383,146                       | 374,741                      |
| <b>Total Assets</b>   | \$ 16,836,073                 | \$ 16,127,090                |
| <b>Liabilities</b>  |                               |                              |
| Deposits:   |                               |                              |
| Non-interest bearing demand   | \$ 2,911,435                  | \$ 2,647,623                 |
| Interest bearing demand   | 5,558,322                     | 4,547,628                    |
| Savings   | 1,736,350                     | 1,575,922                    |
| Certificates and other time deposits                                    | 2,553,629                     | 2,611,035                    |
| <b>Total Deposits</b>   | 12,759,736                    | 11,382,208                   |
| Short-term borrowings   | 1,287,302                     | 2,041,658                    |
| Long-term borrowings  | 542,653                       | 541,443                      |
| Other liabilities   | 151,633                       | 140,325                      |

|   |               |               |
|---|---------------|---------------|
| <b>Total Liabilities</b>                              | 14,741,324    | 14,105,634    |
| <b>Stockholders Equity</b>                            |               |               |
| Preferred stock - \$0.01 par value                    |               |               |
| Authorized 20,000,000 shares                          |               |               |
| Issued 110,877 shares                                 | 106,882       | 106,882       |
| Common stock - \$0.01 par value                       |               |               |
| Authorized 500,000,000 shares                         |               |               |
| Issued 176,513,189 and 175,450,303 shares             | 1,766         | 1,754         |
| Additional paid-in capital                            | 1,805,926     | 1,798,984     |
| Retained earnings                                     | 227,287       | 176,120       |
| Accumulated other comprehensive loss                  | (34,397)      | (46,003)      |
| Treasury stock 1,149,750 and 1,458,045 shares at cost | (12,715)      | (16,281)      |
| <b>Total Stockholders Equity</b>                      | 2,094,749     | 2,021,456     |
| <b>Total Liabilities and Stockholders Equity</b>      | \$ 16,836,073 | \$ 16,127,090 |

See accompanying Notes to Consolidated Financial Statements

**Table of Contents****F.N.B. CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

In thousands, except per share data

Unaudited

|  | <b>Three Months Ended</b> |                | <b>Nine Months Ended</b> |                |
|--|---------------------------|----------------|--------------------------|----------------|
|  | <b>September 30,</b>      |                | <b>September 30,</b>     |                |
|  | <b>2015</b>               | <b>2014</b>    | <b>2015</b>              | <b>2014</b>    |
| <b>Interest Income</b>                                       |                           |                |                          |                |
| Loans and leases, including fees                             | \$ 120,875                | \$ 116,468     | \$ 358,074               | \$ 330,107     |
| Securities:  |                           |                |                          |                |
| Taxable  | 14,576                    | 13,693         | 43,257                   | 39,557         |
| Nontaxable   | 1,707                     | 1,356          | 4,564                    | 3,934          |
| Dividends  | 9                         | 26             | 29                       | 218            |
| Other  | 30                        | 23             | 90                       | 70             |
| <b>Total Interest Income</b>                                 | <b>137,197</b>            | <b>131,566</b> | <b>406,014</b>           | <b>373,886</b> |
| <b>Interest Expense</b>                                      |                           |                |                          |                |
| Deposits   | 7,948                     | 7,457          | 23,033                   | 22,067         |
| Short-term borrowings  | 1,786                     | 1,459          | 5,348                    | 4,011          |
| Long-term borrowings   | 2,262                     | 2,031          | 6,744                    | 5,172          |
| <b>Total Interest Expense</b>                                | <b>11,996</b>             | <b>10,947</b>  | <b>35,125</b>            | <b>31,250</b>  |
| <b>Net Interest Income</b>                                   | <b>125,201</b>            | <b>120,619</b> | <b>370,889</b>           | <b>342,636</b> |
| Provision for credit losses                                  | 10,777                    | 11,197         | 27,777                   | 28,608         |
| <b>Net Interest Income After Provision for Credit Losses</b> | <b>114,424</b>            | <b>109,422</b> | <b>343,112</b>           | <b>314,028</b> |
| <b>Non-Interest Income</b>                                   |                           |                |                          |                |
| Service charges  | 18,628                    | 17,742         | 51,959                   | 50,452         |
| Trust fees   | 5,210                     | 4,868          | 15,803                   | 14,494         |
| Insurance commissions and fees                               | 4,423                     | 4,169          | 12,351                   | 12,805         |
| Securities commissions and fees                              | 3,304                     | 3,132          | 9,958                    | 8,525          |
| Net securities gains   | 314                       | 1,178          | 319                      | 11,415         |
| Mortgage banking operations                                  | 2,424                     | 1,078          | 6,739                    | 2,220          |
| Bank owned life insurance                                    | 1,846                     | 1,828          | 5,527                    | 5,820          |
| Other  | 5,210                     | 3,557          | 16,637                   | 13,081         |
| <b>Total Non-Interest Income</b>                             | <b>41,359</b>             | <b>37,552</b>  | <b>119,293</b>           | <b>118,812</b> |
| <b>Non-Interest Expense</b>                                  |                           |                |                          |                |
| Salaries and employee benefits                               | 51,859                    | 49,590         | 151,559                  | 147,008        |
| Net occupancy  | 7,957                     | 7,734          | 25,405                   | 24,284         |
| Equipment  | 8,237                     | 7,625          | 23,583                   | 21,701         |

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|  |                  |                  |                   |                   |
|--|------------------|------------------|-------------------|-------------------|
| Amortization of intangibles                        | 2,034            | 2,455            | 6,148             | 7,199             |
| Outside services                                   | 7,314            | 8,183            | 25,254            | 23,653            |
| FDIC insurance                                     | 3,158            | 3,206            | 9,630             | 9,599             |
| Merger and acquisition related                     | 1,312            | 1,904            | 1,683             | 8,054             |
| Other  | 16,278           | 15,150           | 46,041            | 41,099            |
| <b>Total Non-Interest Expense</b>                  | <b>98,149</b>    | <b>95,847</b>    | <b>289,303</b>    | <b>282,597</b>    |
| <b>Income Before Income Taxes</b>                  | <b>57,634</b>    | <b>51,127</b>    | <b>173,102</b>    | <b>150,243</b>    |
| Income taxes                                       | 17,581           | 15,736           | 52,575            | 45,497            |
| <b>Net Income</b>                                  | <b>40,053</b>    | <b>35,391</b>    | <b>120,527</b>    | <b>104,746</b>    |
| Less: Preferred stock dividends                    | 2,010            | 2,010            | 6,030             | 6,342             |
| <b>Net Income Available to Common Stockholders</b> | <b>\$ 38,043</b> | <b>\$ 33,381</b> | <b>\$ 114,497</b> | <b>\$ 98,404</b>  |
| <b>Net Income per Common Share Basic</b>           | <b>\$ 0.22</b>   | <b>\$ 0.20</b>   | <b>\$ 0.65</b>    | <b>\$ 0.60</b>    |
| <b>Net Income per Common Share Diluted</b>         | <b>0.22</b>      | <b>0.20</b>      | <b>0.65</b>       | <b>0.59</b>       |
| <b>Cash Dividends per Common Share</b>             | <b>0.12</b>      | <b>0.12</b>      | <b>0.36</b>       | <b>0.36</b>       |
| <b>Comprehensive Income</b>                        | <b>\$ 49,609</b> | <b>\$ 31,499</b> | <b>\$ 132,133</b> | <b>\$ 121,219</b> |

See accompanying Notes to Consolidated Financial Statements



**Table of Contents****F.N.B. CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**

Dollars in thousands, except per share data

Unaudited

|   | Preferred<br>Stock | Common<br>Stock | Additional<br>Paid-In<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Treasury<br>Stock | Total        |
|---|--------------------|-----------------|----------------------------------|----------------------|---|-------------------|--------------|
| <b>Balance at January 1, 2015</b>       | \$ 106,882         | \$ 1,754        | \$ 1,798,984                     | \$ 176,120           | \$ (46,003)   | \$ (16,281)       | \$ 2,021,456 |
| Comprehensive income                    |                    |                 |                                  | 120,527              | 11,606  |                   | 132,133      |
| Dividends declared:                     |                    |                 |                                  |                      |   |                   |              |
| Preferred stock                         |                    |                 |                                  | (6,030)              |   |                   | (6,030)      |
| Common stock:                           |                    |                 |                                  |                      |   |                   |              |
| \$0.36/share                            |                    |                 |                                  | (63,330)             |   |                   | (63,330)     |
| Issuance of common stock                |                    | 12              | 3,651                            |                      |   | 3,566             | 7,229        |
| Restricted stock compensation           |                    |                 | 3,286                            |                      |   |                   | 3,286        |
| Tax benefit of stock-based compensation |                    |                 | 5                                |                      |   |                   | 5            |
| <b>Balance at September 30, 2015</b>    | \$ 106,882         | \$ 1,766        | \$ 1,805,926                     | \$ 227,287           | \$ (34,397)   | \$ (12,715)       | \$ 2,094,749 |
| <b>Balance at January 1, 2014</b>       | \$ 106,882         | \$ 1,592        | \$ 1,608,117                     | \$ 121,870           | \$ (56,924)   | \$ (7,154)        | \$ 1,774,383 |
| Comprehensive income                    |                    |                 |                                  | 104,746              | 16,473  |                   | 121,219      |
| Dividends declared:                     |                    |                 |                                  |                      |   |                   |              |
| Preferred stock                         |                    |                 |                                  | (6,342)              |   |                   | (6,342)      |
| Common stock:                           |                    |                 |                                  |                      |   |                   |              |
| \$0.36/share                            |                    |                 |                                  | (60,234)             |   |                   | (60,234)     |
| Issuance of common stock                |                    | 16              | 9,007                            | (228)                |   | (7,377)           | 1,418        |
| Issuance of common stock - acquisitions |                    | 139             | 170,024                          |                      |   |                   | 170,163      |
| Restricted stock compensation           |                    |                 | 2,328                            |                      |   |                   | 2,328        |
| Tax benefit of stock-based              |                    |                 | 2,198                            |                      |   |                   | 2,198        |

compensation

|  |            |          |              |            |             |             |              |
|--|------------|----------|--------------|------------|-------------|-------------|--------------|
| <b>Balance at<br/>September 30, 2014</b> | \$ 106,882 | \$ 1,747 | \$ 1,791,674 | \$ 159,812 | \$ (40,451) | \$ (14,531) | \$ 2,005,133 |
|--|------------|----------|--------------|------------|-------------|-------------|--------------|

See accompanying Notes to Consolidated Financial Statements

**Table of Contents****F.N.B. CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS**

Dollars in thousands

Unaudited

|   | <b>Nine Months Ended<br/>September 30,</b> |             |
|---|--|-------------|
|   | <b>2015</b>                                | <b>2014</b> |
| <b>Operating Activities</b>   |  |             |
| Net income  | \$ 120,527                                 | \$ 104,746  |
| Adjustments to reconcile net income to net cash flows provided by operating activities: |  |             |
| Depreciation, amortization and accretion  | 31,412                                     | 29,007      |
| Provision for credit losses   | 27,777                                     | 28,608      |
| Deferred tax expense (benefit)  | 3,874                                      | (2,533)     |
| Net securities gains  | (319)                                      | (11,415)    |
| Tax benefit of stock-based compensation   | (5)  | (2,198)     |
| Loans originated for sale   | (336,776)                                  | (98,741)    |
| Loans sold  | 346,174                                    | 105,169     |
| Gain on sale of loans   | (6,794)                                    | (3,721)     |
| Net change in:  |  |             |
| Interest receivable   | (4,457)                                    | (1,590)     |
| Interest payable  | (414)                                      | (1,058)     |
| Securities classified as trading in business combination and sold                       |  | 241,595     |
| Bank owned life insurance   | (4,266)                                    | (5,205)     |
| Other, net  | 8,144                                      | (4,165)     |
| Net cash flows provided by operating activities   | 184,877                                    | 378,499     |
| <b>Investing Activities</b>   |  |             |
| Net change in loans and leases  | (657,586)                                  | (888,443)   |
| Securities available for sale:  |  |             |
| Purchases   | (279,636)                                  | (686,108)   |
| Sales   | 33,499                                     | 175,872     |
| Maturities  | 212,140                                    | 245,942     |
| Securities held to maturity:  |  |             |
| Purchases   | (279,998)                                  | (436,519)   |
| Sales   |  | 4,570       |
| Maturities  | 203,689                                    | 153,624     |
| Purchase of bank owned life insurance   | (72,688)                                   | (16)        |
| Withdrawal/surrender of bank owned life insurance                                       | 72,664                                     | 18,715      |
| Increase in premises and equipment  | (7,304)                                    | (12,580)    |
| Net cash received in business combinations  | 148,159                                    | 60,035      |

|   |                   |                   |
|---|-------------------|-------------------|
| Net cash flows used in investing activities                             | (627,061)         | (1,364,908)       |
| <b>Financing Activities</b>   |                   |                   |
| Net change in:  |                   |                   |
| Demand (non-interest bearing and interest bearing) and savings accounts | 1,304,345         | 654,144           |
| Time deposits   | (78,764)          | (224,733)         |
| Short-term borrowings   | (754,356)         | 348,827           |
| Increase in long-term borrowings  | 20,976            | 376,418           |
| Decrease in long-term borrowings  | (19,804)          | (87,677)          |
| Net proceeds from issuance of common stock                              | 10,515            | 7,795             |
| Tax benefit of stock-based compensation                                 | 5                 | 2,198             |
| Cash dividends paid:  |                   |                   |
| Preferred stock   | (6,030)           | (6,342)           |
| Common stock  | (63,330)          | (60,234)          |
| Net cash flows provided by financing activities                         | 413,557           | 1,010,396         |
| <b>Net (Decrease) Increase in Cash and Cash Equivalents</b>             | <b>(28,627)</b>   | <b>23,987</b>     |
| Cash and cash equivalents at beginning of period                        | 287,393           | 213,981           |
| <b>Cash and Cash Equivalents at End of Period</b>                       | <b>\$ 258,766</b> | <b>\$ 237,968</b> |

See accompanying Notes to Consolidated Financial Statements

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**F.N.B. CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Dollars in thousands, except share data

(Unaudited)

September 30, 2015

**BUSINESS**

F.N.B. Corporation (the Corporation), headquartered in Pittsburgh, Pennsylvania, is a diversified financial services company operating in six states and three major metropolitan areas, including Pittsburgh, Pennsylvania, Baltimore, Maryland and Cleveland, Ohio. As of September 30, 2015, the Corporation had 289 banking offices throughout Pennsylvania, Ohio, Maryland and West Virginia. The Corporation provides a full range of commercial banking, consumer banking and wealth management solutions through its subsidiary network which is led by its largest affiliate, First National Bank of Pennsylvania (FNBPA). Commercial banking solutions include corporate banking, small business banking, investment real estate financing, international banking, business credit, capital markets and lease financing. Consumer banking provides a full line of consumer banking products and services including deposit products, mortgage lending, consumer lending and a complete suite of mobile and online banking services. Wealth management services include asset management, private banking and insurance. The Corporation also operates Regency Finance Company (Regency), which had 73 consumer finance offices in Pennsylvania, Ohio, Kentucky and Tennessee as of September 30, 2015.

**BASIS OF PRESENTATION**

The Corporation's accompanying consolidated financial statements and these notes to the financial statements include subsidiaries in which the Corporation has a controlling financial interest. The Corporation owns and operates FNBPA, First National Trust Company, First National Investment Services Company, LLC, F.N.B. Investment Advisors, Inc., First National Insurance Agency, LLC, Regency, Bank Capital Services, LLC and F.N.B. Capital Corporation, LLC, and includes results for each of these entities in the accompanying consolidated financial statements.

The accompanying consolidated financial statements include all adjustments that are necessary, in the opinion of management, to fairly reflect the Corporation's financial position and results of operations in accordance with U.S. generally accepted accounting principles (GAAP). All significant intercompany balances and transactions have been eliminated. Certain prior period amounts have been reclassified to conform to the current period presentation. Events occurring subsequent to the date of the balance sheet have been evaluated for potential recognition or disclosure in the consolidated financial statements through the date of the filing of the consolidated financial statements with the Securities and Exchange Commission (SEC).

Certain information and note disclosures normally included in consolidated financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to the rules and regulations of the SEC. The interim operating results are not necessarily indicative of operating results the Corporation expects for the full year. These interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Corporation's Annual Report on Form 10-K filed with the SEC on February 27, 2015.

## **USE OF ESTIMATES**

The accounting and reporting policies of the Corporation conform with GAAP. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could materially differ from those estimates. Material estimates that are particularly susceptible to significant changes include the allowance for credit losses, securities valuations, goodwill and other intangible assets and income taxes.

## **DEBT OFFERING**

On October 2, 2015, the Corporation completed its offering of \$100,000 aggregate principal amount of 4.875% subordinated notes due in 2025. The subordinated notes will be treated as tier 2 capital for regulatory capital purposes. The net proceeds of the debt offering after deducting underwriting discounts and commissions and estimated offering expenses were \$98,500. The Corporation intends to use the net proceeds from the sale of the subordinated notes for general corporate purposes, which may include investments at the holding company level, providing capital to support the growth of FNBPA and its business, repurchases of its common shares and the payment of the cash consideration components of future acquisitions.

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**Table of Contents****MERGERS AND ACQUISITIONS***Branch Purchase Bank of America*

On September 18, 2015, the Corporation completed its purchase of five branch-banking locations in southeastern Pennsylvania from Bank of America, in which the Corporation acquired approximately \$154,619 in deposits. The assets and liabilities relating to the branches purchased were recorded on the Corporation's consolidated balance sheet at their preliminary fair values as of September 18, 2015, and the related results of operations for these branches have been included in the Corporation's consolidated statement of comprehensive income since that date. Based on the preliminary purchase price allocation, the Corporation recorded \$2,539 in goodwill and \$3,081 in core deposit intangibles. These fair value estimates are provisional amounts based on third party valuations that are currently under review. The goodwill for this transaction is expected to be deductible for income tax purposes.

*OBA Financial Services, Inc.*

On September 19, 2014, the Corporation completed its acquisition of OBA Financial Services, Inc. (OBA), a bank holding company based in Germantown, Maryland. On the acquisition date, the estimated fair values of OBA included \$390,160 in assets, \$291,393 in loans and \$295,922 in deposits. The acquisition was valued at \$85,554 and resulted in the Corporation issuing 7,170,037 shares of its common stock in exchange for 4,025,895 shares of OBA common stock. The Corporation also acquired the outstanding stock options of OBA that became fully vested upon the acquisition. The assets and liabilities of OBA were recorded on the Corporation's consolidated balance sheet at their fair values as of September 19, 2014, the acquisition date, and OBA's results of operations have been included in the Corporation's consolidated statement of comprehensive income since that date. OBA's banking affiliate, OBA Bank, was merged into FNBPA on September 19, 2014. Based on the purchase price allocation, the Corporation recorded \$20,107 in goodwill and \$4,304 in core deposit intangibles as a result of the acquisition. None of the goodwill is deductible for income tax purposes.

*BCSB Bancorp, Inc.*

On February 15, 2014, the Corporation completed its acquisition of BCSB Bancorp, Inc. (BCSB), a bank holding company based in Baltimore, Maryland. On the acquisition date, the estimated fair values of BCSB included \$596,122 in assets, \$304,932 in loans and \$532,197 in deposits. The acquisition was valued at \$80,547 and resulted in the Corporation issuing 6,730,597 shares of its common stock in exchange for 3,235,961 shares of BCSB common stock. The Corporation also acquired the outstanding stock options of BCSB that became fully vested upon the acquisition. The assets and liabilities of BCSB were recorded on the Corporation's consolidated balance sheet at their fair values as of February 15, 2014, the acquisition date, and BCSB's results of operations have been included in the Corporation's consolidated statement of comprehensive income since that date. BCSB's banking affiliate, Baltimore County Savings Bank, was merged into FNBPA on February 15, 2014. Based on the purchase price allocation, the Corporation recorded \$42,451 in goodwill and \$6,591 in core deposit intangibles as a result of the acquisition. None of the goodwill is deductible for income tax purposes.

*Pending Acquisition Metro Bancorp, Inc.*

On August 4, 2015, the Corporation entered into a definitive merger agreement to acquire Metro Bancorp, Inc. (METR), a bank holding company based in Harrisburg, Pennsylvania with approximately \$3,001,357 in total assets. The transaction is valued at approximately \$474,000. Under the terms of the merger agreement, METR shareholders will be entitled to receive 2.373 shares of the Corporation's common stock for each share of METR common stock. The Corporation expects to issue approximately 33.6 million shares of its common stock in exchange for

approximately 14.1 million shares of METR common stock. METR's banking affiliate, Metro Bank, will be merged into FNBPA. The transaction is expected to be completed in the first quarter of 2016, pending regulatory approvals, the approval of shareholders of the Corporation and METR, and the satisfaction of other closing conditions.

*Pending Branch Purchase Fifth Third Bank*

On September 3, 2015, the Corporation announced that it entered into a purchase and assumption agreement to acquire approximately \$383,000 in retail and private banking deposits, 17 branch-banking locations and related consumer loans in the Pittsburgh, Pennsylvania area from Fifth Third Bank. The transaction is expected to close during the second quarter of 2016, pending regulatory approval.



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**Table of Contents****NEW ACCOUNTING STANDARDS***Business Combinations Simplifying the Accounting for Measurement-Period Adjustments*

In September 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-16, *Business Combinations Simplifying the Accounting for Measurement-Period Adjustments*. ASU 2015-16 eliminates the requirement that an acquirer in a business combination account for measurement-period adjustments retrospectively. Instead, an acquirer must recognize measurement-period adjustments in the period in which it determines the amount of the adjustment, including the effect on earnings of any amounts that would have been recorded in previous periods if the accounting had been completed at the acquisition date. The guidance is effective for fiscal periods beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption is permitted. The adoption of this update will not have a material effect on the financial statements, results of operations or liquidity of the Corporation.

*Insurance Disclosures about Short-Duration Contracts*

In May 2015, the FASB issued ASU 2015-09, *Financial Services Insurance*. ASU 2015-09 requires insurance entities that issue short-duration contracts to provide additional disclosures about the liability for unpaid claims and claim adjustment expenses, including disclosure of information about significant changes in methodologies and assumptions used to calculate the liability, reasons for the change, and the effects on the financial statements. These additional disclosures will increase the transparency of significant estimates made in measuring those liabilities, improve comparability by requiring consistent disclosure of information, and provide financial statement users with information to facilitate analysis. ASU 2015-09 should be applied retrospectively and is effective for annual periods beginning after December 15, 2015, and interim periods beginning after December 15, 2016, with early adoption permitted. The adoption of this update is not expected to have a material effect on the financial statements, results of operations or liquidity of the Corporation.

*Cloud Computing Arrangements*

In April 2015, the FASB issued ASU 2015-05, *Intangibles-Goodwill and Other-Internal-Use Software*. ASU 2015-05 provides guidance about whether a cloud computing arrangement includes a license for internal use software, and how to account for the software license element of the arrangement. This update eliminates the existing requirement to analogize the guidance on leases in ASC 840 in accounting for some software licenses. ASU 2015-05 is effective for reporting periods beginning after December 15, 2015, with early adoption permitted. A reporting entity may apply ASU 2015-05 either prospectively or retrospectively. The Corporation is evaluating this new guidance and has not yet determined which approach it will adopt or the impact that the adoption of this update will have on its financial statements.

*Interest Imputation of Interest*

In April 2015, the FASB issued ASU 2015-03, *Interest Imputation of Interest*. ASU 2015-03 requires debt issuance costs to be presented in the balance sheet as a direct deduction from the corresponding debt liability. The recognition and measurement guidance for debt issuance costs is not affected by the amendments in this update. ASU 2015-03 is effective for reporting periods beginning after December 15, 2015, with early adoption permitted. A reporting entity should apply the new guidance on a retrospective basis, wherein the balance sheet of each individual period presented should be adjusted to reflect the period-specific effects of applying the new guidance. The adoption of this update is not expected to have a material effect on the financial statements, results of operations or liquidity of the Corporation.



**Table of Contents***Consolidation*

In February 2015, the FASB issued ASU 2015-02, *Consolidation*. ASU 2015-02 changes the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. This update modifies the evaluation of whether limited partnerships or similar legal entities are variable interest entities (VIEs) or voting interest entities, eliminates the presumption that a general partner should consolidate a limited partnership and affects the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships. The ASU is effective for reporting periods beginning after December 15, 2015, with early adoption permitted. A reporting entity may apply ASU 2015-02 either retrospectively or by using a modified retrospective approach by recording a cumulative-effect adjustment to equity as of the beginning of the fiscal year of adoption. The adoption of this update is not expected to have a material effect on the financial statements, results of operations or liquidity of the Corporation.

*Income Statement*

In January 2015, the FASB issued ASU 2015-01, *Income Statement - Extraordinary and Unusual Items*. ASU 2015-01 simplified income statement presentation by eliminating from GAAP the concept of extraordinary items. The ASU is effective for reporting periods beginning after December 15, 2015, with early adoption permitted. A reporting entity may apply ASU 2015-01 prospectively, or retrospectively to all prior periods presented in the financial statements. The adoption of this update will not have an effect on the financial statements, results of operations or liquidity of the Corporation, as the Corporation has not reported extraordinary items.

**SECURITIES**

The amortized cost and fair value of securities are as follows:

|  | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair Value   |
|--|-------------------|------------------------------|-------------------------------|--------------|
| <b>Securities Available for Sale</b>           |                   |                              |                               |              |
| <b>September 30, 2015</b>                      |                   |                              |                               |              |
| U.S. Treasury                                  | \$ 29,704         | \$ 300                       | \$                            | \$ 30,004    |
| U.S. government-sponsored entities             | 388,428           | 2,644                        | (305)                         | 390,767      |
| Residential mortgage-backed securities:        |                   |                              |                               |              |
| Agency mortgage-backed securities              | 587,244           | 9,958                        | (82)                          | 597,120      |
| Agency collateralized mortgage obligations     | 529,656           | 3,220                        | (4,948)                       | 527,928      |
| Non-agency collateralized mortgage obligations | 1,212             | 15                           |                               | 1,227        |
| Commercial mortgage-backed securities          | 4,384             | 8                            |                               | 4,392        |
| States of the U.S. and political subdivisions  | 10,927            | 345                          |                               | 11,272       |
| Other debt securities                          | 14,700            | 267                          | (414)                         | 14,553       |
| Total debt securities                          | 1,566,255         | 16,757                       | (5,749)                       | 1,577,263    |
| Equity securities                              | 975               | 288                          |                               | 1,263        |
|  | \$ 1,567,230      | \$ 17,045                    | \$ (5,749)                    | \$ 1,578,526 |

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**December 31, 2014**

|  |                  |               |                 |                  |
|--|------------------|---------------|-----------------|------------------|
| U.S. Treasury                                  | \$ 29,604        | \$ 78         | \$              | \$ 29,682        |
| U.S. government-sponsored entities             | 338,330          | 742           | (1,939)         | 337,133          |
| Residential mortgage-backed securities:        |                  |               |                 |                  |
| Agency mortgage-backed securities              | 546,572          | 7,548         | (35)            | 554,085          |
| Agency collateralized mortgage obligations     | 580,601          | 1,617         | (9,047)         | 573,171          |
| Non-agency collateralized mortgage obligations | 1,414            | 17            |                 | 1,431            |
| Commercial mortgage-backed securities          | 7,891            |               | (11)            | 7,880            |
| States of the U.S. and political subdivisions  | 12,713           | 477           | (32)            | 13,158           |
| Other debt securities                          | 16,615           | 420           | (857)           | 16,178           |
| <b>Total debt securities</b>                   | <b>1,533,740</b> | <b>10,899</b> | <b>(11,921)</b> | <b>1,532,718</b> |
| Equity securities                              | 1,031            | 316           |                 | 1,347            |
|  | \$ 1,534,771     | \$ 11,215     | \$ (11,921)     | \$ 1,534,065     |

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|  | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair Value   |
|--|-------------------|------------------------------|-------------------------------|--------------|
| <b><u>Securities Held to Maturity</u></b>      |                   |                              |                               |              |
| <b>September 30, 2015</b>                      |                   |                              |                               |              |
| U.S. Treasury                                  | \$ 500            | \$ 169                       | \$                            | \$ 669       |
| U.S. government-sponsored entities             | 146,528           | 1,964                        | (79)                          | 148,413      |
| Residential mortgage-backed securities:        |                   |                              |                               |              |
| Agency mortgage-backed securities              | 669,221           | 15,887                       | (16)                          | 685,092      |
| Agency collateralized mortgage obligations     | 462,191           | 3,556                        | (4,181)                       | 461,566      |
| Non-agency collateralized mortgage obligations | 3,055             | 15                           |                               | 3,070        |
| Commercial mortgage-backed securities          | 17,334            | 468                          |                               | 17,802       |
| States of the U.S. and political subdivisions  | 227,461           | 2,888                        | (826)                         | 229,523      |
|  | \$ 1,526,290      | \$ 24,947                    | \$ (5,102)                    | \$ 1,546,135 |
| <b>December 31, 2014</b>                       |                   |                              |                               |              |
| U.S. Treasury                                  | \$ 502            | \$ 168                       | \$                            | \$ 670       |
| U.S. government-sponsored entities             | 101,602           | 885                          | (524)                         | 101,963      |
| Residential mortgage-backed securities:        |                   |                              |                               |              |
| Agency mortgage-backed securities              | 677,169           | 16,712                       | (346)                         | 693,535      |
| Agency collateralized mortgage obligations     | 501,965           | 1,858                        | (7,329)                       | 496,494      |
| Non-agency collateralized mortgage obligations | 4,285             | 28                           |                               | 4,313        |
| Commercial mortgage-backed securities          | 17,560            | 179                          |                               | 17,739       |
| States of the U.S. and political subdivisions  | 150,272           | 3,315                        | (43)                          | 153,544      |
|  | \$ 1,453,355      | \$ 23,145                    | \$ (8,242)                    | \$ 1,468,258 |

The Corporation classifies securities as trading securities when management intends to sell such securities in the near term. Such securities are carried at fair value, with unrealized gains (losses) reflected through the consolidated statements of comprehensive income. The Corporation classified certain securities acquired in conjunction with its acquisitions as trading securities. The Corporation both acquired and sold these trading securities during the quarterly periods in which each of the acquisitions occurred. As of September 30, 2015 and December 31, 2014, the Corporation did not hold any trading securities.

Gross gains and gross losses were realized on securities as follows:

|              | Three Months Ended<br>September 30, |          | Nine Months Ended<br>September 30, |           |
|--------------|-------------------------------------|----------|------------------------------------|-----------|
|              | 2015                                | 2014     | 2015                               | 2014      |
| Gross gains  | \$ 314                              | \$ 1,191 | \$ 328                             | \$ 19,939 |
| Gross losses |                                     | (13)     | (9)                                | (8,524)   |
|              | \$ 314                              | \$ 1,178 | \$ 319                             | \$ 11,415 |

During the first quarter of 2014, the Corporation strategically sold its portfolio of pooled trust preferred securities (TPS) with net proceeds of \$51,540 and a gain of \$13,766. These were previously classified as collateralized debt obligations (CDOs) available for sale. Of the 23 pooled securities sold, one was determined to be a disallowed investment under the Volcker Rule (Section 619) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), and as such, was required to be disposed of by July 2016. Partially offsetting this gain was a net loss of \$3,529 relating to the sale of other securities. By selling these securities, the Corporation strengthened the risk profile of its investment portfolio, improved its capital levels due to lowered risk-weighted assets and generated capital to support future growth.

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As of September 30, 2015, the amortized cost and fair value of securities, by contractual maturities, were as follows:

|  | Available for Sale |              | Held to Maturity |              |
|--|--------------------|--------------|------------------|--------------|
|  | Amortized Cost     | Fair Value   | Amortized Cost   | Fair Value   |
| Due in one year or less                        | \$ 4,994           | \$ 5,027     | \$ 1,940         | \$ 1,951     |
| Due from one to five years                     | 423,858            | 426,751      | 139,429          | 140,465      |
| Due from five to ten years                     | 10,013             | 10,338       | 71,708           | 73,681       |
| Due after ten years                            | 4,894              | 4,480        | 161,412          | 162,508      |
|  | 443,759            | 446,596      | 374,489          | 378,605      |
| Residential mortgage-backed securities:        |                    |              |                  |              |
| Agency mortgage-backed securities              | 587,244            | 597,120      | 669,221          | 685,092      |
| Agency collateralized mortgage obligations     | 529,656            | 527,928      | 462,191          | 461,566      |
| Non-agency collateralized mortgage obligations | 1,212              | 1,227        | 3,055            | 3,070        |
| Commercial mortgage-backed securities          | 4,384              | 4,392        | 17,334           | 17,802       |
| Equity securities                              | 975                | 1,263        |                  |              |
|  | \$ 1,567,230       | \$ 1,578,526 | \$ 1,526,290     | \$ 1,546,135 |

Maturities may differ from contractual terms because borrowers may have the right to call or prepay obligations with or without penalties. Periodic payments are received on mortgage-backed securities based on the payment patterns of the underlying collateral.

At September 30, 2015 and December 31, 2014, securities with a carrying value of \$2,062,257 and \$1,036,380, respectively, were pledged to secure public deposits, trust deposits and for other purposes as required by law. Securities with a carrying value of \$258,428 and \$892,647 at September 30, 2015 and December 31, 2014, respectively, were pledged as collateral for short-term borrowings.

Following are summaries of the fair values and unrealized losses of securities, segregated by length of impairment:

|   | Less than 12 Months |            |                   | 12 Months or More |            |                   | Total |            |                   |
|---|---------------------|------------|-------------------|-------------------|------------|-------------------|-------|------------|-------------------|
|   | #                   | Fair Value | Unrealized Losses | #                 | Fair Value | Unrealized Losses | #     | Fair Value | Unrealized Losses |
| <b>Securities Available for Sale</b>    |                     |            |                   |                   |            |                   |       |            |                   |
| <b>September 30, 2015</b>               |                     |            |                   |                   |            |                   |       |            |                   |
| U.S. government-sponsored entities      | 3                   | \$ 59,823  | \$ (177)          | 3                 | \$ 37,867  | \$ (128)          | 6     | \$ 97,690  | \$ (305)          |
| Residential mortgage-backed securities: |                     |            |                   |                   |            |                   |       |            |                   |

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|  |   |            |          |    |            |            |    |            |            |
|--|---|------------|----------|----|------------|------------|----|------------|------------|
| Agency mortgage-backed securities          | 1 | 18,591     | (82)     |    |            |            | 1  | 18,591     | (82)       |
| Agency collateralized mortgage obligations | 4 | 63,640     | (123)    | 18 | 228,010    | (4,825)    | 22 | 291,650    | (4,948)    |
| Other debt securities                      |   |            |          | 3  | 4,480      | (414)      | 3  | 4,480      | (414)      |
|  | 8 | \$ 142,054 | \$ (382) | 24 | \$ 270,357 | \$ (5,367) | 32 | \$ 412,411 | \$ (5,749) |

**December 31, 2014**

|   |    |            |            |    |            |             |    |            |             |
|---|----|------------|------------|----|------------|-------------|----|------------|-------------|
| U.S. government-sponsored entities            | 7  | \$ 89,986  | \$ (275)   | 7  | \$ 99,326  | \$ (1,664)  | 14 | \$ 189,312 | \$ (1,939)  |
| Residential mortgage-backed securities:       |    |            |            |    |            |             |    |            |             |
| Agency mortgage-backed securities             | 2  | 45,145     | (35)       |    |            |             | 2  | 45,145     | (35)        |
| Agency collateralized mortgage obligations    | 9  | 166,908    | (1,238)    | 16 | 225,700    | (7,809)     | 25 | 392,608    | (9,047)     |
| Commercial mortgage-backed securities         | 1  | 7,880      | (11)       |    |            |             | 1  | 7,880      | (11)        |
| States of the U.S. and political subdivisions |    |            |            | 1  | 1,159      | (32)        | 1  | 1,159      | (32)        |
| Other debt securities                         |    |            |            | 4  | 6,030      | (857)       | 4  | 6,030      | (857)       |
|   | 19 | \$ 309,919 | \$ (1,559) | 28 | \$ 332,215 | \$ (10,362) | 47 | \$ 642,134 | \$ (11,921) |



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|   | Less than 12 Months |            |                   | 12 Months or More |            |                   | Total |            |                   |
|---|---------------------|------------|-------------------|-------------------|------------|-------------------|-------|------------|-------------------|
|   | #                   | Fair Value | Unrealized Losses | #                 | Fair Value | Unrealized Losses | #     | Fair Value | Unrealized Losses |
| <b><u>Securities Held to Maturity</u></b>     |                     |            |                   |                   |            |                   |       |            |                   |
| <b>September 30, 2015</b>                     |                     |            |                   |                   |            |                   |       |            |                   |
| U.S. government-sponsored entities            |                     |            |                   |                   |            |                   |       |            |                   |
|   |                     | \$         | \$                | 1                 | \$ 14,921  | \$ (79)           | 1     | \$ 14,921  | \$ (79)           |
| Residential mortgage-backed securities:       |                     |            |                   |                   |            |                   |       |            |                   |
| Agency mortgage-backed securities             |                     |            |                   |                   |            |                   |       |            |                   |
|   |                     |            |                   | 1                 | 924        | (16)              | 1     | 924        | (16)              |
| Agency collateralized mortgage obligations    |                     |            |                   |                   |            |                   |       |            |                   |
|   | 3                   | 46,120     | (212)             | 14                | 170,359    | (3,969)           | 17    | 216,479    | (4,181)           |
| States of the U.S. and political subdivisions |                     |            |                   |                   |            |                   |       |            |                   |
|   | 24                  | 46,933     | (826)             |                   |            |                   | 24    | 46,933     | (826)             |
|   | 27                  | \$ 93,053  | \$ (1,038)        | 16                | \$ 186,204 | \$ (4,064)        | 43    | \$ 279,257 | \$ (5,102)        |
| <b>December 31, 2014</b>                      |                     |            |                   |                   |            |                   |       |            |                   |
| U.S. government-sponsored entities            |                     |            |                   |                   |            |                   |       |            |                   |
|   | 2                   | \$ 24,989  | \$ (40)           | 2                 | \$ 29,516  | \$ (484)          | 4     | \$ 54,505  | \$ (524)          |
| Residential mortgage-backed securities:       |                     |            |                   |                   |            |                   |       |            |                   |
| Agency mortgage-backed securities             |                     |            |                   |                   |            |                   |       |            |                   |
|   | 1                   | 1,099      | (1)               | 4                 | 45,042     | (345)             | 5     | 46,141     | (346)             |
| Agency collateralized mortgage obligations    |                     |            |                   |                   |            |                   |       |            |                   |
|   | 8                   | 104,071    | (630)             | 14                | 189,642    | (6,699)           | 22    | 293,713    | (7,329)           |
| States of the U.S. and political subdivisions |                     |            |                   |                   |            |                   |       |            |                   |
|   | 1                   | 1,427      | (4)               | 4                 | 5,453      | (39)              | 5     | 6,880      | (43)              |
|   | 12                  | \$ 131,586 | \$ (675)          | 24                | \$ 269,653 | \$ (7,567)        | 36    | \$ 401,239 | \$ (8,242)        |

The Corporation does not intend to sell the debt securities and it is not more likely than not that the Corporation will be required to sell the securities before recovery of their amortized cost basis.

The Corporation's remaining portfolio of TPS consists of three single-issuer securities, which are primarily from money-center and large regional banks and are included in other debt securities. These TPS had an amortized cost and estimated fair value of \$4,894 and \$4,480 at September 30, 2015, respectively. The Corporation has concluded from its analysis performed at September 30, 2015 that it is probable that the Corporation will collect all contractual principal and interest payments related to these securities.

*Other-Than-Temporary Impairment*

The Corporation evaluates its investment securities portfolio for other-than-temporary impairment (OTTI) on a quarterly basis. Impairment is assessed at the individual security level. The Corporation considers an investment security impaired if the fair value of the security is less than its cost or amortized cost basis. The following table presents a summary of the cumulative credit-related OTTI charges recognized as components of earnings for securities for which a portion of an OTTI is recognized in other comprehensive income:

|   | <b>Collateralized<br/>Debt<br/>Obligations</b> | <b>Equities</b> | <b>Total</b> |
|---|--|-----------------|--------------|
| <b>For the Nine Months Ended September 30,<br/>2015</b>       |  |                 |              |
| Beginning balance   |  | \$ 27           | \$ 27        |
| Loss where impairment was not previously<br>recognized        |  |                 |              |
| Additional loss where impairment was previously<br>recognized |  |                 |              |
| Reduction due to credit impaired securities sold              |  |                 |              |
| Ending balance  |  | \$ 27           | \$ 27        |
| <b>For the Nine Months Ended September 30,<br/>2014</b>       |  |                 |              |
| Beginning balance   | \$ 17,155                                      | \$ 27           | \$ 17,182    |
| Loss where impairment was not previously<br>recognized        |  |                 |              |
| Additional loss where impairment was previously<br>recognized |  |                 |              |
| Reduction due to credit impaired securities sold              | (17,155)                                       |                 | (17,155)     |
| Ending balance  | \$   | \$ 27           | \$ 27        |

The Corporation did not recognize any impairment losses on securities for the nine months ended September 30, 2015 or 2014.

#### *States of the U.S. and Political Subdivisions*

The Corporation's municipal bond portfolio of \$238,733 as of September 30, 2015 is highly rated with an average entity-specific rating of AA and 99.0% of the portfolio rated A or better. General obligation bonds comprise 99.8% of the portfolio. Geographically, municipal bonds support the Corporation's primary footprint as 93.6% of the securities are from municipalities located throughout Pennsylvania, Ohio and Maryland. The average holding size of the securities in the municipal bond portfolio is \$1,492. In addition to the strong stand-alone ratings, 83.0% of the municipalities have some formal credit enhancement insurance that strengthens the creditworthiness of their issue. Management also reviews the credit profile of each issuer on a quarterly basis.

**Table of Contents****FEDERAL HOME LOAN BANK STOCK**

The Corporation is a member of the Federal Home Loan Bank (FHLB) of Pittsburgh. The FHLB requires members to purchase and hold a specified minimum level of FHLB stock based upon their level of borrowings, collateral balances and participation in other programs offered by the FHLB. Stock in the FHLB is non-marketable and is redeemable at the discretion of the FHLB. Both cash and stock dividends on FHLB stock are reported as income.

Members do not purchase stock in the FHLB for the same reasons that traditional equity investors acquire stock in an investor-owned enterprise. Rather, members purchase stock to obtain access to the low-cost products and services offered by the FHLB. Unlike equity securities of traditional for-profit enterprises, the stock of FHLB does not provide its holders with an opportunity for capital appreciation because, by regulation, FHLB stock can only be purchased, redeemed and transferred at par value.

At September 30, 2015 and December 31, 2014, the Corporation's FHLB stock totaled \$44,845 and \$54,751, respectively, and is included in other assets on the balance sheet. The Corporation accounts for the stock in accordance with ASC 325, which requires the investment to be carried at cost and evaluated for impairment based on the ultimate recoverability of the par value. Due to the continued improvement of the FHLB's financial performance and stability over the past several years, along with a special dividend during the first quarter of 2015 and quarterly cash dividends in 2014 and 2015, the Corporation believes its holdings in the stock are ultimately recoverable at par value and, therefore, determined that FHLB stock was not other-than-temporarily impaired. In addition, the Corporation has ample liquidity and does not require redemption of its FHLB stock in the foreseeable future.

**LOANS AND LEASES**

Following is a summary of loans and leases, net of unearned income:

|  | <b>Originated<br/>Loans</b> | <b>Acquired<br/>Loans</b> | <b>Total<br/>Loans and<br/>Leases</b> |
|--|-----------------------------|---------------------------|---------------------------------------|
| <b>September 30, 2015</b>                |                             |                           |                                       |
| Commercial real estate                   | \$ 3,322,669                | \$ 626,577                | \$ 3,949,246                          |
| Commercial and industrial                | 2,410,186                   | 81,169                    | 2,491,355                             |
| Commercial leases                        | 199,130                     |                           | 199,130                               |
| <b>Total commercial loans and leases</b> | <b>5,931,985</b>            | <b>707,746</b>            | <b>6,639,731</b>                      |
| Direct installment                       | 1,643,345                   | 49,293                    | 1,692,638                             |
| Residential mortgages                    | 1,013,254                   | 373,132                   | 1,386,386                             |
| Indirect installment                     | 973,216                     | 812                       | 974,028                               |
| Consumer lines of credit                 | 1,003,278                   | 123,724                   | 1,127,002                             |
| Other                                    | 53,860                      |                           | 53,860                                |
|  | <b>\$ 10,618,938</b>        | <b>\$ 1,254,707</b>       | <b>\$ 11,873,645</b>                  |
| <b>December 31, 2014</b>                 |                             |                           |                                       |
| Commercial real estate                   | \$ 3,031,810                | \$ 783,898                | \$ 3,815,708                          |
| Commercial and industrial                | 2,197,793                   | 120,222                   | 2,318,015                             |

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|                                   |              |              |               |
|-----------------------------------|--------------|--------------|---------------|
| Commercial leases                 | 177,824      |              | 177,824       |
| Total commercial loans and leases | 5,407,427    | 904,120      | 6,311,547     |
| Direct installment                | 1,579,770    | 64,851       | 1,644,621     |
| Residential mortgages             | 817,586      | 445,467      | 1,263,053     |
| Indirect installment              | 873,645      | 1,906        | 875,551       |
| Consumer lines of credit          | 946,427      | 164,549      | 1,110,976     |
| Other                             | 41,290       |              | 41,290        |
|                                   | \$ 9,666,145 | \$ 1,580,893 | \$ 11,247,038 |

Commercial real estate includes both owner-occupied and non-owner-occupied loans secured by commercial properties. Commercial and industrial includes loans to businesses that are not secured by real estate. Commercial leases are made for new or used equipment. Direct installment is comprised of fixed-rate, closed-end consumer loans for personal, family or household use, such as home equity loans and automobile loans. Residential mortgages consist of conventional and jumbo mortgage loans for non-commercial properties. Indirect installment is comprised of loans originated by third parties and underwritten by the Corporation, primarily automobile loans. Consumer lines of credit include home equity lines of credit (HELOC) and consumer lines of credit that are either unsecured or secured by collateral other than home equity. Other is comprised primarily of credit cards, mezzanine loans and student loans.

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The loan and lease portfolio consists principally of loans to individuals and small- and medium-sized businesses within the Corporation's primary market area of Pennsylvania, eastern Ohio, Maryland and northern West Virginia. The total loan portfolio contains consumer finance loans to individuals in Pennsylvania, Ohio, Tennessee and Kentucky, which totaled \$181,298 or 1.5% of total loans and leases at September 30, 2015, compared to \$180,588 or 1.6% of total loans and leases at December 31, 2014. Due to the relative size of the consumer finance loan portfolio, they are not segregated from other consumer loans.

As of September 30, 2015, 38.9% of the commercial real estate loans were owner-occupied, while the remaining 61.1% were non-owner-occupied, compared to 41.6% and 58.4%, respectively, as of December 31, 2014. As of September 30, 2015 and December 31, 2014, the Corporation had commercial construction loans of \$294,249 and \$296,156, respectively, representing 2.5% and 2.6% of total loans and leases at those respective dates.

*Acquired Loans*

All acquired loans were initially recorded at fair value at the acquisition date. The outstanding balance and the carrying amount of acquired loans included in the consolidated balance sheet are as follows:

|  | <b>September 30,<br/>2015</b> | <b>December 31,<br/>2014</b> |
|--|-------------------------------|------------------------------|
| <b>Accounted for under ASC 310-30:</b> |                               |                              |
| Outstanding balance                    | \$ 1,345,685                  | \$ 1,597,558                 |
| Carrying amount                        | 1,094,604                     | 1,344,171                    |
| <b>Accounted for under ASC 310-20:</b> |                               |                              |
| Outstanding balance                    | 159,695                       | 242,488                      |
| Carrying amount                        | 153,539                       | 228,748                      |
| <b>Total acquired loans:</b>           |                               |                              |
| Outstanding balance                    | 1,505,380                     | 1,840,046                    |
| Carrying amount                        | 1,248,143                     | 1,572,919                    |

The carrying amount of purchased credit impaired loans included in the table above totaled \$8,766 at September 30, 2015 and \$9,556 at December 31, 2014, representing less than 1% of the carrying amount of total acquired loans as of each date.

The following table provides changes in accretable yield for all acquired loans accounted for under ASC 310-30. Loans accounted for under ASC 310-20 are not included in this table.

|   | <b>Nine Months Ended<br/>September 30,</b> |             |
|---|--|-------------|
|   | <b>2015</b>                                | <b>2014</b> |
| Balance at beginning of period            | \$ 331,899                                 | \$ 305,646  |
| Acquisitions                              |  | 71,111      |
| Reduction due to unexpected early payoffs | (35,601)                                   | (34,747)    |
| Reclass from non-accretable difference    | 24,489                                     | 9,925       |
| Disposals/transfers                       | (509)                                      | (5,390)     |

|                          |            |            |
|--------------------------|------------|------------|
| Accretion                | (46,207)   | (54,664)   |
| Balance at end of period | \$ 274,071 | \$ 291,881 |

*Credit Quality*

Management monitors the credit quality of the Corporation's loan and lease portfolio on an ongoing basis. Measurement of delinquency and past due status is based on the contractual terms of each loan.

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Non-performing loans include non-accrual loans and non-performing troubled debt restructurings (TDRs). Past due loans are reviewed on a monthly basis to identify loans for non-accrual status. The Corporation places a loan on non-accrual status and discontinues interest accruals on originated loans generally when principal or interest is due and has remained unpaid for a certain number of days, or when the full amount of principal and interest due is not expected to be collected in full, unless the loan is both well secured and in the process of collection. Commercial loans are placed on non-accrual at 90 days, installment loans are placed on non-accrual at 120 days and residential mortgages and consumer lines of credit are generally placed on non-accrual at 180 days. When a loan is placed on non-accrual status, all unpaid interest is reversed. Non-accrual loans may not be restored to accrual status until all delinquent principal and interest have been paid and the ultimate ability to collect the remaining principal and interest is reasonably assured. TDRs are loans in which the borrower has been granted a concession on the interest rate or the original repayment terms due to financial distress.

Following is a summary of non-performing assets:

|   | <b>September 30,<br/>2015</b> | <b>December 31,<br/>2014</b> |
|---|-------------------------------|------------------------------|
| Non-accrual loans   | \$ 47,298                     | \$ 45,113                    |
| Troubled debt restructurings  | 21,221                        | 23,439                       |
| <b>Total non-performing loans</b>   | <b>68,519</b>                 | <b>68,552</b>                |
| Other real estate owned (OREO)  | 38,931                        | 41,466                       |
| <b>Total non-performing assets</b>  | <b>\$ 107,450</b>             | <b>\$ 110,018</b>            |
| Asset quality ratios:   |                               |                              |
| Non-performing loans as a percent of total loans and leases               | 0.58%                         | 0.61%                        |
| Non-performing loans + OREO as a percent of total loans and leases + OREO | 0.90%                         | 0.97%                        |
| Non-performing assets as a percent of total assets                        | 0.64%                         | 0.68%                        |

The carrying value of residential OREO held as a result of obtaining physical possession upon completion of a foreclosure or through completion of a deed in lieu of foreclosure amounted to \$4,285 at September 30, 2015. Also, the recorded investment of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are in process at September 30, 2015 amounted to \$12,786.

The following tables provide an analysis of the aging of the Corporation's past due loans by class, segregated by loans and leases originated and loans acquired:

|                                    | <b>&gt; 90 Days<br/>30-89 Days Past Due and<br/>Past Due Still Accruing</b> | <b>Non-Accrual</b> | <b>Total<br/>Past<br/>Due</b> | <b>Current</b> | <b>Total<br/>Loans and<br/>Leases</b> |
|------------------------------------|---|--------------------|-------------------------------|----------------|---------------------------------------|
| <b>Originated Loans and Leases</b> |   |                    |                               |                |                                       |
| <b>September 30, 2015</b>          |   |                    |                               |                |                                       |

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|                                   |           |          |           |           |               |               |
|-----------------------------------|-----------|----------|-----------|-----------|---------------|---------------|
| Commercial real estate            | \$ 6,040  | \$ 3     | \$ 25,262 | \$ 31,305 | \$ 3,291,364  | \$ 3,322,669  |
| Commercial and industrial         | 3,854     | 3        | 9,529     | 13,386    | 2,396,800     | 2,410,186     |
| Commercial leases                 | 709       | 14       | 835       | 1,558     | 197,572       | 199,130       |
| Total commercial loans and leases | 10,603    | 20       | 35,626    | 46,249    | 5,885,736     | 5,931,985     |
| Direct installment                | 9,874     | 3,326    | 4,718     | 17,918    | 1,625,427     | 1,643,345     |
| Residential mortgages             | 11,121    | 1,334    | 2,971     | 15,426    | 997,828       | 1,013,254     |
| Indirect installment              | 8,213     | 522      | 1,133     | 9,868     | 963,348       | 973,216       |
| Consumer lines of credit          | 3,385     | 629      | 988       | 5,002     | 998,276       | 1,003,278     |
| Other                             | 134       | 169      |           | 303       | 53,557        | 53,860        |
|                                   | \$ 43,330 | \$ 6,000 | \$ 45,436 | \$ 94,766 | \$ 10,524,172 | \$ 10,618,938 |

**December 31, 2014**

|                                   |           |          |           |           |              |              |
|-----------------------------------|-----------|----------|-----------|-----------|--------------|--------------|
| Commercial real estate            | \$ 9,601  | \$ 313   | \$ 24,132 | \$ 34,046 | \$ 2,997,764 | \$ 3,031,810 |
| Commercial and industrial         | 2,446     | 3        | 8,310     | 10,759    | 2,187,034    | 2,197,793    |
| Commercial leases                 | 961       | 43       | 722       | 1,726     | 176,098      | 177,824      |
| Total commercial loans and leases | 13,008    | 359      | 33,164    | 46,531    | 5,360,896    | 5,407,427    |
| Direct installment                | 9,333     | 3,617    | 7,117     | 20,067    | 1,559,703    | 1,579,770    |
| Residential mortgages             | 8,709     | 3,891    | 2,964     | 15,564    | 802,022      | 817,586      |
| Indirect installment              | 7,804     | 684      | 1,149     | 9,637     | 864,008      | 873,645      |
| Consumer lines of credit          | 2,408     | 562      | 719       | 3,689     | 942,738      | 946,427      |
| Other                             | 13        | 135      |           | 148       | 41,142       | 41,290       |
|                                   | \$ 41,275 | \$ 9,248 | \$ 45,113 | \$ 95,636 | \$ 9,570,509 | \$ 9,666,145 |



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|                               | <b>30-89<br/>Days<br/>Past<br/>Due</b> | <b>&gt; 90 Days<br/>Past<br/>Due<br/>and Still<br/>Accruing</b> | <b>Non-Accrual</b> | <b>Total<br/>Past<br/>Due (1) (2)</b> | <b>Current</b> | <b>Discount</b> | <b>Total<br/>Loans</b> |
|-------------------------------|--|---|--------------------|---------------------------------------|----------------|-----------------|------------------------|
| <b>Acquired Loans</b>         |  |   |                    |                                       |                |                 |                        |
| <b>September 30, 2015</b>     |  |   |                    |                                       |                |                 |                        |
| Commercial real estate        | \$ 10,510                              | \$ 11,108   | \$ 1,303           | \$ 22,921                             | \$ 641,768     | \$ (38,112)     | \$ 626,577             |
| Commercial and industrial     | 686                                    | 527   | 107                | 1,320                                 | 87,163         | (7,314)         | 81,169                 |
| <b>Total commercial loans</b> | <b>11,196</b>                          | <b>11,635</b>   | <b>1,410</b>       | <b>24,241</b>                         | <b>728,931</b> | <b>(45,426)</b> | <b>707,746</b>         |
| Direct installment            | 670                                    | 834   |                    | 1,504                                 | 46,981         | 808             | 49,293                 |
| Residential mortgages         | 8,607                                  | 15,261  |                    | 23,868                                | 386,425        | (37,161)        | 373,132                |
| Indirect installment          | 26                                     | 11  |                    | 37                                    | 801            | (26)            | 812                    |
| Consumer lines of credit      | 1,105                                  | 810   | 452                | 2,367                                 | 125,150        | (3,793)         | 123,724                |
|                               | \$ 21,604                              | \$ 28,551   | \$ 1,862           | \$ 52,017                             | \$ 1,288,288   | \$ (85,598)     | \$ 1,254,707           |
| <b>December 31, 2014</b>      |  |   |                    |                                       |                |                 |                        |
| Commercial real estate        | \$ 12,076                              | \$ 12,368   |                    | \$ 24,444                             | \$ 799,991     | \$ (40,537)     | \$ 783,898             |
| Commercial and industrial     | 687                                    | 1,968   |                    | 2,655                                 | 127,535        | (9,968)         | 120,222                |
| <b>Total commercial loans</b> | <b>12,763</b>                          | <b>14,336</b>   |                    | <b>27,099</b>                         | <b>927,526</b> | <b>(50,505)</b> | <b>904,120</b>         |
| Direct installment            | 2,670                                  | 1,443   |                    | 4,113                                 | 59,532         | 1,206           | 64,851                 |
| Residential mortgages         | 8,159                                  | 19,936  |                    | 28,095                                | 456,810        | (39,438)        | 445,467                |
| Indirect installment          | 38                                     | 30  |                    | 68                                    | 2,179          | (341)           | 1,906                  |
| Consumer lines of credit      | 1,048                                  | 2,279   |                    | 3,327                                 | 166,912        | (5,690)         | 164,549                |
|                               | \$ 24,678                              | \$ 38,024   |                    | \$ 62,702                             | \$ 1,612,959   | \$ (94,768)     | \$ 1,580,893           |

- (1) Past due information for acquired loans is based on the contractual balance outstanding at September 30, 2015 and December 31, 2014.
- (2) Acquired loans are considered performing upon acquisition, regardless of whether the customer is contractually delinquent, as long as the Corporation can reasonably estimate the timing and amount of expected cash flows on such loans. In these instances, the Corporation does not consider acquired contractually delinquent loans to be non-accrual or non-performing and continues to recognize interest income on these loans using the accretion method. Acquired loans are considered non-accrual or non-performing when, due to credit deterioration or other factors, the Corporation determines it is no longer able to reasonably estimate the timing and amount of expected cash flows on such loans. The Corporation does not recognize interest income on acquired loans considered non-accrual or non-performing.

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The Corporation utilizes the following categories to monitor credit quality within its commercial loan and lease portfolio:

| <b>Rating Category</b> | <b>Definition</b>   |
|------------------------|---|
| Pass                   | in general, the condition and performance of the borrower is satisfactory or better   |
| Special Mention        | in general, the condition of the borrower has deteriorated, requiring an increased level of monitoring  |
| Substandard            | in general, the condition and performance of the borrower has significantly deteriorated and could further deteriorate if deficiencies are not corrected                |
| Doubtful               | in general, the condition of the borrower has significantly deteriorated and the collection in full of both principal and interest is highly questionable or improbable |

The use of these internally assigned credit quality categories within the commercial loan and lease portfolio permits management's use of transition matrices to estimate a quantitative portion of credit risk. The Corporation's internal credit risk grading system is based on past experiences with similarly graded loans and leases and conforms with regulatory categories. In general, loan and lease risk ratings within each category are reviewed on an ongoing basis according to the Corporation's policy for each class of loans and leases. Each quarter, management analyzes the resulting ratings, as well as other external statistics and factors such as delinquency, to track the migration performance of the commercial loan and lease portfolio. Loans and leases within the Pass credit category or that migrate toward the Pass credit category generally have a lower risk of loss compared to loans and leases that migrate toward the Substandard or Doubtful credit categories. Accordingly, management applies higher risk factors to Substandard and Doubtful credit categories.

The following tables present a summary of the Corporation's commercial loans and leases by credit quality category, segregated by loans and leases originated and loans acquired:

|   | <b>Commercial Loan and Lease Credit Quality Categories</b> |                            |                    |                 |              |
|---|--|----------------------------|--------------------|-----------------|--------------|
|   | <b>Pass</b>  | <b>Special<br/>Mention</b> | <b>Substandard</b> | <b>Doubtful</b> | <b>Total</b> |
| <b><u>Originated Loans and Leases</u></b> |  |                            |                    |                 |              |
| <b>September 30, 2015</b>                 |  |                            |                    |                 |              |
| Commercial real estate                    | \$ 3,195,455   | \$ 60,727                  | \$ 65,568          | \$ 919          | \$ 3,322,669 |
| Commercial and industrial                 | 2,259,932  | 103,650                    | 45,014             | 1,590           | 2,410,186    |
| Commercial leases                         | 194,783  | 3,149                      | 1,198              |                 | 199,130      |
|   | \$ 5,650,170   | \$ 167,526                 | \$ 111,780         | \$ 2,509        | \$ 5,931,985 |
| <b>December 31, 2014</b>                  |  |                            |                    |                 |              |
| Commercial real estate                    | \$ 2,890,830   | \$ 58,630                  | \$ 81,951          | \$ 399          | \$ 3,031,810 |
| Commercial and industrial                 | 2,085,893  | 71,420                     | 39,684             | 796             | 2,197,793    |
| Commercial leases                         | 174,677  | 2,198                      | 949                |                 | 177,824      |

|  |              |            |            |          |              |
|--|--------------|------------|------------|----------|--------------|
|  | \$ 5,151,400 | \$ 132,248 | \$ 122,584 | \$ 1,195 | \$ 5,407,427 |
|--|--------------|------------|------------|----------|--------------|

**Acquired Loans**

September 30, 2015

|                           |            |           |           |  |            |
|---------------------------|------------|-----------|-----------|--|------------|
| Commercial real estate    | \$ 488,840 | \$ 49,669 | \$ 88,068 |  | \$ 626,577 |
| Commercial and industrial | 69,036     | 1,969     | 10,164    |  | 81,169     |
|                           | \$ 557,876 | \$ 51,638 | \$ 98,232 |  | \$ 707,746 |

**December 31, 2014**

|                           |            |           |            |  |            |
|---------------------------|------------|-----------|------------|--|------------|
| Commercial real estate    | \$ 610,260 | \$ 73,891 | \$ 99,747  |  | \$ 783,898 |
| Commercial and industrial | 103,862    | 3,506     | 12,854     |  | 120,222    |
|                           | \$ 714,122 | \$ 77,397 | \$ 112,601 |  | \$ 904,120 |

Credit quality information for acquired loans is based on the contractual balance outstanding at September 30, 2015 and December 31, 2014.

The Corporation uses delinquency transition matrices within the consumer and other loan classes to enable management to estimate a quantitative portion of credit risk. Each month, management analyzes payment and volume activity, FICO scores and other external factors such as unemployment, to determine how consumer loans are performing.

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Following is a table showing originated consumer loans by payment status:

|                           | <b>Consumer Loan Credit Quality<br/>by Payment Status</b> |                       |              |
|---------------------------|---|-----------------------|--------------|
|                           | <b>Performing</b>   | <b>Non-Performing</b> | <b>Total</b> |
| <b>September 30, 2015</b> |   |                       |              |
| Direct installment        | \$ 1,630,566  | \$ 12,779             | \$ 1,643,345 |
| Residential mortgages     | 1,000,774   | 12,480                | 1,013,254    |
| Indirect installment      | 971,936   | 1,280                 | 973,216      |
| Consumer lines of credit  | 1,000,929   | 2,349                 | 1,003,278    |
| Other                     | 53,860  |                       | 53,860       |
| <b>December 31, 2014</b>  |   |                       |              |
| Direct installment        | \$ 1,565,090  | \$ 14,680             | \$ 1,579,770 |
| Residential mortgages     | 802,522   | 15,064                | 817,586      |
| Indirect installment      | 872,340   | 1,305                 | 873,645      |
| Consumer lines of credit  | 944,631   | 1,796                 | 946,427      |
| Other                     | 41,290  |                       | 41,290       |

Loans and leases are designated as impaired when, in the opinion of management, based on current information and events, the collection of principal and interest in accordance with the loan and lease contract is doubtful. Typically, the Corporation does not consider loans and leases for impairment unless a sustained period of delinquency (i.e., 90-plus days) is noted or there are subsequent events that impact repayment probability (i.e., negative financial trends, bankruptcy filings, imminent foreclosure proceedings, etc.). Impairment is evaluated in the aggregate for consumer installment loans, residential mortgages, consumer lines of credit and commercial loan and lease relationships less than \$500 based on loan and lease segment loss given default. For commercial loan relationships greater than or equal to \$500, a specific valuation allowance is allocated, if necessary, so that the loan is reported net, at the present value of estimated future cash flows using a market interest rate or at the fair value of collateral if repayment is expected solely from the collateral. Consistent with the Corporation's existing method of income recognition for loans and leases, interest on impaired loans, except those classified as non-accrual, is recognized as income using the accrual method. Impaired loans, or portions thereof, are charged off when deemed uncollectible.

Following is a summary of information pertaining to originated loans and leases considered to be impaired, by class of loan and lease:

|   | <b>Unpaid<br/>Contractual<br/>Principal<br/>Balance</b> | <b>Recorded<br/>Investment<br/>With No<br/>Specific<br/>Reserve</b> | <b>Recorded<br/>Investment<br/>With<br/>Specific<br/>Reserve</b> | <b>Total<br/>Recorded<br/>Investment</b> | <b>Specific<br/>Reserve</b> | <b>Average<br/>Recorded<br/>Investment</b> |
|---|---|---|--|--|-----------------------------|--|
| <b>At or for the Nine Months Ended<br/>September 30, 2015</b> |   |   |  |  |                             |  |
| Commercial real estate  | \$ 35,733   | \$ 25,035   | \$ 2,057   | \$ 27,092                                | \$ 919                      | \$ 26,928                                  |
| Commercial and industrial                                     | 10,981  | 4,770   | 5,107  | 9,877                                    | 1,590                       | 9,565                                      |
| Commercial leases   | 835   | 835   |  | 835                                      |                             | 767  |

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|                                   |           |           |          |           |          |           |
|-----------------------------------|-----------|-----------|----------|-----------|----------|-----------|
| Total commercial loans and leases | 47,549    | 30,640    | 7,164    | 37,804    | 2,509    | 37,260    |
| Direct installment                | 13,569    | 12,779    |          | 12,779    |          | 13,538    |
| Residential mortgages             | 12,971    | 12,480    |          | 12,480    |          | 13,744    |
| Indirect installment              | 3,220     | 1,280     |          | 1,280     |          | 1,168     |
| Consumer lines of credit          | 2,565     | 2,349     |          | 2,349     |          | 2,134     |
|                                   | \$ 79,874 | \$ 59,528 | \$ 7,164 | \$ 66,692 | \$ 2,509 | \$ 67,844 |

**At or for the Year Ended  
December 31, 2014**

|                                   |           |           |          |           |          |           |
|-----------------------------------|-----------|-----------|----------|-----------|----------|-----------|
| Commercial real estate            | \$ 34,583 | \$ 25,443 | \$ 883   | \$ 26,326 | \$ 399   | \$ 30,807 |
| Commercial and industrial         | 11,412    | 7,609     | 1,948    | 9,557     | 780      | 9,510     |
| Commercial leases                 | 722       | 722       |          | 722       |          | 686       |
| Total commercial loans and leases | 46,717    | 33,774    | 2,831    | 36,605    | 1,179    | 41,003    |
| Direct installment                | 14,987    | 14,680    |          | 14,680    |          | 14,248    |
| Residential mortgages             | 16,791    | 15,064    |          | 15,064    |          | 16,924    |
| Indirect installment              | 1,467     | 1,305     |          | 1,305     |          | 1,399     |
| Consumer lines of credit          | 1,803     | 1,796     |          | 1,796     |          | 1,793     |
|                                   | \$ 81,765 | \$ 66,619 | \$ 2,831 | \$ 69,450 | \$ 1,179 | \$ 75,367 |

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Interest income is generally no longer recognized once a loan becomes impaired.

These tables do not reflect the additional allowance for credit losses relating to acquired loans in the following pools and categories: commercial real estate of \$3,056; commercial and industrial of \$579; direct installment of \$1,427; residential mortgages of \$558; indirect installment of \$302; and consumer lines of credit of \$642, totaling \$6,564 at September 30, 2015 and commercial real estate of \$3,286; commercial and industrial of \$1,484; direct installment of \$1,847; residential mortgages of \$858; indirect installment of \$232; and consumer lines of credit of \$267, totaling \$7,974 at December 31, 2014.

*Troubled Debt Restructurings*

TDRs are loans whose contractual terms have been modified in a manner that grants a concession to a borrower experiencing financial difficulties. TDRs typically result from loss mitigation activities and could include the extension of a maturity date, interest rate reduction, principal forgiveness, deferral or decrease in payments for a period of time and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of collateral.

Following is a summary of the payment status of originated TDRs:

|                | <b>September 30,<br/>2015</b> | <b>December 31,<br/>2014</b> |
|----------------|-------------------------------|------------------------------|
| Accruing:      |                               |                              |
| Performing     | \$ 14,692                     | \$ 9,441                     |
| Non-performing | 21,221                        | 23,439                       |
| Non-accrual    | 7,800                         | 8,272                        |
|                | <b>\$ 43,713</b>              | <b>\$ 41,152</b>             |

TDRs that are accruing and performing include loans that met the criteria for non-accrual of interest prior to restructuring for which the Corporation can reasonably estimate the timing and amount of the expected cash flows on such loans and for which the Corporation expects to fully collect the new carrying value of the loans. During the nine months ended September 30, 2015, the Corporation returned to performing status \$7,577 in restructured residential mortgage loans that have consistently met their modified obligations for more than six months. TDRs that are accruing and non-performing are comprised of consumer loans that have not demonstrated a consistent repayment pattern on the modified terms for more than six months, however it is expected that the Corporation will collect all future principal and interest payments. TDRs that are on non-accrual are not placed on accruing status until all delinquent principal and interest have been paid and the ultimate collectability of the remaining principal and interest is reasonably assured. Some loan modifications classified as TDRs may not ultimately result in the full collection of principal and interest, as modified, and may result in potential incremental losses which are factored into the allowance for credit losses.

Excluding purchased impaired loans, commercial loans over \$500 whose terms have been modified in a TDR are generally placed on non-accrual, individually analyzed and measured for estimated impairment based on the fair value of the underlying collateral. The Corporation's allowance for credit losses included specific reserves for commercial TDRs of \$438 and \$371 at September 30, 2015 and December 31, 2014, respectively, and pooled reserves for individual loans under \$500 of \$1,146 and \$1,215 for those same respective periods, based on loan segment loss given

default. Upon default, the amount of the recorded investment in the TDR in excess of the fair value of the collateral, less estimated selling costs, is generally considered a confirmed loss and is charged-off against the allowance for credit losses.

All other classes of loans, which are primarily secured by residential properties, whose terms have been modified in a TDR are pooled and measured for estimated impairment based on the expected net present value of the estimated future cash flows of the pool. The Corporation's allowance for credit losses included pooled reserves for these classes of loans of \$3,350 and \$3,448 at September 30, 2015 and December 31, 2014, respectively. Upon default of an individual loan, the Corporation's charge-off policy is followed accordingly for that class of loan.

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The majority of TDRs are the result of interest rate concessions for a limited period of time. Following is a summary of originated loans, by class, that have been restructured:

|                               | Three Months Ended September 30, 2015 |  |   | Nine Months Ended September 30, 2015 |  |   |
|-------------------------------|---------------------------------------|--|---|--------------------------------------|--|---|
|                               | Number of Contracts                   | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment | Number of Contracts                  | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment |
| Commercial real estate        |                                       | \$   | \$  | 2                                    | \$ 312   | \$ 168  |
| Commercial and industrial     |                                       |  |   | 1                                    | 5  | 4   |
| <b>Total commercial loans</b> |                                       |  |   | <b>3</b>                             | <b>317</b>                                       | <b>172</b>  |
| Direct installment            | 121                                   | 1,757  | 1,726   | 361                                  | 5,064  | 4,835   |
| Residential mortgages         | 10                                    | 232  | 233   | 31                                   | 1,048  | 1,074   |
| Indirect installment          | 3                                     | 13   | 10  | 13                                   | 43   | 40  |
| Consumer lines of credit      | 10                                    | 146  | 143   | 40                                   | 666  | 610   |
|                               | 144                                   | \$ 2,148   | \$ 2,112  | 448                                  | \$ 7,138   | \$ 6,731  |

|                               | Three Months Ended September 30, 2014 |  |   | Nine Months Ended September 30, 2014 |  |   |
|-------------------------------|---------------------------------------|--|---|--------------------------------------|--|---|
|                               | Number of Contracts                   | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment | Number of Contracts                  | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment |
| Commercial real estate        | 1                                     | \$ 50  | \$ 48   | 10                                   | \$ 2,633   | \$ 2,187  |
| Commercial and industrial     | 2                                     | 126  | 119   | 3                                    | 323  | 307   |
| <b>Total commercial loans</b> | <b>3</b>                              | <b>176</b>                                       | <b>167</b>  | <b>13</b>                            | <b>2,956</b>                                     | <b>2,494</b>                                      |
| Direct installment            | 116                                   | 1,323  | 1,240   | 378                                  | 4,922  | 4,693   |
| Residential mortgages         | 9                                     | 480  | 470   | 33                                   | 1,847  | 1,784   |
| Indirect installment          | 7                                     | 18   | 15  | 20                                   | 52   | 48  |
| Consumer lines of credit      | 6                                     | 88   | 56  | 31                                   | 899  | 857   |
|                               | 141                                   | \$ 2,085   | \$ 1,948  | 475                                  | \$ 10,676  | \$ 9,876  |

Following is a summary of originated TDRs, by class of loans and leases, for which there was a payment default, excluding loans that were either charged-off or cured by period end. Default occurs when a loan is 90 days or more past due and is within 12 months of restructuring.



|                               | <b>Three Months<br/>Ended<br/>September 30,<br/>2015 (1)</b> |                                | <b>Nine Months<br/>Ended<br/>September 30,<br/>2015 (1)</b> |                                |
|-------------------------------|--|--------------------------------|---|--------------------------------|
|                               | <b>Number of<br/>Contracts</b>                               | <b>Recorded<br/>Investment</b> | <b>Number of<br/>Contracts</b>                              | <b>Recorded<br/>Investment</b> |
| Commercial real estate        |  | \$                             |   | \$                             |
| Commercial and industrial     |  |                                | 1   | 204                            |
| <b>Total commercial loans</b> |  |                                | 1   | 204                            |
| Direct installment            | 22   | 87                             | 75  | 254                            |
| Residential mortgages         | 2  | 75                             | 5   | 179                            |
| Indirect installment          | 1  | 6                              | 6   | 12                             |
| Consumer lines of credit      |  |                                | 1   | 8                              |
|                               | 25   | \$ 168                         | 88  | \$ 657                         |

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|                          | Three Months<br>Ended<br>September 30, 2014<br>(1) |                        | Nine Months<br>Ended<br>September 30, 2014<br>(1) |                        |
|--------------------------|--|------------------------|---|------------------------|
|                          | Number of<br>Contracts                             | Recorded<br>Investment | Number of<br>Contracts                            | Recorded<br>Investment |
| Direct installment       | 41   | \$ 356                 | 80  | \$ 732                 |
| Residential mortgages    | 2  | 33                     | 2   | 33                     |
| Indirect installment     | 3  | 10                     | 4   | 11                     |
| Consumer lines of credit | 1  | 50                     | 1   | 50                     |
|                          | 47   | \$ 449                 | 87  | \$ 826                 |

(1) The recorded investment is as of period end.

**ALLOWANCE FOR CREDIT LOSSES**

The allowance for credit losses is established as losses are estimated to have occurred through a provision charged to earnings. Losses are charged against the allowance for credit losses when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance for credit losses. Allowances for impaired commercial loans over \$500 are generally determined based on collateral values or the present value of estimated cash flows. All other impaired loans and leases are evaluated in the aggregate based on loan segment loss given default. Changes in the allowance for credit losses related to impaired loans and leases are charged or credited to the provision for credit losses.

The allowance for credit losses is maintained at a level that, in management's judgment, is believed adequate to absorb probable losses associated with specifically identified loans and leases, as well as estimated probable credit losses inherent in the remainder of the portfolio. Adequacy of the allowance for credit losses is based on management's evaluation of potential losses in the portfolio, which includes an assessment of past experience, current economic conditions in specific industries and geographic areas, general economic conditions, known and inherent risks in the portfolio, the estimated value of underlying collateral and residuals and changes in the composition of the portfolio. Determination of the allowance for credit losses is inherently subjective as it requires significant estimates, including the amounts and timing of expected future cash flows on impaired loans and leases, estimated losses on pools of homogeneous loans and leases based on transition matrices with predefined loss emergence periods and consideration of qualitative factors, all of which are susceptible to significant change.

Credit impaired loans obtained through acquisitions are accounted for under the provisions of ASC 310-30. The Corporation also accounts for certain acquired loans considered performing at the time of acquisition by analogy to ASC 310-30. ASC 310-30 requires the initial recognition of acquired loans at the present value of amounts expected to be received. Any deterioration in the credit quality of acquired loans subsequent to acquisition would be considered in the allowance for credit losses.

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Following is a summary of changes in the allowance for credit losses, by loan and lease class:

|   | Balance at<br>Beginning of<br>Period | Charge-<br>Offs   | Recoveries      | Net<br>Charge-<br>Offs | Provision<br>for<br>credit<br>losses | Balance<br>at<br>End of<br>Period |
|---|--------------------------------------|-------------------|-----------------|------------------------|--------------------------------------|-----------------------------------|
| <b>Three Months Ended September 30, 2015</b>              |                                      |                   |                 |                        |                                      |                                   |
| Commercial real estate                                    | \$ 39,872                            | \$ (1,259)        | \$ 370          | \$ (889)               | \$ 2,870                             | \$ 41,853                         |
| Commercial and industrial                                 | 32,305                               | (584)             | 290             | (294)                  | 3,223                                | 35,234                            |
| Commercial leases   | 2,223                                | (124)             | 50              | (74)                   | 265                                  | 2,414                             |
| <b>Total commercial loans and leases</b>                  | <b>74,400</b>                        | <b>(1,967)</b>    | <b>710</b>      | <b>(1,257)</b>         | <b>6,358</b>                         | <b>79,501</b>                     |
| Direct installment  | 22,279                               | (2,722)           | 565             | (2,157)                | 1,214                                | 21,336                            |
| Residential mortgages                                     | 8,579                                | (268)             | 14              | (254)                  | 341                                  | 8,666                             |
| Indirect installment                                      | 8,909                                | (1,650)           | 264             | (1,386)                | 2,090                                | 9,613                             |
| Consumer lines of credit                                  | 9,118                                | (472)             | 56              | (416)                  | 871                                  | 9,573                             |
| Other   | 911                                  | (402)             | 8               | (394)                  | 413                                  | 930                               |
| <b>Total allowance on originated loans<br/>and leases</b> | <b>124,196</b>                       | <b>(7,481)</b>    | <b>1,617</b>    | <b>(5,864)</b>         | <b>11,287</b>                        | <b>129,619</b>                    |
| Purchased credit-impaired loans                           | 658                                  |                   |                 |                        | 36                                   | 695                               |
| Other acquired loans                                      | 6,287                                | (153)             | 282             | 129                    | (546)                                | 5,869                             |
| <b>Total allowance on acquired loans</b>                  | <b>6,945</b>                         | <b>(153)</b>      | <b>282</b>      | <b>129</b>             | <b>(510)</b>                         | <b>6,564</b>                      |
| <b>Total allowance</b>                                    | <b>\$ 131,141</b>                    | <b>\$ (7,634)</b> | <b>\$ 1,899</b> | <b>\$ (5,735)</b>      | <b>\$ 10,777</b>                     | <b>\$ 136,183</b>                 |
| <b>Nine Months Ended September 30, 2015</b>               |                                      |                   |                 |                        |                                      |                                   |
| Commercial real estate                                    | \$ 37,588                            | \$ (3,237)        | \$ 779          | \$ (2,458)             | \$ 6,723                             | \$ 41,853                         |
| Commercial and industrial                                 | 32,645                               | (2,684)           | 1,386           | (1,298)                | 3,887                                | 35,234                            |
| Commercial leases   | 2,398                                | (328)             | 95              | (233)                  | 249                                  | 2,414                             |
| <b>Total commercial loans and leases</b>                  | <b>72,631</b>                        | <b>(6,249)</b>    | <b>2,260</b>    | <b>(3,989)</b>         | <b>10,859</b>                        | <b>79,501</b>                     |
| Direct installment  | 20,538                               | (8,108)           | 1,131           | (6,977)                | 7,775                                | 21,336                            |
| Residential mortgages                                     | 8,024                                | (891)             | 53              | (838)                  | 1,480                                | 8,666                             |
| Indirect installment                                      | 7,504                                | (4,433)           | 898             | (3,535)                | 5,644                                | 9,613                             |
| Consumer lines of credit                                  | 8,496                                | (1,205)           | 132             | (1,073)                | 2,150                                | 9,573                             |
| Other   | 759                                  | (1,062)           | 44              | (1,018)                | 1,189                                | 930                               |
| <b>Total allowance on originated loans<br/>and leases</b> | <b>117,952</b>                       | <b>(21,948)</b>   | <b>4,518</b>    | <b>(17,430)</b>        | <b>29,097</b>                        | <b>129,619</b>                    |
| Purchased credit-impaired loans                           | 660                                  | (64)              | 19              | (45)                   | 80                                   | 695                               |

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|                                   |            |             |          |             |           |            |
|-----------------------------------|------------|-------------|----------|-------------|-----------|------------|
| Other acquired loans              | 7,314      | (698)       | 653      | (45)        | (1,400)   | 5,869      |
| Total allowance on acquired loans | 7,974      | (762)       | 672      | (90)        | (1,320)   | 6,564      |
| Total allowance                   | \$ 125,926 | \$ (22,710) | \$ 5,190 | \$ (17,520) | \$ 27,777 | \$ 136,183 |

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|   | Balance at<br>Beginning of<br>Period | Charge-<br>Offs    | Recoveries      | Net<br>Charge-<br>Offs | Provision<br>for<br>credit<br>losses | Balance<br>at<br>End of<br>Period |
|---|--------------------------------------|--------------------|-----------------|------------------------|--------------------------------------|-----------------------------------|
| <b>Three Months Ended September 30, 2014</b>              |                                      |                    |                 |                        |                                      |                                   |
| Commercial real estate                                    | \$ 38,478                            | \$ (1,724)         | \$ 506          | \$ (1,218)             | \$ (80)                              | \$ 37,180                         |
| Commercial and industrial                                 | 33,017                               | (1,796)            | 192             | (1,604)                | 2,883                                | 34,296                            |
| Commercial leases   | 2,079                                | (167)              | 11              | (156)                  | 282                                  | 2,205                             |
| <b>Total commercial loans and leases</b>                  | <b>73,574</b>                        | <b>(3,687)</b>     | <b>709</b>      | <b>(2,978)</b>         | <b>3,085</b>                         | <b>73,681</b>                     |
| Direct installment  | 16,844                               | (2,369)            | 271             | (2,098)                | 4,814                                | 19,560                            |
| Residential mortgages                                     | 5,506                                | (87)               | 13              | (74)                   | 1,218                                | 6,650                             |
| Indirect installment                                      | 6,693                                | (898)              | 211             | (687)                  | 364                                  | 6,370                             |
| Consumer lines of credit                                  | 7,664                                | (360)              | 50              | (310)                  | 587                                  | 7,941                             |
| Other   | 907                                  | (341)              | 9               | (332)                  | (208)                                | 367                               |
| <b>Total allowance on originated loans<br/>and leases</b> | <b>111,188</b>                       | <b>(7,742)</b>     | <b>1,263</b>    | <b>(6,479)</b>         | <b>9,860</b>                         | <b>114,569</b>                    |
| Purchased credit-impaired loans                           | 448                                  | (712)              | 1               | (711)                  | 1,026                                | 763                               |
| Other acquired loans                                      | 5,112                                | (113)              | (41)            | (154)                  | 311                                  | 5,269                             |
| <b>Total allowance on acquired loans</b>                  | <b>5,560</b>                         | <b>(825)</b>       | <b>(40)</b>     | <b>(865)</b>           | <b>1,337</b>                         | <b>6,032</b>                      |
| <b>Total allowance</b>                                    | <b>\$ 116,748</b>                    | <b>\$ (8,567)</b>  | <b>\$ 1,223</b> | <b>\$ (7,344)</b>      | <b>\$ 11,197</b>                     | <b>\$ 120,601</b>                 |
| <b>Nine Months Ended September 30,<br/>2014</b>           |                                      |                    |                 |                        |                                      |                                   |
| Commercial real estate                                    | \$ 32,548                            | \$ (5,519)         | \$ 1,068        | \$ (4,451)             | \$ 9,083                             | \$ 37,180                         |
| Commercial and industrial                                 | 32,603                               | (2,849)            | 730             | (2,119)                | 3,812                                | 34,296                            |
| Commercial leases   | 1,903                                | (317)              | 93              | (224)                  | 526                                  | 2,205                             |
| <b>Total commercial loans and leases</b>                  | <b>67,054</b>                        | <b>(8,685)</b>     | <b>1,891</b>    | <b>(6,794)</b>         | <b>13,421</b>                        | <b>73,681</b>                     |
| Direct installment  | 17,824                               | (7,154)            | 821             | (6,333)                | 8,069                                | 19,560                            |
| Residential mortgages                                     | 5,836                                | (356)              | 61              | (295)                  | 1,109                                | 6,650                             |
| Indirect installment                                      | 6,409                                | (2,396)            | 658             | (1,738)                | 1,699                                | 6,370                             |
| Consumer lines of credit                                  | 7,231                                | (1,023)            | 143             | (880)                  | 1,590                                | 7,941                             |
| Other   | 530                                  | (910)              | 19              | (891)                  | 728                                  | 367                               |
| <b>Total allowance on originated loans<br/>and leases</b> | <b>104,884</b>                       | <b>(20,524)</b>    | <b>3,593</b>    | <b>(16,931)</b>        | <b>26,616</b>                        | <b>114,569</b>                    |
| Purchased credit-impaired loans                           | 1,000                                | (2,614)            | 1               | (2,613)                | 2,376                                | 763                               |
| Other acquired loans                                      | 4,900                                | (230)              | 983             | 753                    | (384)                                | 5,269                             |
| <b>Total allowance on acquired loans</b>                  | <b>5,900</b>                         | <b>(2,844)</b>     | <b>984</b>      | <b>(1,860)</b>         | <b>1,992</b>                         | <b>6,032</b>                      |
| <b>Total allowance</b>                                    | <b>\$ 110,784</b>                    | <b>\$ (23,368)</b> | <b>\$ 4,577</b> | <b>\$ (18,791)</b>     | <b>\$ 28,608</b>                     | <b>\$ 120,601</b>                 |



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Following is a summary of the individual and collective originated allowance for credit losses and corresponding loan and lease balances by class:

|  | Allowance                             |                                       | Loans and Leases Outstanding |                                       |                                       |
|--|---------------------------------------|---------------------------------------|------------------------------|---------------------------------------|---------------------------------------|
|  | Individually Evaluated for Impairment | Collectively Evaluated for Impairment | Loans and Leases             | Individually Evaluated for Impairment | Collectively Evaluated for Impairment |
| <b>September 30, 2015</b>                |                                       |                                       |                              |                                       |                                       |
| Commercial real estate                   | \$ 919                                | \$ 40,934                             | \$ 3,322,669                 | \$ 14,182                             | \$ 3,308,487                          |
| Commercial and industrial                | 1,590                                 | 33,644                                | 2,410,186                    | 6,186                                 | 2,404,000                             |
| Commercial leases                        |                                       | 2,414                                 | 199,130                      |                                       | 199,130                               |
| <b>Total commercial loans and leases</b> | <b>2,509</b>                          | <b>76,992</b>                         | <b>5,931,985</b>             | <b>20,368</b>                         | <b>5,911,617</b>                      |
| Direct installment                       |                                       | 21,336                                | 1,643,345                    |                                       | 1,643,345                             |
| Residential mortgages                    |                                       | 8,666                                 | 1,013,254                    |                                       | 1,013,254                             |
| Indirect installment                     |                                       | 9,613                                 | 973,216                      |                                       | 973,216                               |
| Consumer lines of credit                 |                                       | 9,573                                 | 1,003,278                    |                                       | 1,003,278                             |
| Other                                    |                                       | 930                                   | 53,860                       |                                       | 53,860                                |
|  | \$ 2,509                              | \$ 127,110                            | \$ 10,618,938                | \$ 20,368                             | \$ 10,598,570                         |
| <b>December 31, 2014</b>                 |                                       |                                       |                              |                                       |                                       |
| Commercial real estate                   | \$ 399                                | \$ 37,189                             | \$ 3,031,810                 | \$ 13,952                             | \$ 3,017,858                          |
| Commercial and industrial                | 780                                   | 31,865                                | 2,197,793                    | 5,837                                 | 2,191,956                             |
| Commercial leases                        |                                       | 2,398                                 | 177,824                      |                                       | 177,824                               |
| <b>Total commercial loans and leases</b> | <b>1,179</b>                          | <b>71,452</b>                         | <b>5,407,427</b>             | <b>19,789</b>                         | <b>5,387,638</b>                      |
| Direct installment                       |                                       | 20,538                                | 1,579,770                    |                                       | 1,579,770                             |
| Residential mortgages                    |                                       | 8,024                                 | 817,586                      |                                       | 817,586                               |
| Indirect installment                     |                                       | 7,504                                 | 873,645                      |                                       | 873,645                               |
| Consumer lines of credit                 |                                       | 8,496                                 | 946,427                      |                                       | 946,427                               |
| Other                                    |                                       | 759                                   | 41,290                       |                                       | 41,290                                |
|  | \$ 1,179                              | \$ 116,773                            | \$ 9,666,145                 | \$ 19,789                             | \$ 9,646,356                          |

**BORROWINGS**

Following is a summary of short-term borrowings:

|   | September 30, 2015 | December 31, 2014 |
|---|--------------------|-------------------|
| Securities sold under repurchase agreements | \$ 256,320         | \$ 882,696        |
| Federal Home Loan Bank advances             | 450,000            | 820,000           |

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|                         |              |              |
|-------------------------|--------------|--------------|
| Federal funds purchased | 456,000      | 210,000      |
| Subordinated notes      | 124,982      | 128,962      |
|                         | \$ 1,287,302 | \$ 2,041,658 |

Securities sold under repurchase agreements is comprised of customer repurchase agreements, which are sweep accounts with next day maturities utilized by larger commercial customers to earn interest on their funds. Securities are pledged to these customers in an amount equal to the outstanding balance.



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Following is a summary of long-term borrowings:

|                                 | <b>September 30,<br/>2015</b> | <b>December 31,<br/>2014</b> |
|---------------------------------|-------------------------------|------------------------------|
| Federal Home Loan Bank advances | \$ 400,017                    | \$ 400,042                   |
| Subordinated notes              | 84,351                        | 83,155                       |
| Junior subordinated debt        | 58,285                        | 58,246                       |
|                                 | \$ 542,653                    | \$ 541,443                   |

The Corporation's banking affiliate has available credit with the FHLB of \$4,467,170 of which \$850,017 was used as of September 30, 2015. These advances are secured by loans collateralized by residential mortgages, HELOCs, commercial real estate and FHLB stock and are scheduled to mature in various amounts periodically through the year 2021. Effective interest rates paid on the long-term advances ranged from 0.76% to 4.19% for both the nine months ended September 30, 2015 and the year ended December 31, 2014.

The Corporation had two unconsolidated subsidiary trusts as of September 30, 2015 (collectively, the Trusts): F.N.B. Statutory Trust II and Omega Financial Capital Trust I. One hundred percent of the common equity of each Trust is owned by the Corporation. The Trusts were formed for the purpose of issuing Corporation-obligated mandatorily redeemable capital securities (TPS) to third-party investors. The proceeds from the sale of TPS and the issuance of common equity by the Trusts were invested in junior subordinated debt securities (subordinated debt) issued by the Corporation, which are the sole assets of each Trust. Since third-party investors are the primary beneficiaries, the Trusts are not consolidated in the Corporation's financial statements. The Trusts pay dividends on the TPS at the same rate as the distributions paid by the Corporation on the junior subordinated debt held by the Trusts. Omega Financial Capital Trust I was assumed as a result of an acquisition.

Distributions on the subordinated debt issued to the Trusts are recorded as interest expense by the Corporation. The TPS are subject to mandatory redemption, in whole or in part, upon repayment of the subordinated debt. The TPS are eligible for redemption, at any time, at the Corporation's discretion. Under recently issued capital guidelines, effective January 1, 2015, the portion of the subordinated debt, net of the Corporation's investments in the Trusts, that qualifies as tier 1 capital is limited to 25% of the total \$57,500 outstanding at September 30, 2015, with the remaining 75% moving to tier 2 capital. In 2016, the entire balance of the subordinated debt will be included in tier 2 capital. The Corporation has entered into agreements which, when taken collectively, fully and unconditionally guarantee the obligations under the TPS subject to the terms of each of the guarantees.

The following table provides information relating to the Trusts as of September 30, 2015:

|                           | <b>Trust<br/>Preferred<br/>Securities</b> | <b>Common<br/>Securities</b> | <b>Junior<br/>Subordinated<br/>Debt</b> | <b>Stated<br/>Maturity<br/>Date</b> | <b>Interest<br/>Rate</b> |  |
|---------------------------|---|------------------------------|---|-------------------------------------|--------------------------|--|
| F.N.B. Statutory Trust II | \$ 21,500                                 | \$ 665                       | \$ 22,165                               | 6/15/36                             | 1.99%                    | Variable; 3-month<br>LIBOR + 165 basis<br>points (bps) |
|                           | 36,000                                    | 1,114                        | 36,120                                  | 10/18/34                            | 2.48%                    |  |

Omega Financial Capital  
Trust I

Variable; 3-month  
LIBOR + 219 bps

\$ 57,500   \$ 1,779   \$ 58,285

## DERIVATIVE AND HEDGING ACTIVITIES

The Corporation is exposed to certain risks arising from both its business operations and economic conditions. The Corporation principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Corporation manages economic risks, including interest rate risk, primarily by managing the amount, source, and duration of its assets and liabilities, and through the use of derivative instruments. Derivative instruments are used to reduce the effects that changes in interest rates may have on net income and cash flows. The Corporation also uses derivative instruments to facilitate transactions on behalf of its customers.

All derivatives are carried on the consolidated balance sheet at fair value and do not take into account the effects of master netting arrangements the Corporation has with other financial institutions. Credit risk is included in the determination of the estimated fair value of derivatives. Derivative assets are classified in the consolidated balance sheet under other assets and derivative liabilities are classified in the consolidated balance sheet under other liabilities. Changes in fair value are recognized in earnings except for certain changes related to derivative instruments designated as part of a cash flow hedging relationship.

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The following table presents notional amounts and gross fair values of all derivative assets and derivative liabilities held by the Corporation:

|  | September 30, 2015 |            |           | December 31, 2014  |            |           |
|--|--------------------|------------|-----------|--------------------|------------|-----------|
|  | Notional<br>Amount | Fair Value |           | Notional<br>Amount | Fair Value |           |
|  |                    | Asset      | Liability |                    | Asset      | Liability |
| <b>Gross Derivatives</b>                         |                    |            |           |                    |            |           |
| Subject to master netting arrangements:          |                    |            |           |                    |            |           |
| Interest rate contracts designated               | \$ 250,000         | \$ 4,918   | \$ 855    | \$ 200,000         | \$ 2,109   | \$ 2,330  |
| Interest rate swaps not designated               | 1,193,598          | 1          | 61,753    | 972,002            | 140        | 43,655    |
| Equity contracts not designated                  | 1,180              | 12         |           | 1,210              | 47         |           |
| Total subject to master netting arrangements     | 1,444,778          | 4,931      | 62,608    | 1,173,212          | 2,296      | 45,985    |
| Not subject to master netting arrangements:      |                    |            |           |                    |            |           |
| Interest rate swaps not designated               | 1,193,598          | 61,348     | 1         | 972,002            | 43,602     | 128       |
| Credit risk contracts not designated             | 111,976            | 14         | 185       | 68,632             |            |           |
| Equity contracts not designated                  | 1,180              |            | 12        | 1,210              |            | 47        |
| Total not subject to master netting arrangements | 1,306,754          | 61,362     | 198       | 1,041,844          | 43,602     | 175       |
|  | \$ 2,751,532       | \$ 66,293  | \$ 62,806 | \$ 2,215,056       | \$ 45,898  | \$ 46,160 |

*Derivatives Designated as Hedging Instruments under GAAP*

**Interest Rate Contracts.** The Corporation entered into interest rate derivative agreements to modify the interest rate characteristics of certain commercial loans and one of its FHLB advances from variable rate to fixed rate in order to reduce the impact of changes in future cash flows due to market interest rate changes. These agreements are designated as cash flow hedges (i.e., hedging the exposure to variability in expected future cash flows). The effective portion of the derivative's gain or loss is initially reported as a component of other comprehensive income and subsequently reclassified into earnings in the same line item associated with the forecasted transaction when the forecasted transaction affects earnings. The ineffective portion of the gain or loss is reported in earnings immediately.

At September 30, 2015 and December 31, 2014, the notional amount of these interest rate derivative agreements totaled \$250,000 and \$200,000, respectively. Fair values included in other assets and other liabilities on the consolidated balance sheet applicable to these agreements amounted to \$4,918 and \$855, respectively, at September 30, 2015, and \$2,109 and \$2,330, respectively, at December 31, 2014. For the nine months ended September 30, 2015, the amount reclassified from accumulated other comprehensive income (AOCI) to interest income and interest expense totaled \$2,440 (\$1,586 net of tax) and \$115 (\$75 net of tax), respectively.

As of September 30, 2015, the maximum length of time over which forecasted interest cash flows are hedged is eight years. In the twelve months that follow September 30, 2015, the Corporation expects to reclassify from the amount currently reported in AOCI net derivative gains of \$2,219 (\$1,443 net of tax), in association with interest on the

hedged loans and FHLB advance. This amount could differ from amounts actually recognized due to changes in interest rates, hedge de-designations, and the addition of other hedges subsequent to September 30, 2015.

There were no components of derivative gains or losses excluded from the assessment of hedge effectiveness related to these cash flow hedges. For the nine months ended September 30, 2015 and 2014, there was no hedge ineffectiveness. Also, during the nine months ended September 30, 2015 and 2014, there were no gains or losses from cash flow hedge derivatives reclassified to earnings because it became probable that the original forecasted transactions would not occur.

*Derivatives Not Designated as Hedging Instruments under GAAP*

*Interest Rate Swaps.* The Corporation enters into interest rate swap agreements to meet the financing, interest rate and equity risk management needs of qualifying commercial loan customers. These agreements provide the customer the ability to convert from variable to fixed interest rates. The credit risk associated with derivatives executed with customers is essentially the same as that involved in extending loans and is subject to normal credit policies and monitoring. Swap derivative transactions with customers are not subject to enforceable master netting arrangements and are generally secured by rights to non-financial collateral, such as real and personal property.

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The Corporation enters into positions with a derivative counterparty in order to offset its exposure on the fixed components of the customer interest rate swap agreements. The Corporation seeks to minimize counterparty credit risk by entering into transactions only with high-quality financial dealer institutions. These arrangements meet the definition of derivatives, but are not designated as hedging instruments under ASC 815, *Derivatives and Hedging*. Substantially all contracts with dealers that require central clearing (generally, transactions since June 10, 2014) are novated to a SEC registered clearing agency who becomes the Corporation's counterparty.

The notional amount of these customer derivative agreements and the offsetting derivative counterparty positions each totaled \$1,193,598 at September 30, 2015. Fair values included in other assets and other liabilities on the consolidated balance sheet applicable to these agreements amounted to \$61,349 and \$61,754, respectively, at September 30, 2015. At December 31, 2014, the notional amount of these customer derivative agreements and the offsetting derivative counterparty positions each totaled \$972,002. At December 31, 2014, fair values included in other assets and other liabilities on the consolidated balance sheet amounted to \$43,742 and \$43,783, respectively.

The interest rate swap agreement with the loan customer and with the counterparty is reported at fair value in other assets and other liabilities on the consolidated balance sheet with any resulting gain or loss recorded in current period earnings as other income or other expense.

*Credit Risk Contracts.* The Corporation purchases and sells credit protection under risk participation agreements to share with other counterparties some of the credit exposure related to interest rate derivative contracts or to take on credit exposure to generate revenue. The Corporation will make/receive payments under these agreements if a customer defaults on its obligation to perform under certain derivative swap contracts.

Risk participation agreements sold with notional amounts totaling \$74,010 as of September 30, 2015 have remaining terms ranging from two to nine years. Under these agreements, the Corporation's maximum exposure assuming a customer defaults on its obligation to perform under certain derivative swap contracts with third parties would be \$185 at September 30, 2015 and \$25 at December 31, 2014.

The fair values of risk participation agreements purchased and sold were not material at September 30, 2015 and December 31, 2014.

*Counterparty Credit Risk*

The Corporation is party to master netting arrangements with most of its swap derivative counterparties. Collateral, usually marketable securities and/or cash, is exchanged between the Corporation and its counterparties, and is generally subject to thresholds and transfer minimums. For swap transactions that require central clearing, the Corporation posts cash to its clearing agency. Collateral positions are valued daily, and adjustments to amounts received and pledged by the Corporation are made as appropriate to maintain proper collateralization for these transactions.

Certain master netting agreements contain provisions that, if violated, could cause the counterparties to request immediate settlement or demand full collateralization under the derivative instrument. If the Corporation had breached its agreements with its derivative counterparties it would be required to settle its obligations under the agreements at the termination value and would be required to pay an additional \$1,816 and \$1,862 as of September 30, 2015 and December 31, 2014, respectively, in excess of amounts previously posted as collateral with the respective counterparty.



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The following table presents information about derivative assets and derivative liabilities that are subject to enforceable master netting arrangements as well as those not subject to enforceable master netting arrangements:

|   | Gross<br>Amount | Gross<br>Amounts<br>Offset in<br>the Balance<br>Sheet | Net Amount<br>Presented in<br>the<br>Balance<br>Sheet |
|---|-----------------|---|---|
| <b>September 30, 2015</b>                   |                 |   |   |
| <b><u>Derivative Assets</u></b>             |                 |   |   |
| Subject to master netting arrangements:     |                 |   |   |
| Interest rate contracts                     |                 |   |   |
| Designated                                  | \$ 4,918        |   | \$ 4,918  |
| Not designated                              | 1               |   | 1   |
| Equity contracts not designated             | 12              |   | 12  |
| Not subject to master netting arrangements: |                 |   |   |
| Interest rate contracts not designated      | 61,348          |   | 61,348  |
| Credit contracts not designated             | 14              |   | 14  |
|   | \$ 66,293       |   | \$ 66,293   |
| <b><u>Derivative Liabilities</u></b>        |                 |   |   |
| Subject to master netting arrangements:     |                 |   |   |
| Interest rate contracts                     |                 |   |   |
| Designated                                  | \$ 855          |   | \$ 855  |
| Not designated                              | 61,753          |   | 61,753  |
| Not subject to master netting arrangements: |                 |   |   |
| Interest rate contracts not designated      | 1               |   | 1   |
| Credit contracts not designated             | 185             |   | 185   |
| Equity contracts not designated             | 12              |   | 12  |
|   | \$ 62,806       |   | \$ 62,806   |
| <b>December 31, 2014</b>                    |                 |   |   |
| <b><u>Derivative Assets</u></b>             |                 |   |   |
| Subject to master netting arrangements:     |                 |   |   |
| Interest rate contracts                     |                 |   |   |
| Designated                                  | \$ 2,109        |   | \$ 2,109  |
| Not designated                              | 140             |   | 140   |
| Equity contracts not designated             | 47              |   | 47  |
| Not subject to master netting arrangements: |                 |   |   |
| Interest rate contracts not designated      | 43,602          |   | 43,602  |
|   | \$ 45,898       |   | \$ 45,898   |

**Derivative Liabilities**

|   |           |           |
|---|-----------|-----------|
| Subject to master netting arrangements:     |           |           |
| Interest rate contracts                     |           |           |
| Designated                                  | \$ 2,330  | \$ 2,330  |
| Not designated                              | 43,655    | 43,655    |
| Not subject to master netting arrangements: |           |           |
| Interest rate contracts not designated      | 128       | 128       |
| Equity contracts not designated             | 47        | 47        |
|   | \$ 46,160 | \$ 46,160 |



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The following table presents a reconciliation of the net amounts of derivative assets and derivative liabilities presented in the balance sheet to the net amounts that would result in the event of offset:

|                                      | Net Amount<br>Presented in<br>the<br>Balance<br>Sheet | Amount Not Offset in<br>the<br>Balance Sheet |                    | Net<br>Amount |
|--------------------------------------|---|--|--------------------|---------------|
|                                      |   | Financial<br>Instruments                     | Cash<br>Collateral |               |
| <b>September 30, 2015</b>            |   |  |                    |               |
| <b><u>Derivative Assets</u></b>      |   |  |                    |               |
| Interest rate contracts:             |   |  |                    |               |
| Designated                           | \$ 4,918  | \$ 2,557                                     | \$ 2,361           |               |
| Not designated                       | 1   | 1  |                    |               |
| Equity contracts not designated      | 12  | 12   |                    |               |
|                                      | \$ 4,931  | \$ 2,570                                     | \$ 2,361           |               |
| <b><u>Derivative Liabilities</u></b> |   |  |                    |               |
| Interest rate contracts:             |   |  |                    |               |
| Designated                           | \$ 855  | \$   | \$                 | \$ 855        |
| Not designated                       | 61,753  | 31,827                                       | 28,290             | 1,636         |
|                                      | \$ 62,608   | \$ 31,827                                    | \$ 28,290          | \$ 2,491      |
| <b>December 31, 2014</b>             |   |  |                    |               |
| <b><u>Derivative Assets</u></b>      |   |  |                    |               |
| Interest rate contracts:             |   |  |                    |               |
| Designated                           | \$ 2,109  | \$ 810                                       | \$ 1,299           |               |
| Not designated                       | 140   | 138  | 2                  |               |
| Equity contracts not designated      | 47  | 47   |                    |               |
|                                      | \$ 2,296  | \$ 995                                       | \$ 1,301           |               |
| <b><u>Derivative Liabilities</u></b> |   |  |                    |               |
| Interest rate contracts:             |   |  |                    |               |
| Designated                           | \$ 2,330  | \$ 2,330                                     | \$                 | \$            |
| Not designated                       | 43,655  | 28,646                                       | 13,243             | 1,766         |
|                                      | \$ 45,985   | \$ 30,976                                    | \$ 13,243          | \$ 1,766      |

The following table presents the effect of certain of the Corporation's derivative financial instruments on the income statement:

**Income**

|                         | <b>Statement<br/>Location</b>            | <b>Nine Months<br/>Ended<br/>September 30,<br/>2015      2014</b> |          |
|-------------------------|--|---|----------|
| Interest Rate Contracts | Interest income - loans and leases       | \$ 2,440  | \$ 2,479 |
| Interest Rate Contracts | Interest expense - short-term borrowings | 115   |          |
| Interest Rate Swaps     | Other income                             | (364)   | (9)      |
| Credit Risk Contracts   | Other income                             | (170)   |          |

*Other*

The Corporation has entered into interest rate lock commitments to originate residential mortgage loans held for sale and forward commitments to sell residential mortgage loans to secondary market investors. These arrangements are considered derivative instruments. The fair values of the Corporation's rate lock commitments to customers and commitments with investors at September 30, 2015 and December 31, 2014 are not material.

**Table of Contents****COMMITMENTS, CREDIT RISK AND CONTINGENCIES**

The Corporation has commitments to extend credit and standby letters of credit that involve certain elements of credit risk in excess of the amount stated in the consolidated balance sheet. The Corporation's exposure to credit loss in the event of non-performance by the customer is represented by the contractual amount of those instruments. The credit risk associated with loan commitments and standby letters of credit is essentially the same as that involved in extending loans and leases to customers and is subject to normal credit policies. Since many of these commitments expire without being drawn upon, the total commitment amounts do not necessarily represent future cash flow requirements.

Following is a summary of off-balance sheet credit risk information:

|                              | <b>September 30,<br/>2015</b> | <b>December 31,<br/>2014</b> |
|------------------------------|-------------------------------|------------------------------|
| Commitments to extend credit | \$ 3,527,479                  | \$ 3,665,481                 |
| Standby letters of credit    | 97,875                        | 121,186                      |

At September 30, 2015, funding of 75.3% of the commitments to extend credit was dependent on the financial condition of the customer. The Corporation has the ability to withdraw such commitments at its discretion.

Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Based on management's credit evaluation of the customer, collateral may be deemed necessary. Collateral requirements vary and may include accounts receivable, inventory, property, plant and equipment and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Corporation that may require payment at a future date. The credit risk involved in issuing letters of credit is quantified on a quarterly basis, through the review of historical performance of the Corporation's portfolios and allocated as a liability on the Corporation's balance sheet.

In addition, debt issued by FNB Financial Services, LP, a wholly-owned finance subsidiary, is fully and unconditionally guaranteed by the Corporation.

*Other Legal Proceedings*

The Corporation and its subsidiaries are involved in various pending legal proceedings in which claims for monetary damages and other relief are asserted. These actions include claims brought against the Corporation and its subsidiaries where the Corporation or a subsidiary acted as one or more of the following: a depository bank, lender, underwriter, fiduciary, financial advisor, broker, agent, acquiror or was engaged in other business activities. Although the ultimate outcome for any asserted claim cannot be predicted with certainty, the Corporation believes that it and its subsidiaries have valid defenses for all asserted claims. Reserves are established for legal claims when losses associated with the claims are judged to be probable and the amount of the loss can be reasonably estimated.

Based on information currently available, advice of counsel, available insurance coverage and established reserves, the Corporation does not anticipate, at the present time, that the aggregate liability, if any, arising out of such legal proceedings will have a material adverse effect on the Corporation's consolidated financial position. However, the Corporation cannot determine whether or not any claims asserted against it will have a material adverse effect on its consolidated results of operations in any future reporting period.

## **STOCK INCENTIVE PLANS**

### *Restricted Stock*

The Corporation issues restricted stock awards, consisting of both restricted stock and restricted stock units, to key employees under its Incentive Compensation Plans (Plans). The Corporation issues time-based awards and performance-based awards under these Plans, both of which are based on a three-year vesting period. The grant date fair value of the time-based awards is equal to the price of the Corporation's common stock on the grant date. The fair value of the performance-based awards is based on a Monte-Carlo Simulation valuation of the Corporation's common stock as of the grant date.

For the nine months ended September 30, 2015 and 2014, the Corporation issued 402,947 and 364,065 restricted stock awards, respectively, with aggregated grant date fair values of \$5,302 and \$4,954 under these plans. For performance-based restricted stock awards granted, the amount of shares recipients will earn is variable based on the Corporation's total stockholder return relative to a specified peer group of financial institutions over the three-year period.

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These market-based restricted stock units are included in the table below as if the recipients earned shares equal to 100% of the units issued. As of September 30, 2015, the Corporation had available up to 2,072,110 shares of common stock to issue under the Plans.

The unvested restricted stock awards are eligible to receive cash dividends or dividend equivalents which are ultimately used to purchase additional shares of stock and are subject to forfeiture if the requisite service period is not completed or the specified performance criteria are not met. These awards are subject to certain accelerated vesting provisions upon retirement, death, disability or in the event of a change of control as defined in the award agreements.

Share-based compensation expense related to restricted stock awards was \$3,287 and \$2,294 for the nine months ended September 30, 2015 and 2014, the tax benefit of which was \$1,150 and \$803, respectively.

The following table summarizes certain information concerning restricted stock awards:

|  | Nine Months Ended September 30, |                                       | 2014      |                                       |
|--|---------------------------------|---------------------------------------|-----------|---------------------------------------|
|  | 2015                            | Weighted<br>Average<br>Grant<br>Price | Awards    | Weighted<br>Average<br>Grant<br>Price |
| Unvested awards outstanding at beginning of period | 1,354,093                       | \$ 11.86                              | 1,729,033 | \$ 10.23                              |
| Granted  | 402,947                         | 13.16                                 | 364,065   | 13.61                                 |
| Net adjustment due to performance                  | 8,884                           | 22.73                                 | (87,512)  | 11.41                                 |
| Vested   | (471,997)                       | 10.66                                 | (703,428) | 8.79                                  |
| Forfeited  | (29,428)                        | 13.46                                 | (50,849)  | 11.47                                 |
| Dividend reinvestment                              | 30,551                          | 11.32                                 | 34,521    | 12.73                                 |
| Unvested awards outstanding at end of period       | 1,295,050                       | 12.73                                 | 1,285,830 | 11.90                                 |

The total fair value of awards vested was \$5,912 and \$10,670 for the nine months ended September 30, 2015 and 2014, respectively.

As of September 30, 2015, there was \$6,993 of unrecognized compensation cost related to unvested restricted stock awards, including \$70 that is subject to accelerated vesting under the Plan's immediate vesting upon retirement provision for awards granted prior to the adoption of ASC 718, *Compensation - Stock Compensation*. The components of the restricted stock awards as of September 30, 2015 are as follows:

|                                   | Service-<br>Based<br>Awards | Performance-<br>Based<br>Awards | Total     |
|-----------------------------------|-----------------------------|---------------------------------|-----------|
| Unvested awards                   | 648,154                     | 646,896                         | 1,295,050 |
| Unrecognized compensation expense | \$ 4,458                    | \$ 2,535                        | \$ 6,993  |
| Intrinsic value                   | \$ 8,394                    | \$ 8,377                        | \$ 16,771 |

|  |      |      |      |
|--|------|------|------|
| Weighted average remaining life (in years) | 2.11 | 1.99 | 2.05 |
| <i>Stock Options</i>                       |      |      |      |

All outstanding stock options were assumed in connection with certain of the Corporation's completed acquisitions and are fully vested. Upon consummation of those acquisitions, all outstanding stock options issued by the acquired companies were converted into equivalent Corporation stock options. The Corporation issues shares of treasury stock or authorized but unissued shares to satisfy stock options exercised. Shares issued upon the exercise of stock options were 88,899 and 99,284 for the nine months ended September 30, 2015 and 2014, respectively.

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The following table summarizes certain information concerning stock option awards:

|  | 2015     |                                 | 2014      |                                 |
|--|----------|---------------------------------|-----------|---------------------------------|
|  | Shares   | Weighted Average Exercise Price | Shares    | Weighted Average Exercise Price |
| Options outstanding at beginning of period           | 568,834  | \$ 8.86                         | 533,524   | \$ 11.50                        |
| Assumed from acquisitions                            |          |                                 | 805,507   | 7.39                            |
| Exercised  | (88,899) | 5.61                            | (140,817) | 6.21                            |
| Forfeited  | (2,182)  | 4.34                            | (54,962)  | 24.41                           |
| Options outstanding and exercisable at end of period | 477,753  | 9.48                            | 1,143,252 | 8.64                            |

The intrinsic value of outstanding and exercisable stock options at September 30, 2015 was \$1,522.

*Warrants*

In conjunction with its participation in the U.S. Department of the Treasury's (UST) Capital Purchase Program (CPP), the Corporation issued to the UST a warrant to purchase up to 1,302,083 shares of the Corporation's common stock. Pursuant to Section 13(H) of the Warrant to Purchase Common Stock, the number of shares of common stock issuable upon exercise of the warrant was reduced in half to 651,042 shares on June 16, 2009, the date the Corporation completed a public offering. The warrant, which expires in 2019, was sold at auction by the UST and has an exercise price of \$11.52 per share.

In conjunction with the Parkvale Financial Corporation (Parkvale) acquisition on January 1, 2012, the warrant issued by Parkvale to the UST under the CPP has been converted into a warrant to purchase up to 819,640 shares of the Corporation's common stock. This warrant, which was recorded at its fair value on January 1, 2012, was sold at auction by the UST and was exercised at \$5.81 per share during the second quarter of 2015.

In conjunction with the Annapolis Bancorp, Inc. (ANNB) acquisition on April 6, 2013, the warrant issued by ANNB to the UST under the CPP has been converted into a warrant to purchase up to 342,564 shares of the Corporation's common stock at an exercise price of \$3.57 per share. Subsequent adjustments related to actual dividends paid by the Corporation have increased the share amount of these warrants to 374,221, with a resulting lower exercise price of \$3.27 per share as of September 30, 2015. The warrant, which was recorded at its fair value on April 6, 2013, was sold at auction by the UST and expires in 2019.

**RETIREMENT PLANS**

The Corporation sponsors the Retirement Income Plan (RIP), a qualified noncontributory defined benefit pension plan that covered substantially all salaried employees hired prior to January 1, 2008. The RIP covers employees who satisfied minimum age and length of service requirements. The Corporation's funding guideline has been to make annual contributions to the RIP each year, if necessary, such that minimum funding requirements have been met. The RIP was frozen as of December 31, 2010.

The Corporation also sponsors two supplemental non-qualified retirement plans. The ERISA Excess Retirement Plan provides retirement benefits equal to the difference, if any, between the maximum benefit allowable under the Internal Revenue Code and the amount that would be provided under the RIP, if no limits were applied. The Basic Retirement Plan (BRP) is applicable to certain officers whom the Board of Directors designates. Officers participating in the BRP receive a benefit based on a target benefit percentage based on years of service at retirement and a designated tier as determined by the Board of Directors. When a participant retires, the basic benefit under the BRP is a monthly benefit equal to the target benefit percentage times the participant's highest average monthly cash compensation during five consecutive calendar years within the last ten calendar years of employment. This monthly benefit is reduced by the monthly benefit the participant receives from Social Security, the RIP, the ERISA Excess Retirement Plan and the annuity equivalent of the automatic contributions to the qualified 401(k) defined contribution plan and the ERISA Excess Lost Match Plan. The BRP was frozen as of December 31, 2008. The ERISA Excess Retirement Plan was frozen as of December 31, 2010.



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The net periodic benefit credit for the defined benefit plans includes the following components:

|                                   | <b>Three Months<br/>Ended<br/>September 30,</b> |             | <b>Nine Months<br/>Ended<br/>September 30,</b> |             |
|-----------------------------------|---|-------------|--|-------------|
|                                   | <b>2015</b>                                     | <b>2014</b> | <b>2015</b>                                    | <b>2014</b> |
| Service cost                      | \$ 18   | \$ 15       | \$ 52  | \$ 47       |
| Interest cost                     | 1,470   | 1,610       | 4,424  | 4,802       |
| Expected return on plan assets    | (2,491)   | (2,486)     | (7,473)  | (7,460)     |
| Amortization:                     |   |             |  |             |
| Unrecognized net transition asset |   | (6)         |  | (16)        |
| Unrecognized prior service cost   | 2   | 2           | 6  | 6           |
| Unrecognized loss                 | 518   | 347         | 1,590  | 1,021       |
| Net periodic pension credit       | \$ (483)  | \$ (518)    | \$ (1,401)                                     | \$ (1,600)  |

The Corporation's subsidiaries participate in a qualified 401(k) defined contribution plan under which employees may contribute a percentage of their salary. Employees are eligible to participate upon their first day of employment. Under this plan, the Corporation matches 100% of the first six percent that the employee defers. Additionally, the Corporation may provide a performance-based company contribution of up to three percent if the Corporation exceeds annual financial goals. Prior to January 1, 2015, the Corporation matched 100% of the first four percent that the employee deferred, provided an automatic contribution of three percent of compensation at the end of the year and could make an additional performance-based company contribution of up to two percent if the Corporation achieved its performance goals for the plan year. The Corporation's contribution expense was \$5,794 and \$7,595 for the nine months ended September 30, 2015 and 2014, respectively.

The Corporation also sponsors an ERISA Excess Lost Match Plan for certain officers. This plan provides retirement benefits equal to the difference, if any, between the maximum benefit allowable under the Internal Revenue Code and the amount that would have been provided under the qualified 401(k) defined contribution plan, if no limits were applied.

**INCOME TAXES**

The Corporation bases its provision for income taxes upon income before income taxes, adjusted for the effect of certain tax-exempt income and non-deductible expenses. In addition, the Corporation reports certain items of income and expense in different periods for financial reporting and tax return purposes. The Corporation recognizes the tax effects of these temporary differences currently in the deferred income tax provision or benefit. The Corporation computes deferred tax assets or liabilities based upon the differences between the financial statement and income tax bases of assets and liabilities using the applicable marginal tax rate.

The Corporation evaluates the probability that it will ultimately realize the full value of its deferred tax assets. Realization of the Corporation's deferred tax assets is dependent upon a number of factors including the existence of any cumulative losses in prior periods, the amount of taxes paid in available carry-back periods, expectations for future earnings, applicable tax planning strategies and assessment of current and future economic and business conditions. The Corporation establishes a valuation allowance when it is more likely than not that the Corporation will not be able to realize a benefit from its deferred tax assets, or when future deductibility is uncertain.

At September 30, 2015, the Corporation anticipates that it will not utilize some of its state net operating loss carryforwards and other net deferred tax assets at certain of its subsidiaries and has recorded a valuation allowance against these deferred tax assets. The Corporation believes that, except for the portion which is covered by a valuation allowance, it is more likely than not the Corporation will realize the benefits of its deferred tax assets, net of the valuation allowance, at September 30, 2015, based on the levels of projected taxable income of some of its entities.

**Table of Contents****COMPREHENSIVE INCOME**

The components of comprehensive income, net of related tax, are as follows:

|   | <b>Three Months<br/>Ended<br/>September 30,</b> |             | <b>Nine Months Ended<br/>September 30,</b> |             |
|---|---|-------------|--|-------------|
|   | <b>2015</b>                                     | <b>2014</b> | <b>2015</b>                                | <b>2014</b> |
| Net income  | \$ 40,053                                       | \$ 35,391   | \$ 120,527                                 | \$ 104,746  |
| Other comprehensive income (loss):  |   |             |  |             |
| Securities available for sale:  |   |             |  |             |
| Unrealized gains (losses) arising during the period, net of tax expense (benefit) of \$3,649, \$(1,551), \$4,302 and \$10,399 | 6,777   | (2,881)     | 7,989                                      | 19,312      |
| Reclassification adjustment for gains included in net income, net of tax expense of \$110, \$412, \$112 and \$3,995           | (204)   | (766)       | (207)                                      | (7,420)     |
| Derivative instruments:   |   |             |  |             |
| Unrealized gains arising during the period, net of tax expense of \$1,709, \$40, \$2,353 and \$2,979                          | 3,174   | 74          | 4,370                                      | 5,532       |
| Reclassification adjustment for gains included in net income, net of tax expense of \$286, \$293, \$854 and \$867             | (531)   | (543)       | (1,586)                                    | (1,610)     |
| Pension and postretirement benefit obligations:   |   |             |  |             |
| Unrealized gains arising during the period, net of tax expense of \$183, \$121, \$560 and \$355                               | 340   | 224         | 1,040                                      | 659         |
| Other comprehensive income (loss)   | 9,556   | (3,892)     | 11,606                                     | 16,473      |
| Comprehensive income  | \$ 49,609                                       | \$ 31,499   | \$ 132,133                                 | \$ 121,219  |

The amounts reclassified from AOCI related to securities available for sale are included in net securities gains on the Consolidated Statements of Comprehensive Income, while the amounts reclassified from AOCI related to derivative instruments are included in interest income on loans and leases on the Consolidated Statements of Comprehensive Income.

The tax (benefit) expense amounts reclassified from AOCI in connection with the securities available for sale and derivative instruments reclassifications are included in income taxes on the Consolidated Statements of Comprehensive Income.

The following table presents changes in AOCI, net of tax, by component:

| Unrealized<br>Net | Unrealized<br>Net Gains | Unrecognized<br>Pension and | Total |
|-------------------|-------------------------|-----------------------------|-------|
|-------------------|-------------------------|-----------------------------|-------|

|   | <b>Gains<br/>(Losses) on<br/>Securities<br/>Available<br/>for Sale</b> | <b>(Losses)<br/>on<br/>Derivative<br/>Instruments</b> | <b>Postretirement<br/>Obligations</b> |             |
|---|--|---|---------------------------------------|-------------|
| <b>Nine Months Ended September 30, 2015</b>         |  |   |                                       |             |
| Balance at beginning of period                      | \$ (440)   | \$ (143)  | \$ (45,420)                           | \$ (46,003) |
| Other comprehensive income before reclassifications | 7,989  | 4,370   | 1,040                                 | 13,399      |
| Amounts reclassified from AOCI                      | (207)  | (1,586)   |                                       | (1,793)     |
| Net current period other comprehensive income       | 7,782  | 2,784   | 1,040                                 | 11,606      |
| Balance at end of period                            | \$ 7,342   | \$ 2,641  | \$ (44,380)                           | \$ (34,397) |

**Table of Contents****EARNINGS PER COMMON SHARE**

Basic earnings per common share is calculated by dividing net income available to common stockholders by the weighted average number of shares of common stock outstanding net of unvested shares of restricted stock.

Diluted earnings per common share is calculated by dividing net income available to common stockholders by the weighted average number of shares of common stock outstanding, adjusted for the dilutive effect of potential common shares issuable for stock options, warrants and restricted shares, as calculated using the treasury stock method. Adjustments to the weighted average number of shares of common stock outstanding are made only when such adjustments dilute earnings per common share.

The following table sets forth the computation of basic and diluted earnings per common share:

|   | Three Months Ended<br>September 30, |             | Nine Months Ended<br>September 30, |             |
|---|-------------------------------------|-------------|------------------------------------|-------------|
|   | 2015                                | 2014        | 2015                               | 2014        |
| Net income  | \$ 40,053                           | \$ 35,391   | \$ 120,527                         | \$ 104,746  |
| Less: Preferred stock dividends   | 2,010                               | 2,010       | 6,030                              | 6,342       |
| Net income available to common stockholders   | \$ 38,043                           | \$ 33,381   | \$ 114,497                         | \$ 98,404   |
| Basic weighted average common shares outstanding                                      | 175,343,789                         | 167,260,386 | 174,816,692                        | 165,229,206 |
| Net effect of dilutive stock options, warrants, restricted stock and convertible debt | 1,169,043                           | 1,623,741   | 1,383,450                          | 1,695,637   |
| Diluted weighted average common shares outstanding                                    | 176,512,832                         | 168,884,127 | 176,200,142                        | 166,924,843 |
| Earnings per common share:  |                                     |             |                                    |             |
| Basic   | \$ 0.22                             | \$ 0.20     | \$ 0.65                            | \$ 0.60     |
| Diluted   | \$ 0.22                             | \$ 0.20     | \$ 0.65                            | \$ 0.59     |

For the three months ended September 30, 2015 and 2014, 19,385 and 32,419 shares of common stock, respectively, related to stock options and warrants were excluded from the computation of diluted earnings per common share because the exercise price of the shares was greater than the average market price of the common shares and, therefore, the effect would be anti-dilutive. For the nine months ended September 30, 2015 and 2014, 20,440 and 38,151 shares of common stock, respectively, related to stock options and warrants were excluded from the computation of diluted earnings per common share because the exercise price of the shares was greater than the average market price of the common shares and, therefore, the effect would be anti-dilutive.

**CASH FLOW INFORMATION**

Following is a summary of supplemental cash flow information:

| <b>Nine Months Ended September 30</b>          | <b>2015</b> | <b>2014</b> |
|--|-------------|-------------|
| Interest paid on deposits and other borrowings | \$ 35,531   | \$ 31,804   |
| Income taxes paid                              | 41,000      | 17,000      |
| Transfers of loans to other real estate owned  | 6,901       | 7,784       |
| Financing of other real estate owned sold      | 372         | 287         |

**Table of Contents****BUSINESS SEGMENTS**

The Corporation operates in four reportable segments: Community Banking, Wealth Management, Insurance and Consumer Finance.

The Community Banking segment provides commercial and consumer banking services. Commercial banking solutions include corporate banking, small business banking, investment real estate financing, international banking, business credit, capital markets and lease financing. Consumer banking products and services include deposit products, mortgage lending, consumer lending and a complete suite of mobile and online banking services.

The Wealth Management segment provides a broad range of personal and corporate fiduciary services including the administration of decedent and trust estates. In addition, it offers various alternative products, including securities brokerage and investment advisory services, mutual funds and annuities.

The Insurance segment includes a full-service insurance agency offering all lines of commercial and personal insurance through major carriers. The Insurance segment also includes a reinsurer.

The Consumer Finance segment primarily makes installment loans to individuals and purchases installment sales finance contracts from retail merchants. The Consumer Finance segment activity is funded through the sale of the Corporation's subordinated notes at the finance company's branch offices.

The following tables provide financial information for these segments of the Corporation. The information provided under the caption "Parent and Other" represents operations not considered to be reportable segments and/or general operating expenses of the Corporation, and includes the parent company, other non-bank subsidiaries and eliminations and adjustments which are necessary for purposes of reconciliation to the consolidated amounts.

|  | <b>Community<br/>Banking</b> | <b>Wealth<br/>Management</b> | <b>Insurance</b> | <b>Consumer<br/>Finance</b> | <b>Parent and<br/>Other</b> | <b>Consolidated</b> |
|--|------------------------------|------------------------------|------------------|-----------------------------|-----------------------------|---------------------|
| <b>At or for the Three Months<br/>Ended September 30, 2015</b> |                              |                              |                  |                             |                             |                     |
| Interest income  | \$ 125,281                   | \$                           | \$ 22            | \$ 10,096                   | \$ 1,798                    | \$ 137,197          |
| Interest expense   | 10,473                       |                              |                  | 878                         | 645                         | 11,996              |
| Net interest income  | 114,808                      |                              | 22               | 9,218                       | 1,153                       | 125,201             |
| Provision for credit losses                                    | 8,702                        |                              |                  | 1,750                       | 325                         | 10,777              |
| Non-interest income  | 29,667                       | 8,682                        | 3,602            | 716                         | (1,308)                     | 41,359              |
| Non-interest expense   | 80,906                       | 6,703                        | 3,201            | 4,983                       | 322                         | 96,115              |
| Intangible amortization  | 1,824                        | 69                           | 141              |                             |                             | 2,034               |
| Income tax expense (benefit)                                   | 15,804                       | 696                          | 105              | 1,473                       | (497)                       | 17,581              |
| Net income (loss)  | 37,239                       | 1,214                        | 177              | 1,728                       | (305)                       | 40,053              |
| Total assets   | 16,658,489                   | 21,099                       | 22,201           | 187,721                     | (53,437)                    | 16,836,073          |
| Total intangibles  | 855,164                      | 10,516                       | 13,069           | 1,809                       |                             | 880,558             |

**At or for the Three Months  
Ended September 30, 2014**

|                              |            |        |        |          |          |            |
|------------------------------|------------|--------|--------|----------|----------|------------|
| Interest income              | \$ 120,122 | \$     | \$ 24  | \$ 9,773 | \$ 1,647 | \$ 131,566 |
| Interest expense             | 9,435      |        |        | 826      | 686      | 10,947     |
| Net interest income          | 110,687    |        | 24     | 8,947    | 961      | 120,619    |
| Provision for credit losses  | 9,427      |        |        | 1,519    | 251      | 11,197     |
| Non-interest income          | 27,179     | 8,174  | 3,373  | 719      | (1,893)  | 37,552     |
| Non-interest expense         | 79,243     | 6,294  | 2,943  | 4,983    | (71)     | 93,392     |
| Intangible amortization      | 2,282      | 72     | 101    |          |          | 2,455      |
| Income tax expense (benefit) | 14,347     | 656    | 128    | 1,216    | (611)    | 15,736     |
| Net income (loss)            | 32,567     | 1,152  | 225    | 1,948    | (501)    | 35,391     |
| Total assets                 | 15,584,832 | 21,892 | 19,148 | 182,301  | (51,128) | 15,757,045 |
| Total intangibles            | 856,464    | 10,792 | 10,223 | 1,809    |          | 879,288    |



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|   | <b>Community<br/>Banking</b> | <b>Wealth<br/>Management</b> | <b>Insurance</b> | <b>Consumer<br/>Finance</b> | <b>Parent and<br/>Other</b> | <b>Consolidated</b> |
|---|------------------------------|------------------------------|------------------|-----------------------------|-----------------------------|---------------------|
| <b>At or for the Nine Months<br/>Ended September 30, 2015</b> |                              |                              |                  |                             |                             |                     |
| Interest income   | \$ 371,366                   | \$                           | \$ 67            | \$ 29,467                   | \$ 5,114                    | \$ 406,014          |
| Interest expense  | 30,580                       |                              |                  | 2,593                       | 1,952                       | 35,125              |
| Net interest income   | 340,786                      |                              | 67               | 26,874                      | 3,162                       | 370,889             |
| Provision for credit losses                                   | 21,974                       |                              |                  | 5,288                       | 515                         | 27,777              |
| Non-interest income   | 85,281                       | 26,268                       | 9,948            | 2,124                       | (4,328)                     | 119,293             |
| Non-interest expense  | 236,324                      | 20,127                       | 10,952           | 14,785                      | 967                         | 283,155             |
| Intangible amortization                                       | 5,601                        | 205                          | 342              |                             |                             | 6,148               |
| Income tax expense (benefit)                                  | 48,744                       | 2,143                        | (433)            | 3,660                       | (1,539)                     | 52,575              |
| Net income (loss)   | 113,424                      | 3,793                        | (846)            | 5,265                       | (1,109)                     | 120,527             |
| Total assets  | 16,658,489                   | 21,099                       | 22,201           | 187,721                     | (53,437)                    | 16,836,073          |
| Total intangibles   | 855,164                      | 10,516                       | 13,069           | 1,809                       |                             | 880,558             |
| <b>At or for the Nine Months<br/>Ended September 30, 2014</b> |                              |                              |                  |                             |                             |                     |
| Interest income   | \$ 339,974                   | \$                           | \$ 74            | \$ 28,716                   | \$ 5,122                    | \$ 373,886          |
| Interest expense  | 26,413                       |                              |                  | 2,481                       | 2,356                       | 31,250              |
| Net interest income   | 313,561                      |                              | 74               | 26,235                      | 2,766                       | 342,636             |
| Provision for credit losses                                   | 23,148                       |                              |                  | 4,754                       | 706                         | 28,608              |
| Non-interest income   | 86,512                       | 23,530                       | 10,582           | 2,120                       | (3,932)                     | 118,812             |
| Non-interest expense  | 231,390                      | 19,038                       | 8,900            | 14,800                      | 1,270                       | 275,398             |
| Intangible amortization                                       | 6,680                        | 216                          | 303              |                             |                             | 7,199               |
| Income tax expense (benefit)                                  | 41,738                       | 1,555                        | 521              | 3,386                       | (1,703)                     | 45,497              |
| Net income (loss)   | 97,117                       | 2,721                        | 932              | 5,415                       | (1,439)                     | 104,746             |
| Total assets  | 15,584,832                   | 21,892                       | 19,148           | 182,301                     | (51,128)                    | 15,757,045          |
| Total intangibles   | 856,454                      | 10,792                       | 10,223           | 1,809                       |                             | 879,288             |

**FAIR VALUE MEASUREMENTS**

The Corporation uses fair value measurements to record fair value adjustments to certain financial assets and liabilities and to determine fair value disclosures. Securities available for sale and derivatives are recorded at fair value on a recurring basis. Additionally, from time to time, the Corporation may be required to record at fair value other assets on a non-recurring basis, such as mortgage loans held for sale, certain impaired loans, OREO and certain other assets.

Fair value is defined as an exit price, representing the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements are not adjusted for transaction costs. Fair value is a market-based measure considered from the perspective of a market participant who holds the asset or owes the liability rather than an entity-specific measure.

In determining fair value, the Corporation uses various valuation approaches, including market, income and cost approaches. ASC 820, Fair Value Measurements and Disclosures, establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability, which are developed based on market data obtained from sources independent of the Corporation. Unobservable inputs reflect the Corporation's assumptions about the assumptions that market participants would use in

pricing an asset or liability, which are developed based on the best information available in the circumstances.

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The fair value hierarchy gives the highest priority to unadjusted quoted market prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). The fair value hierarchy is broken down into three levels based on the reliability of inputs as follows:

**Measurement  
Category****Definition**

|         |   |
|---------|---|
| Level 1 | valuation is based upon unadjusted quoted market prices for identical instruments traded in active markets.   |
| Level 2 | valuation is based upon quoted market prices for similar instruments traded in active markets, quoted market prices for identical or similar instruments traded in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by market data. |
| Level 3 | valuation is derived from other valuation methodologies including discounted cash flow models and similar techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in determining fair value.                             |

A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

Following is a description of the valuation methodologies the Corporation uses for financial instruments recorded at fair value on either a recurring or non-recurring basis:

*Securities Available For Sale*

Securities available for sale consists of both debt and equity securities. These securities are recorded at fair value on a recurring basis. At September 30, 2015, 99.9% of these securities used valuation methodologies involving market-based or market-derived information, collectively Level 1 and Level 2 measurements, to measure fair value. The remaining 0.1% of these securities was measured using model-based techniques, with primarily unobservable (Level 3) inputs.

The Corporation closely monitors market conditions involving assets that have become less actively traded. If the fair value measurement is based upon recent observable market activity of such assets or comparable assets (other than forced or distressed transactions) that occur in sufficient volume, and do not require significant adjustment using unobservable inputs, those assets are classified as Level 1 or Level 2; if not, they are classified as Level 3. Making this assessment requires significant judgment.

The Corporation uses prices from independent pricing services and, to a lesser extent, indicative (non-binding) quotes from independent brokers, to measure the fair value of investment securities. The Corporation validates prices received from pricing services or brokers using a variety of methods, including, but not limited to, comparison to secondary pricing services, corroboration of pricing by reference to other independent market data such as secondary broker quotes and relevant benchmark indices, and review of pricing information by Corporate personnel familiar with market liquidity and other market-related conditions.

*Derivative Financial Instruments*

The Corporation determines its fair value for derivatives using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects contractual terms of the derivative, including the period to maturity and uses observable market based inputs, including interest rate curves and implied volatilities.

The Corporation incorporates credit valuation adjustments to appropriately reflect both its own non-performance risk and the respective counterparty's non-performance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of non-performance risk, the Corporation considers the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts and guarantees.

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Although the Corporation has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, as of September 30, 2015, the Corporation has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. As a result, the Corporation has determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

### *Residential Mortgage Loans Held For Sale*

These loans are carried at the lower of cost or fair value. Under lower of cost or fair value accounting, periodically, it may be necessary to record non-recurring fair value adjustments. Fair value, when recorded, is based on independent quoted market prices and is classified as Level 2.

### *Impaired Loans*

The Corporation reserves for commercial loan relationships greater than or equal to \$500 that the Corporation considers impaired as defined in ASC 310 at the time the Corporation identifies the loan as impaired based upon the present value of expected future cash flows available to pay the loan, or based upon the fair value of the collateral less estimated selling costs where a loan is collateral dependent. Collateral may be real estate and/or business assets including equipment, inventory and accounts receivable.

The Corporation determines the fair value of real estate based on appraisals by licensed or certified appraisers. The value of business assets is generally based on amounts reported on the business financial statements. Management must rely on the financial statements prepared and certified by the borrower or its accountants in determining the value of these business assets on an ongoing basis, which may be subject to significant change over time. Based on the quality of information or statements provided, management may require the use of business asset appraisals and site-inspections to better value these assets. The Corporation may discount appraised and reported values based on management's historical knowledge, changes in market conditions from the time of valuation or management's knowledge of the borrower and the borrower's business. Since not all valuation inputs are observable, the Corporation classifies these non-recurring fair value determinations as Level 2 or Level 3 based on the lowest level of input that is significant to the fair value measurement.

The Corporation reviews and evaluates impaired loans no less frequently than quarterly for additional impairment based on the same factors identified above.

### *Other Real Estate Owned*

OREO is comprised of commercial and residential real estate properties obtained in partial or total satisfaction of loan obligations plus some bank owned real estate. OREO acquired in settlement of indebtedness is recorded at the lower of carrying amount of the loan or fair value less costs to sell. Subsequently, these assets are carried at the lower of carrying value or fair value less costs to sell. Accordingly, it may be necessary to record non-recurring fair value adjustments. Fair value is generally based upon appraisals by licensed or certified appraisers and other market information and is classified as Level 2 or Level 3.

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The following table presents the balances of assets and liabilities measured at fair value on a recurring basis:

|  | Level 1 | Level 2      | Level 3  | Total        |
|--|---------|--------------|----------|--------------|
| <b>September 30, 2015</b>                      |         |              |          |              |
| <b>Assets Measured at Fair Value</b>           |         |              |          |              |
| Available for sale debt securities:            |         |              |          |              |
| U.S. Treasury                                  | \$      | \$ 30,004    | \$       | \$ 30,004    |
| U.S. government-sponsored entities             |         | 390,767      |          | 390,767      |
| Residential mortgage-backed securities:        |         |              |          |              |
| Agency mortgage-backed securities              |         | 597,120      |          | 597,120      |
| Agency collateralized mortgage obligations     |         | 527,928      |          | 527,928      |
| Non-agency collateralized mortgage obligations |         | 7            | 1,220    | 1,227        |
| Commercial mortgage-backed securities          |         | 4,392        |          | 4,392        |
| States of the U.S. and political subdivisions  |         | 11,272       |          | 11,272       |
| Other debt securities                          |         | 14,553       |          | 14,553       |
|  |         | 1,576,043    | 1,220    | 1,577,263    |
| Available for sale equity securities:          |         |              |          |              |
| Financial services industry                    | 95      | 656          | 383      | 1,134        |
| Insurance services industry                    | 129     |              |          | 129          |
|  | 224     | 656          | 383      | 1,263        |
|  | 224     | 1,576,699    | 1,603    | 1,578,526    |
| Derivative financial instruments:              |         |              |          |              |
| Trading  |         | 61,361       |          | 61,361       |
| Not for trading                                |         | 4,932        |          | 4,932        |
|  |         | 66,293       |          | 66,293       |
|  | \$ 224  | \$ 1,642,992 | \$ 1,603 | \$ 1,644,819 |
| <b>Liabilities Measured at Fair Value</b>      |         |              |          |              |
| Derivative financial instruments:              |         |              |          |              |
| Trading  |         | \$ 61,766    |          | \$ 61,766    |
| Not for trading                                |         | 1,040        |          | 1,040        |
|  |         | \$ 62,806    |          | \$ 62,806    |

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|  | Level 1 | Level 2      | Level<br>3 | Total        |
|--|---------|--------------|------------|--------------|
| <b>December 31, 2014</b>                       |         |              |            |              |
| <b>Assets Measured at Fair Value</b>           |         |              |            |              |
| Available for sale debt securities:            |         |              |            |              |
| U.S. Treasury                                  | \$      | \$ 29,682    | \$         | \$ 29,682    |
| U.S. government-sponsored entities             |         | 337,133      |            | 337,133      |
| Residential mortgage-backed securities:        |         |              |            |              |
| Agency mortgage-backed securities              |         | 554,085      |            | 554,085      |
| Agency collateralized mortgage obligations     |         | 573,171      |            | 573,171      |
| Non-agency collateralized mortgage obligations |         | 11           | 1,420      | 1,431        |
| Commercial mortgage-backed securities          |         | 7,880        |            | 7,880        |
| States of the U.S. and political subdivisions  |         | 13,158       |            | 13,158       |
| Other debt securities                          |         | 16,178       |            | 16,178       |
|  |         | 1,531,298    | 1,420      | 1,532,718    |
| Available for sale equity securities:          |         |              |            |              |
| Financial services industry                    | 99      | 654          | 475        | 1,228        |
| Insurance services industry                    | 119     |              |            | 119          |
|  | 218     | 654          | 475        | 1,347        |
|  | 218     | 1,531,952    | 1,895      | 1,534,065    |
| Derivative financial instruments:              |         |              |            |              |
| Trading  |         | 43,789       |            | 43,789       |
| Not for trading                                |         | 2,109        |            | 2,109        |
|  |         | 45,898       |            | 45,898       |
|  | \$ 218  | \$ 1,577,850 | \$ 1,895   | \$ 1,579,963 |
| <b>Liabilities Measured at Fair Value</b>      |         |              |            |              |
| Derivative financial instruments:              |         |              |            |              |
| Trading  |         | \$ 43,830    |            | \$ 43,830    |
| Not for trading                                |         | 2,330        |            | 2,330        |
|  |         | \$ 46,160    |            | \$ 46,160    |

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The following table presents additional information about assets measured at fair value on a recurring basis and for which the Corporation has utilized Level 3 inputs to determine fair value:

|  | <b>Pooled<br/>Trust<br/>Preferred<br/>Collateralized<br/>Debt<br/>Obligations</b> | <b>Equity<br/>Securities</b> | <b>Residential<br/>Non-Agency<br/>Collateralized<br/>Mortgage<br/>Obligations</b> | <b>Total</b> |
|--|---|------------------------------|---|--------------|
| <b>Nine Months Ended September 30, 2015</b>  |   |                              |   |              |
| Balance at beginning of period               |   | \$ 475                       | \$ 1,420  | \$ 1,895     |
| Total gains (losses) realized/unrealized:    |   |                              |   |              |
| Included in earnings                         |   |                              |   |              |
| Included in other comprehensive income       |   | (36)                         | (3)   | (39)         |
| Accretion included in earnings               |   |                              | 4   | 4            |
| Purchases, issuances, sales and settlements: |   |                              |   |              |
| Purchases                                    |   |                              |   |              |
| Issuances                                    |   |                              |   |              |
| Sales/redemptions                            |   |                              |   |              |
| Settlements                                  |   |                              | (201)   | (201)        |
| Transfers from Level 3                       |   | (56)                         |   | (56)         |
| Transfers into Level 3                       |   |                              |   |              |
| Balance at end of period                     |   | \$ 383                       | \$ 1,220  | \$ 1,603     |
| <b>Year Ended December 31, 2014</b>          |   |                              |   |              |
| Balance at beginning of period               | \$ 31,595   | \$ 410                       | \$ 1,744  | \$ 33,749    |
| Total gains (losses) realized/unrealized:    |   |                              |   |              |
| Included in earnings                         | 13,766  |                              |   | 13,766       |
| Included in other comprehensive income       | 5,608   | 65                           | 3   | 5,676        |
| Accretion included in earnings               | 657   |                              | 5   | 662          |
| Purchases, issuances, sales and settlements: |   |                              |   |              |
| Purchases                                    |   |                              |   |              |
| Issuances                                    |   |                              |   |              |
| Sales/redemptions                            | (51,527)  |                              |   | (51,527)     |
| Settlements                                  | (99)  |                              | (332)   | (431)        |
| Transfers from Level 3                       |   |                              |   |              |
| Transfers into Level 3                       |   |                              |   |              |
| Balance at end of period                     | \$  | \$ 475                       | \$ 1,420  | \$ 1,895     |

The Corporation reviews fair value hierarchy classifications on a quarterly basis. Changes in the observability of the valuation attributes may result in reclassification of certain financial assets or liabilities. Such reclassifications are reported as transfers in/out of Level 3 at fair value at the beginning of the period in which the changes occur. See the Securities Available for Sale footnote in this section of this Report for information relating to determining Level 3 fair values. During the second quarter of 2015, the Corporation transferred an equity security totaling \$56 to



non-marketable equity securities, reflected in other assets on the Consolidated Balance Sheet. There were no transfers of assets or liabilities between the hierarchy levels for 2014.

For the nine months ended September 30, 2015 and 2014, there were no gains or losses included in earnings attributable to the change in unrealized gains or losses relating to assets still held as of those dates. The total (losses) gains included in earnings are in the net securities (losses) gains line item in the Consolidated Statements of Comprehensive Income.

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In accordance with GAAP, from time to time, the Corporation measures certain assets at fair value on a non-recurring basis. These adjustments to fair value usually result from the application of the lower of cost or fair value accounting or write-downs of individual assets. Valuation methodologies used to measure these fair value adjustments were previously described. For assets measured at fair value on a non-recurring basis still held at the balance sheet date, the following table provides the hierarchy level and the fair value of the related assets or portfolios:

|                           | Level 1 | Level 2  | Level 3  | Total    |
|---------------------------|---------|----------|----------|----------|
| <b>September 30, 2015</b> |         |          |          |          |
| Impaired loans            |         | \$ 1,016 | \$ 1,919 | \$ 2,935 |
| Other real estate owned   |         | 5,223    | 2,099    | 7,322    |
| <b>December 31, 2014</b>  |         |          |          |          |
| Impaired loans            |         | 177      | 1,528    | 1,705    |
| Other real estate owned   |         | 5,695    | 2,365    | 8,060    |

Substantially all of the fair value amounts in the table above were estimated at a date during the nine months or twelve months ended September 30, 2015 and December 31, 2014, respectively. Consequently, the fair value information presented is not as of the period's end.

Impaired loans measured or re-measured at fair value on a non-recurring basis during the nine months ended September 30, 2015 had a carrying amount of \$5,227 and an allocated allowance for credit losses of \$2,508. The allocated allowance is based on fair value of \$2,935 less estimated costs to sell of \$216. The allowance for credit losses includes a provision applicable to the current period fair value measurements of \$1,329, which was included in the provision for credit losses for the nine months ended September 30, 2015.

OREO with a carrying amount of \$9,320 was written down to \$6,476 (fair value of \$7,322 less estimated costs to sell of \$846), resulting in a loss of \$2,844, which was included in earnings for the nine months ended September 30, 2015.

*Fair Value of Financial Instruments*

The following methods and assumptions were used to estimate the fair value of each financial instrument:

*Cash and Cash Equivalents, Accrued Interest Receivable and Accrued Interest Payable.* For these short-term instruments, the carrying amount is a reasonable estimate of fair value.

*Securities.* For both securities available for sale and securities held to maturity, fair value equals the quoted market price from an active market, if available, and is classified within Level 1. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities or pricing models, and is classified as Level 2. Where there is limited market activity or significant valuation inputs are unobservable, securities are classified within Level 3. Under current market conditions, assumptions used to determine the fair value of Level 3 securities have greater subjectivity due to the lack of observable market transactions.

*Loans and Leases.* The fair value of fixed rate loans and leases is estimated by discounting the future cash flows using the current rates at which similar loans and leases would be made to borrowers with similar credit ratings and for the same remaining maturities less an illiquidity discount. The fair value of variable and adjustable rate loans and leases approximates the carrying amount. Due to the significant judgment involved in evaluating credit quality, loans and

leases are classified within Level 3 of the fair value hierarchy.

*Derivative Assets and Liabilities.* The Corporation determines its fair value for derivatives using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects contractual terms of the derivative, including the period to maturity and uses observable market based inputs, including interest rate curves and implied volatilities.

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The Corporation incorporates credit valuation adjustments to appropriately reflect both its own non-performance risk and the respective counterparty's non-performance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of non-performance risk, the Corporation considers the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts and guarantees.

Although the Corporation has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, as of September 30, 2015, the Corporation has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. As a result, the Corporation has determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

*Deposits.* The estimated fair value of demand deposits, savings accounts and certain money market deposits is the amount payable on demand at the reporting date because of the customer's ability to withdraw funds immediately. The fair value of fixed-maturity deposits is estimated by discounting future cash flows using rates currently offered for deposits of similar remaining maturities.

*Short-Term Borrowings.* The carrying amounts for short-term borrowings approximate fair value for amounts that mature in 90 days or less. The fair value of subordinated notes is estimated by discounting future cash flows using rates currently offered.

*Long-Term Borrowings.* The fair value of long-term borrowings is estimated by discounting future cash flows based on the market prices for the same or similar issues or on the current rates offered to the Corporation for debt of the same remaining maturities.

*Loan Commitments and Standby Letters of Credit.* Estimates of the fair value of these off-balance sheet items were not made because of the short-term nature of these arrangements and the credit standing of the counterparties. Also, unfunded loan commitments relate principally to variable rate commercial loans, typically are non-binding, and fees are not normally assessed on these balances.

*Nature of Estimates.* Many of the estimates presented herein are based upon the use of highly subjective information and assumptions and, accordingly, the results may not be precise. Management believes that fair value estimates may not be comparable to other financial institutions due to the wide range of permitted valuation techniques and numerous estimates which must be made. Further, because the disclosed fair value amounts were estimated as of the balance sheet date, the amounts actually realized or paid upon maturity or settlement of the various financial instruments could be significantly different.

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The fair values of the Corporation's financial instruments are as follows:

|  | Carrying<br>Amount | Fair Value | Fair Value Measurements |           |            |
|--|--------------------|------------|-------------------------|-----------|------------|
|  |                    |            | Level 1                 | Level 2   | Level 3    |
| <b>September 30, 2015</b>                              |                    |            |                         |           |            |
| <b>Financial Assets</b>                                |                    |            |                         |           |            |
| Cash and cash equivalents                              | \$ 258,766         | \$ 258,766 | \$ 258,766              | \$        | \$         |
| Securities available for sale                          | 1,578,526          | 1,578,526  | 224                     | 1,576,699 | 1,603      |
| Securities held to maturity                            | 1,526,290          | 1,546,135  |                         | 1,543,065 | 3,070      |
| Net loans and leases, including<br>loans held for sale | 11,741,037         | 11,633,933 |                         |           | 11,633,933 |
| Derivative assets                                      | 66,293             | 66,293     |                         | 66,293    |            |
| Accrued interest receivable                            | 44,688             | 44,688     | 44,688                  |           |            |
| <b>Financial Liabilities</b>                           |                    |            |                         |           |            |
| Deposits   | 12,759,736         | 12,762,839 | 10,206,107              | 2,556,732 |            |
| Short-term borrowings                                  | 1,287,302          | 1,287,302  | 1,287,302               |           |            |
| Long-term borrowings                                   | 542,653            | 541,120    |                         |           | 541,120    |
| Derivative liabilities                                 | 62,806             | 62,806     |                         | 62,806    |            |
| Accrued interest payable                               | 6,283              | 6,283      | 6,283                   |           |            |
| <b>December 31, 2014</b>                               |                    |            |                         |           |            |
| <b>Financial Assets</b>                                |                    |            |                         |           |            |
| Cash and cash equivalents                              | \$ 287,393         | \$ 287,393 | \$ 287,393              | \$        | \$         |
| Securities available for sale                          | 1,534,065          | 1,534,065  | 218                     | 1,531,952 | 1,895      |
| Securities held to maturity                            | 1,453,355          | 1,468,258  |                         | 1,463,945 | 4,313      |
| Net loans and leases, including<br>loans held for sale | 11,127,292         | 10,956,544 |                         |           | 10,956,544 |
| Derivative assets                                      | 45,898             | 45,898     |                         | 45,898    |            |
| Accrued interest receivable                            | 40,231             | 40,231     | 40,231                  |           |            |
| <b>Financial Liabilities</b>                           |                    |            |                         |           |            |
| Deposits   | 11,382,208         | 11,382,402 | 8,771,173               | 2,611,229 |            |
| Short-term borrowings                                  | 2,041,658          | 2,041,672  | 2,041,672               |           |            |
| Long-term borrowings                                   | 541,443            | 539,007    |                         |           | 539,007    |
| Derivative liabilities                                 | 46,160             | 46,160     |                         | 46,160    |            |
| Accrued interest payable                               | 6,689              | 6,689      | 6,689                   |           |            |

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Management's Discussion and Analysis represents an overview of the consolidated results of operations and financial condition of the Corporation and highlights material changes to the financial condition and results of operations at and for the three- and nine-month periods ended September 30, 2015. This Discussion and Analysis should be read in conjunction with the consolidated financial statements and notes thereto contained herein and the Corporation's consolidated financial statements and notes thereto and Management's Discussion and Analysis included in its 2014 Annual Report on Form 10-K filed with the SEC on February 27, 2015. The Corporation's results of operations for the nine months ended September 30, 2015 are not necessarily indicative of results expected for the full year ending

December 31, 2015.

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**IMPORTANT CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION**

The Corporation makes statements in this Report, and may from time to time make other statements, regarding its outlook for earnings, revenues, expenses, capital levels, liquidity levels, asset levels, asset quality and other matters regarding or affecting the Corporation and its future business and operations that are forward-looking statements within the meaning of the Private Securities Litigation Reform Act. Forward-looking statements are typically identified by words such as believe, plan, expect, anticipate, see, look, intend, outlook, project, forecast, goal, will, should and other similar words and expressions. Forward-looking statements are subject to numerous assumptions, risks and uncertainties, which change over time.

Forward-looking statements speak only as of the date made. The Corporation does not assume any duty and does not undertake to update forward-looking statements. Actual results or future events could differ, possibly materially, from those anticipated in forward-looking statements, as well as from historical performance.

The Corporation's forward-looking statements are subject to the following principal risks and uncertainties:

The Corporation's businesses, financial results and balance sheet values are affected by business and economic conditions, including the following:

Changes in interest rates and valuations in debt, equity and other financial markets.

Disruptions in the liquidity and other functioning of U.S. and global financial markets.

The impact of federal regulatory agencies that have oversight or review of the Corporation's business operations and securities activities.

Actions by the Board of Governors of the Federal Reserve System (FRB), UST and other government agencies, including those that impact money supply and market interest rates.

Changes in customers' suppliers' and other counterparties' performance and creditworthiness which adversely affect loan utilization rates, delinquencies, defaults and counterparty ability to meet credit and other obligations.

Slowing or reversal of the rate of growth in the economy and employment levels and other economic factors that affect the Corporation's liquidity and performance of its loan and lease portfolio, particularly in the markets in which the Corporation operates.

Changes in customer preferences and behavior, whether due to changing business and economic conditions, legislative and regulatory initiatives, or other factors.

Legal and regulatory developments could affect the Corporation's ability to operate its businesses, financial condition, results of operations, competitive position, reputation, or pursuit of attractive acquisition opportunities. Reputational impacts could affect matters such as business generation and retention, liquidity, funding, and ability to attract and retain management. These developments could include:

Changes resulting from legislative and regulatory reforms, including broad-based restructuring of financial industry regulation; changes to laws and regulations involving tax, pension, bankruptcy, consumer protection, and other matters having income and expense implications, including changes in accounting policies and principles. The Corporation will continue to be impacted by extensive reforms resulting from the Dodd-Frank Act and otherwise growing out of the recent financial crisis, the precise nature, extent and timing of which, and their impact on the Corporation, remains uncertain.

Results of the regulatory examination and supervisory process.

Changes to regulations governing bank capital and liquidity standards, including due to the Dodd-Frank Act, Volcker rule, Dodd-Frank Act stress testing rules (DFAST) and Basel III initiatives.

Impact on business and operating results of any costs associated with obtaining rights in intellectual property, the adequacy of the Corporation's intellectual property protection in general, and the Corporation's operational or security systems or infrastructure, or those of third party vendors or other service providers, and rapid technological developments and changes.

Business and operating results are affected by judgments and assumptions in the Corporation's analytical and forecasting models and its reliance on the advice of experienced outside advisors and its ability to identify and effectively manage risks inherent in its businesses, including, where appropriate, through effective use of third-party insurance, derivatives, swaps, and capital management techniques, and to meet evolving regulatory capital standards.



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As demonstrated by its acquisitions, the Corporation grows its business in part by acquiring, from time to time, other financial services companies, financial services assets and related deposits. These acquisitions often present risks and uncertainties, including, the possibility that the transaction cannot be consummated; regulatory issues; cost, or difficulties involved in integration and conversion of the acquired businesses after closing; inability to realize expected cost savings, efficiencies and strategic advantages; the extent of credit losses in acquired loan portfolios; the extent of deposit attrition; the potential dilutive effect to current shareholders, and our entry into new geographic markets in risks attendant to our unfamiliarity or inexperience in such new markets.

Certain risks relating to originating and selling mortgages may adversely impact the Corporation's revenue and expenses, including volatility in mortgage production and servicing revenue and changes in carrying values of our MSR's and mortgages held for sale due to changes in interest rates as well as borrower fraud and repurchase and indemnification obligations related to breaches of representations and warranties.

Technological changes that may be more difficult or costly to implement than anticipated.

Sporadic and inconsistent recovery from the effects of the recent economic recession and the resulting adverse impact on levels of unemployment, loan utilization rates, delinquencies, defaults and counterparty capacity to satisfy credit and other obligations.

Increasing competition for loans pose increased challenges to originate and purchase loans with attractive terms and pricing and acceptable credit quality.

Competition can have an impact on customer acquisition, growth and retention and on credit spreads and product pricing, which can affect market share, deposits and revenues. Industry restructuring in the current environment could also impact the Corporation's business and financial performance through changes in counterparty creditworthiness and performance, and the competitive and regulatory landscape. The Corporation's ability to anticipate and respond to technological changes can also impact its ability to respond to customer needs and meet competitive demands.

Business and operating results can also be affected by widespread disasters, dislocations, terrorist activities, cyber-attacks or international hostilities through their impacts on the economy and financial markets.

The Corporation provides more information regarding these risks and uncertainties in its 2014 Annual Report on Form 10-K, including the section titled "Risk Factors," and in this Report.

## **CRITICAL ACCOUNTING POLICIES**

A description of the Corporation's critical accounting policies is included in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of the Corporation's 2014 Annual Report on Form 10-K filed with the SEC on February 27, 2015 under the heading "Application of Critical Accounting Policies." There have been no significant changes in critical accounting policies or the assumptions and judgments utilized in applying these policies since the year ended December 31, 2014.

## **USE OF NON-GAAP FINANCIAL MEASURES**

In addition to evaluating its results of operations in accordance with GAAP, the Corporation routinely supplements its evaluation with an analysis of certain non-GAAP financial measures, such as return on average tangible common equity, return on average tangible assets and net interest income on a fully taxable equivalent (FTE) basis. The Corporation believes these non-GAAP financial measures provide information useful to investors in understanding the Corporation's operating performance and trends, and facilitate comparisons with the performance of the Corporation's peers. The non-GAAP financial measures used by the Corporation may differ from the non-GAAP financial measures other financial institutions use to measure their results of operations. Non-GAAP financial measures should be viewed in addition to, and not as an alternative for, the Corporation's reported results prepared in accordance with GAAP.

**Table of Contents****OVERVIEW**

The Corporation, headquartered in Pittsburgh, Pennsylvania, is a diversified financial services company operating in six states and three major metropolitan areas, including Pittsburgh, Baltimore, Maryland and Cleveland, Ohio. As of September 30, 2015, the Corporation had 289 banking offices throughout Pennsylvania, Ohio, Maryland and West Virginia. The Corporation provides a full range of commercial banking, consumer banking and wealth management solutions through its subsidiary network which is led by its largest affiliate, FNBPA. Commercial banking solutions include corporate banking, small business banking, investment real estate financing, international banking, business credit, capital markets and lease financing. Consumer banking provides a full line of consumer banking products and services including deposit products, mortgage lending, consumer lending and a complete suite of mobile and online banking services. Wealth management services include asset management, private banking and insurance. The Corporation also operates Regency, which had 73 consumer finance offices in Pennsylvania, Ohio, Kentucky and Tennessee as of September 30, 2015.

**RESULTS OF OPERATIONS*****Three Months Ended September 30, 2015 Compared to the Three Months Ended September 30, 2014***

Net income available to common stockholders for the three months ended September 30, 2015 was \$38.0 million or \$0.22 per diluted common share, compared to net income available to common stockholders for the three months ended September 30, 2014 of \$33.4 million or \$0.20 per diluted common share. The increase in net income available to common stockholders is a result of increases of \$4.6 million in net interest income and \$3.8 million in non-interest income, combined with a decrease of \$0.4 million in the provision for credit losses, partially offset by an increase of \$2.3 million in non-interest expense. The results for the third quarter of 2015 reflect the full-quarter effect of the OBA acquisition that closed on September 19, 2014. The BCSB acquisition that closed on February 15, 2014 is reflected in both quarterly periods. The results for the third quarter of 2015 and 2014 included merger and acquisition costs of \$1.3 million and \$1.9 million, respectively. The merger and acquisition costs in 2015 were due to the branch purchase from Bank of America that closed in September and the pending acquisition of Metro Bancorp, Inc., while the 2014 costs were a result of the OBA acquisition. Quarterly average diluted common shares outstanding increased 7.6 million shares or 4.5% to 176.5 million shares for the third quarter of 2015, primarily as a result of the OBA acquisition.

For the three months ended September 30, 2015, the Corporation's return on average equity was 7.63% and its return on average assets was 0.95%, compared to 7.28% and 0.92%, respectively, for the three months ended September 30, 2014. The Corporation's return on average tangible common equity was 14.12% and its return on average tangible assets was 1.03% for the third quarter of 2015, compared to 14.29% and 1.02%, respectively, for the same period of 2014. Average equity was \$2.1 billion and \$1.9 billion for the third quarter of 2015 and 2014, respectively, while average tangible common equity was \$1.1 billion and \$1.0 billion, respectively, for those same periods. Average equity for the third quarter of 2015 reflects the impact of the OBA acquisition.

The following table shows how the Corporation's non-GAAP ratios' return on average tangible common equity' and' return on average tangible assets' for the periods indicated were derived from amounts reported in the Corporation's financial statements (dollars in thousands):

**Three Months Ended  
September 30,**

|   | 2015          | 2014          |
|---|---------------|---------------|
| <b><u>Return on Average Tangible Common Equity:</u></b>     |               |               |
| Net income available to common stockholders<br>(annualized) | \$ 150,932    | \$ 132,437    |
| Amortization of intangibles, net of tax<br>(annualized)     | 5,246         | 6,332         |
|   | \$ 156,178    | \$ 138,769    |
| Average total stockholders equity                           | \$ 2,082,043  | \$ 1,927,727  |
| Less: Average preferred stockholders equity                 | (106,882)     | (106,882)     |
| Less: Average intangibles                                   | (869,110)     | (849,902)     |
|   | \$ 1,106,051  | \$ 970,943    |
| Return on average tangible common equity                    | 14.12%        | 14.29%        |
| <b><u>Return on Average Tangible Assets:</u></b>            |               |               |
| Net income (annualized)                                     | \$ 158,907    | \$ 140,408    |
| Amortization of intangibles, net of tax<br>(annualized)     | 5,246         | 6,332         |
|   | \$ 164,153    | \$ 146,740    |
| Average total assets  | \$ 16,732,310 | \$ 15,217,695 |
| Less: Average intangibles                                   | (869,110)     | (849,902)     |
|   | \$ 15,863,200 | \$ 14,367,793 |
| Return on average tangible assets                           | 1.03%         | 1.02%         |

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The following table provides information regarding the average balances and yields earned on interest-earning assets and the average balances and rates paid on interest-bearing liabilities (dollars in thousands):

|  | Three Months Ended September 30, |                                |                |                      |                                |                |
|--|----------------------------------|--------------------------------|----------------|----------------------|--------------------------------|----------------|
|  | 2015                             |                                |                | 2014                 |                                |                |
|  | Average<br>Balance               | Interest<br>Income/<br>Expense | Yield/<br>Rate | Average<br>Balance   | Interest<br>Income/<br>Expense | Yield/<br>Rate |
| <b>Assets</b>                                    |                                  |                                |                |                      |                                |                |
| Interest-earning assets:                         |                                  |                                |                |                      |                                |                |
| Interest-bearing deposits with banks             | \$ 75,208                        | \$ 30                          | 0.16%          | \$ 54,223            | \$ 23                          | 0.17%          |
| Taxable investment securities (1)                | 2,870,378                        | 14,577                         | 2.03           | 2,636,572            | 13,711                         | 2.08           |
| Non-taxable investment securities (2)            | 218,609                          | 2,624                          | 4.80           | 159,797              | 2,086                          | 5.22           |
| Residential mortgage loans held for sale         | 8,967                            | 74                             | 3.30           | 3,330                | 62                             | 7.44           |
| Loans and leases (2) (3)                         | 11,763,705                       | 121,842                        | 4.11           | 10,544,781           | 117,474                        | 4.43           |
| Total interest-earning assets (2)                | 14,936,867                       | 139,147                        | 3.70           | 13,398,703           | 133,356                        | 3.96           |
| Cash and due from banks                          | 199,115                          |                                |                | 199,157              |                                |                |
| Allowance for credit losses                      | (134,206)                        |                                |                | (120,226)            |                                |                |
| Premises and equipment                           | 162,103                          |                                |                | 163,368              |                                |                |
| Other assets                                     | 1,568,431                        |                                |                | 1,576,693            |                                |                |
| <b>Total Assets</b>                              | <b>\$ 16,732,310</b>             |                                |                | <b>\$ 15,217,695</b> |                                |                |
| <b>Liabilities</b>                               |                                  |                                |                |                      |                                |                |
| Interest-bearing liabilities:                    |                                  |                                |                |                      |                                |                |
| Deposits:  |                                  |                                |                |                      |                                |                |
| Interest-bearing demand                          | \$ 5,238,598                     | 2,241                          | 0.17           | \$ 4,398,565         | 1,752                          | 0.16           |
| Savings  | 1,730,818                        | 198                            | 0.05           | 1,575,775            | 172                            | 0.04           |
| Certificates and other time                      | 2,565,215                        | 5,509                          | 0.85           | 2,653,535            | 5,533                          | 0.83           |
| Customer repurchase agreements                   | 236,570                          | 113                            | 0.19           | 772,812              | 413                            | 0.21           |
| Other short-term borrowings                      | 1,309,639                        | 1,673                          | 0.50           | 723,049              | 1,046                          | 0.57           |
| Long-term borrowings                             | 542,720                          | 2,262                          | 1.65           | 480,924              | 2,031                          | 1.68           |
| Total interest-bearing liabilities (2)           | 11,623,560                       | 11,996                         | 0.41           | 10,604,660           | 10,947                         | 0.41           |
| Non-interest-bearing demand                      | 2,886,933                        |                                |                | 2,524,568            |                                |                |
| Other liabilities                                | 139,774                          |                                |                | 160,740              |                                |                |
| <b>Total Liabilities</b>                         | <b>14,650,267</b>                |                                |                | <b>13,289,968</b>    |                                |                |
| <b>Stockholders Equity</b>                       | <b>2,082,043</b>                 |                                |                | <b>1,927,727</b>     |                                |                |
| <b>Total Liabilities and Stockholders Equity</b> | <b>\$ 16,732,310</b>             |                                |                | <b>\$ 15,217,695</b> |                                |                |

|   |              |              |
|---|--------------|--------------|
| Excess of interest-earning assets over interest-bearing liabilities | \$ 3,313,307 | \$ 2,794,043 |
| Fully tax-equivalent net interest income                            | 127,151      | 122,409      |
| Tax-equivalent adjustment   | (1,950)      | (1,790)      |
| Net interest income   | \$ 125,201   | \$ 120,619   |
| Net interest spread   | 3.30%        | 3.55%        |
| Net interest margin (2)   | 3.39%        | 3.63%        |

- (1) The average balances and yields earned on taxable investment securities are based on historical cost.
- (2) The interest income amounts are reflected on a FTE basis, a non-GAAP measure, which adjusts for the tax benefit of income on certain tax-exempt loans and investments using the federal statutory tax rate of 35% for each period presented. The yields on earning assets and the net interest margin are presented on an FTE and annualized basis. The rates paid on interest-bearing liabilities are also presented on an annualized basis. The Corporation believes this measure to be the preferred industry measurement of net interest income and provides relevant comparison between taxable and non-taxable amounts.
- (3) Average balances include non-accrual loans. Loans and leases consist of average total loans less average unearned income. The amount of loan fees included in interest income on loans is immaterial.

**Table of Contents***Net Interest Income*

Net interest income, which is the Corporation's principal source of revenue, is the difference between interest income from earning assets (loans and leases, securities, interest-bearing deposits with banks and federal funds sold) and interest expense paid on liabilities (deposits, customer repurchase agreements and short- and long-term borrowings). For the three months ended September 30, 2015, net interest income, which comprised 75.2% of net revenue (net interest income plus non-interest income) compared to 76.3% for the same period in 2014, was affected by the general level of interest rates, changes in interest rates, the shape of the yield curve, the level of non-accrual loans and changes in the amount and mix of interest-earning assets and interest-bearing liabilities.

Net interest income, on an FTE basis, increased \$4.7 million or 3.9% from \$122.4 million for the third quarter of 2014 to \$127.2 million for the third quarter of 2015. Average earning assets of \$14.9 billion increased \$1.5 billion or 11.5% and average interest-bearing liabilities of \$11.6 billion increased \$1.0 billion or 9.6% from 2014 due to the OBA acquisition, combined with organic growth in loans and leases, deposits and customer repurchase agreements. The Corporation's net interest margin was 3.39% for the third quarter of 2015, compared to 3.63% for the same period of 2014, as loan and lease yields declined faster than deposit rates primarily as a result of the current low interest rate environment, combined with lower accretable yield adjustments. Accretable yield adjustments added 1 basis point to the net interest margin for the third quarter of 2015, compared to 12 basis point for the same period of 2014. Details on changes in tax-equivalent net interest income attributed to changes in interest-earning assets, interest-bearing liabilities, yields and cost of funds, and the derivation of tax-equivalent net interest income from amounts reported on the Corporation's financial statements are set forth in the preceding table.

The following table sets forth certain information regarding changes in net interest income, on a FTE basis, attributable to changes in the volumes of interest-earning assets and interest-bearing liabilities and changes in the rates for the three months ended September 30, 2015, compared to the three months ended September 30, 2014 (in thousands):

|  | Volume | Rate    | Net   |
|--|--------|---------|-------|
| <b><u>Interest Income</u></b>            |        |         |       |
| Interest bearing deposits with banks     | \$ 8   | \$ (1)  | \$ 7  |
| Securities                               | 1,750  | (346)   | 1,404 |
| Residential mortgage loans held for sale | 61     | (49)    | 12    |
| Loans and leases                         | 12,948 | (8,580) | 4,368 |
|  | 14,767 | (8,976) | 5,791 |
| <b><u>Interest Expense</u></b>           |        |         |       |
| Deposits:                                |        |         |       |
| Interest bearing demand                  | 468    | 21      | 489   |
| Savings                                  | 26     |         | 26    |
| Certificates and other time              | (187)  | 163     | (24)  |
| Customer repurchase agreements           | (261)  | (39)    | (300) |
| Other short-term borrowings              | 759    | (132)   | 627   |
| Long-term borrowings                     | 258    | (27)    | 231   |
|  | 1,063  | (14)    | 1,049 |

|            |           |            |          |
|------------|-----------|------------|----------|
| Net Change | \$ 13,704 | \$ (8,962) | \$ 4,742 |
|------------|-----------|------------|----------|

- (1) The amount of change not solely due to rate or volume changes was allocated between the change due to rate and the change due to volume based on the net size of the rate and volume changes.
- (2) Interest income amounts are reflected on an FTE basis which adjusts for the tax benefit of income on certain tax-exempt loans and investments using the federal statutory tax rate of 35% for each period presented. The Corporation believes this measure to be the preferred industry measurement of net interest income and provides relevant comparison between taxable and non-taxable amounts.



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Interest income, on an FTE basis, of \$139.1 million for the third quarter of 2015, increased \$5.8 million or 4.3% from the same quarter of 2014, primarily due to increased earning assets, partially offset by a lower accretable yield benefit and lower yields. During the third quarter of 2015 and 2014, the Corporation recognized a benefit of \$0.3 million and \$3.9 million, respectively, in accretable yield adjustments on acquired loans. The increase in earning assets was primarily driven by a \$1.2 billion or 11.6% increase in average loans and leases, including \$954 million or 8.8% of organic growth, which reflects the benefit of the Corporation's expanded banking footprint and successful sales management. Average loans were adjusted for acquired balances for OBA of \$300.6 million. The yield on earning assets decreased 26 basis points from the third quarter of 2014 to 3.70% for the third quarter of 2015, reflecting the decreases in market interest rates and competitive pressures, in addition to the above-mentioned changes in accretable yield adjustments on acquired loans.

Interest expense of \$12.0 million for the third quarter of 2015 increased \$1.0 million or 9.6% from the same quarter of 2014 due to growth in interest-bearing liabilities. The growth in average interest-bearing liabilities, which increased by \$1.0 billion or 9.6%, was attributable to growth in average deposits and short-and long-term borrowings, offset by a decrease in customer repurchase agreements. The rate paid on interest-bearing liabilities was 0.41% for both the third quarter of 2015 and 2014. Given the absolute low level of interest rates and the current rates paid on the various deposit products, the Corporation believes there is limited opportunity for further reductions in the overall rate paid on interest-bearing liabilities.

*Provision for Credit Losses*

The provision for credit losses is determined based on management's estimates of the appropriate level of allowance for credit losses needed to absorb probable losses inherent in the existing loan and lease portfolio, after giving consideration to charge-offs and recoveries for the period.

The provision for credit losses of \$10.8 million during the third quarter of 2015 decreased \$0.4 million from the same period of 2014, primarily due to a decrease in the provision for the acquired portfolio, which resulted from lower acquired net charge-offs and a favorable cash flow re-estimation in the quarter. This was partially offset by an increased originated provision during the third quarter of 2015, which supported loan growth, and to a lesser degree, some slight credit migration within the originated commercial loan portfolio. During the third quarter of 2015, net charge-offs were \$5.7 million, or 0.19% (annualized) of average loans and leases, compared to \$7.3 million, or 0.28% (annualized) of average loans and leases, for the same period of 2014. The ratio of the allowance for credit losses to total loans and leases equaled 1.15% and 1.10% at September 30, 2015 and 2014, respectively, reflecting stability and consistency in the Corporation's credit quality performance. For additional information relating to the allowance and provision for credit losses, refer to the Allowance for Credit Losses section of this Management's Discussion and Analysis.

*Non-Interest Income*

Total non-interest income increased \$3.8 million, to \$41.4 million for the third quarter of 2015, or 10.1% from the same period of 2014. The variances in significant individual non-interest income items are further explained in the following paragraphs.

Service charges on loans and deposits of \$18.6 million for the third quarter of 2015 increased \$0.9 million or 5.0% from the same period of 2014. Customer-related interchange fees increased \$0.6 million or 20.0% and other service charges and fees increased \$0.7 million or 9.8% over this same period, reflecting the impact of organic growth and the expanded customer base due to acquisitions. Overdraft fees decreased \$0.4 million or 5.1% over this same period, following a nationwide trend as consumers are managing their accounts to avoid fees

Trust fees of \$5.2 million for the third quarter of 2015 increased \$0.3 million or 7.0% from the same period of 2014, primarily driven by strong organic growth activity and geographic expansion, partially offset by a decline in market conditions. The market value of assets under management decreased \$107.0 million or 2.9% to \$3.6 billion during the third quarter of 2015.

Insurance commissions and fees of \$4.4 million for the third quarter of 2015 increased \$0.3 million or 6.1% from the same period of 2014.

Securities commissions of \$3.3 million for the third quarter of 2015 increased \$0.2 million or 5.5% from the third quarter of 2014, primarily due to positive results from new initiatives generating new customer relationships combined with increased volume, geographic expansion and improved market conditions.

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Net securities gains were \$0.3 million for the third quarter of 2015, down from \$1.2 million for the third quarter of 2014, primarily due to the sale of certain equity securities during 2014.

Mortgage banking revenue, which is primarily derived from the gain on sale of 30-year fixed rate residential mortgage loans, was \$2.4 million for the third quarter of 2015 compared to \$1.1 million for the same period of 2014. This increase is primarily due to higher origination volume and successful cross-selling efforts generated from a strengthened mortgage management team. During the third quarter of 2015, the Corporation sold \$143.7 million of residential mortgage loans, compared to \$45.0 million for the same period of 2014.

Other non-interest income of \$5.2 million for the third quarter of 2015 increased \$1.7 million from the third quarter of 2014. During the third quarter of 2015, the Corporation recorded \$1.2 million more in fees earned through its commercial loan interest rate swap program, reflecting strong commercial loan growth. Also during the third quarter of 2015, the Corporation recorded \$0.3 million more in gains from an equity investment and \$0.3 million in rental income associated with a non-banking subsidiary. Additionally, the Corporation recognized \$0.2 million less in recoveries of impaired loans acquired in previous acquisitions compared to the same quarter of 2014.

### *Non-Interest Expense*

Total non-interest expense of \$98.1 million for the third quarter of 2015 increased \$2.3 million or 2.4% from the same period of 2014. The variances in the individual non-interest expense items are further explained in the following paragraphs with an overriding theme of the expense increases primarily related to the expanded operations from acquisitions.

Salaries and employee benefits of \$51.9 million for the third quarter of 2015 increased \$2.3 million or 4.6% from the same period of 2014. This increase primarily relates to employees added in conjunction with the OBA acquisition, combined with new hires, merit increases and higher medical insurance costs in 2015.

Occupancy and equipment expense of \$16.2 million for the third quarter of 2015 increased \$0.8 million or 5.4% from the same period of 2014, primarily resulting from the OBA acquisition, combined with an increase in rental space and related expense relating to the Pittsburgh headquarters and regional headquarters in Cleveland, Ohio and Baltimore, Maryland. Additionally, the Corporation's continued focus on new technology, both in meeting customer needs via the utilization of electronic delivery channels, such as online and mobile banking, and in meeting the continued regulatory requirements resulted in an increase of \$0.6 million in technology-related expense during the third quarter of 2015.

Amortization of intangibles expense of \$2.0 million for the third quarter of 2015 decreased \$0.4 million or 17.2% from the third quarter of 2014, due to a combination of certain intangible assets being completely amortized during 2014 and declining amortization expense on some intangible assets due to accelerated amortization methods.

Outside services expense of \$7.3 million for the third quarter of 2015 decreased \$0.9 million or 10.6% from the same period of 2014. For the third quarter of 2015, compared to the same period of 2014, check card expenses decreased \$0.4 million as a result of obtaining a new contract with an outside party relating to processing fees. Additionally, legal fees decreased \$0.4 million during this same time period due recoveries.

The Corporation recorded \$1.3 million in merger and acquisition costs associated with the branch acquisition from Bank of America and the pending Metro Bancorp, Inc. acquisition during the third quarter of 2015 and \$1.9 million in merger and acquisition costs primarily associated with the OBA acquisition during the third quarter of 2014.

Other non-interest expense increased \$1.1 million or 7.5% to \$16.3 million in 2015. For the third quarter of 2015, OREO expenses increased \$0.5 million, state taxes increased \$1.2 million and supplies expenses increased \$0.6 million, all primarily due to acquisitions and volume increases related to organic growth. These increases were partially offset by decreases of \$1.0 million in donations due to the Pennsylvania budget impasse and \$0.7 million in marketing expenses, both of which were lower due to timing differences.

*Income Taxes*

The Corporation's income tax expense of \$17.6 million for the third quarter of 2015 increased \$1.8 million or 11.7% from the same period of 2014. The effective tax rate of 30.5% for the third quarter of 2015 decreased slightly from 30.8% for the same period of 2014, due to the benefit of a lower overall state tax burden. Both periods' tax rates are lower than the 35% federal statutory tax rate due to the tax benefits primarily resulting from tax-exempt income on investments, loans and BOLI, as well as tax credits.

**Table of Contents*****Nine Months Ended September 30, 2015 Compared to the Nine Months Ended September 30, 2014***

Net income available to common stockholders for the nine months ended September 30, 2015 was \$114.5 million or \$0.65 per diluted common share, compared to net income available to common stockholders for the nine months ended September 30, 2014 of \$98.4 million or \$0.59 per diluted common share. The increase in net income available to common stockholders is a result of an increase of \$28.3 million in net interest income and \$0.5 million in non-interest income, combined with a decrease of \$0.8 million in the provision for credit losses, partially offset by an increase of \$6.7 million in non-interest expense. The results for the first nine months of 2015 reflect the full-quarter effect of the OBA and BCSB acquisitions that closed on September 19, 2014 and February 15, 2014, respectively. The first nine months of 2015 and 2014 included \$1.7 million and \$8.1 million in merger costs, respectively. Average diluted common shares outstanding increased 9.3 million shares or 5.6% to 176.2 million shares for the first nine months of 2015, primarily as a result of the OBA and BCSB acquisitions.

For the nine months ended September 30, 2015, the Corporation's return on average equity was 7.81% and its return on average assets was 0.98%, compared to 7.42% and 0.96%, respectively, for the nine months ended September 30, 2014. The Corporation's return on average tangible common equity was 14.57% and its return on average tangible assets was 1.07% for the first nine months of 2015, compared to 14.70% and 1.06%, respectively, for the same period of 2014. Average equity was \$2.1 billion and \$1.9 billion for the first nine months of 2015 and 2014, respectively, while average tangible common equity was \$1.1 billion and \$0.9 billion, respectively, for those same periods. Average equity for the first nine months of 2015 reflects the impact of the OBA and BCSB acquisitions.

The following table shows how the Corporation's non-GAAP ratios' return on average tangible common equity' and 'return on average tangible assets' for the periods indicated were derived from amounts reported in the Corporation's financial statements (dollars in thousands):

|  | <b>Nine Months Ended<br/>September 30,</b> |              |
|--|--|--------------|
|  | <b>2015</b>                                | <b>2014</b>  |
| <b><u>Return on Average Tangible Common Equity:</u></b>  |  |              |
| Net income available to common stockholders (annualized) | \$ 153,082                                 | \$ 131,565   |
| Amortization of intangibles, net of tax (annualized)     | 5,343                                      | 6,256        |
|  | \$ 158,425                                 | \$ 137,821   |
| Average total stockholders' equity                       | \$ 2,062,930                               | \$ 1,886,386 |
| Less: Average preferred stockholders' equity             | (106,882)                                  | (106,882)    |
| Less: Average intangibles                                | (868,843)                                  | (841,770)    |
|  | \$ 1,087,205                               | \$ 937,734   |
| Return on average tangible common equity                 | 14.57%                                     | 14.70%       |
| <b><u>Return on Average Tangible Assets:</u></b>         |  |              |
| Net income (annualized)                                  | \$ 161,144                                 | \$ 140,045   |

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|   |               |               |
|---|---------------|---------------|
| Amortization of intangibles, net of tax<br>(annualized) | 5,343         | 6,256         |
|   | \$ 166,487    | \$ 146,301    |
| Average total assets                                    | \$ 16,447,713 | \$ 14,643,776 |
| Less: Average intangibles                               | (868,843)     | (841,770)     |
|   | \$ 15,578,870 | \$ 13,802,007 |
| Return on average tangible assets                       | 1.07%         | 1.06%         |

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The following table provides information regarding the average balances and yields earned on interest-earning assets and the average balances and rates paid on interest-bearing liabilities (dollars in thousands):

|  | Nine Months Ended September 30, |                                |                |                      |                                |                |
|--|---------------------------------|--------------------------------|----------------|----------------------|--------------------------------|----------------|
|  | 2015                            |                                |                | 2014                 |                                |                |
|  | Average<br>Balance              | Interest<br>Income/<br>Expense | Yield/<br>Rate | Average<br>Balance   | Interest<br>Income/<br>Expense | Yield/<br>Rate |
| <b>Assets</b>                                    |                                 |                                |                |                      |                                |                |
| Interest-earning assets:                         |                                 |                                |                |                      |                                |                |
| Interest-bearing deposits with banks             | \$ 75,622                       | \$ 90                          | 0.16%          | \$ 48,743            | \$ 70                          | 0.19%          |
| Taxable investment securities (1)                | 2,847,290                       | 43,257                         | 2.03           | 2,529,140            | 39,739                         | 2.10           |
| Non-taxable investment securities (2)            | 192,345                         | 7,024                          | 4.87           | 153,456              | 6,072                          | 5.28           |
| Residential mortgage loans held for sale         | 7,298                           | 256                            | 4.68           | 3,636                | 287                            | 10.53          |
| Loans and leases (2) (3)                         | 11,528,230                      | 360,925                        | 4.19           | 10,119,645           | 332,921                        | 4.40           |
| Total interest-earning assets (2)                | 14,650,785                      | 411,552                        | 3.75           | 12,854,620           | 379,089                        | 3.94           |
| Cash and due from banks                          | 195,583                         |                                |                | 194,184              |                                |                |
| Allowance for credit losses                      | (131,465)                       |                                |                | (114,576)            |                                |                |
| Premises and equipment                           | 166,572                         |                                |                | 162,526              |                                |                |
| Other assets                                     | 1,566,238                       |                                |                | 1,547,022            |                                |                |
| <b>Total Assets</b>                              | <b>\$ 16,447,713</b>            |                                |                | <b>\$ 14,643,776</b> |                                |                |
| <b>Liabilities</b>                               |                                 |                                |                |                      |                                |                |
| Interest-bearing liabilities:                    |                                 |                                |                |                      |                                |                |
| Deposits:  |                                 |                                |                |                      |                                |                |
| Interest-bearing demand                          | \$ 4,889,508                    | 6,082                          | 0.17           | \$ 4,267,539         | 4,932                          | 0.15           |
| Savings  | 1,697,732                       | 563                            | 0.04           | 1,548,791            | 526                            | 0.05           |
| Certificates and other time                      | 2,584,719                       | 16,388                         | 0.85           | 2,694,813            | 16,609                         | 0.82           |
| Customer repurchase agreements                   | 594,613                         | 961                            | 0.21           | 799,470              | 1,315                          | 0.22           |
| Other short-term borrowings                      | 1,164,587                       | 4,387                          | 0.50           | 556,347              | 2,696                          | 0.65           |
| Long-term borrowings                             | 542,091                         | 6,744                          | 1.66           | 367,579              | 5,172                          | 1.88           |
| Total interest-bearing liabilities (2)           | 11,473,250                      | 35,125                         | 0.41           | 10,234,539           | 31,250                         | 0.41           |
| Non-interest-bearing demand                      | 2,768,012                       |                                |                | 2,375,062            |                                |                |
| Other liabilities                                | 143,521                         |                                |                | 147,789              |                                |                |
| <b>Total Liabilities</b>                         | <b>14,384,783</b>               |                                |                | <b>12,757,390</b>    |                                |                |
| <b>Stockholders Equity</b>                       | <b>2,062,930</b>                |                                |                | <b>1,886,386</b>     |                                |                |
| <b>Total Liabilities and Stockholders Equity</b> | <b>\$ 16,447,713</b>            |                                |                | <b>\$ 14,643,776</b> |                                |                |

|   |              |              |
|---|--------------|--------------|
| Excess of interest-earning assets over interest-bearing liabilities | \$ 3,177,535 | \$ 2,620,081 |
| Fully tax-equivalent net interest income                            | 376,427      | 347,839      |
| Tax-equivalent adjustment   | (5,538)      | (5,203)      |
| Net interest income   | \$ 370,889   | \$ 342,636   |
| Net interest spread   | 3.34%        | 3.53%        |
| Net interest margin (2)   | 3.43%        | 3.62%        |

- (1) The average balances and yields earned on taxable investment securities are based on historical cost.
- (2) The interest income amounts are reflected on a FTE basis, a non-GAAP measure, which adjusts for the tax benefit of income on certain tax-exempt loans and investments using the federal statutory tax rate of 35% for each period presented. The yields on earning assets and the net interest margin are presented on an FTE and annualized basis. The rates paid on interest-bearing liabilities are also presented on an annualized basis. The Corporation believes this measure to be the preferred industry measurement of net interest income and provides relevant comparison between taxable and non-taxable amounts.
- (3) Average balances include non-accrual loans. Loans and leases consist of average total loans less average unearned income. The amount of loan fees included in interest income on loans is immaterial.



**Table of Contents***Net Interest Income*

For the nine months ended September 30, 2015, net interest income, which comprised 75.7% of net revenue compared to 74.3% for the same period in 2014, was affected by the general level of interest rates, changes in interest rates, the shape of the yield curve, the level of non-accrual loans and changes in the amount and mix of interest-earning assets and interest-bearing liabilities.

Net interest income, on an FTE basis, increased \$28.6 million or 8.2% from \$347.8 million for the first nine months of 2014 to \$376.4 million for the first nine months of 2015. Average earning assets of \$14.7 billion increased \$1.8 billion or 14.0% and average interest-bearing liabilities of \$11.5 billion increased \$1.2 billion or 12.1% from 2014 due to the acquisitions of OBA and BCSB, combined with organic growth in loans and leases, deposits and customer repurchase agreements. The Corporation's net interest margin was 3.43% for the first nine months of 2015, compared to 3.62% for the same period of 2014, as loan and lease yields declined faster than deposit rates primarily as a result of the current low interest rate and competitive environment, combined with a decrease in net interest margin due to lower accretable yield adjustments. Accretable yield adjustments added 3 basis points to the net interest margin for the first nine months of 2015, compared to 5 basis points for the first nine months of 2014. Details on changes in tax-equivalent net interest income attributed to changes in interest-earning assets, interest-bearing liabilities, yields and cost of funds, and the derivation of tax-equivalent net interest income from amounts reported on the Corporation's financial statements are set forth in the preceding table.

The following table sets forth certain information regarding changes in net interest income, on a FTE basis, attributable to changes in the volumes of interest-earning assets and interest-bearing liabilities and changes in the rates for the nine months ended September 30, 2015, compared to the nine months ended September 30, 2014 (in thousands):

|  | <b>Volume</b> | <b>Rate</b> | <b>Net</b> |
|--|---------------|-------------|------------|
| <b><u>Interest Income</u></b>            |               |             |            |
| Interest bearing deposits with banks     | \$ 31         | \$ (11)     | \$ 20      |
| Securities                               | 5,653         | (1,183)     | 4,470      |
| Residential mortgage loans held for sale | 185           | (216)       | (31)       |
| Loans and leases                         | 44,616        | (16,612)    | 28,004     |
|  | 50,485        | (18,022)    | 32,463     |
| <b><u>Interest Expense</u></b>           |               |             |            |
| Deposits:                                |               |             |            |
| Interest bearing demand                  | 1,023         | 127         | 1,150      |
| Savings                                  | 63            | (26)        | 37         |
| Certificates and other time              | (689)         | 468         | (221)      |
| Customer repurchase agreements           | (331)         | (23)        | (354)      |
| Other short-term borrowings              | 2,398         | (707)       | 1,691      |
| Long-term borrowings                     | 2,227         | (655)       | 1,572      |
|  | 4,691         | (816)       | 3,875      |
| Net Change                               | \$ 45,794     | \$ (17,206) | \$ 28,588  |

- (1) The amount of change not solely due to rate or volume changes was allocated between the change due to rate and the change due to volume based on the net size of the rate and volume changes.
- (2) Interest income amounts are reflected on an FTE basis which adjusts for the tax benefit of income on certain tax-exempt loans and investments using the federal statutory tax rate of 35% for each period presented. The Corporation believes this measure to be the preferred industry measurement of net interest income and provides relevant comparison between taxable and non-taxable amounts.

Interest income, on an FTE basis, of \$411.6 million for the first nine months of 2015, increased \$32.5 million or 8.6% from the same period of 2014, primarily due to increased earning assets, partially offset by lower accretable yield adjustments and lower yields. During the first nine months of 2015 and 2014, the Corporation recognized a benefit of \$3.8 million and \$4.8 million, respectively, in accretable yield adjustments on acquired loans. The increase in earning assets was primarily driven by a \$1.4 billion or 13.9% increase in average loans and leases, including \$1.1 billion or 10.2% of organic growth, which reflects the benefit of the Corporation's expanded banking footprint and successful sales management. Additionally, average loans added in the OBA and BCSB acquisitions were \$12.1 million and \$261.0 million, respectively. The yield on earning assets was 3.75% for the first nine months of 2015 compared to 3.94% for the same period of 2014.

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Interest expense of \$35.1 million for the first nine months of 2015 increased \$3.9 million or 12.4% from the same period of 2014 due to growth in interest-bearing liabilities. The growth in average interest-bearing liabilities, which increased by \$1.2 billion or 12.1%, was attributable to growth in average deposits and short- and long-term borrowings, offset by a decrease in customer repurchase agreements. The rate paid on interest-bearing liabilities was 0.41% for both the first nine months of 2015 and 2014. Growth in average interest-bearing deposits increased by \$660.8 million or 7.8%, including \$462.8 million of organic growth and \$198.0 million combined from the OBA and BCSB mergers and the recent branch acquisition. Given the absolute low level of interest rates and the current rates paid on the various deposit products, the Corporation believes there is limited opportunity for further reductions in the overall rate paid on interest-bearing liabilities.

*Provision for Credit Losses*

The provision for credit losses of \$27.8 million during the first nine months of 2015 decreased \$0.8 million from the same period of 2014, due to a decrease of \$3.3 million in the provision for the acquired portfolio, partially offset by an increase of \$2.5 million in the provision for the originated portfolio. The decrease in the provision for the acquired portfolio resulted from lower net charge-off levels and favorable cash flow re-estimations during the period, while the increase in the provision for the originated portfolio primarily supported loan growth. During the first nine months of 2015, net charge-offs were \$17.5 million, or 0.20% (annualized) of average loans and leases, compared to \$18.8 million, or 0.25% (annualized) of average loans and leases, for the same period of 2014. The ratio of the allowance for credit losses to total loans and leases equaled 1.15% and 1.10% at September 30, 2015 and 2014, respectively, reflecting stability and consistency in the Corporation's credit quality performance. For additional information relating to the allowance and provision for credit losses, refer to the Allowance for Credit Losses section of this Management's Discussion and Analysis.

*Non-Interest Income*

Total non-interest income of \$119.3 million for the first nine months of 2015 increased \$0.5 million or 0.4% from the same period of 2014. The variances in significant individual non-interest income items are further explained in the following paragraphs.

Service charges on loans and deposits of \$52.0 million for the first nine months of 2015 increased \$1.5 million or 3.0% from the same period of 2014. Other service charges and fees increased \$2.7 million or 13.5% over this same period, reflecting the impact of organic growth and the expanded customer base due to acquisitions. Overdraft fees decreased \$2.0 million or 9.4% over this same period, following a nationwide trend as consumers are managing their accounts to avoid fees. Customer-related interchange fees increased \$0.8 million or 9.1% over this same period due to higher volume usage of debit and credit cards.

Trust fees of \$15.8 million for the first nine months of 2015 increased \$1.3 million or 9.0% from the same period of 2014, primarily driven by strong organic growth activity, geographic expansion and improved market conditions. The market value of assets under management increased \$76.0 million or 2.2% to \$3.6 billion as of September 30, 2015.

Insurance commissions and fees of \$12.4 million for the first nine months of 2015 decreased from \$12.8 million during the same period of 2014, primarily due to reduced contingent fee income resulting from increases in claims and loss ratios during the first nine months of 2015 compared to the same period of 2014.

Securities commissions of \$10.0 million for the first nine months of 2015 increased \$1.4 million or 16.8% from the same period of 2014, primarily due to positive results from new initiatives generating new customer relationships combined with increased volume, geographic expansion and improved market conditions. Partially offsetting these

increases were the costs associated with a securities system conversion combined with the impact of severe weather conditions throughout the Corporation's market area in the first half of 2014.

Net securities gains were \$0.3 million and \$11.4 million for the first nine months of 2015 and 2014, respectively. During the first nine months of 2014, the Corporation strategically sold its portfolio of pooled TPS for net proceeds of \$51.5 million and a net gain of \$13.8 million. Of the 23 pooled securities sold, one was determined to be a disallowed investment under the Volcker Rule of the Dodd-Frank Act, and as such, was required to be disposed of by July 2016. Partially offsetting this gain was a net loss of \$3.5 million relating to the sale of other securities. By selling these securities, the Corporation strengthened the risk profile of its investment portfolio, improved its capital levels due to lowered risk-weighted assets and generated capital to support future growth.

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Mortgage banking revenue was \$6.7 million for the first nine months of 2015 compared to \$2.2 million for the same period of 2014 due to higher origination volume and successful cross-selling efforts generated from a strengthened mortgage management team. During the first nine months of 2015, the Corporation sold \$337.6 million of residential mortgage loans, compared to \$101.6 million for the same period of 2014.

Income from BOLI of \$5.5 million for the first nine months of 2015 decreased \$0.3 million or 5.0% from the same period of 2014, primarily as a result of fewer death claims.

Other non-interest income of \$16.6 million for the first nine months of 2015 increased \$3.6 million from the first nine months of 2014. During the first nine months of 2015, the Corporation recorded \$2.0 million more in fees earned through its commercial loan interest rate swap program, reflecting strong commercial loan growth. Additionally, the Corporation recorded \$1.6 million more in dividends on non-marketable equity securities, primarily resulting from a special dividend paid by the FHLB totaling \$1.0 million. Also during the first nine months of 2015, the Corporation recorded \$0.9 million more in gains from an equity investment, a gain of \$0.4 million relating to the sale of its ownership interest in a non-banking affiliate and a gain of \$0.4 million relating to the settlement of an insurance benefit. Additionally, the Corporation recognized \$0.4 million less in recoveries of impaired loans acquired in previous acquisitions compared to the same period of 2014 and the Corporation recognized \$0.5 million less in swap valuation income compared to the same period of 2014 due to changes in the yield curve. During the first nine months of 2014, the Corporation recorded a gain of \$0.7 million related to the sale of impaired commercial loans.

*Non-Interest Expense*

Total non-interest expense of \$289.3 million for the first nine months of 2015 increased \$6.7 million or 2.4% from the same period of 2014. The variances in the individual non-interest expense items are further explained in the following paragraphs with an overriding theme of the expense increases primarily related to the expanded operations from acquisitions.

Salaries and employee benefits of \$151.6 million for the first nine months of 2015 increased \$4.6 million or 3.1% from the same period of 2014. This increase primarily relates to employees added in conjunction with the OBA and BCSB acquisitions, combined with new hires, merit increases and higher medical insurance costs in 2015. Additionally, during the first nine months of 2014, the Corporation recorded a net charge of \$1.9 million relating to the mutual conclusion of a consulting agreement with a retired executive.

Occupancy and equipment expense of \$49.0 million for the first nine months of 2015 increased \$3.0 million or 6.5% from the same period of 2014, primarily resulting from acquisitions, combined with an increase in rental expense relating to the Pittsburgh headquarters and regional headquarters in Cleveland, Ohio and Baltimore, Maryland. Additionally, the Corporation's continued focus on new technology, both in meeting customer needs via the utilization of electronic delivery channels, such as online and mobile banking, and in meeting the continued regulatory requirements, resulted in an increase of \$1.9 million in technology-related expense during the first nine months of 2015.

Amortization of intangibles expense of \$6.1 million for the first nine months of 2015 decreased \$1.1 million or 14.6% from the first nine months of 2014, due to a combination of certain intangible assets being completely amortized during 2014 and declining amortization expense on some intangible assets due to accelerated amortization methods.

Outside services expense of \$25.3 million for the first nine months of 2015 increased \$1.6 million or 6.8% from the same period of 2014. For the first nine months of 2015, compared to the same period of 2014, other outside services and data processing services increased \$0.3 million and \$0.4 million, respectively, primarily resulting from the OBA

and BCSB acquisitions and costs related to compliance with new regulations. Additionally, consulting fees increased \$1.2 million during this same period, as the first nine months of 2014 reflected a refund of previously paid consulting fees.

The Corporation recorded \$1.7 million in merger and acquisition costs during the first nine months of 2015 associated with the acquisition of five Bank of America branches and the pending Metro Bancorp, Inc. acquisition and \$8.1 million in merger and acquisition costs associated with the BCSB and OBA acquisitions during the first nine months of 2014.

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Other non-interest expense increased \$4.9 million to \$46.0 million for the first nine months of 2015, compared to \$41.1 million for the first nine months of 2014. For the first nine months of 2015, compared to the same period of 2014, state taxes increased \$2.1 million, OREO expenses increased \$1.3 million, loan-related expenses increased \$0.7 million, telephone expense increased \$0.3 million and miscellaneous losses increased \$0.5 million, all primarily due to acquisitions. Additionally, the Corporation recorded \$1.2 million during the first nine months of 2015 relating to insurance processing adjustments. These increases were partially offset by decreases of \$1.0 million in donations and \$0.9 million in marketing expenses, both of which were lower due to timing differences.

*Income Taxes*

The Corporation's income tax expense of \$52.6 million for the first nine months of 2015 increased \$7.1 million or 15.6% from the same period of 2014. The effective tax rate of 30.4% for the first nine months of 2015 increased slightly from 30.3% for the same period of 2014. Both periods' tax rates are lower than the 35% federal statutory tax rate due to the tax benefits primarily resulting from tax-exempt income on investments, loans and BOLI, as well as tax credits.

**LIQUIDITY**

The Corporation's goal in liquidity management is to satisfy the cash flow requirements of customers and the operating cash needs of the Corporation with cost-effective funding. The Board of Directors of the Corporation has established an Asset/Liability Management Policy in order to achieve and maintain earnings performance consistent with long-term goals while maintaining acceptable levels of interest rate risk, a well-capitalized balance sheet and adequate levels of liquidity. The Board of Directors of the Corporation has also established a Contingency Funding Policy to address liquidity crisis conditions. These policies designate the Corporate Asset/Liability Committee (ALCO) as the body responsible for meeting these objectives. The ALCO, which includes members of executive management, reviews liquidity on a periodic basis and approves significant changes in strategies that affect balance sheet or cash flow positions. Liquidity is centrally managed on a daily basis by the Corporation's Treasury Department.

FNBPA generates liquidity from its normal business operations. Liquidity sources from assets include payments from loans and investments, as well as the ability to securitize, pledge or sell loans, investment securities and other assets. Liquidity sources from liabilities are generated primarily through the banking offices of FNBPA in the form of deposits and customer repurchase agreements. The Corporation also has access to reliable and cost-effective wholesale sources of liquidity. Short- and long-term funds can be acquired to help fund normal business operations, as well as to serve as contingency funding in the event that the Corporation would be faced with a liquidity crisis.

The principal sources of the parent company's liquidity are its strong existing cash resources plus dividends it receives from its subsidiaries. These dividends may be impacted by the parent's or its subsidiaries' capital needs, statutory laws and regulations, corporate policies, contractual restrictions, profitability and other factors. Cash on hand at the parent has been favorably impacted by management strategies over the last few years. These include strong earnings, a consistent dividend and capital actions. The capital actions include the raising of \$161.3 million via the issuance of common and preferred equity during the fourth quarter of 2013. These proceeds were subsequently utilized to redeem various TPS obligations of the Corporation totaling \$148.0 million. The positive results of these strategies can be seen in the parent's strong cash position. The cash position was unchanged at \$129.0 million at December 31, 2014 and September 30, 2015. On September 29, 2015, the Corporation issued \$100.0 million aggregate principal amount of 4.875% subordinated notes due in 2025. The net proceeds of the debt offering after deducting underwriting discounts and commissions and estimated offering expenses were \$98.5 million and were received on October 2, 2015. The subordinated notes will be treated as tier 2 capital for regulatory capital purposes. The Corporation intends to use the net proceeds from the sale of the subordinated notes for general corporate purposes, which may include investments at

the holding company level, providing capital to support the growth of FNBPA and its business, repurchases of its common shares and the payment of the cash consideration components of future acquisitions.



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Management believes cash levels for the Corporation are appropriate given the current environment. Two metrics that are used to gauge the adequacy of the parent company's cash position are the Liquidity Coverage Ratio (LCR) and Months of Cash on Hand (MCH). The LCR is defined as the sum of cash on hand plus projected cash inflows over the next 12 months divided by projected cash outflows over the next 12 months. The LCR was 1.8 times at September 30, 2015 and 2.2 times at December 31, 2014. The internal guideline for LCR is for the ratio to be greater than 1.0 time. The MCH is defined as the number of months of corporate expenses that can be covered by the cash on hand. The MCH was 14.3 months at September 30, 2015, assuming receipt of the sub-debt proceeds, and 14.2 months at December 31, 2014. The internal guideline for MCH is for the ratio to be greater than 12 months. The Corporation issues subordinated notes on a regular basis which decreased \$2.8 million to \$209.3 million or 1.3% for the nine months ended September 30, 2015.

The liquidity position of the Corporation continues to be strong as evidenced by its ability to generate growth in relationship-based accounts. Total average deposits and customer repurchase agreements grew \$848.9 million, or 7.3% year over year for the nine months ended September 30, 2015 compared to the prior year. This included organic growth of \$462.8 million, or 3.8% annualized. Organic results are adjusted by the impact from the acquisition of five Bank of America branches on September 18, 2015, the OBA Financial Services, Inc. acquisition on September 19, 2014, and the BCSB Bancorp, Inc. acquisition on February 15, 2014. Average organic growth in low-cost transaction deposits and customer repurchase agreements was \$694.5 million, or 7.5% led by strong organic growth in average non-interest bearing demand deposits of \$331.9 million, or 13.6%. The strong growth in low-cost transaction deposits and customer repurchase agreements was partially offset by a decline in average time deposits which declined \$110.1 million or 4.1% over this same period. The rate of decline has slowed this year compared to prior periods due to the Corporation's pricing actions designed to extend time deposit maturities.

FNBPA had unused wholesale credit availability of \$5.4 billion or 32.4% of bank assets at September 30, 2015 and \$4.6 billion or 29.1% of bank assets at December 31, 2014. These sources include the availability to borrow from the FHLB, the FRB, correspondent bank lines and access to brokered certificates of deposit. In addition to credit availability, FNBPA also possesses salable unpledged government and agency securities which could be sold to meet funding needs. These securities totaled \$782.3 million, or 4.7% of total assets and \$1.1 billion, or 6.6% of total assets as of September 30, 2015 and December 31, 2014, respectively. The ALCO Policy minimum level is 3.0%.

Another metric for measuring liquidity risk is the liquidity gap analysis. The following liquidity gap analysis (in thousands) for the Corporation as of September 30, 2015 compares the difference between cash flows from existing assets and liabilities over future time intervals. Management seeks to limit the size of the liquidity gaps so that sources and uses of funds are reasonably matched in the normal course of business. A reasonably matched position lays a better foundation for dealing with additional funding needs during a potential liquidity crisis. The twelve-month cumulative gap to total assets was 0.4% and (1.0)% as of September 30, 2015 and December 31, 2014, respectively.

|                       | <b>Within<br/>1 Month</b> | <b>2-3<br/>Months</b> | <b>4-6<br/>Months</b> | <b>7-12<br/>Months</b> | <b>Total<br/>1 Year</b> |
|-----------------------|---------------------------|-----------------------|-----------------------|------------------------|-------------------------|
| <b>Assets</b>         |                           |                       |                       |                        |                         |
| Loans and leases      | \$ 322,017                | \$ 570,007            | \$ 710,428            | \$ 1,349,101           | \$ 2,951,553            |
| Investments           | 106,441                   | 120,402               | 194,966               | 250,237                | 672,046                 |
|                       | 428,458                   | 690,409               | 905,394               | 1,599,338              | 3,623,599               |
| <b>Liabilities</b>    |                           |                       |                       |                        |                         |
| Non-maturity deposits | 99,443                    | 198,886               | 298,328               | 596,657                | 1,193,314               |

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|                                   |              |              |              |            |           |
|-----------------------------------|--------------|--------------|--------------|------------|-----------|
| Time deposits                     | 137,022      | 258,695      | 341,406      | 578,597    | 1,315,720 |
| Borrowings                        | 867,466      | 23,224       | 32,673       | 131,647    | 1,055,010 |
|                                   | 1,103,931    | 480,805      | 672,407      | 1,306,901  | 3,564,044 |
| Period Gap (Assets - Liabilities) | \$ (675,473) | \$ 209,604   | \$ 232,987   | \$ 292,437 | \$ 59,555 |
| Cumulative Gap                    | \$ (675,473) | \$ (465,869) | \$ (232,882) | \$ 59,555  |           |
| Cumulative Gap to Total Assets    | (4.0)%       | (2.8)%       | (1.4)%       | 0.4%       |           |

In addition, the ALCO regularly monitors various liquidity ratios and stress scenarios of the Corporation's liquidity position. The stress scenarios forecast that adequate funding will be available even under severe conditions. Management believes the Corporation has sufficient liquidity available to meet its normal operating and contingency funding cash needs.

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Market risk refers to potential losses arising from changes in interest rates, foreign exchange rates, equity prices and commodity prices. The Corporation is primarily exposed to interest rate risk inherent in its lending and deposit-taking activities as a financial intermediary. To succeed in this capacity, the Corporation offers an extensive variety of financial products to meet the diverse needs of its customers. These products sometimes contribute to interest rate risk for the Corporation when product groups do not complement one another. For example, depositors may want short-term deposits while borrowers desire long-term loans.

Changes in market interest rates may result in changes in the fair value of the Corporation's financial instruments, cash flows and net interest income. The ALCO is responsible for market risk management which involves devising policy guidelines, risk measures and limits, and managing the amount of interest rate risk and its effect on net interest income and capital. The Corporation uses derivative financial instruments for interest rate risk management purposes and not for trading or speculative purposes.

Interest rate risk is comprised of repricing risk, basis risk, yield curve risk and options risk. Repricing risk arises from differences in the cash flow or repricing between asset and liability portfolios. Basis risk arises when asset and liability portfolios are related to different market rate indexes, which do not always change by the same amount. Yield curve risk arises when asset and liability portfolios are related to different maturities on a given yield curve; when the yield curve changes shape, the risk position is altered. Options risk arises from embedded options within asset and liability products as certain borrowers have the option to prepay their loans when rates fall, while certain depositors can redeem their certificates of deposit early when rates rise.

The Corporation uses an asset/liability model to measure its interest rate risk. Interest rate risk measures utilized by the Corporation include earnings simulation, economic value of equity (EVE) and gap analysis.

Gap analysis and EVE are static measures that do not incorporate assumptions regarding future business. Gap analysis, while a helpful diagnostic tool, displays cash flows for only a single rate environment. EVE's long-term horizon helps identify changes in optionality and longer-term positions. However, EVE's liquidation perspective does not translate into the earnings-based measures that are the focus of managing and valuing a going concern. Net interest income simulations explicitly measure the exposure to earnings from changes in market rates of interest. In these simulations, the Corporation's current financial position is combined with assumptions regarding future business to calculate net interest income under various hypothetical rate scenarios. The ALCO reviews earnings simulations over multiple years under various interest rate scenarios on a periodic basis. Reviewing these various measures provides the Corporation with a comprehensive view of its interest rate risk profile.

The following repricing gap analysis (in thousands) as of September 30, 2015 compares the difference between the amount of interest-earning assets and interest-bearing liabilities subject to repricing over a period of time. Management utilizes the repricing gap analysis as a diagnostic tool in managing net interest income and EVE risk measures.

|                      | <b>Within<br/>1 Month</b> | <b>2-3<br/>Months</b> | <b>4-6<br/>Months</b> | <b>7-12<br/>Months</b> | <b>Total<br/>1 Year</b> |
|----------------------|---------------------------|-----------------------|-----------------------|------------------------|-------------------------|
| <b><u>Assets</u></b> |                           |                       |                       |                        |                         |
| Loans and leases     | \$ 4,146,464              | \$ 1,249,844          | \$ 550,537            | \$ 1,023,459           | \$ 6,970,304            |
| Investments          | 106,441                   | 136,746               | 221,120               | 257,877                | 722,184                 |

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|  |           |              |            |              |              |
|--|-----------|--------------|------------|--------------|--------------|
|  | 4,252,905 | 1,386,590    | 771,657    | 1,281,336    | 7,692,488    |
| <b>Liabilities</b>                                     |           |              |            |              |              |
| Non-maturity deposits                                  | 3,647,336 |              |            |              | 3,647,336    |
| Time deposits  | 142,205   | 260,951      | 342,846    | 579,961      | 1,325,963    |
| Borrowings   | 1,176,874 | 82,323       | 14,071     | 94,443       | 1,367,711    |
|  | 4,966,415 | 343,274      | 356,917    | 674,404      | 6,341,010    |
| Off-balance sheet                                      | (200,000) | 50,000       |            |              | (150,000)    |
| Period Gap (assets liabilities +<br>off-balance sheet) | (913,510) | \$ 1,093,316 | \$ 414,740 | \$ 606,932   | \$ 1,201,478 |
| Cumulative Gap   | (913,510) | \$ 179,806   | \$ 594,546 | \$ 1,201,478 |              |
| Cumulative Gap to Assets                               | (5.4)%    | 1.1%         | 3.5%       | 7.1%         |              |

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The twelve-month cumulative repricing gap to total assets was 7.1% and 6.7% as of September 30, 2015 and December 31, 2014, respectively. The positive cumulative gap positions indicate that the Corporation has a greater amount of repricing earning assets than repricing interest-bearing liabilities over the subsequent twelve months. If interest rates increase then net interest income will increase and, conversely, if interest rates decrease then net interest income will decrease.

The allocation of non-maturity deposits and customer repurchase agreements to the one-month maturity category above is based on the estimated sensitivity of each product to changes in market rates. For example, if a product's rate is estimated to increase by 50% as much as the market rates, then 50% of the account balance was placed in this category.

The following net interest income metrics were calculated using rate shocks which move market rates in an immediate and parallel fashion. The variance percentages represent the change between the net interest income or EVE calculated under the particular rate scenario versus the net interest income or EVE that was calculated assuming market rates as of September 30, 2015.

The following table presents an analysis of the potential sensitivity of the Corporation's net interest income and EVE to changes in interest rates:

|  | <b>September 30,<br/>2015</b> | <b>December 31,<br/>2014</b> | <b>ALCO<br/>Limits</b> |
|--|-------------------------------|------------------------------|------------------------|
| <b>Net interest income change (12 months):</b> |                               |                              |                        |
| + 300 basis points                             | 4.4%                          | 3.3%                         | n/a                    |
| + 200 basis points                             | 3.1%                          | 2.4%                         | (5.0)%                 |
| + 100 basis points                             | 1.6%                          | 1.1%                         | (5.0)%                 |
| - 100 basis points                             | (2.5)%                        | (2.2)%                       | (5.0)%                 |
| <b>Economic value of equity:</b>               |                               |                              |                        |
| + 300 basis points                             | (1.1)%                        | (1.2)%                       | (25.0)%                |
| + 200 basis points                             | (0.1)%                        | (0.1)%                       | (15.0)%                |
| + 100 basis points                             | 0.6%                          | 0.6%                         | (10.0)%                |
| - 100 basis points                             | (6.2)%                        | (6.3)%                       | (10.0)%                |

The Corporation also models rate scenarios which move all rates gradually over twelve months (Rate Ramps) and also scenarios that gradually change the shape of the yield curve. A +300 basis point Rate Ramp increases net interest income (12 months) by 3.1% and 2.5% at September 30, 2015 and December 31, 2014, respectively.

The Corporation's strategy is generally to manage to a neutral interest rate risk position. However, given the current interest rate environment, the interest rate risk position has been managed to a modestly asset-sensitive position. Currently, rising rates are expected to have a positive effect on net interest income versus net interest income if rates remained unchanged.

The ALCO utilizes several tactics to manage the Corporation's interest rate risk position. As mentioned earlier, the growth in transaction deposits provides funding that is less interest rate-sensitive than time deposits and wholesale borrowings. On the lending side, the Corporation regularly sells long-term fixed-rate residential mortgages to the secondary market and has been successful in the origination of consumer and commercial loans with short-term repricing characteristics. Total variable and adjustable-rate loans and leases were 57.9% of total loans and leases for

both September 30, 2015 and December 31, 2014. The investment portfolio is used, in part, to manage the Corporation's interest rate risk position. The Corporation has managed the duration of its investment portfolio over the last year to be relatively unchanged from the prior year end, resulting in a portfolio duration of 3.6 and 3.3 at September 30, 2015 and December 31, 2014, respectively. Finally, the Corporation has made use of interest rate swaps to commercial borrowers (commercial swaps) to manage its interest rate risk position as the commercial swaps effectively increase adjustable-rate loans. As of September 30, 2015, the commercial swaps totaled \$1.2 billion of notional principal, with \$328.7 million in notional swap principal originated during the nine months of 2015. The success of the aforementioned tactics has resulted in an asset-sensitive position. For additional information regarding interest rate swaps, see the Derivative and Hedging Activities footnote in this Report.

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The Corporation desired to remain modestly asset-sensitive during the nine months of 2015. A number of management actions and market occurrences resulted in a slight increase in the asset sensitivity of the Corporation's interest rate risk position. The primary factors included balance sheet growth in less sensitive deposits and an increase in the amount of adjustable loans repricing in 12 months or less.

The Corporation recognizes that all asset/liability models have some inherent shortcomings. Asset/liability models require certain assumptions to be made, such as estimated prepayment rates on interest-earning assets and estimated repricing impact on non-maturity deposits, which may differ from actual experience. These business assumptions are based upon the Corporation's experience, business plans and available industry data. While management believes such assumptions to be reasonable, there can be no assurance that modeled results will be achieved. Furthermore, the metrics are based upon the balance sheet structure as of the valuation date and do not reflect the planned growth or management actions that could be taken.

**RISK MANAGEMENT**

The Corporation's Board of Directors recognizes that, as a financial institution, the Corporation takes on a certain amount of risk in every business decision, transaction and activity. The Corporation's Board of Directors and senior management have identified seven major categories of risk: credit risk, market risk, liquidity risk, reputational risk, operational risk, regulatory compliance risk and strategic risk. In its oversight role of the Corporation's risk management function, the Board of Directors is mindful that risk management is not about eliminating risk, but rather is about identifying, understanding and managing risks so as to optimize total shareholder value, while balancing prudent business and safety and soundness considerations.

The Corporation supports its risk management process through a governance structure involving its Board of Directors and senior management. The Corporation's Risk Committee helps ensure that business decisions in the organization are executed within its desired risk appetite. The Risk Committee has the following oversight responsibilities:

identification, measurement, assessment and monitoring of enterprise-wide risk across the Corporation and its subsidiaries;

development of appropriate and meaningful risk metrics to use in connection with the oversight of the Corporation's businesses and strategies;

review and assessment of the Corporation's policies and practices to manage the Corporation's credit, market, liquidity, legal, regulatory and operating risk (including technology, operational, compliance and fiduciary risks); and

identification and implementation of risk management best practices.

The Risk Committee serves as the primary point of contact between the Corporation's Board of Directors and the Risk Management Council, which is the senior management level committee responsible for the Corporation's risk management.

As noted above, the Corporation has a Risk Management Council comprised of senior management. The purpose of this committee is to provide regular oversight of specific areas of risk with respect to the level of risk and risk management structure. Management has also established an Operational Risk Committee that is responsible for identifying, evaluating and monitoring operational risks across the Corporation. The Operational Risk Committee is responsible for evaluating and approving appropriate remediation efforts to address identified operational risks. The Operational Risk Committee provides periodic reports concerning operational risks to the Risk Management Council. The Risk Management Council reports on a regular basis to the Corporation's Risk Committee regarding the enterprise-wide risk profile of the Corporation and other significant risk management issues. The Corporation's Chief Risk Officer is responsible for the design and implementation of the Corporation's enterprise-wide risk management strategy and framework and ensures the coordinated and consistent implementation of risk management initiatives and strategies on a day-to-day basis. The Corporation's Compliance Department, which reports to the Chief Risk Officer, is responsible for developing policies and procedures and monitoring compliance with applicable laws and regulations. Further, the Corporation's audit function performs an independent assessment of the Corporation's internal controls environment and plays an integral role in testing the operation of internal controls systems and reporting findings to management and the Corporation's Audit Committee. Both the Corporation's Risk Committee and Audit Committee regularly report on risk-related matters to the Corporation's Board of Directors. In addition, both the Corporation's Risk Committee and the Risk Management Council regularly assess the Corporation's enterprise-wide risk profile and provide guidance on actions needed to address key and emerging risk issues.



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The Board of Directors believes that the Corporation's enterprise-wide risk management process is effective since it includes the following material components:

enables the Board of Directors to assess the quality of the information it receives;

enables the Board of Directors to understand the businesses, investments and financial, accounting, legal, regulatory and strategic considerations of the Corporation and its subsidiaries, and the risks that they face;

enables the Board of Directors to oversee and assess how senior management evaluates risk; and

enables the Board of Directors to assess appropriately the quality of the Corporation's enterprise-wide risk management process.

**DEPOSITS AND CUSTOMER REPURCHASE AGREEMENTS**

Following is a summary of deposits and customer repurchase agreements (in thousands):

|  | <b>September 30,<br/>2015</b> | <b>December 31,<br/>2014</b> |
|--|-------------------------------|------------------------------|
| Non-interest-bearing demand                              | \$ 2,911,435                  | \$ 2,647,623                 |
| Interest-bearing demand                                  | 5,558,322                     | 4,547,628                    |
| Savings  | 1,736,350                     | 1,575,922                    |
| Certificates of deposit and other time deposits          | 2,553,629                     | 2,611,035                    |
| <b>Total deposits</b>                                    | <b>12,759,736</b>             | <b>11,382,208</b>            |
| Customer repurchase agreements                           | 256,320                       | 882,696                      |
| <b>Total deposits and customer repurchase agreements</b> | <b>\$ 13,016,056</b>          | <b>\$ 12,264,904</b>         |

Total deposits and customer repurchase agreements increased by \$751.2 million, or 6.1%, to \$13.0 billion at September 30, 2015, compared to December 31, 2014, primarily as a result of organic growth in relationship-based transaction deposits, which are comprised of demand (non-interest-bearing and interest-bearing) and savings accounts, partially offset by decreases in customer repurchase agreements and certificates of deposit and other time deposits. The decrease of \$624.4 million in customer repurchase agreements was the result of a planned migration of these accounts to a new premium sweep product included in interest-bearing demand deposits launched during the second quarter of 2015. Generating growth in relationship-based transaction deposits remains a key focus of the Corporation.

**NON-PERFORMING ASSETS**

Non-performing loans and OREO decreased \$2.5 million, from \$110.0 million at December 31, 2014 to \$107.5 million at September 30, 2015. This decrease reflects reductions of \$2.2 million and \$2.5 million in TDRs and OREO,

respectively. Non-accrual loans increased \$2.2 million over this same period. The decrease in TDRs was attributed to a shift in residential secured modifications from the non-performing category to performing, while the decrease in OREO was a result of sales activity outpacing transfers in, particularly in the commercial portfolio.

Following is a summary of originated non-performing loans, by class (in thousands):

|                                   | <b>September 30,<br/>2015</b> | <b>December 31,<br/>2014</b> |
|-----------------------------------|-------------------------------|------------------------------|
| Commercial real estate            | \$ 27,034                     | \$ 26,134                    |
| Commercial and industrial         | 9,898                         | 8,852                        |
| Commercial leases                 | 835                           | 722                          |
| <br>                              |                               |                              |
| Total commercial loans and leases | 37,767                        | 35,708                       |
| Direct installment                | 12,780                        | 15,901                       |
| Residential mortgages             | 12,481                        | 13,842                       |
| Indirect installment              | 1,280                         | 1,305                        |
| Consumer lines of credit          | 2,349                         | 1,796                        |
|                                   | <br>                          |                              |
|                                   | \$ 66,657                     | \$ 68,552                    |

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Following is a summary of performing, non-performing and non-accrual TDRs, by class (in thousands):

|  | Performing | Non-<br>Performing | Non-<br>Accrual | Total        |
|--|------------|--------------------|-----------------|--------------|
| <b>September 30, 2015</b>                |            |                    |                 |              |
| Commercial real estate                   | \$         | \$ 1,772           | \$ 5,504        | \$ 7,276     |
| Commercial and industrial                |            | 369                | 1,031           | 1,400        |
| Commercial leases                        |            |                    |                 |              |
| <b>Total commercial loans and leases</b> |            | <b>2,141</b>       | <b>6,535</b>    | <b>8,676</b> |
| Direct installment                       | 8,130      | 8,062              | 1,025           | 17,217       |
| Residential mortgages                    | 5,560      | 9,510              | 155             | 15,225       |
| Indirect installment                     |            | 147                | 30              | 177          |
| Consumer lines of credit                 | 1,002      | 1,361              | 55              | 2,418        |
|  | \$ 14,692  | \$ 21,221          | \$ 7,800        | \$ 43,713    |
| <b>December 31, 2014</b>                 |            |                    |                 |              |
| Commercial real estate                   | \$         | \$ 2,002           | \$ 6,188        | \$ 8,190     |
| Commercial and industrial                | 727        | 542                | 132             | 1,401        |
| Commercial leases                        |            |                    |                 |              |
| <b>Total commercial loans and leases</b> | <b>727</b> | <b>2,544</b>       | <b>6,320</b>    | <b>9,591</b> |
| Direct installment                       | 4,830      | 8,784              | 1,352           | 14,966       |
| Residential mortgages                    | 3,689      | 10,878             | 503             | 15,070       |
| Indirect installment                     |            | 156                | 47              | 203          |
| Consumer lines of credit                 | 195        | 1,077              | 50              | 1,322        |
|  | \$ 9,441   | \$ 23,439          | \$ 8,272        | \$ 41,152    |

**ALLOWANCE FOR CREDIT LOSSES**

The allowance for credit losses of \$136.2 million at September 30, 2015 increased \$10.3 million or 8.2% from December 31, 2014, primarily in support of growth in originated loans and leases. The provision for credit losses during the nine months ended September 30, 2015 was \$27.8 million, covering net charge-offs of \$17.5 million with the remainder primarily supporting strong organic loan and lease growth. The allowance for credit losses as a percentage of non-performing loans for the Corporation's total portfolio increased from 172.06% as of December 31, 2014 to 197.17% as of September 30, 2015.

Following is a summary of supplemental statistical ratios pertaining to the Corporation's originated loans and leases portfolio. The originated loans and leases portfolio excludes loans acquired at fair value and accounted for in accordance with ASC 805. The decline in each ratio is consistent with generally positive trends in asset quality, particularly in all commercial loans and leases segments.

|   | <b>At or For the Three Months Ended</b> |                              |                               |
|---|---|------------------------------|-------------------------------|
|   | <b>September 30,<br/>2015</b>           | <b>December 31,<br/>2014</b> | <b>September 30,<br/>2014</b> |
| Non-performing loans/total originated loans and leases  | 0.63%                                   | 0.71%                        | 0.83%                         |
| Non-performing loans + OREO/total originated loans and leases + OREO                                  | 0.99%                                   | 1.13%                        | 1.25%                         |
| Allowance for credit losses (originated loans)/total originated loans and leases                      | 1.22%                                   | 1.22%                        | 1.24%                         |
| Net charge-offs on originated loans and leases (annualized)/total average originated loans and leases | 0.22%                                   | 0.17%                        | 0.29%                         |

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**CAPITAL RESOURCES AND REGULATORY MATTERS**

The access to, and cost of, funding for new business initiatives, including acquisitions, the ability to engage in expanded business activities, the ability to pay dividends and the level and nature of regulatory oversight depend, in part, on the Corporation's capital position.

The assessment of capital adequacy depends on a number of factors such as asset quality, liquidity, earnings performance, changing competitive conditions and economic forces. The Corporation seeks to maintain a strong capital base to support its growth and expansion activities, to provide stability to current operations and to promote public confidence.

The Corporation has an effective shelf registration statement filed with the SEC. Pursuant to this registration statement, the Corporation may, from time to time, issue and sell in one or more offerings any combination of common stock, preferred stock, debt securities, depositary shares, warrants, stock purchase contracts or units. On October 2, 2015, the Corporation completed its offering of \$100 million aggregate principal amount of 4.875% subordinated notes due in 2025. The subordinated notes will be treated as tier 2 capital for regulatory capital purposes. The net proceeds of the debt offering after deducting underwriting discounts and commissions and estimated offering expenses were \$98.5 million. The Corporation intends to use the net proceeds from the sale of the subordinated notes for general corporate purposes, which may include investments at the holding company level, providing capital to support the growth of FNBPA and its business, repurchases of its common shares and the payment of the cash consideration components of future acquisitions.

Capital management is a continuous process with capital plans and stress testing for the Corporation and FNBPA updated annually. These capital plans include assessing the adequacy of expected capital levels assuming various scenarios by projecting capital needs for a forecast period of 2-3 years beyond the current year. From time to time, the Corporation issues shares initially acquired by the Corporation as treasury stock under its various benefit plans. The Corporation may continue to grow through acquisitions, which can potentially impact its capital position. The Corporation may issue additional preferred or common stock in order to maintain its well-capitalized status.

The Corporation and FNBPA are subject to various regulatory capital requirements administered by the federal banking agencies (see discussion under **Enhanced Capital Standards**). Quantitative measures established by regulators to ensure capital adequacy require the Corporation and FNBPA to maintain minimum amounts and ratios of total, tier 1 and common equity tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of leverage ratio (as defined). Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary actions, by regulators that, if undertaken, could have a direct material effect on the Corporation's consolidated financial statements and future merger and acquisition activity. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Corporation and FNBPA must meet specific capital guidelines that involve quantitative measures of assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Corporation's and FNBPA's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

The Corporation's management believes that, as of September 30, 2015 and December 31, 2014, the Corporation and FNBPA met all well-capitalized requirements to which each of them was subject.

As of September 30, 2015, the most recent notification from the federal banking agencies categorized the Corporation and FNBPA as well-capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since the notification which management believes have changed this categorization.

During the first half of 2014, the Corporation redeemed \$33.0 million of the Corporation-issued TPS using proceeds raised in conjunction with its capital raise completed in November 2013. The regulatory capital ratios at September 30, 2015 reflect both this decrease in TPS and the new Basel III requirements. Accordingly, \$14.4 million, or 25% of the TPS, are included in tier 1 capital and the remaining \$43.1 million, or 75%, are included in tier 2 capital. Additionally, during the first quarter of 2014, the Corporation strategically sold its entire portfolio of pooled TPS, which strengthened the risk profile of its investment portfolio, improved its capital levels due to lowered risk-weighted assets and generated capital to support future growth.

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Following are the capital amounts and related ratios as of September 30, 2015 and December 31, 2014 for the Corporation and FNBPA (dollars in thousands):

|                                  | Actual       |       | Well-Capitalized Requirements |       | Minimum Capital Requirements |       |
|----------------------------------|--------------|-------|-------------------------------|-------|------------------------------|-------|
|                                  | Amount       | Ratio | Amount                        | Ratio | Amount                       | Ratio |
| <b>September 30, 2015</b>        |              |       |                               |       |                              |       |
| <b><u>F.N.B. Corporation</u></b> |              |       |                               |       |                              |       |
| Total capital                    | \$ 1,500,085 | 12.2% | \$ 1,228,240                  | 10.0% | \$ 982,592                   | 8.0%  |
| Tier 1 capital                   | 1,301,998    | 10.6  | 982,592                       | 8.0   | 736,944                      | 6.0   |
| Common equity tier 1             | 1,180,741    | 9.6   | 798,356                       | 6.5   | 552,708                      | 4.5   |
| Leverage                         | 1,301,998    | 8.2   | 794,353                       | 5.0   | 635,483                      | 4.0   |
| <b><u>FNBPA</u></b>              |              |       |                               |       |                              |       |
| Total capital                    | 1,401,686    | 11.5  | 1,221,368                     | 10.0  | 977,094                      | 8.0   |
| Tier 1 capital                   | 1,271,143    | 10.4  | 977,094                       | 8.0   | 488,547                      | 4.0   |
| Common equity tier 1             | 1,191,143    | 9.8   | 793,889                       | 6.5   | 549,616                      | 4.5   |
| Leverage                         | 1,271,143    | 8.1   | 786,192                       | 5.0   | 628,953                      | 4.0   |
| <b>December 31, 2014</b>         |              |       |                               |       |                              |       |
| <b><u>F.N.B. Corporation</u></b> |              |       |                               |       |                              |       |
| Total capital                    | \$ 1,417,369 | 12.4% | \$ 1,146,556                  | 10.0% | \$ 917,245                   | 8.0%  |
| Tier 1 capital                   | 1,269,033    | 11.1  | 687,934                       | 6.0   | 458,623                      | 4.0   |
| Leverage                         | 1,269,033    | 8.4   | 752,593                       | 5.0   | 602,074                      | 4.0   |
| <b><u>FNBPA</u></b>              |              |       |                               |       |                              |       |
| Total capital                    | 1,321,433    | 11.5  | 1,147,427                     | 10.0  | 917,941                      | 8.0   |
| Tier 1 capital                   | 1,200,776    | 10.5  | 688,456                       | 6.0   | 458,971                      | 4.0   |
| Leverage                         | 1,200,776    | 8.1   | 744,235                       | 5.0   | 595,388                      | 4.0   |

The information presented in the table above reflects well-capitalized and minimum capital requirements in accordance with Basel III standards for the period ended September 30, 2015. The capital requirements presented for December 31, 2014 are based on the regulations that were in effect at that time.

**DODD-FRANK WALL STREET REFORM AND CONSUMER PROTECTION ACT**

The Dodd-Frank Act broadly affects the financial services industry by establishing a framework for systemic risk oversight, creating a resolution authority for institutions determined to be systemically important, mandating higher capital and liquidity requirements, requiring banks to pay increased fees to regulatory agencies and containing numerous other provisions aimed at strengthening the sound operation of the financial services sector that will fundamentally change the system of regulatory oversight as described in more detail under Part I, Item 1, "Business - Government Supervision and Regulation" included in the Corporation's 2014 Annual Report on Form 10-K as filed with the SEC on February 27, 2015. Many aspects of the Dodd-Frank Act are subject to further rulemaking and will take effect over several years, making it difficult to anticipate the overall financial impact to the Corporation or across the financial services industry.

**ENHANCED REGULATORY CAPITAL STANDARDS**

Regulatory capital reform initiatives continue to be updated and released which may impose additional conditions and restrictions on the Corporation's current business practices and capital strategies.

In July 2013, the FRB approved a final rule that implements changes to the regulatory capital framework for all banking organizations. The final rule implements the regulatory capital reforms recommended by the Basel III capital framework and the regulatory capital reforms required by the Dodd-Frank Act. These reforms seek to strengthen the components of regulatory capital by increasing the quantity and quality of capital held by banking organizations, increasing risk-based capital requirements and make selected changes to the calculation of risk-weighted assets.



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Following are some of the key provisions resulting from the final rule:

revises the components of regulatory capital to phase out certain TPS for banking organizations with greater than \$15.0 billion in total assets;

adds a new minimum common equity Tier 1 (CET1) ratio of 4.5% of risk-weighted assets;

implements a new capital conservation buffer of CET1 equal to 2.5% of risk-weighted assets, which will be in addition to the 4.5% CET1 ratio and phased in over a three-year period beginning January 1, 2016;

increases the minimum Tier 1 capital ratio requirement from 4.0% to 6.0%;

revises the prompt corrective action thresholds;

retains the existing risk-based capital treatment for 1-4 family residential mortgages;

increases capital requirements for past-due loans, high volatility commercial real estate exposures and certain short-term loan commitments;

expands the recognition of collateral and guarantors in determining risk-weighted assets;

removes references to credit ratings consistent with the Dodd-Frank Act and establishes due diligence requirements for securitization exposures.

The final rule, which became effective for the Corporation on January 1, 2015, includes a phase-in period through January 1, 2019 for several provisions of the rule, including the new minimum capital ratio requirements and the capital conservation buffer.

In October 2012, the FRB issued rules requiring companies with total consolidated assets of more than \$10 billion to conduct annual company-run stress tests pursuant to the Dodd-Frank Act (DFAST). In July 2013, the FRB issued supervisory guidance for implementing the DFAST rules for banking organizations with total consolidated assets of more than \$10 billion but less than \$50 billion. The DFAST guidelines and rules build upon the May 2012 stress testing guidance issued by the FRB, *Supervisory Guidance on Stress Testing for Banking Organizations with More Than \$10 Billion in Total Consolidated Assets* (SR Letter 12-7). The Corporation is subject to these supervisory rules and guidelines and conducted its annual company-run stress tests with results reported to the FRB by March 31, 2015 and made available to the public by June 30, 2015. Also, FNBPA is subject to stress testing rules and guidelines under the Office of the Comptroller of the Currency (OCC). The OCC has advised that it will consult closely with the FRB to provide common stress scenarios which can be utilized at both the Corporation and its subsidiary bank, FNBPA.



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**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The information called for by this item is provided under the caption *Market Risk* in Part I, Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations and is incorporated herein by reference. There are no material changes in the information provided under Part II, Item 7A, *Quantitative and Qualitative Disclosures About Market Risk* included in the Corporation's 2014 Annual Report on Form 10-K as filed with the SEC on February 27, 2015.

**ITEM 4. CONTROLS AND PROCEDURES**

**EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES.** The Corporation's management, with the participation of the Corporation's principal executive and financial officers, evaluated the Corporation's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, the Corporation's management, including the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO), concluded that, as of the end of the period covered by this quarterly report, the Corporation's disclosure controls and procedures were effective as of such date at the reasonable assurance level as discussed below to ensure that information required to be disclosed by the Corporation in the reports it files under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and that such information is accumulated and communicated to the Corporation's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

**LIMITATIONS ON THE EFFECTIVENESS OF CONTROLS.** The Corporation's management, including the CEO and the CFO, does not expect that the Corporation's disclosure controls and internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Corporation have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. In addition, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the controls.

**CHANGES IN INTERNAL CONTROLS.** The CEO and the CFO have evaluated the changes to the Corporation's internal controls over financial reporting that occurred during the Corporation's fiscal quarter ended September 30, 2015, as required by paragraph (d) of Rules 13a-15 and 15d-15 under the Securities Exchange Act of 1934, as amended, and have concluded that there were no such changes that materially affected, or are reasonably likely to materially affect, the Corporation's internal controls over financial reporting.

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**PART II - OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

The Corporation and its subsidiaries are involved in various pending legal proceedings in which claims for monetary damages and other relief are asserted. These actions include claims brought against the Corporation and its subsidiaries where the Corporation or a subsidiary acted as one or more of the following: an employer, a depository bank, lender, underwriter, fiduciary, financial advisor, broker, agent, acquirer or was engaged in other business activities. Although the ultimate outcome for any asserted claim cannot be predicted with certainty, the Corporation believes that it and its subsidiaries have valid defenses for all asserted claims. Reserves are established for legal claims when losses associated with the claims are judged to be probable and the amount of the loss can be reasonably estimated.

Based on information currently available, advice of counsel, available insurance coverage and established reserves, the Corporation does not anticipate, at the present time, that the aggregate liability, if any, arising out of such legal proceedings will have a material adverse effect on the Corporation's consolidated financial position. However, the Corporation cannot determine whether or not any claims asserted against it will have a material adverse effect on its consolidated results of operations in any future reporting period.

**ITEM 1A. RISK FACTORS**

There are no material changes from any of the risk factors previously disclosed in the Corporation's 2014 Annual Report on Form 10-K as filed with the SEC on February 27, 2015.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

NONE

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

NONE

**ITEM 4. MINE SAFETY DISCLOSURES**

Not Applicable.

**ITEM 5. OTHER INFORMATION**

NONE



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**ITEM 6. EXHIBITS**

**Exhibit Index**

- 2.1 Agreement and Plan of Merger, dated as of August 4, 2015, by and between F.N.B. Corporation and Metro Bancorp, Inc. (Incorporated by reference to Exhibit 2.1 of the Corporation's Current Report on Form 8-K filed on August 7, 2015).
- 31.1 Certification of Chief Executive Officer Sarbanes-Oxley Act Section 302. (filed herewith).
- 31.2 Certification of Chief Financial Officer Sarbanes-Oxley Act Section 302. (filed herewith).
- 32.1 Certification of Chief Executive Officer Sarbanes-Oxley Act Section 906. (furnished herewith).
- 32.2 Certification of Chief Financial Officer Sarbanes-Oxley Act Section 906. (furnished herewith).
- 101 The following materials from F.N.B. Corporation's Quarterly Report on Form 10-Q for the period ended September 30, 2015, formatted in XBRL: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Comprehensive Income, (iii) the Consolidated Statements of Stockholders' Equity, (iv) the Consolidated Statements of Cash Flows and (v) the Notes to Consolidated Financial Statements. (filed herewith).

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

F.N.B. Corporation

Dated: November 6, 2015

/s/ Vincent J. Delie, Jr.  
Vincent J. Delie, Jr.  
President and Chief Executive Officer  
(Principal Executive Officer)

Dated: November 6, 2015

/s/ Vincent J. Calabrese, Jr.  
Vincent J. Calabrese, Jr.  
Chief Financial Officer  
(Principal Financial Officer)

Dated: November 6, 2015

/s/ Timothy G. Rubritz  
Timothy G. Rubritz  
Corporate Controller  
(Principal Accounting Officer)