

FNB CORP/PA/  
Form 10-Q  
November 07, 2016  
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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, 2016**

**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)**

**Pennsylvania**  
**(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, 2016**  
210,454,950 Shares



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**F.N.B. CORPORATION**

**FORM 10-Q**

September 30, 2016

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

In thousands, except share and per share data

|                                                                         | September<br>30,<br>2016<br>(Unaudited) | December<br>31,<br>2015 |
|-------------------------------------------------------------------------|-----------------------------------------|-------------------------|
| <b>Assets</b>                                                           |                                         |                         |
| Cash and due from banks                                                 | \$ 326,599                              | \$ 207,399              |
| Interest bearing deposits with banks                                    | 118,651                                 | 281,720                 |
| <b>Cash and Cash Equivalents</b>                                        | <b>445,250</b>                          | 489,119                 |
| Securities available for sale                                           | 2,077,616                               | 1,630,567               |
| Securities held to maturity (fair value of \$2,278,755 and \$1,643,416) | 2,249,245                               | 1,637,061               |
| Residential mortgage loans held for sale                                | 17,862                                  | 4,781                   |
| Loans and leases, net of unearned income of \$53,800 and \$51,642       | 14,773,446                              | 12,190,440              |
| Allowance for credit losses                                             | (156,894)                               | (142,012)               |
| <b>Net Loans and Leases</b>                                             | <b>14,616,552</b>                       | 12,048,428              |
| Premises and equipment, net                                             | 228,622                                 | 159,080                 |
| Goodwill                                                                | 1,022,006                               | 833,086                 |
| Core deposit and other intangible assets, net                           | 81,646                                  | 45,644                  |
| Bank owned life insurance                                               | 327,874                                 | 308,192                 |
| Other assets                                                            | 517,241                                 | 401,704                 |
| <b>Total Assets</b>                                                     | <b>\$ 21,583,914</b>                    | \$ 17,557,662           |
| <b>Liabilities</b>                                                      |                                         |                         |
| Deposits:                                                               |                                         |                         |
| Non-interest bearing demand                                             | \$ 4,082,145                            | \$ 3,059,949            |
| Interest bearing demand                                                 | 7,032,744                               | 5,311,589               |
| Savings                                                                 | 2,299,408                               | 1,786,459               |
| Certificates and other time deposits                                    | 2,562,587                               | 2,465,466               |
| <b>Total Deposits</b>                                                   | <b>15,976,884</b>                       | 12,623,463              |
| Short-term borrowings                                                   | 2,236,105                               | 2,048,896               |
| Long-term borrowings                                                    | 587,500                                 | 641,480                 |
| Other liabilities                                                       | 212,845                                 | 147,641                 |

|                                                                               |                      |               |
|-------------------------------------------------------------------------------|----------------------|---------------|
| <b>Total Liabilities</b>                                                      | <b>19,013,334</b>    | 15,461,480    |
| <b>Stockholders Equity</b>                                                    |                      |               |
| Preferred stock \$0.01 par value; liquidation preference of \$1,000 per share |                      |               |
| Authorized 20,000,000 shares                                                  |                      |               |
| Issued 110,877 shares                                                         | <b>106,882</b>       | 106,882       |
| Common stock \$0.01 par value                                                 |                      |               |
| Authorized 500,000,000 shares                                                 |                      |               |
| Issued <b>211,540,856</b> and 176,595,060 shares                              | <b>2,117</b>         | 1,766         |
| Additional paid-in capital                                                    | <b>2,223,530</b>     | 1,808,210     |
| Retained earnings                                                             | <b>280,654</b>       | 243,217       |
| Accumulated other comprehensive loss                                          | <b>(27,853)</b>      | (51,133)      |
| Treasury stock <b>1,316,662</b> and 1,153,390 shares at cost                  | <b>(14,750)</b>      | (12,760)      |
| <b>Total Stockholders Equity</b>                                              | <b>2,570,580</b>     | 2,096,182     |
| <b>Total Liabilities and Stockholders Equity</b>                              | <b>\$ 21,583,914</b> | \$ 17,557,662 |

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>2016</b>               | <b>2015</b> | <b>2016</b>              | <b>2015</b> |
| <b>Interest Income</b>                                       |                           |             |                          |             |
| Loans and leases, including fees                             | <b>\$ 154,272</b>         | \$ 120,875  | <b>\$ 442,113</b>        | \$ 358,074  |
| Securities:                                                  |                           |             |                          |             |
| Taxable                                                      | <b>18,432</b>             | 14,576      | <b>52,901</b>            | 43,257      |
| Nontaxable                                                   | <b>2,254</b>              | 1,707       | <b>6,401</b>             | 4,564       |
| Dividends                                                    | <b>9</b>                  | 9           | <b>23</b>                | 29          |
| Other                                                        | <b>143</b>                | 30          | <b>357</b>               | 90          |
| <b>Total Interest Income</b>                                 | <b>175,110</b>            | 137,197     | <b>501,795</b>           | 406,014     |
| <b>Interest Expense</b>                                      |                           |             |                          |             |
| Deposits                                                     | <b>10,477</b>             | 7,948       | <b>30,387</b>            | 23,033      |
| Short-term borrowings                                        | <b>3,607</b>              | 1,786       | <b>8,527</b>             | 5,348       |
| Long-term borrowings                                         | <b>3,520</b>              | 2,262       | <b>10,652</b>            | 6,744       |
| <b>Total Interest Expense</b>                                | <b>17,604</b>             | 11,996      | <b>49,566</b>            | 35,125      |
| <b>Net Interest Income</b>                                   | <b>157,506</b>            | 125,201     | <b>452,229</b>           | 370,889     |
| Provision for credit losses                                  | <b>14,639</b>             | 10,777      | <b>43,047</b>            | 27,777      |
| <b>Net Interest Income After Provision for Credit Losses</b> | <b>142,867</b>            | 114,424     | <b>409,182</b>           | 343,112     |
| <b>Non-Interest Income</b>                                   |                           |             |                          |             |
| Service charges                                              | <b>25,756</b>             | 18,628      | <b>73,428</b>            | 51,959      |
| Trust fees                                                   | <b>5,268</b>              | 5,210       | <b>15,955</b>            | 15,803      |
| Insurance commissions and fees                               | <b>4,866</b>              | 4,423       | <b>13,892</b>            | 12,351      |
| Securities commissions and fees                              | <b>3,404</b>              | 3,304       | <b>10,400</b>            | 9,958       |
| Net securities gains                                         | <b>299</b>                | 314         | <b>596</b>               | 319         |
| Mortgage banking operations                                  | <b>3,564</b>              | 2,424       | <b>7,912</b>             | 6,739       |
| Bank owned life insurance                                    | <b>3,315</b>              | 1,846       | <b>7,936</b>             | 5,527       |
| Other                                                        | <b>6,768</b>              | 5,210       | <b>20,576</b>            | 16,637      |
| <b>Total Non-Interest Income</b>                             | <b>53,240</b>             | 41,359      | <b>150,695</b>           | 119,293     |
| <b>Non-Interest Expense</b>                                  |                           |             |                          |             |
| Salaries and employee benefits                               | <b>60,927</b>             | 51,859      | <b>178,681</b>           | 151,559     |
| Net occupancy                                                | <b>10,333</b>             | 7,957       | <b>29,792</b>            | 25,405      |
| Equipment                                                    | <b>10,034</b>             | 8,237       | <b>28,604</b>            | 23,583      |

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|                                                    |                  |           |                   |            |
|----------------------------------------------------|------------------|-----------|-------------------|------------|
| Amortization of intangibles                        | <b>3,571</b>     | 2,034     | <b>9,608</b>      | 6,148      |
| Outside services                                   | <b>11,756</b>    | 7,314     | <b>30,884</b>     | 25,254     |
| FDIC insurance                                     | <b>5,274</b>     | 3,158     | <b>14,345</b>     | 9,630      |
| Merger and acquisition related                     | <b>299</b>       | 1,312     | <b>35,790</b>     | 1,683      |
| Other                                              | <b>18,856</b>    | 16,278    | <b>59,623</b>     | 46,041     |
| <b>Total Non-Interest Expense</b>                  | <b>121,050</b>   | 98,149    | <b>387,327</b>    | 289,303    |
| <b>Income Before Income Taxes</b>                  | <b>75,057</b>    | 57,634    | <b>172,550</b>    | 173,102    |
| Income taxes                                       | <b>22,889</b>    | 17,581    | <b>52,950</b>     | 52,575     |
| <b>Net Income</b>                                  | <b>52,168</b>    | 40,053    | <b>119,600</b>    | 120,527    |
| Less: Preferred stock dividends                    | <b>2,010</b>     | 2,010     | <b>6,030</b>      | 6,030      |
| <b>Net Income Available to Common Stockholders</b> | <b>\$ 50,158</b> | \$ 38,043 | <b>\$ 113,570</b> | \$ 114,497 |
| <b>Net Income per Common Share Basic</b>           | <b>\$ 0.24</b>   | \$ 0.22   | <b>\$ 0.55</b>    | \$ 0.65    |
| <b>Net Income per Common Share Diluted</b>         | <b>0.24</b>      | 0.22      | <b>0.55</b>       | 0.65       |
| <b>Cash Dividends per Common Share</b>             | <b>0.12</b>      | 0.12      | <b>0.36</b>       | 0.36       |
| <b>Comprehensive Income</b>                        | <b>\$ 49,774</b> | \$ 49,609 | <b>\$ 142,880</b> | \$ 132,133 |

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,<br/>2016</b>         | \$ 106,882         | \$ 1,766        | \$ 1,808,210                     | \$ 243,217           | \$ (51,133)                                               | \$ (12,760)       | \$ 2,096,182 |
| Comprehensive income                          |                    |                 |                                  | 119,600              | 23,280                                                    |                   | 142,880      |
| Dividends declared:                           |                    |                 |                                  |                      |                                                           |                   |              |
| Preferred stock                               |                    |                 |                                  | (6,030)              |                                                           |                   | (6,030)      |
| Common<br>stock: \$0.36/share                 |                    |                 |                                  | (76,133)             |                                                           |                   | (76,133)     |
| Issuance of common<br>stock                   |                    | 10              | 6,694                            |                      |                                                           | (1,990)           | 4,714        |
| Issuance of common<br>stock acquisitions      |                    | 341             | 403,690                          |                      |                                                           |                   | 404,031      |
| Restricted stock<br>compensation              |                    |                 | 4,644                            |                      |                                                           |                   | 4,644        |
| Tax benefit of<br>stock-based<br>compensation |                    |                 | 292                              |                      |                                                           |                   | 292          |
| <b>Balance at September<br/>30, 2016</b>      | \$ 106,882         | \$ 2,117        | \$ 2,223,530                     | \$ 280,654           | \$ (27,853)                                               | \$ (14,750)       | \$ 2,570,580 |
| <b>Balance at January 1,<br/>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<br>stock: \$0.36/share                 |                    |                 |                                  | (63,330)             |                                                           |                   | (63,330)     |
| Issuance of common<br>stock                   |                    | 12              | 3,651                            |                      |                                                           | 3,566             | 7,229        |
| Restricted stock<br>compensation              |                    |                 | 3,286                            |                      |                                                           |                   | 3,286        |
| Tax benefit of<br>stock-based                 |                    |                 | 5                                |                      |                                                           |                   | 5            |

compensation

**Balance at September**

|                 |            |          |              |            |             |             |              |
|-----------------|------------|----------|--------------|------------|-------------|-------------|--------------|
| <b>30, 2015</b> | \$ 106,882 | \$ 1,766 | \$ 1,805,926 | \$ 227,287 | \$ (34,397) | \$ (12,715) | \$ 2,094,749 |
|-----------------|------------|----------|--------------|------------|-------------|-------------|--------------|

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>2016</b>                                | <b>2015</b>      |
| <b>Operating Activities</b>                                                             |                                            |                  |
| Net income                                                                              | \$ 119,600                                 | \$ 120,527       |
| Adjustments to reconcile net income to net cash flows provided by operating activities: |                                            |                  |
| Depreciation, amortization and accretion                                                | 45,059                                     | 31,412           |
| Provision for credit losses                                                             | 43,047                                     | 27,777           |
| Deferred tax expense                                                                    | 10,390                                     | 3,874            |
| Net securities gains                                                                    | (596)                                      | (319)            |
| Tax benefit of stock-based compensation                                                 | (292)                                      | (5)              |
| Loans originated for sale                                                               | (484,437)                                  | (336,776)        |
| Loans sold                                                                              | 482,161                                    | 346,174          |
| Gain on sale of loans                                                                   | (10,806)                                   | (6,794)          |
| Net change in:                                                                          |                                            |                  |
| Interest receivable                                                                     | (1,372)                                    | (4,457)          |
| Interest payable                                                                        | 945                                        | (414)            |
| Bank owned life insurance                                                               | (3,103)                                    | (4,266)          |
| Other, net                                                                              | (10,708)                                   | 8,144            |
| <b>Net cash flows provided by operating activities</b>                                  | <b>189,888</b>                             | <b>184,877</b>   |
| <b>Investing Activities</b>                                                             |                                            |                  |
| Net change in loans and leases                                                          | (666,413)                                  | (657,586)        |
| Securities available for sale:                                                          |                                            |                  |
| Purchases                                                                               | (753,544)                                  | (279,636)        |
| Sales                                                                                   | 615,199                                    | 33,499           |
| Maturities                                                                              | 437,406                                    | 212,140          |
| Securities held to maturity:                                                            |                                            |                  |
| Purchases                                                                               | (875,597)                                  | (279,998)        |
| Maturities                                                                              | 259,202                                    | 203,689          |
| Purchase of bank owned life insurance                                                   | (16,579)                                   | (72,688)         |
| Withdrawal/surrender of bank owned life insurance                                       |                                            | 72,664           |
| Increase in premises and equipment                                                      | (37,074)                                   | (7,304)          |
| Net cash received in business combinations                                              | 245,762                                    | 148,159          |
| <b>Net cash flows used in investing activities</b>                                      | <b>(791,638)</b>                           | <b>(627,061)</b> |

**Financing Activities**

|                                                                         |                   |            |
|-------------------------------------------------------------------------|-------------------|------------|
| Net change in:                                                          |                   |            |
| Demand (non-interest bearing and interest bearing) and savings accounts | <b>858,937</b>    | 1,304,345  |
| Time deposits                                                           | <b>(134,234)</b>  | (78,764)   |
| Short-term borrowings                                                   | <b>(15,192)</b>   | (754,356)  |
| Increase in long-term borrowings                                        | <b>39,888</b>     | 20,976     |
| Decrease in long-term borrowings                                        | <b>(119,005)</b>  | (19,804)   |
| Net proceeds from issuance of common stock                              | <b>9,358</b>      | 10,515     |
| Tax benefit of stock-based compensation                                 | <b>292</b>        | 5          |
| Cash dividends paid:                                                    |                   |            |
| Preferred stock                                                         | <b>(6,030)</b>    | (6,030)    |
| Common stock                                                            | <b>(76,133)</b>   | (63,330)   |
| Net cash flows provided by financing activities                         | <b>557,881</b>    | 413,557    |
| <b>Net Decrease in Cash and Cash Equivalents</b>                        | <b>(43,869)</b>   | (28,627)   |
| Cash and cash equivalents at beginning of period                        | <b>489,119</b>    | 287,393    |
| <b>Cash and Cash Equivalents at End of Period</b>                       | <b>\$ 445,250</b> | \$ 258,766 |

See accompanying Notes to Consolidated Financial Statements

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

September 30, 2016

**NATURE OF OPERATIONS**

F.N.B. Corporation (FNB or 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, 2016, the Corporation had 331 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 fiduciary and brokerage services, asset management, private banking and insurance. The Corporation also operates Regency Finance Company (Regency), which had 77 consumer finance offices in Pennsylvania, Ohio, Kentucky and Tennessee as of September 30, 2016.

*Redomestication*

The Corporation completed its redomestication from the State of Florida to the Commonwealth of Pennsylvania on August 30, 2016. The redomestication was effected pursuant to a plan of conversion approved by the Board of Directors and shareholders of the Corporation. As a result of the redomestication, the Corporation is organized under and subject to Pennsylvania law, and remains the same entity that existed before the redomestication, with the same legal existence without interruption, and is deemed to have commenced its existence as the time the Corporation was incorporated under Florida law in 2001. The Corporation was originally incorporated in 1974 in Pennsylvania and reincorporated in Florida in 2001 after experiencing substantial growth of its business and operations in Florida in prior years. In 2004, the Corporation spun off its Florida operations in a newly formed public company and refocused on growing its markets in Pennsylvania. Since that time, the majority of the Corporation's assets, operations and employees have been located in Pennsylvania. Since closing its Florida commercial loan office in 2013 (which had been maintained solely to manage a small portfolio of Florida commercial real estate loans originated from 2004 to 2009), the Corporation has no assets, operations or employees in Florida.

The redomestication did not cause any change in the business, physical location, management, assets, debts or liabilities of the Corporation. All individuals who served as directors, officers and employees of the Corporation prior to the redomestication continued to serve in those capacities after the redomestication. Except for the change in the state law governing the Corporation's legal existence, the redomestication did not affect the Corporation's common stock or depositary shares or the trading of those securities on the New York Stock Exchange (NYSE) under the symbols FNB and FNBPrE, respectively.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*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 September 30, 2016 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).

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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 26, 2016.

### *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, fair value measurements and income taxes.

### *Business Combinations*

Business combinations are accounted for by applying the acquisition method in accordance with Accounting Standards Codification (ASC) 805, *Business Combinations*. Under the acquisition method, identifiable assets acquired and liabilities assumed, and any non-controlling interest in the acquiree at the acquisition date are measured at their fair values as of that date, and are recognized separately from goodwill. Results of operations of the acquired entities are included in the consolidated statements of comprehensive income from the date of acquisition. Beginning in 2016, measurement-period adjustments are recorded in the period the adjustment is identified. Prior to this time, measurement-period adjustments were recorded retrospectively.

### *Cloud Computing Arrangements*

Beginning in 2016, for new or materially modified contracts, the Corporation prospectively adopted new accounting principles to evaluate fees paid for cloud computing arrangements to determine if those arrangements include the purchase of or license to software that should be accounted for separately as internal-use software. If a contract includes the purchase or license to software that should be accounted for separately as internal-use software, the contract is amortized over the software's identified useful life in amortization of intangibles. For contracts that do not include a software license, the contract is accounted for as a service contract with fees paid recorded in other non-interest expense.

### *Stock Based Compensation*

The Corporation accounts for its stock based compensation awards in accordance with ASC 718, *Compensation - Stock Compensation*, which requires the measurement and recognition of compensation expense, based on estimated fair values, for all stock-based awards, including stock options and restricted stock, made to employees and directors.

ASC 718 requires companies to estimate the fair value of stock-based awards on the date of grant. The value of the portion of the award that is ultimately expected to vest is recognized as expense in the Corporation's consolidated statements of comprehensive income over the shorter of requisite service periods or the period through the date that the employee first becomes eligible to retire. Some of the Corporation's plans contain performance targets that affect vesting and can be achieved after the requisite service period and are accounted for as performance conditions. Beginning in 2016, the performance target is not reflected in the estimation of the award's grant date fair

value and compensation cost is recognized in the period in which it becomes probable that the performance condition will be achieved.

Because stock-based compensation expense is based on awards that are ultimately expected to vest, stock-based compensation expense has been reduced to account for estimated forfeitures. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.



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**Table of Contents***Variable Interest Entities*

The Corporation has investments in certain partnerships and limited liability entities that qualify as variable interest entities (VIEs). These entities are evaluated on an on-going basis to determine whether they should be consolidated. Consolidation of a VIE is appropriate if a reporting entity holds a controlling financial interest in the VIE. The Corporation has determined that it does not hold a controlling financial interest in any of the VIEs and, therefore, the assets and liabilities of these entities are not consolidated into its financial statements. Instead, investments in these entities are accounted for under the equity method of accounting and are evaluated periodically for impairment. The recorded investment in these entities is reported in other assets on the consolidated balance sheets.

**2. NEW ACCOUNTING STANDARDS**

The following paragraphs summarize accounting pronouncements applicable to the Corporation that have been issued by the Financial Accounting Standards Board (FASB) but are not yet effective.

*Statement of Cash Flows*

Accounting Standards Update (ASU or Update) 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force)*, adds or clarifies guidance on eight cash flow issues. The Update is effective the first quarter of 2018. Early application is permitted. The Corporation is currently assessing the potential impact to its Consolidated Financial Statements.

*Credit Losses*

ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, commonly referred to as CECL, replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses for most financial assets measured at amortized cost and certain other instruments, including loans, held-to-maturity debt securities, net investments in leases and off-balance sheet credit exposures. In addition, the Update will require the use of a modified available-for-sale debt security impairment model and eliminate the current accounting for purchased credit impaired loans and debt securities. The Update is effective the first quarter of 2020. Early application is permitted. The Corporation is currently assessing the potential impact to its Consolidated Financial Statements.

*Revenue Recognition*

ASU 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients*, addresses certain issues in the guidance on assessing collectability, presentation of sales taxes, noncash consideration, and completed contracts and contract modifications at transition.

ASU 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*, clarifies several aspects of identifying performance obligations and licensing implementation guidance including guidance that is expected to reduce the cost and complexity by eliminating the need to assess whether goods and services are performance obligations if they are immaterial in the context of the contract with the customer.

ASU 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*, clarifies the guidance on principal versus agent considerations when another party is involved in providing goods and services to a customer. The guidance requires a company to determine whether it is required to provide the specific good or service itself or to arrange for that good or service to be provided

by another party.

ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, modifies the guidance used to recognize revenue from contracts with customers for transfers of goods and services and transfers of nonfinancial assets, unless those contracts are within the scope of other guidance. The guidance also requires new qualitative and quantitative disclosures about contract balances and performance obligations. The Update can be adopted using either the full retrospective method or modified retrospective method. The Corporation intends to use the modified retrospective approach when adopted.

The guidance for these Revenue Recognition Updates is effective for annual periods beginning in the first quarter of 2018. Early application is permitted beginning in the first quarter of 2017. The Corporation is currently assessing the potential impact to its Consolidated Financial Statements.

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**Table of Contents***Stock Based Compensation*

ASU 2016-09, *Compensation Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*, simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. The Update is effective in the first quarter of 2017 by an application method determined by the type of transaction impacted by the adoption. Early application is permitted. The Corporation is currently assessing the potential impact to its Consolidated Financial Statements.

*Investments*

ASU 2016-07, *Investments Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting*, eliminates the requirement for an investor to retrospectively apply the equity method when an investment that it had accounted for by another method qualifies for use of the equity method. The Update is effective in the first quarter of 2017 with prospective application. Early application is permitted. This Update is not expected to have a material effect on the Consolidated Financial Statements.

*Derivative and Hedging Activities*

ASU 2016-06, *Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments (a consensus of the Emerging Issues Task Force)*, provides clarification that determination of whether an embedded contingent put or call option in a financial instrument is clearly and closely related to the debt host requires only an analysis of the four-step decision sequence described in ASC 815-15-25-42. The Update is effective in the first quarter of 2017 with modified retrospective application. Early application is permitted. If an entity is no longer required to bifurcate an embedded derivative as a result of this Update and elects fair value accounting, the effects should be reported as a cumulative-effect adjustment. This Update is not expected to have a material effect on the Consolidated Financial Statements.

ASU 2016-05, *Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships (a consensus of the Emerging Issues Task Force)*, clarifies that a change in counterparty to a derivative instrument that has been designated as a hedging instrument under Topic 815 does not, in and of itself, require dedesignation of that hedging relationship provided all other hedge accounting criteria continue to be met. The Update is effective in the first quarter of 2017 with either prospective or modified retrospective application. Early application is permitted. This Update is not expected to have a material effect on the Consolidated Financial Statements.

*Extinguishments of Liabilities*

ASU 2016-04, *Liabilities Extinguishments of Liabilities (Subtopic 405-20): Recognition of Breakage for Certain Prepaid Stored-Value Products (a consensus of the Emerging Issues Task Force)*, requires entities that sell prepaid stored-value products redeemable for goods, services or cash at third-party merchants to recognize breakage. The Update is effective in the first quarter of 2018 with either the modified retrospective method by means of a cumulative-effect adjustment to retained earnings or retrospective application. Early application is permitted. This Update is not expected to have a material effect on the Consolidated Financial Statements.

*Leases*

ASU 2016-02, *Leases (Topic 842)*, requires lessees to put most leases on their balance sheets but recognize expenses in the income statement similar to current accounting. In addition, the Update changes the guidance for sale-leaseback transactions, initial direct costs and lease executory costs for most entities. All entities will classify leases to determine how to recognize lease related revenue and expense. The Update is effective in the first quarter of 2019 with modified retrospective application including a number of optional practical expedients. Early application is permitted. The Corporation is currently assessing the potential impact to its Consolidated Financial Statements.

*Financial Instruments Recognition and Measurement*

ASU 2016-01, *Financial Instruments Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, amends the presentation and accounting for certain financial instruments, including liabilities measured at fair value under the fair value option, and equity investments. The guidance also updates fair value

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presentation and disclosure requirements for financial instruments measured at amortized cost. The Update is effective in the first quarter of 2018 with a cumulative-effect adjustment as of the beginning of the fiscal year of adoption. Early application is prohibited except for the provision requiring the recognition of changes in fair value related to changes in an entity's own credit risk in other comprehensive income for financial liabilities measured using the fair value option. This Update is not expected to have a material effect on the Consolidated Financial Statements.

**3. MERGERS AND ACQUISITIONS***Branch Purchase Fifth Third Bank*

On April 22, 2016, the Corporation completed its purchase of 17 branch-banking locations and certain consumer loans in the Pittsburgh, Pennsylvania metropolitan area from Fifth Third Bank (Fifth Third). The fair value of the acquired assets totaled \$316.6 million, including \$198.9 million in cash, \$97.7 million in loans and \$14.1 million in fixed and other assets. The Corporation also assumed \$302.5 million in deposits, for which it paid a deposit premium of 1.97%, as part of the transaction. The assets and liabilities relating to these purchased branches were recorded on the Corporation's balance sheet at their preliminary fair values as of April 22, 2016, 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 \$12.3 million in goodwill and \$6.0 million 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 deductible for income tax purposes.

*Metro Bancorp, Inc.*

On February 13, 2016, the Corporation completed its acquisition of Metro Bancorp, Inc. (METR), a bank holding company based in Harrisburg, Pennsylvania. The acquisition enhanced the Corporation's distribution and scale across Central Pennsylvania, strengthened its position as the largest Pennsylvania-based regional bank and allowed the Corporation to leverage the significant infrastructure investments made in connection with the expansion of its product offerings and risk management systems. On the acquisition date, the estimated fair values of METR included \$2.8 billion in assets, \$1.9 billion in loans and \$2.3 billion in deposits. The acquisition was valued at \$404.0 million and resulted in the Corporation issuing 34,041,181 shares of its common stock in exchange for 14,345,319 shares of METR common stock. The Corporation also acquired the fully vested outstanding stock options of METR. The assets and liabilities of METR were recorded on the Corporation's consolidated balance sheet at their preliminary estimated fair values as of February 13, 2016, the acquisition date, and METR's results of operations have been included in the Corporation's consolidated statement of comprehensive income since that date. METR's banking affiliate, Metro Bank, was merged into FNBPA on February 13, 2016. Based on the preliminary purchase price allocation, the Corporation recorded \$176.8 million in goodwill and \$36.8 million in core deposit intangibles as a result of the acquisition. These fair value estimates are provisional amounts based on third party valuations that are currently under review. None of the goodwill is deductible for income tax purposes.

The following pro forma financial information for the nine months ended September 30, 2015 reflects the Corporation's estimated consolidated pro forma results of operations as if the METR acquisition occurred on January 1, 2015, unadjusted for potential cost savings and other business synergies the Corporation expects to receive as a result of the acquisition:

(dollars in thousands, except per share data)

**FNB****METR****Pro Forma  
Adjustments****Pro  
Forma**

**Combined**

|                                                       |            |            |            |            |
|-------------------------------------------------------|------------|------------|------------|------------|
| Revenue (net interest income and non-interest income) | \$ 490,182 | \$ 101,029 | \$ (3,183) | \$ 588,028 |
| Net income                                            | 120,527    | 14,714     | (6,011)    | 129,230    |
| Net income available to common stockholders           | 114,497    | 14,654     | (5,951)    | 123,200    |
| Earnings per common share basic                       | 0.65       | 1.04       |            | 0.59       |
| Earnings per common share diluted                     | 0.65       | 1.02       |            | 0.58       |

The pro forma adjustments reflect amortization and associated taxes related to the purchase accounting adjustments made to record various acquired items at fair value.

In connection with the METR acquisition, the Corporation incurred expenses related to systems conversions and other costs of integrating and conforming acquired operations with and into the Corporation. These merger-related charges amounted to \$30.9 million for the nine months ended September 30, 2016 and were expensed as incurred.

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Severance costs comprised 40.8% of the merger-related expenses, with the remainder consisting of other non-interest expenses, including professional services, marketing and advertising, technology and communications, occupancy and equipment, and charitable contributions. The Corporation also incurred issuance costs of \$0.7 million which were charged to additional paid-in capital.

*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 (BoFA). The fair value of the acquired assets totaled \$153.1 million, including \$148.2 million in cash and \$2.0 million in fixed and other assets. The Corporation also assumed \$154.6 million in deposits associated with these branches. The Corporation paid a deposit premium of 1.96% and acquired an immaterial amount of loans as part of the transaction. The Corporation's operating results for 2015 include the impact of branch activity subsequent to the September 18, 2015 closing date. The Corporation recorded \$1.5 million in goodwill and \$3.0 million in core deposit intangibles. The goodwill for this transaction is deductible for income tax purposes.

The following table summarizes the amounts recorded on the consolidated balance sheets as of each of the acquisition dates in conjunction with the acquisitions discussed above:

| (in thousands)                                 | <b>Fifth Third<br/>Branches</b> | <b>METR</b>       | <b>BoFA<br/>Branches</b> |
|------------------------------------------------|---------------------------------|-------------------|--------------------------|
| Fair value of consideration paid               | \$                              | \$ 404,031        | \$                       |
| Fair value of identifiable assets acquired:    |                                 |                   |                          |
| Cash and cash equivalents                      | 198,872                         | 46,890            | 148,159                  |
| Securities                                     |                                 | 722,980           |                          |
| Loans                                          | 97,740                          | 1,868,873         | 842                      |
| Core deposit intangibles                       | 5,952                           | 36,801            | 3,000                    |
| Other assets                                   | 14,069                          | 123,055           | 1,133                    |
| <b>Total identifiable assets acquired</b>      | <b>316,633</b>                  | <b>2,798,599</b>  | <b>153,134</b>           |
| Fair value of liabilities assumed:             |                                 |                   |                          |
| Deposits                                       | 302,529                         | 2,328,238         | 154,619                  |
| Borrowings                                     |                                 | 227,539           |                          |
| Other liabilities                              | 26,427                          | 15,545            |                          |
| <b>Total liabilities assumed</b>               | <b>328,956</b>                  | <b>2,571,322</b>  | <b>154,619</b>           |
| Fair value of net identifiable assets acquired | (12,323)                        | 227,277           | (1,485)                  |
| <b>Goodwill recognized (1)</b>                 | <b>\$ 12,323</b>                | <b>\$ 176,754</b> | <b>\$ 1,485</b>          |

(1) All of the goodwill for these transactions has been recorded by FNBPA.

*Pending Acquisition Yadkin Financial Corporation*

On July 20, 2016, the Corporation entered into a definitive merger agreement to acquire Yadkin Financial Corporation (YDKN), a bank holding company based in Raleigh, North Carolina, with approximately \$7.5 billion in total assets. The transaction is valued at approximately \$1.3 billion. Under the terms of the merger agreement, YDKN voting common shareholders will be entitled to receive 2.16 shares of the Corporation's common stock for each share of YDKN common stock. The Corporation expects to issue approximately 111.4 million shares of its common stock in exchange for approximately 51.6 million shares of YDKN common stock. YDKN's banking affiliate, Yadkin Bank, will be merged into FNBPA. The transaction is expected to be completed in the first quarter of 2017, pending regulatory approvals, the approval of shareholders of the Corporation and YDKN, and the satisfaction of other closing conditions.



**Table of Contents****4. SECURITIES**

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

| (in thousands)                                 | Amortized<br>Cost   | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair Value          |
|------------------------------------------------|---------------------|------------------------------|-------------------------------|---------------------|
| <b><u>Securities Available for Sale</u></b>    |                     |                              |                               |                     |
| <b>September 30, 2016</b>                      |                     |                              |                               |                     |
| U.S. Treasury                                  | \$ 29,839           | \$ 165                       | \$                            | \$ 30,004           |
| U.S. government-sponsored entities             | 382,570             | 2,106                        | (39)                          | 384,637             |
| Residential mortgage-backed securities:        |                     |                              |                               |                     |
| Agency mortgage-backed securities              | 1,039,245           | 17,406                       |                               | 1,056,651           |
| Agency collateralized mortgage obligations     | 552,974             | 3,517                        | (1,768)                       | 554,723             |
| Non-agency collateralized mortgage obligations | 934                 | 1                            |                               | 935                 |
| Commercial mortgage-backed securities          | 2,817               |                              | (1)                           | 2,816               |
| States of the U.S. and political subdivisions  | 36,963              | 205                          | (30)                          | 37,138              |
| Other debt securities                          | 9,803               | 122                          | (580)                         | 9,345               |
| Total debt securities                          | 2,055,145           | 23,522                       | (2,418)                       | 2,076,249           |
| Equity securities                              | 975                 | 392                          |                               | 1,367               |
| <b>Total securities available for sale</b>     | <b>\$ 2,056,120</b> | <b>\$ 23,914</b>             | <b>\$ (2,418)</b>             | <b>\$ 2,077,616</b> |
| <b>December 31, 2015</b>                       |                     |                              |                               |                     |
| U.S. Treasury                                  | \$ 29,738           | \$ 58                        | \$                            | \$ 29,796           |
| U.S. government-sponsored entities             | 368,463             | 856                          | (1,325)                       | 367,994             |
| Residential mortgage-backed securities:        |                     |                              |                               |                     |
| Agency mortgage-backed securities              | 703,069             | 4,594                        | (2,832)                       | 704,831             |
| Agency collateralized mortgage obligations     | 503,328             | 1,032                        | (8,530)                       | 495,830             |
| Non-agency collateralized mortgage obligations | 1,177               | 13                           |                               | 1,190               |
| Commercial mortgage-backed securities          | 4,299               |                              | (12)                          | 4,287               |
| States of the U.S. and political subdivisions  | 10,748              | 309                          |                               | 11,057              |
| Other debt securities                          | 14,729              | 208                          | (651)                         | 14,286              |
| Total debt securities                          | 1,635,551           | 7,070                        | (13,350)                      | 1,629,271           |
| Equity securities                              | 975                 | 324                          | (3)                           | 1,296               |
| <b>Total securities available for sale</b>     | <b>\$ 1,636,526</b> | <b>\$ 7,394</b>              | <b>\$ (13,353)</b>            | <b>\$ 1,630,567</b> |
| <b><u>Securities Held to Maturity</u></b>      |                     |                              |                               |                     |
| <b>September 30, 2016</b>                      |                     |                              |                               |                     |
| U.S. Treasury                                  | \$ 500              | \$ 192                       | \$                            | \$ 692              |
| U.S. government-sponsored entities             | 272,715             | 1,076                        | (196)                         | 273,595             |
| Residential mortgage-backed securities:        |                     |                              |                               |                     |
| Agency mortgage-backed securities              | 830,590             | 20,337                       |                               | 850,927             |

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|                                                |                     |                  |                   |                     |
|------------------------------------------------|---------------------|------------------|-------------------|---------------------|
| Agency collateralized mortgage obligations     | 787,120             | 3,927            | (3,054)           | 787,993             |
| Non-agency collateralized mortgage obligations | 1,877               | 8                | (5)               | 1,880               |
| Commercial mortgage-backed securities          | 50,022              | 1,478            | (120)             | 51,380              |
| States of the U.S. and political subdivisions  | 306,421             | 6,558            | (691)             | 312,288             |
| <b>Total securities held to maturity</b>       | <b>\$ 2,249,245</b> | <b>\$ 33,576</b> | <b>\$ (4,066)</b> | <b>\$ 2,278,755</b> |

**December 31, 2015**

|                                                |                     |                  |                   |                     |
|------------------------------------------------|---------------------|------------------|-------------------|---------------------|
| U.S. Treasury                                  | \$ 500              | \$ 153           | \$                | \$ 653              |
| U.S. government-sponsored entities             | 137,385             | 809              | (395)             | 137,799             |
| Residential mortgage-backed securities:        |                     |                  |                   |                     |
| Agency mortgage-backed securities              | 709,970             | 9,858            | (1,176)           | 718,652             |
| Agency collateralized mortgage obligations     | 499,694             | 803              | (7,657)           | 492,840             |
| Non-agency collateralized mortgage obligations | 2,681               | 14               |                   | 2,695               |
| Commercial mortgage-backed securities          | 51,258              | 115              | (259)             | 51,114              |
| States of the U.S. and political subdivisions  | 235,573             | 4,191            | (101)             | 239,663             |
| <b>Total securities held to maturity</b>       | <b>\$ 1,637,061</b> | <b>\$ 15,943</b> | <b>\$ (9,588)</b> | <b>\$ 1,643,416</b> |

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

| (in thousands)   | Three Months Ended |               | Nine Months Ended |               |
|------------------|--------------------|---------------|-------------------|---------------|
|                  | September 30,      |               | September 30,     |               |
|                  | 2016               | 2015          | 2016              | 2015          |
| Gross gains      | \$ 299             | \$ 314        | \$ 597            | \$ 328        |
| Gross losses     |                    |               | (1)               | (9)           |
| <b>Net gains</b> | <b>\$ 299</b>      | <b>\$ 314</b> | <b>\$ 596</b>     | <b>\$ 319</b> |

As of September 30, 2016, the amortized cost and fair value of securities, by contractual maturities, were as:

| (in thousands)                                 | Available for Sale  |                     | Held to Maturity    |                     |
|------------------------------------------------|---------------------|---------------------|---------------------|---------------------|
|                                                | Amortized Cost      | Fair Value          | Amortized Cost      | Fair Value          |
| Due in one year or less                        | \$ 50,029           | \$ 50,221           | \$ 10,472           | \$ 10,486           |
| Due from one to five years                     | 377,561             | 379,721             | 254,105             | 255,091             |
| Due from five to ten years                     | 24,302              | 24,482              | 69,863              | 70,901              |
| Due after ten years                            | 7,283               | 6,700               | 245,196             | 250,097             |
|                                                | <b>459,175</b>      | <b>461,124</b>      | <b>579,636</b>      | <b>586,575</b>      |
| Residential mortgage-backed securities:        |                     |                     |                     |                     |
| Agency mortgage-backed securities              | 1,039,245           | 1,056,651           | 830,590             | 850,927             |
| Agency collateralized mortgage obligations     | 552,974             | 554,723             | 787,120             | 787,993             |
| Non-agency collateralized mortgage obligations | 934                 | 935                 | 1,877               | 1,880               |
| Commercial mortgage-backed securities          | 2,817               | 2,816               | 50,022              | 51,380              |
| Equity securities                              | 975                 | 1,367               |                     |                     |
| <b>Total securities</b>                        | <b>\$ 2,056,120</b> | <b>\$ 2,077,616</b> | <b>\$ 2,249,245</b> | <b>\$ 2,278,755</b> |

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.

Following is information relating to securities pledged:

| (dollars in thousands)                                                                   | September 30, 2016 | December 31, 2015 |
|------------------------------------------------------------------------------------------|--------------------|-------------------|
| Securities pledged (carrying value):                                                     |                    |                   |
| Collateral for public deposits, trust deposits and for other purposes as required by law | \$ 2,876,304       | \$ 1,728,939      |

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|                                                     |                |         |
|-----------------------------------------------------|----------------|---------|
| Collateral for short-term borrowings                | <b>332,095</b> | 272,629 |
| Securities pledged as a percent of total securities | <b>74.2%</b>   | 61.3%   |

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

| (dollars in thousands)                              | Less than 12 Months |                   |                   | 12 Months or More |                   |                   | Total     |                   |                   |
|-----------------------------------------------------|---------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-----------|-------------------|-------------------|
|                                                     | #                   | Fair Value        | Unrealized Losses | #                 | Fair Value        | Unrealized Losses | #         | Fair Value        | Unrealized Losses |
| <b><u>Securities Available for Sale</u></b>         |                     |                   |                   |                   |                   |                   |           |                   |                   |
| <b>September 30, 2016</b>                           |                     |                   |                   |                   |                   |                   |           |                   |                   |
| U.S. government-sponsored entities                  | 2                   | \$ 39,961         | \$ (39)           |                   | \$                | \$                | 2         | \$ 39,961         | \$ (39)           |
| Residential mortgage-backed securities:             |                     |                   |                   |                   |                   |                   |           |                   |                   |
| Agency collateralized mortgage obligations          | 9                   | 127,838           | (290)             | 9                 | 96,505            | (1,478)           | 18        | 224,343           | (1,768)           |
| Commercial mortgage-backed securities               | 1                   | 2,817             | (1)               |                   |                   |                   | 1         | 2,817             | (1)               |
| States of the U.S. and political subdivisions       | 11                  | 14,304            | (30)              |                   |                   |                   | 11        | 14,304            | (30)              |
| Other debt securities                               |                     |                   |                   | 3                 | 4,322             | (580)             | 3         | 4,322             | (580)             |
| <b>Total impaired securities available for sale</b> | <b>23</b>           | <b>\$ 184,920</b> | <b>\$ (360)</b>   | <b>12</b>         | <b>\$ 100,827</b> | <b>\$ (2,058)</b> | <b>35</b> | <b>\$ 285,747</b> | <b>\$ (2,418)</b> |

**December 31, 2015**

|                                                     |           |                   |                   |           |                   |                   |           |                   |                    |
|-----------------------------------------------------|-----------|-------------------|-------------------|-----------|-------------------|-------------------|-----------|-------------------|--------------------|
| U.S. government-sponsored entities                  | 6         | \$ 99,131         | \$ (814)          | 2         | \$ 34,487         | \$ (511)          | 8         | \$ 133,618        | \$ (1,325)         |
| Residential mortgage-backed securities:             |           |                   |                   |           |                   |                   |           |                   |                    |
| Agency mortgage-backed securities                   | 19        | 359,250           | (2,832)           |           |                   |                   | 19        | 359,250           | (2,832)            |
| Agency collateralized mortgage obligations          | 9         | 126,309           | (1,366)           | 18        | 215,330           | (7,164)           | 27        | 341,639           | (8,530)            |
| Commercial mortgage-backed securities               | 1         | 4,287             | (12)              |           |                   |                   | 1         | 4,287             | (12)               |
| Other debt securities                               |           |                   |                   | 3         | 4,245             | (651)             | 3         | 4,245             | (651)              |
| Equity securities                                   | 1         | 632               | (3)               |           |                   |                   | 1         | 632               | (3)                |
| <b>Total impaired securities available for sale</b> | <b>36</b> | <b>\$ 589,609</b> | <b>\$ (5,027)</b> | <b>23</b> | <b>\$ 254,062</b> | <b>\$ (8,326)</b> | <b>59</b> | <b>\$ 843,671</b> | <b>\$ (13,353)</b> |

**Securities Held to Maturity****September 30, 2016**

|  |   |           |          |  |    |    |   |           |          |
|--|---|-----------|----------|--|----|----|---|-----------|----------|
|  | 2 | \$ 39,804 | \$ (196) |  | \$ | \$ | 2 | \$ 39,804 | \$ (196) |
|--|---|-----------|----------|--|----|----|---|-----------|----------|

|                                                   |           |                   |                   |           |                   |                   |           |                   |                   |
|---------------------------------------------------|-----------|-------------------|-------------------|-----------|-------------------|-------------------|-----------|-------------------|-------------------|
| U.S. government-sponsored entities                |           |                   |                   |           |                   |                   |           |                   |                   |
| Residential mortgage-backed securities:           |           |                   |                   |           |                   |                   |           |                   |                   |
| Agency collateralized mortgage obligations        | 12        | 317,349           | (1,623)           | 12        | 121,880           | (1,431)           | 24        | 439,229           | (3,054)           |
| Non-agency collateralized mortgage obligations    | 3         | 1,239             | (5)               |           |                   |                   | 3         | 1,239             | (5)               |
| Commercial mortgage-backed securities             | 1         | 8,415             | (120)             |           |                   |                   | 1         | 8,415             | (120)             |
| States of the U.S. and political subdivisions     | 12        | 36,447            | (691)             |           |                   |                   | 12        | 36,447            | (691)             |
| <b>Total impaired securities held to maturity</b> | <b>30</b> | <b>\$ 403,254</b> | <b>\$ (2,635)</b> | <b>12</b> | <b>\$ 121,880</b> | <b>\$ (1,431)</b> | <b>42</b> | <b>\$ 525,134</b> | <b>\$ (4,066)</b> |

**December 31, 2015**

|                                                   |           |                   |                   |           |                   |                   |           |                   |                   |
|---------------------------------------------------|-----------|-------------------|-------------------|-----------|-------------------|-------------------|-----------|-------------------|-------------------|
| U.S. government-sponsored entities                |           |                   |                   |           |                   |                   |           |                   |                   |
|                                                   | 3         | \$ 39,843         | \$ (173)          | 1         | \$ 14,778         | \$ (222)          | 4         | \$ 54,621         | \$ (395)          |
| Residential mortgage-backed securities:           |           |                   |                   |           |                   |                   |           |                   |                   |
| Agency mortgage-backed securities                 | 17        | 212,024           | (1,159)           | 1         | 917               | (17)              | 18        | 212,941           | (1,176)           |
| Agency collateralized mortgage obligations        | 11        | 150,593           | (1,434)           | 14        | 160,716           | (6,223)           | 25        | 311,309           | (7,657)           |
| Commercial mortgage-backed securities             | 3         | 46,278            | (259)             |           |                   |                   | 3         | 46,278            | (259)             |
| States of the U.S. and political subdivisions     | 9         | 17,616            | (101)             |           |                   |                   | 9         | 17,616            | (101)             |
| <b>Total impaired securities held to maturity</b> | <b>43</b> | <b>\$ 466,354</b> | <b>\$ (3,126)</b> | <b>16</b> | <b>\$ 176,411</b> | <b>\$ (6,462)</b> | <b>59</b> | <b>\$ 642,765</b> | <b>\$ (9,588)</b> |

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.

**Table of Contents***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:

| (in thousands)                                             | <b>Equities</b> | <b>Total</b> |
|------------------------------------------------------------|-----------------|--------------|
| <b>For the Nine Months Ended September 30, 2016</b>        |                 |              |
| Beginning balance                                          | \$ 27           | \$ 27        |
| Loss where impairment was not previously recognized        |                 |              |
| Additional loss where impairment was previously recognized |                 |              |
| Reduction due to credit impaired securities sold           |                 |              |
| Ending balance                                             | \$ 27           | \$ 27        |
| <b>For the Nine Months Ended September 30, 2015</b>        |                 |              |
| Beginning balance                                          | \$ 27           | \$ 27        |
| Loss where impairment was not previously recognized        |                 |              |
| Additional loss where impairment was previously recognized |                 |              |
| Reduction due to credit impaired securities sold           |                 |              |
| Ending balance                                             | \$ 27           | \$ 27        |

The Corporation did not recognize any impairment losses on securities for the nine months ended September 30, 2016 or 2015.

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

The Corporation's municipal bond portfolio with a carrying amount of \$343.6 million as of September 30, 2016 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 99.9% of the portfolio. Geographically, municipal bonds support the Corporation's primary footprint as 92.6% 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 \$1.9 million. In addition to the strong stand-alone ratings, 79.2% 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.

**5. LOANS AND LEASES**

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

| (in thousands) | <b>Originated<br/>Loans and</b> | <b>Acquired<br/>Loans</b> | <b>Total<br/>Loans and</b> |
|----------------|---------------------------------|---------------------------|----------------------------|
|----------------|---------------------------------|---------------------------|----------------------------|

|                                                       | Leases               |                     | Leases               |
|-------------------------------------------------------|----------------------|---------------------|----------------------|
| <b>September 30, 2016</b>                             |                      |                     |                      |
| Commercial real estate                                | \$ 3,918,575         | \$ 1,448,716        | \$ 5,367,291         |
| Commercial and industrial                             | 2,696,210            | 392,195             | 3,088,405            |
| Commercial leases                                     | 195,271              |                     | 195,271              |
| <b>Total commercial loans and leases</b>              | <b>6,810,056</b>     | <b>1,840,911</b>    | <b>8,650,967</b>     |
| Direct installment                                    | 1,750,189            | 87,206              | 1,837,395            |
| Residential mortgages                                 | 1,355,476            | 424,391             | 1,779,867            |
| Indirect installment                                  | 1,150,575            | 237                 | 1,150,812            |
| Consumer lines of credit                              | 1,088,807            | 214,416             | 1,303,223            |
| Other                                                 | 51,182               |                     | 51,182               |
| <b>Total loans and leases, net of unearned income</b> | <b>\$ 12,206,285</b> | <b>\$ 2,567,161</b> | <b>\$ 14,773,446</b> |



**Table of Contents**

| (in thousands)                                            | <b>Originated<br/>Loans and<br/>Leases</b> | <b>Acquired<br/>Loans</b> | <b>Total<br/>Loans and<br/>Leases</b> |
|-----------------------------------------------------------|--------------------------------------------|---------------------------|---------------------------------------|
| <b>December 31, 2015</b>                                  |                                            |                           |                                       |
| Commercial real estate                                    | \$ 3,531,146                               | \$ 577,910                | \$ 4,109,056                          |
| Commercial and industrial                                 | 2,534,351                                  | 67,371                    | 2,601,722                             |
| Commercial leases                                         | 204,553                                    |                           | 204,553                               |
| <b>Total commercial loans and leases</b>                  | <b>6,270,050</b>                           | <b>645,281</b>            | <b>6,915,331</b>                      |
| Direct installment                                        | 1,660,717                                  | 45,919                    | 1,706,636                             |
| Residential mortgages                                     | 1,044,689                                  | 351,282                   | 1,395,971                             |
| Indirect installment                                      | 996,175                                    | 554                       | 996,729                               |
| Consumer lines of credit                                  | 1,021,830                                  | 115,425                   | 1,137,255                             |
| Other                                                     | 38,518                                     |                           | 38,518                                |
| <b>Total loans and leases, net of unearned<br/>income</b> | <b>\$ 11,031,979</b>                       | <b>\$ 1,158,461</b>       | <b>\$ 12,190,440</b>                  |

The loans and leases portfolio categories are comprised of the following:

Commercial real estate includes both owner-occupied and non-owner-occupied loans secured by commercial properties;

Commercial and industrial includes loans to business 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; and

Other is comprised primarily of credit cards, mezzanine loans and student loans.

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The loans and leases 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 loans and leases portfolio also contains Regency consumer finance loans to individuals in Pennsylvania, Ohio, Tennessee and Kentucky. Due to the relative size of the Regency consumer finance loan portfolio, these loans are not segregated from other consumer loans. The following table shows certain information relating to the Regency consumer finance loans:

| (dollars in thousands)            | <b>September 30,<br/>2016</b> | <b>December 31,<br/>2015</b> |
|-----------------------------------|-------------------------------|------------------------------|
| Regency consumer finance loans    | \$ <b>182,527</b>             | \$ 186,162                   |
| Percent of total loans and leases | <b>1.2%</b>                   | 1.5%                         |

The following table shows certain information relating to commercial real estate loans:

| (dollars in thousands)            | <b>September 30,<br/>2016</b> | <b>December 31,<br/>2015</b> |
|-----------------------------------|-------------------------------|------------------------------|
| Commercial construction loans     | \$ <b>454,239</b>             | \$ 352,322                   |
| Percent of total loans and leases | <b>3.1%</b>                   | 2.9%                         |
| Commercial real estate:           |                               |                              |
| Percent owner-occupied            | <b>36.3%</b>                  | 38.1%                        |
| Percent non-owner-occupied        | <b>63.7%</b>                  | 61.9%                        |

**Table of Contents***Acquired Loans*

All acquired loans were initially recorded at fair value at the acquisition date. Refer to the Acquired Loans section in Note 1 of the Corporation's 2015 Annual Report on Form 10-K for a discussion of ASC 310-20 and ASC 310-30. The outstanding balance and the carrying amount of acquired loans included in the consolidated balance sheets are as follows:

| (in thousands)                  | September 30,<br>2016 | December 31,<br>2015 |
|---------------------------------|-----------------------|----------------------|
| Accounted for under ASC 310-30: |                       |                      |
| Outstanding balance             | \$ 2,534,180          | \$ 1,258,418         |
| Carrying amount                 | 2,206,380             | 1,011,139            |
| Accounted for under ASC 310-20: |                       |                      |
| Outstanding balance             | 372,419               | 146,161              |
| Carrying amount                 | 354,400               | 140,595              |
| Total acquired loans:           |                       |                      |
| Outstanding balance             | 2,906,599             | 1,404,579            |
| Carrying amount                 | 2,560,780             | 1,151,734            |

The carrying amount of purchased credit impaired loans included in the table above totaled \$2.9 million at September 30, 2016 and \$5.9 million at December 31, 2015, 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.

| (in thousands)                            | Nine Months Ended<br>September 30, |            |
|-------------------------------------------|------------------------------------|------------|
|                                           | 2016                               | 2015       |
| Balance at beginning of period            | \$ 256,120                         | \$ 331,899 |
| Acquisitions                              | 308,311                            |            |
| Reduction due to unexpected early payoffs | (60,920)                           | (35,601)   |
| Reclass from non-accretable difference    | 66,807                             | 24,489     |
| Disposals/transfers                       | (343)                              | (509)      |
| Accretion                                 | (77,180)                           | (46,207)   |
| Balance at end of period                  | \$ 492,795                         | \$ 274,071 |

Cash flows expected to be collected on acquired loans are estimated quarterly by incorporating several key assumptions similar to the initial estimate of fair value. These key assumptions include probability of default and the amount of actual prepayments after the acquisition date. Prepayments affect the estimated life of the loans and could change the amount of interest income, and possibly principal expected to be collected. In reforecasting future estimated cash flows, credit loss expectations are adjusted as necessary. Improved cash flow expectations for loans or pools are recorded first as a reversal of previously recorded impairment, if any, and then as an increase in prospective yield when all previously recorded impairment has been recaptured. Decreases in expected cash flows are recognized

as an impairment through a provision for loan loss and an increase to the allowance for acquired loans.

During the nine months ended September 30, 2016, there was an overall improvement in cash flow expectations which resulted in a net reclassification of \$66.8 million from the non-accretable difference to accretable yield. This reclassification was \$24.5 million for the nine months ended September 30, 2015. The reclassification from the non-accretable difference to the accretable yield results in prospective yield adjustments on the loan pools.

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The following table reflects amounts at acquisition for all purchased loans subject to ASC 310-30 (impaired and non-impaired loans with deteriorated credit quality) acquired from METR and Fifth Third.

| (in thousands)                                                    | <b>Acquired<br/>Impaired<br/>Loans</b> | <b>Acquired<br/>Performing<br/>Loans</b> | <b>Total</b>        |
|-------------------------------------------------------------------|----------------------------------------|------------------------------------------|---------------------|
| Contractually required cash flows at acquisition                  | \$ 99,611                              | \$ 2,191,476                             | \$ 2,291,087        |
| Non-accretable difference (expected losses and foregone interest) | (52,995)                               | (264,233)                                | (317,228)           |
| Cash flows expected to be collected at acquisition                | 46,616                                 | 1,927,243                                | 1,973,859           |
| Accretable yield                                                  | (1,063)                                | (307,248)                                | (308,311)           |
| <b>Basis in acquired loans at acquisition</b>                     | <b>\$ 45,553</b>                       | <b>\$ 1,619,995</b>                      | <b>\$ 1,665,548</b> |

In addition, loans purchased in the METR acquisition and Fifth Third branch purchase that were not subject to ASC 310-30 had the following balances at the date of acquisition: fair value of \$292.3 million; unpaid principal balance of \$315.1 million; and contractual cash flows not expected to be collected of \$103.0 million.

*Credit Quality*

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

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 originated loans 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 principal and interest is deemed uncollectible, 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:

| (dollars in thousands)            | <b>September 30,<br/>2016</b> | <b>December 31,<br/>2015</b> |
|-----------------------------------|-------------------------------|------------------------------|
| Non-accrual loans                 | \$ 74,828                     | \$ 49,897                    |
| Troubled debt restructurings      | 20,638                        | 22,028                       |
| <b>Total non-performing loans</b> | <b>95,466</b>                 | <b>71,925</b>                |

|                                |               |        |
|--------------------------------|---------------|--------|
| Other real estate owned (OREO) | <b>40,523</b> | 38,918 |
|--------------------------------|---------------|--------|

|                                    |                   |                   |
|------------------------------------|-------------------|-------------------|
| <b>Total non-performing assets</b> | <b>\$ 135,989</b> | <b>\$ 110,843</b> |
|------------------------------------|-------------------|-------------------|

Asset quality ratios:

|                                               |              |       |
|-----------------------------------------------|--------------|-------|
| Non-performing loans / total loans and leases | <b>0.65%</b> | 0.59% |
|-----------------------------------------------|--------------|-------|

|                                                             |              |       |
|-------------------------------------------------------------|--------------|-------|
| Non-performing loans + OREO / total loans and leases + OREO | <b>0.92%</b> | 0.91% |
|-------------------------------------------------------------|--------------|-------|

|                                         |              |       |
|-----------------------------------------|--------------|-------|
| Non-performing assets / of total assets | <b>0.63%</b> | 0.63% |
|-----------------------------------------|--------------|-------|

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 totaled \$5.1 million at September 30, 2016 and \$5.2 million at December 31, 2015. The recorded investment of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are in process at September 30, 2016 and December 31, 2015 totaled \$9.5 million and \$11.7 million, respectively.

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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:

| (in thousands)                           | 30-89 Days<br>Due | 30-90 Days<br>Past Due and<br>Still Accruing | Non-<br>Accrual  | Total<br>Past Due | Current              | Total<br>Loans and<br>Leases |
|------------------------------------------|-------------------|----------------------------------------------|------------------|-------------------|----------------------|------------------------------|
| <b>Originated Loans and Leases</b>       |                   |                                              |                  |                   |                      |                              |
| <b>September 30, 2016</b>                |                   |                                              |                  |                   |                      |                              |
| Commercial real estate                   | \$ 7,971          | \$ 1                                         | \$ 18,186        | \$ 26,158         | \$ 3,892,417         | \$ 3,918,575                 |
| Commercial and industrial                | 5,479             | 3                                            | 36,174           | 41,656            | 2,654,554            | 2,696,210                    |
| Commercial leases                        | 1,106             |                                              | 3,359            | 4,465             | 190,806              | 195,271                      |
| Total commercial loans and leases        | 14,556            | 4                                            | 57,719           | 72,279            | 6,737,777            | 6,810,056                    |
| Direct installment                       | 9,003             | 3,502                                        | 6,368            | 18,873            | 1,731,316            | 1,750,189                    |
| Residential mortgages                    | 9,550             | 2,454                                        | 3,106            | 15,110            | 1,340,366            | 1,355,476                    |
| Indirect installment                     | 6,468             | 467                                          | 1,741            | 8,676             | 1,141,899            | 1,150,575                    |
| Consumer lines of credit                 | 3,467             | 408                                          | 1,564            | 5,439             | 1,083,368            | 1,088,807                    |
| Other                                    | 27                | 71                                           | 1,000            | 1,098             | 50,084               | 51,182                       |
| <b>Total originated loans and leases</b> | <b>\$ 43,071</b>  | <b>\$ 6,906</b>                              | <b>\$ 71,498</b> | <b>\$ 121,475</b> | <b>\$ 12,084,810</b> | <b>\$ 12,206,285</b>         |
| <b>December 31, 2015</b>                 |                   |                                              |                  |                   |                      |                              |
| Commercial real estate                   | \$ 11,006         | \$ 1                                         | \$ 23,503        | \$ 34,510         | \$ 3,496,636         | \$ 3,531,146                 |
| Commercial and industrial                | 5,409             | 3                                            | 14,382           | 19,794            | 2,514,557            | 2,534,351                    |
| Commercial leases                        | 924               |                                              | 659              | 1,583             | 202,970              | 204,553                      |
| Total commercial loans and leases        | 17,339            | 4                                            | 38,544           | 55,887            | 6,214,163            | 6,270,050                    |
| Direct installment                       | 9,254             | 3,813                                        | 4,806            | 17,873            | 1,642,844            | 1,660,717                    |
| Residential mortgages                    | 8,135             | 1,470                                        | 2,882            | 12,487            | 1,032,202            | 1,044,689                    |
| Indirect installment                     | 9,472             | 379                                          | 1,361            | 11,212            | 984,963              | 996,175                      |
| Consumer lines of credit                 | 2,410             | 1,189                                        | 1,181            | 4,780             | 1,017,050            | 1,021,830                    |
| Other                                    | 73                | 169                                          |                  | 242               | 38,276               | 38,518                       |
| <b>Total originated loans and leases</b> | <b>\$ 46,683</b>  | <b>\$ 7,024</b>                              | <b>\$ 48,774</b> | <b>\$ 102,481</b> | <b>\$ 10,929,498</b> | <b>\$ 11,031,979</b>         |

**Table of Contents**

| (in thousands)                | 30-89<br>Days<br>Past<br>Due | <sup>3</sup> 90 Days<br>Past<br>Due<br>and Still<br>Accruing | Non-<br>Accrual | Total<br>Past<br>Due (1) (2) | Current             | Discount            | Total<br>Loans      |
|-------------------------------|------------------------------|--------------------------------------------------------------|-----------------|------------------------------|---------------------|---------------------|---------------------|
| <b>Acquired Loans</b>         |                              |                                                              |                 |                              |                     |                     |                     |
| <b>September 30, 2016</b>     |                              |                                                              |                 |                              |                     |                     |                     |
| Commercial real estate        | \$ 14,576                    | \$ 25,048                                                    | \$ 1,754        | \$ 41,378                    | \$ 1,489,415        | \$ (82,077)         | \$ 1,448,716        |
| Commercial and industrial     | 1,283                        | 2,941                                                        | 1,153           | 5,377                        | 418,122             | (31,304)            | 392,195             |
| <b>Total commercial loans</b> | <b>15,859</b>                | <b>27,989</b>                                                | <b>2,907</b>    | <b>46,755</b>                | <b>1,907,537</b>    | <b>(113,381)</b>    | <b>1,840,911</b>    |
| Direct installment            | 2,712                        | 947                                                          |                 | 3,659                        | 81,332              | 2,215               | 87,206              |
| Residential mortgages         | 8,224                        | 12,625                                                       |                 | 20,849                       | 442,023             | (38,481)            | 424,391             |
| Indirect installment          | 4                            | 3                                                            |                 | 7                            | 169                 | 61                  | 237                 |
| Consumer lines of credit      | 2,288                        | 1,020                                                        | 423             | 3,731                        | 215,455             | (4,770)             | 214,416             |
| <b>Total acquired loans</b>   | <b>\$ 29,087</b>             | <b>\$ 42,584</b>                                             | <b>\$ 3,330</b> | <b>\$ 75,001</b>             | <b>\$ 2,646,516</b> | <b>\$ (154,356)</b> | <b>\$ 2,567,161</b> |
| <b>December 31, 2015</b>      |                              |                                                              |                 |                              |                     |                     |                     |
| Commercial real estate        | \$ 6,399                     | \$ 12,752                                                    | \$ 931          | \$ 20,082                    | \$ 593,128          | \$ (35,300)         | \$ 577,910          |
| Commercial and industrial     | 1,065                        | 616                                                          | 103             | 1,784                        | 72,037              | (6,450)             | 67,371              |
| <b>Total commercial loans</b> | <b>7,464</b>                 | <b>13,368</b>                                                | <b>1,034</b>    | <b>21,866</b>                | <b>665,165</b>      | <b>(41,750)</b>     | <b>645,281</b>      |
| Direct installment            | 837                          | 659                                                          |                 | 1,496                        | 43,596              | 827                 | 45,919              |
| Residential mortgages         | 5,871                        | 15,136                                                       |                 | 21,007                       | 366,742             | (36,467)            | 351,282             |
| Indirect installment          | 32                           | 9                                                            |                 | 41                           | 571                 | (58)                | 554                 |
| Consumer lines of credit      | 830                          | 546                                                          | 89              | 1,465                        | 117,443             | (3,483)             | 115,425             |
| <b>Total acquired loans</b>   | <b>\$ 15,034</b>             | <b>\$ 29,718</b>                                             | <b>\$ 1,123</b> | <b>\$ 45,875</b>             | <b>\$ 1,193,517</b> | <b>\$ (80,931)</b>  | <b>\$ 1,158,461</b> |

- (1) Past due information for acquired loans is based on the contractual balance outstanding at September 30, 2016 and December 31, 2015.
- (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.

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

**Rating****Definition**



**Category**

|                 |                                                                                                                                                          |
|-----------------|----------------------------------------------------------------------------------------------------------------------------------------------------------|
| 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

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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:

| (in thousands)                                      | Commercial Loan and Lease Credit Quality Categories |                    |                   |                 |                     |
|-----------------------------------------------------|-----------------------------------------------------|--------------------|-------------------|-----------------|---------------------|
|                                                     | Pass                                                | Special<br>Mention | Substandard       | Doubtful        | Total               |
| <b><u>Originated Loans and Leases</u></b>           |                                                     |                    |                   |                 |                     |
| <b>September 30, 2016</b>                           |                                                     |                    |                   |                 |                     |
| Commercial real estate                              | \$ 3,737,877                                        | \$ 120,184         | \$ 59,964         | \$ 550          | \$ 3,918,575        |
| Commercial and industrial                           | 2,466,207                                           | 85,586             | 135,322           | 9,095           | 2,696,210           |
| Commercial leases                                   | 186,357                                             | 4,446              | 4,468             |                 | 195,271             |
| <b>Total originated commercial loans and leases</b> | <b>\$ 6,390,441</b>                                 | <b>\$ 210,216</b>  | <b>\$ 199,754</b> | <b>\$ 9,645</b> | <b>\$ 6,810,056</b> |
| <b>December 31, 2015</b>                            |                                                     |                    |                   |                 |                     |
| Commercial real estate                              | \$ 3,416,527                                        | \$ 52,887          | \$ 61,411         | \$ 321          | \$ 3,531,146        |
| Commercial and industrial                           | 2,335,103                                           | 109,539            | 87,380            | 2,329           | 2,534,351           |
| Commercial leases                                   | 198,207                                             | 2,447              | 3,899             |                 | 204,553             |
| <b>Total originated commercial loans and leases</b> | <b>\$ 5,949,837</b>                                 | <b>\$ 164,873</b>  | <b>\$ 152,690</b> | <b>\$ 2,650</b> | <b>\$ 6,270,050</b> |
| <b><u>Acquired Loans</u></b>                        |                                                     |                    |                   |                 |                     |
| <b>September 30, 2016</b>                           |                                                     |                    |                   |                 |                     |
| Commercial real estate                              | \$ 1,249,051                                        | \$ 75,085          | \$ 123,560        | \$ 1,020        | \$ 1,448,716        |
| Commercial and industrial                           | 336,545                                             | 13,110             | 42,024            | 516             | 392,195             |
| <b>Total acquired commercial loans</b>              | <b>\$ 1,585,596</b>                                 | <b>\$ 88,195</b>   | <b>\$ 165,584</b> | <b>\$ 1,536</b> | <b>\$ 1,840,911</b> |
| <b>December 31, 2015</b>                            |                                                     |                    |                   |                 |                     |
| Commercial real estate                              | \$ 464,162                                          | \$ 47,619          | \$ 66,129         |                 | \$ 577,910          |
| Commercial and industrial                           | 56,446                                              | 3,182              | 7,743             |                 | 67,371              |
| <b>Total acquired commercial loans</b>              | <b>\$ 520,608</b>                                   | <b>\$ 50,801</b>   | <b>\$ 73,872</b>  |                 | <b>\$ 645,281</b>   |

Credit quality information for acquired loans is based on the contractual balance outstanding at September 30, 2016 and December 31, 2015. The increase in acquired loans in 2016 relates to the METR acquisition completed on February 13, 2016.

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:

| (in thousands)                         | Originated Consumer Loan Credit Quality<br>by Payment Status |                  |                     |
|----------------------------------------|--------------------------------------------------------------|------------------|---------------------|
|                                        | Performing                                                   | Non-Performing   | Total               |
| <b>September 30, 2016</b>              |                                                              |                  |                     |
| Direct installment                     | \$ 1,735,117                                                 | \$ 15,072        | \$ 1,750,189        |
| Residential mortgages                  | 1,342,077                                                    | 13,399           | 1,355,476           |
| Indirect installment                   | 1,148,649                                                    | 1,926            | 1,150,575           |
| Consumer lines of credit               | 1,086,167                                                    | 2,640            | 1,088,807           |
| Other                                  | 51,182                                                       |                  | 51,182              |
| <b>Total originated consumer loans</b> | <b>\$ 5,363,192</b>                                          | <b>\$ 33,037</b> | <b>\$ 5,396,229</b> |
| <b>December 31, 2015</b>               |                                                              |                  |                     |
| Direct installment                     | \$ 1,646,925                                                 | \$ 13,792        | \$ 1,660,717        |
| Residential mortgages                  | 1,031,926                                                    | 12,763           | 1,044,689           |
| Indirect installment                   | 994,661                                                      | 1,514            | 996,175             |
| Consumer lines of credit               | 1,019,783                                                    | 2,047            | 1,021,830           |
| Other                                  | 38,518                                                       |                  | 38,518              |
| <b>Total originated consumer loans</b> | <b>\$ 4,731,813</b>                                          | <b>\$ 30,116</b> | <b>\$ 4,761,929</b> |

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 \$500,000 based on loan and lease segment loss given default. For commercial loan relationships greater than or equal to \$500,000, 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, except for those loans classified as non-accrual, is recognized as income using the accrual method. Impaired loans, or portions thereof, are charged off when deemed uncollectible.

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

| (in thousands)                                            | Unpaid<br>Contractual<br>Principal<br>Balance | Recorded<br>Investment<br>With No<br>Specific<br>Reserve | Recorded<br>Investment<br>With<br>Specific<br>Reserve | Total<br>Recorded<br>Investment | Specific<br>Reserve | Average<br>Recorded<br>Investment |
|-----------------------------------------------------------|-----------------------------------------------|----------------------------------------------------------|-------------------------------------------------------|---------------------------------|---------------------|-----------------------------------|
| <b>At or for the Nine Months Ended September 30, 2016</b> |                                               |                                                          |                                                       |                                 |                     |                                   |
| Commercial real estate                                    | \$ 20,836                                     | \$ 15,057                                                | \$ 3,214                                              | \$ 18,271                       | \$ 550              | \$ 21,677                         |
| Commercial and industrial                                 | 41,296                                        | 18,654                                                   | 17,028                                                | 35,682                          | 9,095               | 31,603                            |
| Commercial leases                                         | 3,359                                         | 3,359                                                    |                                                       | 3,359                           |                     | 1,514                             |
| <b>Total commercial loans and leases</b>                  | <b>65,491</b>                                 | <b>37,070</b>                                            | <b>20,242</b>                                         | <b>57,312</b>                   | <b>9,645</b>        | <b>54,794</b>                     |
| Direct installment                                        | 16,465                                        | 15,072                                                   |                                                       | 15,072                          |                     | 14,972                            |
| Residential mortgages                                     | 14,049                                        | 13,399                                                   |                                                       | 13,399                          |                     | 13,164                            |
| Indirect installment                                      | 4,668                                         | 1,926                                                    |                                                       | 1,926                           |                     | 1,846                             |
| Consumer lines of credit                                  | 3,413                                         | 2,640                                                    |                                                       | 2,640                           |                     | 2,825                             |
| <b>Total</b>                                              | <b>\$ 104,086</b>                             | <b>\$ 70,107</b>                                         | <b>\$ 20,242</b>                                      | <b>\$ 90,349</b>                | <b>\$ 9,645</b>     | <b>\$ 87,601</b>                  |
| <b>At or for the Year Ended December 31, 2015</b>         |                                               |                                                          |                                                       |                                 |                     |                                   |
| Commercial real estate                                    | \$ 33,780                                     | \$ 24,423                                                | \$ 772                                                | \$ 25,195                       | \$ 321              | \$ 26,143                         |
| Commercial and industrial                                 | 15,860                                        | 9,176                                                    | 5,543                                                 | 14,719                          | 2,329               | 12,298                            |
| Commercial leases                                         | 659                                           | 659                                                      |                                                       | 659                             |                     | 747                               |
| <b>Total commercial loans and leases</b>                  | <b>50,299</b>                                 | <b>34,258</b>                                            | <b>6,315</b>                                          | <b>40,573</b>                   | <b>2,650</b>        | <b>39,188</b>                     |
| Direct installment                                        | 14,679                                        | 13,792                                                   |                                                       | 13,792                          |                     | 13,267                            |
| Residential mortgages                                     | 13,394                                        | 12,763                                                   |                                                       | 12,763                          |                     | 12,896                            |
| Indirect installment                                      | 3,745                                         | 1,514                                                    |                                                       | 1,514                           |                     | 1,401                             |
| Consumer lines of credit                                  | 2,408                                         | 2,047                                                    |                                                       | 2,047                           |                     | 2,198                             |
| <b>Total</b>                                              | <b>\$ 84,525</b>                              | <b>\$ 64,374</b>                                         | <b>\$ 6,315</b>                                       | <b>\$ 70,689</b>                | <b>\$ 2,650</b>     | <b>\$ 68,950</b>                  |

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

The above tables do not reflect the additional allowance for credit losses relating to acquired loans in the following pools and categories:

| (in thousands)            | September 30,<br>2016 | December 31,<br>2015 |
|---------------------------|-----------------------|----------------------|
| Commercial real estate    | \$ 3,631              | \$ 3,073             |
| Commercial and industrial | 493                   | 695                  |

|                          |                 |          |
|--------------------------|-----------------|----------|
| Total commercial loans   | <b>4,124</b>    | 3,768    |
| Direct installment       | <b>1,110</b>    | 1,557    |
| Residential mortgages    | <b>659</b>      | 659      |
| Indirect installment     | <b>221</b>      | 221      |
| Consumer lines of credit | <b>267</b>      | 522      |
| Total                    | <b>\$ 6,381</b> | \$ 6,727 |

#### *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.

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

| (in thousands)    | <b>September 30,<br/>2016</b> | <b>December 31,<br/>2015</b> |
|-------------------|-------------------------------|------------------------------|
| Accruing:         |                               |                              |
| Performing        | \$ 17,030                     | \$ 15,165                    |
| Non-performing    | 20,638                        | 22,028                       |
| Non-accrual       | 9,307                         | 8,307                        |
| <b>Total TDRs</b> | <b>\$ 46,975</b>              | <b>\$ 45,500</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, 2016, the Corporation returned to performing status \$4.9 million in restructured residential mortgage loans that have consistently met their modified obligations for more than nine 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 nine 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 \$500,000 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 and pooled reserves for individual loans under \$500,000 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. The reserve for commercial TDRs included in the allowance for credit losses are as follows:

| (in thousands)                                   | <b>September 30,<br/>2016</b> | <b>December 31,<br/>2015</b> |
|--------------------------------------------------|-------------------------------|------------------------------|
| Specific reserves                                | \$ 608                        | \$ 300                       |
| Pooled reserves for individual loans under \$500 | 302                           | 929                          |

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 \$3.6 million and \$3.5 million at September 30, 2016 and December 31, 2015, 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, 2016 |                                                  |                                                   | Nine Months Ended September 30, 2016 |                                                  |                                                   |
|-------------------------------|---------------------------------------|--------------------------------------------------|---------------------------------------------------|--------------------------------------|--------------------------------------------------|---------------------------------------------------|
|                               | 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 |
| (dollars in thousands)        |                                       |                                                  |                                                   |                                      |                                                  |                                                   |
| Commercial real estate        |                                       | \$                                               | \$                                                | 4                                    | \$ 778                                           | \$ 737                                            |
| Commercial and industrial     | 3                                     | 1,504                                            | 1,504                                             | 3                                    | 1,727                                            | 1,504                                             |
| <b>Total commercial loans</b> | <b>3</b>                              | <b>1,504</b>                                     | <b>1,504</b>                                      | <b>7</b>                             | <b>2,505</b>                                     | <b>2,241</b>                                      |
| Direct installment            | 123                                   | 1,029                                            | 1,018                                             | 388                                  | 5,051                                            | 4,749                                             |
| Residential mortgages         | 9                                     | 508                                              | 532                                               | 36                                   | 1,946                                            | 1,893                                             |
| Indirect installment          | 9                                     | 23                                               | 22                                                | 14                                   | 40                                               | 40                                                |
| Consumer lines of credit      | 20                                    | 395                                              | 364                                               | 56                                   | 878                                              | 837                                               |
| <b>Total</b>                  | <b>164</b>                            | <b>\$ 3,459</b>                                  | <b>\$ 3,440</b>                                   | <b>501</b>                           | <b>\$ 10,420</b>                                 | <b>\$ 9,760</b>                                   |

|                               | 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 |
| (dollars in thousands)        |                                       |                                                  |                                                   |                                      |                                                  |                                                   |
| 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                                               |
| <b>Total</b>                  | <b>144</b>                            | <b>\$ 2,148</b>                                  | <b>\$ 2,112</b>                                   | <b>448</b>                           | <b>\$ 7,138</b>                                  | <b>\$ 6,731</b>                                   |

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Following is a summary of originated TDRs, by class, 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.

|                               | Three Months<br>Ended<br>September 30,<br>2016 |                              | Nine Months<br>Ended<br>September 30,<br>2016 |                              |
|-------------------------------|------------------------------------------------|------------------------------|-----------------------------------------------|------------------------------|
|                               | Number<br>of<br>Contracts                      | Recorded<br>Investment<br>\$ | Number<br>of<br>Contracts                     | Recorded<br>Investment<br>\$ |
| (dollars in thousands)        |                                                |                              |                                               |                              |
| Commercial real estate        |                                                | \$                           |                                               | \$                           |
| Commercial and industrial     |                                                |                              |                                               |                              |
| <b>Total commercial loans</b> |                                                |                              |                                               |                              |
| Direct installment            | 26                                             | 408                          | 76                                            | 377                          |
| Residential mortgages         | 5                                              | 189                          | 7                                             | 282                          |
| Indirect installment          | 6                                              | 19                           | 12                                            | 19                           |
| Consumer lines of credit      | 1                                              | 25                           | 3                                             | 91                           |
| <b>Total</b>                  | <b>38</b>                                      | <b>\$ 641</b>                | <b>98</b>                                     | <b>\$ 769</b>                |

|                               | Three Months<br>Ended<br>September 30,<br>2015 |                              | Nine Months<br>Ended<br>September 30,<br>2015 |                              |
|-------------------------------|------------------------------------------------|------------------------------|-----------------------------------------------|------------------------------|
|                               | Number of<br>Contracts                         | Recorded<br>Investment<br>\$ | Number of<br>Contracts                        | Recorded<br>Investment<br>\$ |
| (dollars in thousands)        |                                                |                              |                                               |                              |
| 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                            |
| Other                         |                                                |                              |                                               |                              |
| <b>Total</b>                  | <b>25</b>                                      | <b>\$ 168</b>                | <b>88</b>                                     | <b>\$ 657</b>                |

**6. ALLOWANCE FOR CREDIT LOSSES**

The allowance for credit losses addresses credit losses inherent in the existing loan and lease portfolio and is presented as a reserve against loans and leases on the consolidated balance sheets. Loan and lease losses are charged off against the allowance for credit losses, with recoveries of amounts previously charged off credited to the allowance for credit

losses. Provisions for credit losses are charged to operations based on management's periodic evaluation of the adequacy of 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:

| (in thousands)                                            | Balance at<br>Beginning of<br>Period | Charge-<br>Offs    | Recoveries      | Net<br>Charge-<br>Offs | Provision<br>for Credit<br>Losses | Balance at<br>End of<br>Period |
|-----------------------------------------------------------|--------------------------------------|--------------------|-----------------|------------------------|-----------------------------------|--------------------------------|
| <b>Three Months Ended September 30,<br/>2016</b>          |                                      |                    |                 |                        |                                   |                                |
| Commercial real estate                                    | \$ 44,428                            | \$ (3,537)         | \$ 1,810        | \$ (1,727)             | \$ (334)                          | \$ 42,367                      |
| Commercial and industrial                                 | 51,475                               | (6,753)            | 598             | (6,155)                | 8,388                             | 53,708                         |
| Commercial leases                                         | 3,047                                | (100)              | 3               | (97)                   | 257                               | 3,207                          |
| <b>Total commercial loans and leases</b>                  | <b>98,950</b>                        | <b>(10,390)</b>    | <b>2,411</b>    | <b>(7,979)</b>         | <b>8,311</b>                      | <b>99,282</b>                  |
| Direct installment                                        | 21,543                               | (2,464)            | 545             | (1,919)                | 1,463                             | 21,087                         |
| Residential mortgages                                     | 8,410                                | (144)              | 11              | (133)                  | 969                               | 9,246                          |
| Indirect installment                                      | 9,543                                | (1,781)            | 617             | (1,164)                | 1,983                             | 10,362                         |
| Consumer lines of credit                                  | 9,149                                | (459)              | 82              | (377)                  | 499                               | 9,271                          |
| Other                                                     | 1,124                                | (709)              | 3               | (706)                  | 847                               | 1,265                          |
| <b>Total allowance on originated<br/>loans and leases</b> | <b>148,719</b>                       | <b>(15,947)</b>    | <b>3,669</b>    | <b>(12,278)</b>        | <b>14,072</b>                     | <b>150,513</b>                 |
| Purchased credit-impaired loans                           | 632                                  |                    | 42              | 42                     | (102)                             | 572                            |
| Other acquired loans                                      | 5,018                                | (240)              | 362             | 122                    | 669                               | 5,809                          |
| <b>Total allowance on acquired loans</b>                  | <b>5,650</b>                         | <b>(240)</b>       | <b>404</b>      | <b>164</b>             | <b>567</b>                        | <b>6,381</b>                   |
| <b>Total</b>                                              | <b>\$ 154,369</b>                    | <b>\$ (16,187)</b> | <b>\$ 4,073</b> | <b>\$ (12,114)</b>     | <b>\$ 14,639</b>                  | <b>\$ 156,894</b>              |
| <b>Nine Months Ended September 30,<br/>2016</b>           |                                      |                    |                 |                        |                                   |                                |
| Commercial real estate                                    | \$ 41,741                            | \$ (5,572)         | \$ 3,516        | \$ (2,056)             | \$ 2,682                          | \$ 42,367                      |
| Commercial and industrial                                 | 41,023                               | (12,722)           | 978             | (11,744)               | 24,429                            | 53,708                         |
| Commercial leases                                         | 2,541                                | (817)              | 49              | (768)                  | 1,434                             | 3,207                          |
| <b>Total commercial loans and leases</b>                  | <b>85,305</b>                        | <b>(19,111)</b>    | <b>4,543</b>    | <b>(14,568)</b>        | <b>28,545</b>                     | <b>99,282</b>                  |
| Direct installment                                        | 21,587                               | (7,552)            | 1,453           | (6,099)                | 5,599                             | 21,087                         |
| Residential mortgages                                     | 7,909                                | (301)              | 68              | (233)                  | 1,570                             | 9,246                          |
| Indirect installment                                      | 9,889                                | (5,486)            | 1,545           | (3,941)                | 4,414                             | 10,362                         |
| Consumer lines of credit                                  | 9,582                                | (1,461)            | 187             | (1,274)                | 963                               | 9,271                          |
| Other                                                     | 1,013                                | (1,988)            | 35              | (1,953)                | 2,205                             | 1,265                          |
| <b>Total allowance on originated<br/>loans and leases</b> | <b>135,285</b>                       | <b>(35,899)</b>    | <b>7,831</b>    | <b>(28,068)</b>        | <b>43,296</b>                     | <b>150,513</b>                 |
| Purchased credit-impaired loans                           | 834                                  | (399)              | 42              | (357)                  | 95                                | 572                            |
| Other acquired loans                                      | 5,893                                | (687)              | 947             | 260                    | (344)                             | 5,809                          |

|                                   |                   |                    |                 |                    |                  |                   |
|-----------------------------------|-------------------|--------------------|-----------------|--------------------|------------------|-------------------|
| Total allowance on acquired loans | <b>6,727</b>      | <b>(1,086)</b>     | <b>989</b>      | <b>(97)</b>        | <b>(249)</b>     | <b>6,381</b>      |
| Total                             | <b>\$ 142,012</b> | <b>\$ (36,985)</b> | <b>\$ 8,820</b> | <b>\$ (28,165)</b> | <b>\$ 43,047</b> | <b>\$ 156,894</b> |

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| (in thousands)                                            | Balance at<br>Beginning of<br>Period | Charge-<br>Offs    | Recoveries      | Net<br>Charge-<br>Offs | Provision<br>for 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</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                               |
| Other acquired loans                                      | 7,314                                | (698)              | 653             | (45)                   | (1,400)                           | 5,869                             |
| <b>Total allowance on acquired loans</b>                  | <b>7,974</b>                         | <b>(762)</b>       | <b>672</b>      | <b>(90)</b>            | <b>(1,320)</b>                    | <b>6,564</b>                      |
| <b>Total</b>                                              | <b>\$ 125,926</b>                    | <b>\$ (22,710)</b> | <b>\$ 5,190</b> | <b>\$ (17,520)</b>     | <b>\$ 27,777</b>                  | <b>\$ 136,183</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:

| (in thousands)                           | Originated Allowance                  |                                       | Originated 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, 2016</b>                |                                       |                                       |                             |                                       |                                       |
| Commercial real estate                   | \$ 550                                | \$ 41,817                             | \$ 3,918,575                | \$ 13,736                             | \$ 3,904,839                          |
| Commercial and industrial                | 9,095                                 | 44,613                                | 2,696,210                   | 33,895                                | 2,662,315                             |
| Commercial leases                        |                                       | 3,207                                 | 195,271                     |                                       | 195,271                               |
| <b>Total commercial loans and leases</b> | <b>9,645</b>                          | <b>89,637</b>                         | <b>6,810,056</b>            | <b>47,631</b>                         | <b>6,762,425</b>                      |
| Direct installment                       |                                       | 21,087                                | 1,750,189                   |                                       | 1,750,189                             |
| Residential mortgages                    |                                       | 9,246                                 | 1,355,476                   |                                       | 1,355,476                             |
| Indirect installment                     |                                       | 10,362                                | 1,150,575                   |                                       | 1,150,575                             |
| Consumer lines of credit                 |                                       | 9,271                                 | 1,088,807                   |                                       | 1,088,807                             |
| Other                                    |                                       | 1,265                                 | 51,182                      |                                       | 51,182                                |
| <b>Total</b>                             | <b>\$ 9,645</b>                       | <b>\$ 140,868</b>                     | <b>\$ 12,206,285</b>        | <b>\$ 47,631</b>                      | <b>\$ 12,158,654</b>                  |
| <b>December 31, 2015</b>                 |                                       |                                       |                             |                                       |                                       |
| Commercial real estate                   | \$ 321                                | \$ 41,420                             | \$ 3,531,146                | \$ 12,904                             | \$ 3,518,242                          |
| Commercial and industrial                | 2,329                                 | 38,694                                | 2,534,351                   | 10,802                                | 2,523,549                             |
| Commercial leases                        |                                       | 2,541                                 | 204,553                     |                                       | 204,553                               |
| <b>Total commercial loans and leases</b> | <b>2,650</b>                          | <b>82,655</b>                         | <b>6,270,050</b>            | <b>23,706</b>                         | <b>6,246,344</b>                      |
| Direct installment                       |                                       | 21,587                                | 1,660,717                   |                                       | 1,660,717                             |
| Residential mortgages                    |                                       | 7,909                                 | 1,044,689                   |                                       | 1,044,689                             |
| Indirect installment                     |                                       | 9,889                                 | 996,175                     |                                       | 996,175                               |
| Consumer lines of credit                 |                                       | 9,582                                 | 1,021,830                   |                                       | 1,021,830                             |
| Other                                    |                                       | 1,013                                 | 38,518                      |                                       | 38,518                                |
| <b>Total</b>                             | <b>\$ 2,650</b>                       | <b>\$ 132,635</b>                     | <b>\$ 11,031,979</b>        | <b>\$ 23,706</b>                      | <b>\$ 11,008,273</b>                  |

**7. BORROWINGS**

Following is a summary of short-term borrowings:

| (in thousands)                              | September 30, 2016 | December 31, 2015 |
|---------------------------------------------|--------------------|-------------------|
| Securities sold under repurchase agreements | \$ 310,787         | \$ 266,732        |
| Federal Home Loan Bank advances             | 925,000            | 1,090,000         |



|                                    |                     |                     |
|------------------------------------|---------------------|---------------------|
| Federal funds purchased            | <b>872,000</b>      | 568,000             |
| Subordinated notes                 | <b>128,318</b>      | 124,164             |
| <b>Total short-term borrowings</b> | <b>\$ 2,236,105</b> | <b>\$ 2,048,896</b> |

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:

| (in thousands)                    | September 30,<br>2016 | December 31,<br>2015 |
|-----------------------------------|-----------------------|----------------------|
| Federal Home Loan Bank advances   | \$ 355,122            | \$ 400,017           |
| Subordinated notes                | 85,188                | 84,668               |
| Junior subordinated debt          | 48,591                | 58,298               |
| Other subordinated debt           | 98,599                | 98,497               |
| <b>Total long-term borrowings</b> | <b>\$ 587,500</b>     | <b>\$ 641,480</b>    |

The Corporation's banking affiliate has available credit with the FHLB of \$5.7 billion of which \$1.3 billion was used as of September 30, 2016. 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 0.95% to 4.19% for the nine months ended September 30, 2016 and 0.76% to 4.19% for the year ended December 31, 2015.

The junior subordinated debt is comprised of debt securities issued by the Corporation in relation to its two unconsolidated subsidiary trusts (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, or trust preferred 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 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 junior 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 junior subordinated debt. The TPS are eligible for redemption, at any time, at the Corporation's discretion. Under capital guidelines, beginning in 2016, the entire balance of TPS is 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.

During the first quarter of 2016, the Corporation redeemed \$10.0 million of the TPS issued by Omega Financial Capital Trust I.

The following table provides information relating to the Trusts as of September 30, 2016:

| (dollars in thousands)    | Trust<br>Preferred<br>Securities | Common<br>Securities | Junior<br>Subordinated<br>Debt | Stated<br>Maturity<br>Date | Interest<br>Rate |
|---------------------------|----------------------------------|----------------------|--------------------------------|----------------------------|------------------|
| F.N.B. Statutory Trust II | \$ 21,500                        | \$ 665               | \$ 22,165                      | 6/15/36                    | 2.50%            |

|                                    |                  |                 |                  |                 |              |                                                        |
|------------------------------------|------------------|-----------------|------------------|-----------------|--------------|--------------------------------------------------------|
|                                    |                  |                 |                  |                 |              | Variable; 3-month<br>LIBOR + 165 basis<br>points (bps) |
| Omega Financial Capital<br>Trust I | <b>26,000</b>    | <b>1,114</b>    | <b>26,426</b>    | <b>10/18/34</b> | <b>2.87%</b> | Variable; 3-month<br>LIBOR + 219 bps                   |
| <b>Total</b>                       | <b>\$ 47,500</b> | <b>\$ 1,779</b> | <b>\$ 48,591</b> |                 |              |                                                        |

## 8. 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.

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All derivatives are carried on the consolidated balance sheets 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 sheets under other assets and derivative liabilities are classified in the consolidated balance sheets 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.

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

| (in thousands)                                   | September 30, 2016 |            |           | December 31, 2015  |            |           |
|--------------------------------------------------|--------------------|------------|-----------|--------------------|------------|-----------|
|                                                  | 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               | \$ 450,000         | \$ 9,938   | \$ 1,167  | \$ 250,000         | \$ 3,178   | \$ 962    |
| Interest rate swaps not designated               | 1,614,449          |            | 91,949    | 1,262,964          | 1          | 50,491    |
| Equity contracts not designated                  | 1,180              | 43         |           | 1,180              | 18         |           |
| Total subject to master netting arrangements     | 2,065,629          | 9,981      | 93,116    | 1,514,144          | 3,197      | 51,453    |
| Not subject to master netting arrangements:      |                    |            |           |                    |            |           |
| Interest rate swaps not designated               | 1,614,449          | 90,989     |           | 1,262,964          | 49,998     | 1         |
| Credit risk contracts not designated             | 171,072            | 57         | 355       | 114,753            | 7          | 133       |
| Equity contracts not designated                  | 1,180              |            | 43        | 1,180              |            | 18        |
| Total not subject to master netting arrangements | 1,786,701          | 91,046     | 398       | 1,378,897          | 50,005     | 152       |
| Total                                            | \$ 3,852,330       | \$ 101,027 | \$ 93,514 | \$ 2,893,041       | \$ 53,202  | \$ 51,605 |

*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 three 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.

Following is a summary of key data related to interest rate contracts:

| (in thousands)                           | September 30,<br>2016 | December 31,<br>2015 |
|------------------------------------------|-----------------------|----------------------|
| Notional amount                          | \$ 450,000            | \$ 250,000           |
| Fair value included in other assets      | 9,938                 | 3,178                |
| Fair value included in other liabilities | 1,167                 | 962                  |

The following table shows amounts reclassified from accumulated other comprehensive income (AOCI) for the nine months ended September 30, 2016:

| (in thousands)                             | Total    | Net of Tax |
|--------------------------------------------|----------|------------|
| Reclassified from AOCI to interest income  | \$ 2,030 | \$ 1,319   |
| Reclassified from AOCI to interest expense | 554      | 360        |

As of September 30, 2016, the maximum length of time over which forecasted interest cash flows are hedged is seven years. In the twelve months that follow September 30, 2016, the Corporation expects to reclassify from the amount currently reported in AOCI net derivative gains of \$1.9 million (\$1.2 million net of tax), in association with interest on the hedged loans and FHLB advances. This amount could differ from amounts actually recognized due to changes in

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interest rates, hedge de-designations, and the addition of other hedges subsequent to September 30, 2016. 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, 2016 and 2015, there was no hedge ineffectiveness. Also, during the nine months ended September 30, 2016 and 2015, 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.

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.

Following is a summary of key data related to interest rate swaps:

| (in thousands)                           | <b>September 30,<br/>2016</b> | <b>December 31,<br/>2015</b> |
|------------------------------------------|-------------------------------|------------------------------|
| Notional amount                          | <b>\$ 1,614,449</b>           | \$ 1,262,964                 |
| Fair value included in other assets      | <b>90,989</b>                 | 49,999                       |
| Fair value included in other liabilities | <b>91,949</b>                 | 50,492                       |

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 sheets 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 \$120.5 million as of September 30, 2016 have remaining terms ranging from six months to fourteen years. Under these agreements, the Corporation's maximum exposure assuming a customer defaults on their obligation to perform under certain derivative swap contracts with third parties would be \$0.4 million at September 30, 2016 and \$0.1 million at December 31, 2015.

The fair values of risk participation agreements purchased and sold were not material at September 30, 2016 and December 31, 2015.

*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.

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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 \$1.1 million and \$1.3 million as of September 30, 2016 and December 31, 2015, respectively, in excess of amounts previously posted as collateral with the respective counterparty.

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:

| (in thousands)                              | Gross Amount      | Gross<br>Amounts<br>Offset in the<br>Balance<br>Sheet | Net<br>Amount<br>Presented in<br>the<br>Balance<br>Sheet |
|---------------------------------------------|-------------------|-------------------------------------------------------|----------------------------------------------------------|
| <b>September 30, 2016</b>                   |                   |                                                       |                                                          |
| <b><u>Derivative Assets</u></b>             |                   |                                                       |                                                          |
| Subject to master netting arrangements:     |                   |                                                       |                                                          |
| Interest rate contracts                     |                   |                                                       |                                                          |
| Designated                                  | \$ 9,938          |                                                       | \$ 9,938                                                 |
| Not designated                              |                   |                                                       |                                                          |
| Equity contracts not designated             | 43                |                                                       | 43                                                       |
| Not subject to master netting arrangements: |                   |                                                       |                                                          |
| Interest rate contracts not designated      | 90,989            |                                                       | 90,989                                                   |
| Credit contracts not designated             | 57                |                                                       | 57                                                       |
| <b>Total derivative assets</b>              | <b>\$ 101,027</b> |                                                       | <b>\$ 101,027</b>                                        |
| <b><u>Derivative Liabilities</u></b>        |                   |                                                       |                                                          |
| Subject to master netting arrangements:     |                   |                                                       |                                                          |
| Interest rate contracts                     |                   |                                                       |                                                          |
| Designated                                  | \$ 1,167          |                                                       | \$ 1,167                                                 |
| Not designated                              | 91,949            |                                                       | 91,949                                                   |
| Not subject to master netting arrangements: |                   |                                                       |                                                          |
| Interest rate contracts not designated      |                   |                                                       |                                                          |
| Credit contracts not designated             | 355               |                                                       | 355                                                      |
| Equity contracts not designated             | 43                |                                                       | 43                                                       |
| <b>Total derivative liabilities</b>         | <b>\$ 93,514</b>  |                                                       | <b>\$ 93,514</b>                                         |
| <b>December 31, 2015</b>                    |                   |                                                       |                                                          |
| <b><u>Derivative Assets</u></b>             |                   |                                                       |                                                          |
| Subject to master netting arrangements:     |                   |                                                       |                                                          |
| Interest rate contracts                     |                   |                                                       |                                                          |
| Designated                                  | \$ 3,178          |                                                       | \$ 3,178                                                 |



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|                                             |           |           |
|---------------------------------------------|-----------|-----------|
| Not designated                              | 1         | 1         |
| Equity contracts not designated             | 18        | 18        |
| Not subject to master netting arrangements: |           |           |
| Interest rate contracts not designated      | 49,998    | 49,998    |
| Credit contracts not designated             | 7         | 7         |
| <b>Total derivative assets</b>              | \$ 53,202 | \$ 53,202 |

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|                                             | Gross<br>Amount  | Gross<br>Amounts<br>Offset in the<br>Balance<br>Sheet | Net<br>Amount<br>Presented in<br>the<br>Balance<br>Sheet |
|---------------------------------------------|------------------|-------------------------------------------------------|----------------------------------------------------------|
| <b><u>Derivative Liabilities</u></b>        |                  |                                                       |                                                          |
| Subject to master netting arrangements:     |                  |                                                       |                                                          |
| Interest rate contracts                     |                  |                                                       |                                                          |
| Designated                                  | \$ 962           |                                                       | \$ 962                                                   |
| Not designated                              | 50,491           |                                                       | 50,491                                                   |
| Not subject to master netting arrangements: |                  |                                                       |                                                          |
| Interest rate contracts not designated      | 1                |                                                       | 1                                                        |
| Credit contracts not designated             | 133              |                                                       | 133                                                      |
| Equity contracts not designated             | 18               |                                                       | 18                                                       |
| <b>Total derivative liabilities</b>         | <b>\$ 51,605</b> |                                                       | <b>\$ 51,605</b>                                         |

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

| (in thousands)                       | Net<br>Amount<br>Presented in<br>the<br>Balance<br>Sheet | Amount Not Offset in the<br>Balance Sheet |                    |                 |
|--------------------------------------|----------------------------------------------------------|-------------------------------------------|--------------------|-----------------|
|                                      |                                                          | Financial<br>Instruments                  | Cash<br>Collateral | Net<br>Amount   |
| <b>September 30, 2016</b>            |                                                          |                                           |                    |                 |
| <b><u>Derivative Assets</u></b>      |                                                          |                                           |                    |                 |
| Interest rate contracts:             |                                                          |                                           |                    |                 |
| Designated                           | \$ 9,938                                                 | \$ 5,578                                  | \$ 4,360           |                 |
| Not designated                       |                                                          |                                           |                    |                 |
| Equity contracts not designated      | 43                                                       | 43                                        |                    |                 |
| <b>Total</b>                         | <b>\$ 9,981</b>                                          | <b>\$ 5,621</b>                           | <b>\$ 4,360</b>    |                 |
| <b><u>Derivative Liabilities</u></b> |                                                          |                                           |                    |                 |
| Interest rate contracts:             |                                                          |                                           |                    |                 |
| Designated                           | \$ 1,167                                                 | \$                                        | \$ 1,167           | \$              |
| Not designated                       | 91,949                                                   | 29,605                                    | 61,281             | 1,063           |
| <b>Total</b>                         | <b>\$ 93,116</b>                                         | <b>\$ 29,605</b>                          | <b>\$ 62,448</b>   | <b>\$ 1,063</b> |
| <b>December 31, 2015</b>             |                                                          |                                           |                    |                 |

**Derivative Assets**

|                                 |    |       |    |       |    |       |
|---------------------------------|----|-------|----|-------|----|-------|
| Interest rate contracts:        |    |       |    |       |    |       |
| Designated                      | \$ | 3,178 | \$ | 1,516 | \$ | 1,662 |
| Not designated                  |    | 1     |    | 1     |    |       |
| Equity contracts not designated |    | 18    |    | 18    |    |       |
| Total                           | \$ | 3,197 | \$ | 1,535 | \$ | 1,662 |

**Derivative Liabilities**

|                          |    |        |    |        |    |        |       |       |
|--------------------------|----|--------|----|--------|----|--------|-------|-------|
| Interest rate contracts: |    |        |    |        |    |        |       |       |
| Designated               | \$ | 962    | \$ | 792    | \$ | 170    | \$    |       |
| Not designated           |    | 50,491 |    | 24,579 |    | 24,632 | 1,280 |       |
| Total                    | \$ | 51,453 | \$ | 25,371 | \$ | 24,802 | \$    | 1,280 |

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

| (in thousands)          | Income Statement Location                | Nine Months Ended     |          |
|-------------------------|------------------------------------------|-----------------------|----------|
|                         |                                          | September 30,<br>2016 | 2015     |
| Interest Rate Contracts | Interest income - loans and leases       | \$ 2,030              | \$ 2,440 |
| Interest Rate Contracts | Interest expense - short-term borrowings | 554                   | 115      |
| Interest Rate Swaps     | Other income                             | (467)                 | (364)    |
| Credit Risk Contracts   | Other income                             | (172)                 | (180)    |

*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, 2016 and December 31, 2015 are not material.

## 9. 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 sheets. 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:

| (in thousands)               | September 30, | December 31, |
|------------------------------|---------------|--------------|
|                              | 2016          | 2015         |
| Commitments to extend credit | \$ 4,530,815  | \$ 3,781,719 |
| Standby letters of credit    | 128,264       | 92,979       |

At September 30, 2016, funding of 73.9% 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 actively monitored through the review of historical performance of the Corporation's portfolios.

In addition, subordinated notes issued by a wholly-owned finance subsidiary of the Corporation are fully and unconditionally guaranteed by the Corporation.

*Other Legal Proceedings*

In the ordinary course of business, the Corporation and its subsidiaries are routinely named as defendants in, or made parties to, pending and potential legal actions. Also, as regulated entities, the Corporation and its subsidiaries are subject to governmental and regulatory examinations, information-gathering requests, investigations and proceedings (both formal and informal). Claims for significant monetary damages may be asserted in many of these types of legal actions, while claims for disgorgement, restitution, penalties and/or other remedial actions or sanctions may be sought in regulatory matters. It is inherently difficult to predict the eventual outcomes of such matters given their complexity and the particular facts and circumstances at issue in each of these matters. However, on the basis of current knowledge and understanding, and advice of counsel, the Corporation does not believe that judgments, sanctions, settlements or orders, if any, that may arise from these matters (either individually or in the aggregate, after giving effect to applicable reserves

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and insurance coverage) will have a material adverse effect on the consolidated financial position or liquidity of the Corporation, although they could have a material effect on net income in a given period. In view of the inherent unpredictability of outcomes in litigation and governmental and regulatory matters, particularly where (i) the damages sought are indeterminate, (ii) the proceedings are in the early stages, or (iii) the matters involve novel legal theories or a large number of parties, as a matter of course, there is considerable uncertainty surrounding the timing or ultimate resolution of litigation and governmental and regulatory matters, including a possible eventual loss, fine, penalty, business or reputational impact, if any, associated with each such matter. In accordance with applicable accounting guidance, the Corporation establishes accruals for litigation and governmental and regulatory matters when those matters proceed to a stage where they present loss contingencies that are both probable and reasonably estimable. In such cases, there may be a possible exposure to loss in excess of any amounts accrued. The Corporation will continue to monitor such matters for developments that could affect the amount of the accrual, and will adjust the accrual amount as appropriate. If the loss contingency in question is not both probable and reasonably estimable, the Corporation does not establish an accrual and the matter will continue to be monitored for any developments that would make the loss contingency both probable and reasonably estimable. The Corporation believes that its accruals for legal proceedings are appropriate and, in the aggregate, are not material to the consolidated financial position of the Corporation, although future accruals could have a material effect on net income in a given period.

**10. 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.

The Corporation issued 277,174 and 139,046 performance-based restricted stock units during the first nine months of 2016 and 2015, respectively. Recipients will earn shares, totaling between 0% and 175% of the number of units issued, based on the Corporation's total stockholder return relative to a specified peer group of financial institutions over the three-year period. 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.

Prior to 2014, more than half of the restricted stock awards granted to management were earned if the Corporation met or exceeded certain financial performance results when compared to its peers. These performance-related awards were expensed ratably from the date that the likelihood of meeting the performance measure was probable through the end of a four-year vesting period. The service-based awards were expensed ratably over a three-year vesting period. The Corporation also issued discretionary service-based awards to certain employees that vested over five years.

For the nine months ended September 30, 2016 and 2015, the Corporation issued 574,125 and 402,947 restricted stock awards, respectively, with aggregated grant date fair values of \$7.4 million and \$5.3 million under these plans. As of September 30, 2016, the Corporation had available up to 3,248,296 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.



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The following table summarizes the activity relating to restricted stock awards during the periods indicated:

|                                                     | Nine Months Ended September 30,<br>2016 |                                       | 2015             |                                       |
|-----------------------------------------------------|-----------------------------------------|---------------------------------------|------------------|---------------------------------------|
|                                                     | Awards                                  | Weighted<br>Average<br>Grant<br>Price | Awards           | Weighted<br>Average<br>Grant<br>Price |
| Unvested awards outstanding at beginning of period  | 1,548,444                               | \$ 12.85                              | 1,354,093        | \$ 11.86                              |
| Granted                                             | 574,125                                 | 12.86                                 | 402,947          | 13.16                                 |
| Net adjustment due to performance                   |                                         |                                       | 8,884            | 22.73                                 |
| Vested                                              | (374,579)                               | 12.11                                 | (471,997)        | 10.66                                 |
| Forfeited                                           | (21,486)                                | 12.98                                 | (29,428)         | 13.46                                 |
| Dividend reinvestment                               | 44,534                                  | 12.25                                 | 30,551           | 11.32                                 |
| <b>Unvested awards outstanding at end of period</b> | <b>1,771,038</b>                        | <b>13.00</b>                          | <b>1,295,050</b> | <b>12.73</b>                          |

The following table provides certain information related to restricted stock awards:

| (in thousands)                                          | Nine Months Ended<br>September 30, |          |
|---------------------------------------------------------|------------------------------------|----------|
|                                                         | 2016                               | 2015     |
| Stock-based compensation expense                        | \$ 4,644                           | \$ 3,287 |
| Tax benefit related to stock-based compensation expense | 1,625                              | 1,150    |
| Fair value of awards vested                             | 4,563                              | 5,912    |

As of September 30, 2016, there was \$11.7 million of unrecognized compensation cost related to unvested restricted stock awards, including \$0.5 million 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, 2016 are as follows:

| (dollars in thousands)                     | Service-<br>Based<br>Awards | Performance-<br>Based<br>Awards | Total     |
|--------------------------------------------|-----------------------------|---------------------------------|-----------|
| Unvested restricted stock awards           | 852,788                     | 918,250                         | 1,771,038 |
| Unrecognized compensation expense          | \$ 5,520                    | \$ 6,147                        | \$ 11,667 |
| Intrinsic value                            | \$ 10,489                   | \$ 11,295                       | \$ 21,784 |
| Weighted average remaining life (in years) | 2.04                        | 2.15                            | 2.10      |

**Stock Options**

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.

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The following table summarizes the activity relating to stock options during the periods indicated:

|                                                             | Nine Months Ended September 30, |                                          | 2015           |                                          |
|-------------------------------------------------------------|---------------------------------|------------------------------------------|----------------|------------------------------------------|
|                                                             | 2016                            | Weighted<br>Average<br>Exercise<br>Price | Shares         | Weighted<br>Average<br>Exercise<br>Price |
| Options outstanding at beginning of period                  | 435,340                         | \$ 8.86                                  | 568,834        | \$ 8.86                                  |
| Assumed from acquisitions                                   | 1,707,036                       | 7.83                                     |                |                                          |
| Exercised                                                   | (352,094)                       | 6.89                                     | (88,899)       | 5.61                                     |
| Forfeited                                                   | (93,628)                        | 6.74                                     | (2,182)        | 4.34                                     |
| <b>Options outstanding and exercisable at end of period</b> | <b>1,696,654</b>                | <b>8.35</b>                              | <b>477,753</b> | <b>9.48</b>                              |

The intrinsic value of outstanding and exercisable stock options at September 30, 2016 was \$6.7 million.

*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 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 386,888, with a resulting lower exercise price of \$3.16 per share as of September 30, 2016. The warrant, which was recorded at its fair value on April 6, 2013, was sold at auction by the UST and expires in 2019.

**11. 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:

| (in thousands)                     | Three Months Ended |                 | Nine Months Ended |                   |
|------------------------------------|--------------------|-----------------|-------------------|-------------------|
|                                    | September 30,      |                 | September 30,     |                   |
|                                    | 2016               | 2015            | 2016              | 2015              |
| Service cost                       | \$ (4)             | \$ 18           | \$ (12)           | \$ 52             |
| Interest cost                      | 1,521              | 1,470           | 4,609             | 4,424             |
| Expected return on plan assets     | (2,354)            | (2,491)         | (7,060)           | (7,473)           |
| Amortization:                      |                    |                 |                   |                   |
| Unrecognized prior service cost    | 2                  | 2               | 6                 | 6                 |
| Unrecognized loss                  | 584                | 518             | 1,800             | 1,590             |
| <b>Net periodic pension credit</b> | <b>\$ (251)</b>    | <b>\$ (483)</b> | <b>\$ (657)</b>   | <b>\$ (1,401)</b> |

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. The Corporation's contribution expense was \$6.9 million and \$5.8 million for the nine months ended September 30, 2016 and 2015, 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.

**12. COMPREHENSIVE INCOME**

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

| (in thousands)                                                                                                               | Three Months  |               | Nine Months Ended |               |
|------------------------------------------------------------------------------------------------------------------------------|---------------|---------------|-------------------|---------------|
|                                                                                                                              | Ended         |               | September 30,     |               |
|                                                                                                                              | September 30, | September 30, | September 30,     | September 30, |
|                                                                                                                              | 2016          | 2015          | 2016              | 2015          |
| Net income                                                                                                                   | \$ 52,168     | \$ 40,053     | \$ 119,600        | \$ 120,527    |
| Other comprehensive income (loss):                                                                                           |               |               |                   |               |
| Securities available for sale:                                                                                               |               |               |                   |               |
| Unrealized (losses) gains arising during the period, net of tax (benefit) expense of \$(1,535), \$3,650, \$9,818 and \$4,302 | (2,851)       | 6,778         | 18,234            | 7,989         |
| Reclassification adjustment for gains included in net income, net of tax expense of \$105, \$110, \$209 and \$112            | (195)         | (204)         | (388)             | (207)         |
| Derivative instruments:                                                                                                      |               |               |                   |               |

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|                                                                                                                                  |                  |           |                   |            |
|----------------------------------------------------------------------------------------------------------------------------------|------------------|-----------|-------------------|------------|
| Unrealized gains arising during the period, net of tax expense of <b>\$284</b> , \$1,669, <b>\$2,811</b> and \$2,313             | <b>528</b>       | 3,099     | <b>5,221</b>      | 4,295      |
| Reclassification adjustment for gains included in net income, net of tax expense of <b>\$138</b> , \$246, <b>\$517</b> and \$814 | <b>(256)</b>     | (457)     | <b>(960)</b>      | (1,511)    |
| <b>Pension and postretirement benefit obligations:</b>                                                                           |                  |           |                   |            |
| Unrealized gains arising during the period,                                                                                      |                  |           |                   |            |
| net of tax expense of <b>\$205</b> , \$183, <b>\$632</b> and \$560                                                               | <b>380</b>       | 340       | <b>1,173</b>      | 1,040      |
| Other comprehensive (loss) income                                                                                                | <b>(2,394)</b>   | 9,556     | <b>23,280</b>     | 11,606     |
| <b>Comprehensive income</b>                                                                                                      | <b>\$ 49,774</b> | \$ 49,609 | <b>\$ 142,880</b> | \$ 132,133 |

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.

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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:

| (in thousands)                                      | <b>Unrealized<br/>Net<br/>Gains<br/>(Losses) on<br/>Securities<br/>Available<br/>for Sale</b> | <b>Unrealized<br/>Net<br/>Gains<br/>(Losses)<br/>on<br/>Derivative<br/>Instruments</b> | <b>Unrecognized<br/>Pension<br/>and<br/>Postretirement<br/>Obligations</b> | <b>Total</b> |
|-----------------------------------------------------|-----------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------|----------------------------------------------------------------------------|--------------|
| <b>Nine Months Ended September 30,<br/>2016</b>     |                                                                                               |                                                                                        |                                                                            |              |
| Balance at beginning of period                      | \$ (3,873)                                                                                    | \$ 1,440                                                                               | \$ (48,700)                                                                | \$ (51,133)  |
| Other comprehensive income before reclassifications | 18,234                                                                                        | 5,221                                                                                  | 1,173                                                                      | 24,628       |
| Amounts reclassified from AOCI                      | (388)                                                                                         | (960)                                                                                  |                                                                            | (1,348)      |
| Net current period other comprehensive income       | 17,846                                                                                        | 4,261                                                                                  | 1,173                                                                      | 23,280       |
| Balance at end of period                            | \$ 13,973                                                                                     | \$ 5,701                                                                               | \$ (47,527)                                                                | \$ (27,853)  |

**13. 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:

| (dollars in thousands, except per share data) | <b>Three Months Ended<br/>September 30,</b> |             | <b>Nine Months Ended<br/>September 30,</b> |             |
|-----------------------------------------------|---------------------------------------------|-------------|--------------------------------------------|-------------|
|                                               | <b>2016</b>                                 | <b>2015</b> | <b>2016</b>                                | <b>2015</b> |
| Net income                                    | \$ 52,168                                   | \$ 40,053   | \$ 119,600                                 | \$ 120,527  |
|                                               | 2,010                                       | 2,010       | 6,030                                      | 6,030       |

Less: Preferred stock  
dividends

|                                                                                             |    |                    |    |             |    |                    |    |             |
|---------------------------------------------------------------------------------------------|----|--------------------|----|-------------|----|--------------------|----|-------------|
| Net income available to<br>common stockholders                                              | \$ | <b>50,158</b>      | \$ | 38,043      | \$ | <b>113,570</b>     | \$ | 114,497     |
| Basic weighted average<br>common shares outstanding                                         |    | <b>210,306,834</b> |    | 175,343,789 |    | <b>204,687,092</b> |    | 174,816,692 |
| Net effect of dilutive stock<br>options, warrants, restricted<br>stock and convertible debt |    | <b>1,483,896</b>   |    | 1,169,043   |    | <b>1,446,648</b>   |    | 1,383,450   |
| Diluted weighted average<br>common shares outstanding                                       |    | <b>211,790,730</b> |    | 176,512,832 |    | <b>206,133,740</b> |    | 176,200,142 |
| <b>Earnings per common<br/>share:</b>                                                       |    |                    |    |             |    |                    |    |             |
| <b>Basic</b>                                                                                | \$ | <b>0.24</b>        | \$ | 0.22        | \$ | <b>0.55</b>        | \$ | 0.65        |
| <b>Diluted</b>                                                                              | \$ | <b>0.24</b>        | \$ | 0.22        | \$ | <b>0.55</b>        | \$ | 0.65        |

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The following table shows the average shares excluded from the above calculation as their effect would have been anti-dilutive:

|                                                                                | <b>Three Months Ended</b> |             | <b>Nine Months Ended</b> |             |
|--------------------------------------------------------------------------------|---------------------------|-------------|--------------------------|-------------|
|                                                                                | <b>September 30,</b>      |             | <b>September 30,</b>     |             |
|                                                                                | <b>2016</b>               | <b>2015</b> | <b>2016</b>              | <b>2015</b> |
| Average shares excluded from the diluted earnings per common share calculation | <b>14,859</b>             | 19,385      | <b>14,041</b>            | 20,440      |

**14. CASH FLOW INFORMATION**

Following is a summary of supplemental cash flow information:

|                                                | <b>Nine Months Ended</b> |             |
|------------------------------------------------|--------------------------|-------------|
|                                                | <b>September 30,</b>     |             |
|                                                | <b>2016</b>              | <b>2015</b> |
| (in thousands)                                 |                          |             |
| Interest paid on deposits and other borrowings | <b>\$ 48,315</b>         | \$ 35,531   |
| Income taxes paid                              | <b>47,500</b>            | 41,000      |
| Transfers of loans to other real estate owned  | <b>13,055</b>            | 6,901       |
| Financing of other real estate owned sold      | <b>441</b>               | 372         |

**15. 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 subordinated notes, which are issued by a wholly-owned subsidiary and guaranteed by the Corporation.

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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 financial statements.

| (in thousands)                                                 | Community<br>Banking | Wealth<br>Management | Insurance | Consumer<br>Finance | Parent<br>and<br>Other | Consolidated |
|----------------------------------------------------------------|----------------------|----------------------|-----------|---------------------|------------------------|--------------|
| <b>At or for the Three Months<br/>Ended September 30, 2016</b> |                      |                      |           |                     |                        |              |
| Interest income                                                | \$ 162,714           | \$                   | \$ 21     | \$ 10,260           | \$ 2,115               | \$ 175,110   |
| Interest expense                                               | 14,791               |                      |           | 949                 | 1,864                  | 17,604       |
| Net interest income                                            | 147,923              |                      | 21        | 9,311               | 251                    | 157,506      |
| Provision for credit losses                                    | 12,766               |                      |           | 1,517               | 356                    | 14,639       |
| Non-interest income                                            | 40,760               | 8,835                | 3,847     | 728                 | (930)                  | 53,240       |
| Non-interest expense                                           | 101,744              | 6,619                | 3,249     | 5,328               | 539                    | 117,479      |
| Intangible amortization                                        | 3,422                | 65                   | 84        |                     |                        | 3,571        |
| Income tax expense (benefit)                                   | 21,449               | 781                  | 196       | 1,238               | (775)                  | 22,889       |
| Net income (loss)                                              | 49,302               | 1,370                | 339       | 1,956               | (799)                  | 52,168       |
| Total assets                                                   | 21,383,500           | 19,490               | 21,464    | 191,524             | (32,064)               | 21,583,914   |
| Total intangibles                                              | 1,079,196            | 10,253               | 12,394    | 1,809               |                        | 1,103,652    |
| <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      |

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| (in thousands)                                                | Community<br>Banking | Wealth<br>Management | Insurance | Consumer<br>Finance | Parent<br>and<br>Other | Consolidated |
|---------------------------------------------------------------|----------------------|----------------------|-----------|---------------------|------------------------|--------------|
| <b>At or for the Nine Months<br/>Ended September 30, 2016</b> |                      |                      |           |                     |                        |              |
| Interest income                                               | \$ 465,592           | \$                   | \$ 64     | \$ 30,171           | \$ 5,968               | \$ 501,795   |
| Interest expense                                              | 41,153               |                      |           | 2,820               | 5,593                  | 49,566       |
| Net interest income                                           | 424,439              |                      | 64        | 27,351              | 375                    | 452,229      |
| Provision for credit losses                                   | 37,081               |                      |           | 4,515               | 1,451                  | 43,047       |
| Non-interest income                                           | 111,507              | 26,834               | 11,309    | 2,198               | (1,153)                | 150,695      |
| Non-interest expense                                          | 329,578              | 20,668               | 9,826     | 15,904              | 1,743                  | 377,719      |
| Intangible amortization                                       | 9,043                | 194                  | 371       |                     |                        | 9,608        |
| Income tax expense (benefit)                                  | 48,850               | 2,168                | 430       | 3,558               | (2,056)                | 52,950       |
| Net income (loss)                                             | 111,394              | 3,804                | 746       | 5,572               | (1,916)                | 119,600      |
| Total assets                                                  | 21,383,500           | 19,490               | 21,464    | 191,524             | (32,064)               | 21,583,914   |
| Total intangibles                                             | 1,079,196            | 10,253               | 12,394    | 1,809               |                        | 1,103,652    |
| <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      |

**16. 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**

| <b>Category</b> | <b>Definition</b>                                                                                                                                                                                                                                                                                                                             |
|-----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 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, 2016, 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 were 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, 2016, 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 \$500,000 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:

| (in thousands)                                                       | Level 1       | Level 2             | Level 3         | Total               |
|----------------------------------------------------------------------|---------------|---------------------|-----------------|---------------------|
| <b>September 30, 2016</b>                                            |               |                     |                 |                     |
| <b><u>Assets Measured at Fair Value</u></b>                          |               |                     |                 |                     |
| Debt securities available for sale:                                  |               |                     |                 |                     |
| U.S. Treasury                                                        | \$            | \$ 30,004           | \$              | \$ 30,004           |
| U.S. government-sponsored entities                                   |               | 384,637             |                 | 384,637             |
| Residential mortgage-backed securities:                              |               |                     |                 |                     |
| Agency mortgage-backed securities                                    |               | 1,056,651           |                 | 1,056,651           |
| Agency collateralized mortgage obligations                           |               | 554,723             |                 | 554,723             |
| Non-agency collateralized mortgage obligations                       |               | 3                   | 932             | 935                 |
| Commercial mortgage-backed securities                                |               | 2,816               |                 | 2,816               |
| States of the U.S. and political subdivisions                        |               | 37,138              |                 | 37,138              |
| Other debt securities                                                |               | 9,345               |                 | 9,345               |
| Total debt securities available for sale                             |               | 2,075,317           | 932             | 2,076,249           |
| Equity securities available for sale:                                |               |                     |                 |                     |
| Financial services industry                                          | 121           | 672                 | 436             | 1,229               |
| Insurance services industry                                          | 138           |                     |                 | 138                 |
| Total equity securities available for sale                           | 259           | 672                 | 436             | 1,367               |
| Total securities available for sale                                  | 259           | 2,075,989           | 1,368           | 2,077,616           |
| Derivative financial instruments:                                    |               |                     |                 |                     |
| Trading                                                              |               | 91,032              |                 | 91,032              |
| Not for trading                                                      |               | 9,995               |                 | 9,995               |
| Total derivative financial instruments                               |               | 101,027             |                 | 101,027             |
| <b>Total assets measured at fair value on a recurring basis</b>      | <b>\$ 259</b> | <b>\$ 2,177,016</b> | <b>\$ 1,368</b> | <b>\$ 2,178,643</b> |
| <b><u>Liabilities Measured at Fair Value</u></b>                     |               |                     |                 |                     |
| Derivative financial instruments:                                    |               |                     |                 |                     |
| Trading                                                              |               | \$ 91,992           |                 | \$ 91,992           |
| Not for trading                                                      |               | 1,522               |                 | 1,522               |
| <b>Total liabilities measured at fair value on a recurring basis</b> |               | <b>\$ 93,514</b>    |                 | <b>\$ 93,514</b>    |



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| (in thousands)                                                       | Level 1       | Level 2             | Level 3         | Total               |
|----------------------------------------------------------------------|---------------|---------------------|-----------------|---------------------|
| <b>December 31, 2015</b>                                             |               |                     |                 |                     |
| <b><u>Assets Measured at Fair Value</u></b>                          |               |                     |                 |                     |
| Debt securities available for sale:                                  |               |                     |                 |                     |
| U.S. Treasury                                                        | \$            | \$ 29,796           | \$              | \$ 29,796           |
| U.S. government-sponsored entities                                   |               | 367,994             |                 | 367,994             |
| Residential mortgage-backed securities:                              |               |                     |                 |                     |
| Agency mortgage-backed securities                                    |               | 704,831             |                 | 704,831             |
| Agency collateralized mortgage obligations                           |               | 495,830             |                 | 495,830             |
| Non-agency collateralized mortgage obligations                       |               | 6                   | 1,184           | 1,190               |
| Commercial mortgage-backed securities                                |               | 4,287               |                 | 4,287               |
| States of the U.S. and political subdivisions                        |               | 11,057              |                 | 11,057              |
| Other debt securities                                                |               | 14,286              |                 | 14,286              |
| <b>Total debt securities available for sale</b>                      |               | <b>1,628,087</b>    | <b>1,184</b>    | <b>1,629,271</b>    |
| Equity securities available for sale:                                |               |                     |                 |                     |
| Financial services industry                                          | 97            | 632                 | 439             | 1,168               |
| Insurance services industry                                          | 128           |                     |                 | 128                 |
| <b>Total equity securities available for sale</b>                    | <b>225</b>    | <b>632</b>          | <b>439</b>      | <b>1,296</b>        |
| <b>Total securities available for sale</b>                           | <b>225</b>    | <b>1,628,719</b>    | <b>1,623</b>    | <b>1,630,567</b>    |
| Derivative financial instruments:                                    |               |                     |                 |                     |
| Trading                                                              |               | 50,017              |                 | 50,017              |
| Not for trading                                                      |               | 3,185               |                 | 3,185               |
| <b>Total derivative financial instruments</b>                        |               | <b>53,202</b>       |                 | <b>53,202</b>       |
| <b>Total assets measured at fair value on a recurring basis</b>      | <b>\$ 225</b> | <b>\$ 1,681,921</b> | <b>\$ 1,623</b> | <b>\$ 1,683,769</b> |
| <b><u>Liabilities Measured at Fair Value</u></b>                     |               |                     |                 |                     |
| Derivative financial instruments:                                    |               |                     |                 |                     |
| Trading                                                              |               | \$ 50,510           |                 | \$ 50,510           |
| Not for trading                                                      |               | 1,095               |                 | 1,095               |
| <b>Total liabilities measured at fair value on a recurring basis</b> |               | <b>\$ 51,605</b>    |                 | <b>\$ 51,605</b>    |

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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:

| (in thousands)                               | Equity<br>Securities | Residential<br>Non-Agency<br>Collateralized<br>Mortgage<br>Obligations | Total    |
|----------------------------------------------|----------------------|------------------------------------------------------------------------|----------|
| <b>Nine Months Ended September 30, 2016</b>  |                      |                                                                        |          |
| Balance at beginning of period               | \$ 439               | \$ 1,184                                                               | \$ 1,623 |
| Total gains (losses) realized/unrealized:    |                      |                                                                        |          |
| Included in earnings                         |                      |                                                                        |          |
| Included in other comprehensive income       | (3)                  | (12)                                                                   | (15)     |
| Accretion included in earnings               |                      | 5                                                                      | 5        |
| Purchases, issuances, sales and settlements: |                      |                                                                        |          |
| Purchases                                    |                      |                                                                        |          |
| Issuances                                    |                      |                                                                        |          |
| Sales/redemptions                            |                      |                                                                        |          |
| Settlements                                  |                      | (245)                                                                  | (245)    |
| Transfers from Level 3                       |                      |                                                                        |          |
| Transfers into Level 3                       |                      |                                                                        |          |
| Balance at end of period                     | \$ 436               | \$ 932                                                                 | \$ 1,368 |
| <b>Year Ended December 31, 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       | 20                   | (4)                                                                    | 16       |
| Accretion included in earnings               |                      | 5                                                                      | 5        |
| Purchases, issuances, sales and settlements: |                      |                                                                        |          |
| Purchases                                    |                      |                                                                        |          |
| Issuances                                    |                      |                                                                        |          |
| Sales/redemptions                            |                      |                                                                        |          |
| Settlements                                  |                      | (237)                                                                  | (237)    |
| Transfers from Level 3                       | (56)                 |                                                                        | (56)     |
| Transfers into Level 3                       |                      |                                                                        |          |
| Balance at end of period                     | \$ 439               | \$ 1,184                                                               | \$ 1,623 |

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. There were no transfers of assets or liabilities between the hierarchy levels during the first nine months of 2016. During 2015, the Corporation transferred an equity security totaling \$56,000 to non-marketable equity

securities, reflected in other assets on the Consolidated Balance Sheet.

For the nine months ended September 30, 2016 and 2015, 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:

| (in thousands)            | Level 1 | Level 2  | Level 3  | Total     |
|---------------------------|---------|----------|----------|-----------|
| <b>September 30, 2016</b> |         |          |          |           |
| Impaired loans            |         | \$ 3,648 | \$ 7,869 | \$ 11,517 |
| Other real estate owned   |         | 3,720    | 3,379    | 7,099     |
| <b>December 31, 2015</b>  |         |          |          |           |
| Impaired loans            |         | 124      | 3,704    | 3,828     |
| Other real estate owned   |         | 5,705    | 2,126    | 7,831     |

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, 2016 and December 31, 2015, 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, 2016 had a carrying amount of \$20.3 million and an allocated allowance for credit losses of \$9.6 million. The allocated allowance is based on fair value of \$11.5 million less estimated costs to sell of \$0.8 million. The allowance for credit losses includes a provision applicable to the current period fair value measurements of \$8.8 million, which was included in the provision for credit losses for the nine months ended September 30, 2016.

OREO with a carrying amount of \$8.2 million was written down to \$6.3 million (fair value of \$7.1 million less estimated costs to sell of \$0.8 million), resulting in a loss of \$1.9 million, which was included in earnings for the nine months ended September 30, 2016.

*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.* See the Derivative Financial Instruments discussion included within this footnote.

*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 customers 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.

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*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:

| (in thousands)                                         | Carrying<br>Amount | Fair Value | Fair Value Measurements |           |            |
|--------------------------------------------------------|--------------------|------------|-------------------------|-----------|------------|
|                                                        |                    |            | Level 1                 | Level 2   | Level 3    |
| <b>September 30, 2016</b>                              |                    |            |                         |           |            |
| <b>Financial Assets</b>                                |                    |            |                         |           |            |
| Cash and cash equivalents                              | \$ 445,250         | \$ 445,250 | \$ 445,250              | \$        | \$         |
| Securities available for sale                          | 2,077,616          | 2,077,616  | 259                     | 2,075,989 | 1,368      |
| Securities held to maturity                            | 2,249,245          | 2,278,755  |                         | 2,276,875 | 1,880      |
| Net loans and leases, including<br>loans held for sale | 14,634,414         | 14,618,539 |                         |           | 14,618,539 |
| Derivative assets                                      | 101,027            | 101,027    |                         | 101,027   |            |
| Accrued interest receivable                            | 54,871             | 54,871     | 54,871                  |           |            |
| <b>Financial Liabilities</b>                           |                    |            |                         |           |            |
| Deposits                                               | 15,976,884         | 15,985,704 | 13,414,297              | 2,571,407 |            |
| Short-term borrowings                                  | 2,236,105          | 2,236,341  | 2,236,341               |           |            |
| Long-term borrowings                                   | 587,500            | 591,960    |                         |           | 591,960    |
| Derivative liabilities                                 | 93,514             | 93,514     |                         | 93,514    |            |
| Accrued interest payable                               | 8,708              | 8,708      | 8,708                   |           |            |
| <b>December 31, 2015</b>                               |                    |            |                         |           |            |
| <b>Financial Assets</b>                                |                    |            |                         |           |            |
| Cash and cash equivalents                              | \$ 489,119         | \$ 489,119 | \$ 489,119              | \$        | \$         |
| Securities available for sale                          | 1,630,567          | 1,630,567  | 225                     | 1,628,719 | 1,623      |
| Securities held to maturity                            | 1,637,061          | 1,643,416  |                         | 1,640,721 | 2,695      |
| Net loans and leases, including<br>loans held for sale | 12,053,209         | 11,863,882 |                         |           | 11,863,882 |
| Derivative assets                                      | 53,202             | 53,202     |                         | 53,202    |            |
| Accrued interest receivable                            | 44,920             | 44,920     | 44,920                  |           |            |
| <b>Financial Liabilities</b>                           |                    |            |                         |           |            |
| Deposits                                               | 12,623,463         | 12,610,914 | 10,157,997              | 2,452,917 |            |
| Short-term borrowings                                  | 2,048,896          | 2,048,943  | 2,048,943               |           |            |
| Long-term borrowings                                   | 641,480            | 637,935    |                         |           | 637,935    |
| Derivative liabilities                                 | 51,605             | 51,605     |                         | 51,605    |            |
| Accrued interest payable                               | 7,457              | 7,457      | 7,457                   |           |            |

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

Management's Discussion and Analysis represents an overview of and highlights material changes to the Corporation's financial condition and results of operations at and for the three- and nine-month periods ended September 30, 2016. 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 2015 Annual Report on Form 10-K filed with the SEC on February 26, 2016. The Corporation's results of operations for the nine months ended September 30, 2016 are not necessarily indicative of results expected for the full year ending December 31, 2016.

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

This Report contains forward looking statements which may contain the Corporation's expectations or predictions of future financial or business performance or conditions. Forward-looking statements, that do not describe historical or current facts, typically are identified by words such as, believe, plan, expect, anticipate, intend, outlook, estimate, forecast, will, should, project, goal, and other similar words and expressions. These forward-looking statements are subject to numerous assumptions, risks and uncertainties. The forward-looking statements are intended to be subject to the safe harbor provided under Section 27A of the Securities Act of 1933, Section 27E of the Securities Exchange Act of 1934 and the Private Securities Litigation Act of 1995.

In addition to factors previously disclosed in the Corporation's reports filed with the SEC, the following risk factors, among others, could cause actual results to differ materially from forward-looking statements or historical performance: changes in asset quality and credit risk; changes in general economic, political or industry conditions; uncertainty in U.S. fiscal policy and monetary policy, including interest rate policies of the Federal Reserve Board (FRB); the inability to sustain revenue and earnings growth; changes in interest rates and capital markets; inflation; customer acceptance of the Corporation's products and services; customer borrowing, repayment, investment and deposit practices; customer disintermediation; the introduction, withdrawal, success and timing of business initiatives; the inability to realize cost savings or revenues or to implement integration plans and other consequences associated with mergers, acquisitions and divestitures; the impact, extent and timing of technological changes, capital management activities, competitive pressures on product pricing and services; ability to keep pace with technological changes, including changes regarding maintaining cybersecurity; success, impact and timing of the Corporation's business strategies, including market acceptance of any new products or services; and implementing the Corporation's banking philosophy and strategies. Additional risks include the nature, extent, timing and results of governmental and regulatory actions, examinations, reviews, reforms, regulations and interpretations, including those related to the Dodd-Frank Wall Street Reform Act and Consumer Protection Act (Dodd-Frank Act) and Basel III regulatory or capital reforms (including Dodd-Frank Act stress testing protocols (DFAST)), as well as those involving the Office of the Comptroller of the Currency (OCC), FRB, Federal Deposit Insurance Corporation (FDIC), and Consumer Financial Protection Board (CFPB); and other factors that may affect future results of the Corporation. There is no assurance that any of the risks, uncertainties or risk factors identified herein is complete and actual results or events may differ materially from those expressed or implied in the forward-looking statements contained in this document/communication/information.

Additional factors that could cause results to differ materially from those described above can be found in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2015, and in its subsequent Quarterly Reports on Form 10-Q, including quarters ended March 31 and June 30, 2016, each of which is on file with the SEC and available in the Investor Relations & Shareholder Services section of FNB's website, <http://www.fnbcorporation.com>, under the heading Reports and Filings and in other documents the Corporation files



with the SEC.

All forward-looking statements speak only as of the date they are made and are based on information available at that time. The Corporation does not assume any obligation to update forward-looking statements to reflect circumstances or events that occur after the date the forward-looking statements were made or to reflect the occurrence of unanticipated events except as required by federal securities laws. As forward-looking statements involve significant risks and uncertainties, caution should be exercised against placing undue reliance on such statements.

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**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 2015 Annual Report on Form 10-K filed with the SEC on February 26, 2016 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, 2015.

**USE OF NON-GAAP FINANCIAL MEASURES AND KEY PERFORMANCE INDICATORS**

The Corporation uses non-GAAP financial measures, such as operating net income available to common stockholders, operating net income per diluted common share, return on average tangible common equity, return on average tangible assets, tangible book value per common share, the ratio of tangible common equity to tangible assets, efficiency ratio, net interest margin and core net interest margin to provide information useful to investors in understanding the Corporation's operating performance and trends, and to facilitate comparisons with the performance of its peers. Management uses these measures internally to assess and better understand the Corporation's underlying business performance and trends related to core business activities. The non-GAAP financial measures and key performance indicators used by the Corporation may differ from the non-GAAP financial measures and key performance indicators other financial institutions use to assess their performance and trends.

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. Reconciliations of GAAP to non-GAAP operating measures to the most directly comparable GAAP financial measures are included later in this report under the heading "Non-GAAP Financial Measures and Key Performance Indicators."

Management believes merger expenses are not organic costs to run the Corporation's operations and facilities. These charges represent expenses to satisfy contractual obligations of acquired entity without any useful benefit to the Corporation and to convert and consolidate the entity's records onto the Corporation's platforms. These costs are specific to each individual transaction, and may vary significantly based on the size and complexity of the transaction.

For the calculation of net interest margin and efficiency ratio, net interest income amounts are reflected on a fully taxable equivalent (FTE) basis which adjusts for the tax benefit of income on certain tax-exempt loans and investments using the federal statutory tax rate of 35.0% for each period presented. The Corporation uses these measures to provide an economic view believed to be the preferred industry measurement for these items and provides relevant comparison between taxable and non-taxable amounts.

**FINANCIAL SUMMARY**

Net income available to common stockholders for the third quarter of 2016 was \$50.2 million or \$0.24 per diluted common share. Net income available to common stockholders for the first nine months of 2016 was \$113.6 million or \$0.55 per diluted common share. Excluding the impact of merger-related costs, operating net income per diluted common share for the first nine months of 2016 was \$0.67. Revenue (net interest income plus non-interest income) of \$602.9 million for the first nine months of 2016 reflects continued loan and deposit growth and strong performance from fee-based businesses.

*Third Quarter Highlights*

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Net interest income was \$157.5 million for the third quarter of 2016, compared to \$125.2 million for the same period of 2015.

Net interest margin (non-GAAP) was 3.36% for the third quarter of 2016, compared to 3.39% for the third quarter of 2015.

Non-interest income was \$53.2 million for the third quarter of 2016, compared to \$41.4 million for the same period of 2015.

Non-interest expense, excluding merger-related costs, increased \$23.9 million from the third quarter of 2015, primarily due to the expanded operating expenses from the completed acquisitions.

The efficiency ratio (non-GAAP) was 54.4%, an improvement from 55.6% in the third quarter of 2015.

Total assets reached \$21.6 billion at September 30, 2016, compared to \$17.6 billion at December 31, 2015, with organic growth combined with the METR and Fifth Third branch acquisitions.

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Average loans grew 24.5% for the third quarter 2016, compared to the third quarter of 2015, through continued organic growth and the loans added through the completed acquisitions.

Average deposits grew 26.2%, compared to the third quarter of 2015, through continued organic growth and the deposits added through the completed acquisitions.

The relationship of loans to deposits was 92.5% at September 30, 2016, compared to 96.6% at December 31, 2015.

The delinquency level on the originated portfolio was 1.00% at September 30, 2016, compared to 0.93% at December 31, 2015.

**RESULTS OF OPERATIONS*****Three Months Ended September 30, 2016 Compared to the Three Months Ended September 30, 2015***

Net income available to common stockholders for the three months ended September 30, 2016 was \$50.2 million or \$0.24 per diluted common share, compared to net income available to common stockholders for the three months ended September 30, 2015 of \$38.0 million or \$0.22 per diluted common share. The third quarter of 2016 and 2015 included merger and acquisition costs of \$0.3 million and \$1.3 million, respectively. The merger and acquisition costs in the third quarter of 2016 were primarily due to the pending YDKN acquisition, while the merger and acquisition costs in the third quarter of 2015 related to the METR acquisition that closed on February 13, 2016 and the BofA branch purchase that closed on September 18, 2015. Quarterly average diluted common shares outstanding increased 35.3 million shares, or 20.0%, to 211.8 million shares for the third quarter of 2016, primarily as a result of the METR acquisition, for which the Corporation issued 34.0 million shares.

Financial highlights are summarized below:

| (in thousands, except per share data)              | Three Months Ended |                    | Dollar Change    | Percent Change |
|----------------------------------------------------|--------------------|--------------------|------------------|----------------|
|                                                    | September 30, 2016 | September 30, 2015 |                  |                |
| Net interest income                                | \$ 157,506         | \$ 125,201         | \$ 32,305        | 25.8%          |
| Provision for credit losses                        | 14,639             | 10,777             | 3,862            | 35.8%          |
| Non-interest income                                | 53,240             | 41,359             | 11,881           | 28.7%          |
| Non-interest expense                               | 121,050            | 98,149             | 22,901           | 23.3%          |
| Income taxes                                       | 22,889             | 17,581             | 5,308            | 30.2%          |
| <b>Net income</b>                                  | <b>52,168</b>      | <b>40,053</b>      | <b>12,115</b>    | <b>30.2%</b>   |
| Less: Preferred stock dividends                    | 2,010              | 2,010              |                  |                |
| <b>Net income available to common stockholders</b> | <b>\$ 50,158</b>   | <b>\$ 38,043</b>   | <b>\$ 12,115</b> | <b>31.8%</b>   |
| Net income per common share Basic                  | \$ 0.24            | \$ 0.22            | \$ 0.02          | 9.1%           |
| Net income per common share Diluted                | 0.24               | 0.22               | 0.02             | 9.1%           |

|                                 |             |      |
|---------------------------------|-------------|------|
| Cash dividends per common share | <b>0.12</b> | 0.12 |
|---------------------------------|-------------|------|

The following table presents selected financial ratios:

|                                                     | <b>Three Months Ended</b> |             |
|-----------------------------------------------------|---------------------------|-------------|
|                                                     | <b>September 30,</b>      |             |
|                                                     | <b>2016</b>               | <b>2015</b> |
| Return on average equity                            | <b>8.10%</b>              | 7.63%       |
| Return on average tangible common equity (non-GAAP) | <b>15.45%</b>             | 14.25%      |
| Return on average assets                            | <b>0.97%</b>              | 0.95%       |
| Return on average tangible assets (non-GAAP)        | <b>1.08%</b>              | 1.04%       |

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

| (dollars in thousands)                           | Three Months Ended September 30, |                              |            |                      |                              |            |
|--------------------------------------------------|----------------------------------|------------------------------|------------|----------------------|------------------------------|------------|
|                                                  | Average Balance                  | 2016 Interest Income/Expense | Yield/Rate | Average Balance      | 2015 Interest Income/Expense | Yield/Rate |
| <b>Assets</b>                                    |                                  |                              |            |                      |                              |            |
| Interest-earning assets:                         |                                  |                              |            |                      |                              |            |
| Interest-bearing deposits with banks             | \$ 140,713                       | \$ 143                       | 0.40%      | \$ 75,208            | \$ 30                        | 0.16%      |
| Taxable investment securities (1)                | 3,919,203                        | 18,432                       | 1.88       | 2,870,378            | 14,577                       | 2.03       |
| Non-taxable investment securities (2)            | 321,360                          | 3,456                        | 4.30       | 218,609              | 2,624                        | 4.80       |
| Residential mortgage loans held for sale         | 22,476                           | 235                          | 4.19       | 8,967                | 74                           | 3.30       |
| Loans and leases (2) (3)                         | 14,641,729                       | 155,739                      | 4.23       | 11,763,705           | 121,842                      | 4.11       |
| Total interest-earning assets (2)                | 19,045,481                       | 178,005                      | 3.72       | 14,936,867           | 139,147                      | 3.70       |
| Cash and due from banks                          | 287,208                          |                              |            | 199,115              |                              |            |
| Allowance for credit losses                      | (158,901)                        |                              |            | (134,206)            |                              |            |
| Premises and equipment                           | 229,133                          |                              |            | 162,103              |                              |            |
| Other assets                                     | 1,983,235                        |                              |            | 1,568,431            |                              |            |
| <b>Total Assets</b>                              | <b>\$ 21,386,156</b>             |                              |            | <b>\$ 16,732,310</b> |                              |            |
| <b>Liabilities</b>                               |                                  |                              |            |                      |                              |            |
| Interest-bearing liabilities:                    |                                  |                              |            |                      |                              |            |
| Deposits:                                        |                                  |                              |            |                      |                              |            |
| Interest-bearing demand                          | \$ 6,772,963                     | 4,094                        | 0.24       | \$ 5,238,598         | 2,241                        | 0.17       |
| Savings                                          | 2,289,836                        | 449                          | 0.08       | 1,730,818            | 198                          | 0.05       |
| Certificates and other time                      | 2,588,035                        | 5,934                        | 0.91       | 2,565,215            | 5,509                        | 0.85       |
| Short-term borrowings                            | 2,303,389                        | 3,607                        | 0.62       | 1,546,209            | 1,786                        | 0.46       |
| Long-term borrowings                             | 616,141                          | 3,520                        | 2.27       | 542,720              | 2,262                        | 1.66       |
| Total interest-bearing liabilities               | 14,570,364                       | 17,604                       | 0.48       | 11,623,560           | 11,996                       | 0.41       |
| Non-interest-bearing demand                      | 4,021,023                        |                              |            | 2,886,933            |                              |            |
| Other liabilities                                | 232,076                          |                              |            | 139,774              |                              |            |
| <b>Total Liabilities</b>                         | <b>18,823,463</b>                |                              |            | <b>14,650,267</b>    |                              |            |
| <b>Stockholders Equity</b>                       | <b>2,562,693</b>                 |                              |            | <b>2,082,043</b>     |                              |            |
| <b>Total Liabilities and Stockholders Equity</b> | <b>\$ 21,386,156</b>             |                              |            | <b>\$ 16,732,310</b> |                              |            |

|                                                                     |              |              |
|---------------------------------------------------------------------|--------------|--------------|
| Excess of interest-earning assets over interest-bearing liabilities | \$ 4,475,117 | \$ 3,313,307 |
| FTE net interest income (2)                                         | 160,401      | 127,151      |
| Tax-equivalent adjustment                                           | (2,895)      | (1,950)      |
| Net interest income                                                 | \$ 157,506   | \$ 125,201   |
| Net interest spread                                                 | 3.24%        | 3.29%        |
| <b>Net interest margin (2)</b>                                      | <b>3.36%</b> | <b>3.39%</b> |

- (1) The average balances and yields earned on taxable investment securities are based on historical cost.
- (2) The interest income amounts are reflected on an FTE basis (non-GAAP), 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 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.

**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 interest-earning assets and interest expense paid on interest-bearing liabilities. For the three months ended September 30, 2016, net interest income, which comprised 74.7% of net revenue (net interest income plus non-interest income) compared to 75.2% for the same period in 2015, 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 (non-GAAP) increased \$33.3 million or 26.2% from \$127.2 million for the third quarter of 2015 to \$160.4 million for the third quarter of 2016. Average earning assets of \$19.0 billion increased \$4.1 billion or 27.5% and average interest-bearing liabilities of \$14.6 billion increased \$2.9 billion or 25.4% from 2015 due to the METR acquisition and Fifth Third and BofA branch acquisitions, combined with organic growth in loans and deposits. The Corporation's net interest margin (non-GAAP) was 3.36% for the third quarter of 2016, compared to 3.39% for the same period of 2015, due to an extended low interest rate environment and competitive landscape for earning assets, partially offset by a benefit from higher accretable yield adjustments. The tax-equivalent adjustments to net interest income (non-GAAP) from amounts reported on the Corporation's financial statements are shown in the preceding table.

The following table sets forth certain information regarding changes in net interest income on an FTE basis (non-GAAP) 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, 2016, compared to the three months ended September 30, 2015:

| (in thousands)                           | Volume    | Rate       | Net       |
|------------------------------------------|-----------|------------|-----------|
| <b><u>Interest Income</u></b>            |           |            |           |
| Interest-bearing deposits with banks     | \$ 41     | \$ 72      | \$ 113    |
| Securities (2)                           | 6,331     | (1,644)    | 4,687     |
| Residential mortgage loans held for sale | 137       | 24         | 161       |
| Loans and leases (2)                     | 30,319    | 3,578      | 33,897    |
| Total interest income (2)                | 36,828    | 2,030      | 38,858    |
| <b><u>Interest Expense</u></b>           |           |            |           |
| Deposits:                                |           |            |           |
| Interest-bearing demand                  | 862       | 991        | 1,853     |
| Savings                                  | 78        | 173        | 251       |
| Certificates and other time              | 48        | 377        | 425       |
| Short-term borrowings                    | 1,089     | 732        | 1,821     |
| Long-term borrowings                     | 334       | 924        | 1,258     |
| Total interest expense                   | 2,411     | 3,197      | 5,608     |
| Net change (2)                           | \$ 34,417 | \$ (1,167) | \$ 33,250 |



- (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 (non-GAAP) 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 (non-GAAP) of \$178.0 million for the third quarter of 2016, increased \$38.9 million or 27.9% from the same quarter of 2015, primarily due to increased earning assets, partially offset by lower yields. During the third quarter of 2016 and 2015, the Corporation recognized benefits of \$1.9 million and \$0.3 million, respectively, in accretable yield adjustments on acquired loans. The increase in earning assets was primarily driven by a \$2.9 billion or 24.5% increase in average loans and leases, including \$919.0 billion or 7.8% of organic growth, which reflects the benefit of the Corporation's expanded banking footprint and successful sales management. Additionally, loans added at closing in the Fifth Third branch purchase and METR acquisition were \$95.4 million and \$1.9 billion, respectively. The loans added in the BofA branch purchase were immaterial. The yield on average interest-earning assets (non-GAAP) increased 2 basis points from the third quarter of 2015 to 3.72% for the third quarter of 2016, primarily due to the increase in accretable yield benefits on acquired loans.

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Interest expense of \$17.6 million for the third quarter of 2016 increased \$5.6 million or 46.7% from the same quarter of 2015 due to an increase in rates paid and growth in average interest-bearing liabilities, as all categories of average interest-bearing liabilities increased over the same quarter of 2015. Average interest-bearing deposits increased \$2.1 billion or 17.0%, primarily as the result of interest-bearing deposits added at closing in the Fifth Third branch purchase, METR acquisition and the BofA branch purchase of \$258.1 million, \$1.9 billion and \$105.3 million, respectively. Short-term borrowings increased \$757.2 million, primarily as a result of an increase of \$575.7 million in federal funds purchased. Additionally, short-term FHLB advances and customer repurchase agreements increased \$103.2 million and \$78.9 million, respectively. Long-term borrowings increased \$73.4 million or 13.5%, primarily due to \$100.0 million in subordinated notes issued by the Corporation in its October 2015 debt offering in anticipation of the acquisitions in early 2016. The rate paid on interest-bearing liabilities increased 7 basis points to 0.48% for the third quarter of 2016, due to the debt offering as discussed above and changes in the funding mix as borrowings increased faster than deposits. Given the relatively low level of interest rates and the current rates paid on the various deposit products, the Corporation believes there is limited opportunity for 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 loan and lease portfolio, after giving consideration to charge-offs and recoveries for the period. The following table presents information regarding the allowance and provision for credit losses:

| (dollars in thousands)                                                    | Three Months Ended |                    | Dollar Change    | Percent Change |
|---------------------------------------------------------------------------|--------------------|--------------------|------------------|----------------|
|                                                                           | September 30, 2016 | September 30, 2015 |                  |                |
| <b>Provision for credit losses:</b>                                       |                    |                    |                  |                |
| Originated                                                                | \$ 14,072          | \$ 11,287          | \$ 2,785         | 24.7%          |
| Acquired                                                                  | 567                | (510)              | 1,077            | (211.2)%       |
| <b>Total provision for credit losses</b>                                  | <b>\$ 14,639</b>   | <b>\$ 10,777</b>   | <b>\$ 3,862</b>  | <b>35.8%</b>   |
| <b>Net loan charge-offs:</b>                                              |                    |                    |                  |                |
| Originated                                                                | \$ 12,277          | \$ 5,864           | \$ 6,413         | 109.4%         |
| Acquired                                                                  | (163)              | (129)              | (34)             | 26.4%          |
| <b>Total net loan charge-offs</b>                                         | <b>\$ 12,114</b>   | <b>\$ 5,735</b>    | <b>\$ 6,379</b>  | <b>111.2%</b>  |
| <b>Allowance for credit losses:</b>                                       |                    |                    |                  |                |
| Originated                                                                | \$ 150,514         | \$ 129,619         | \$ 20,895        | 16.1%          |
| Acquired                                                                  | 6,380              | 6,564              | (184)            | (2.8)%         |
| <b>Total allowance for credit losses</b>                                  | <b>\$ 156,894</b>  | <b>\$ 136,183</b>  | <b>\$ 20,711</b> | <b>15.2%</b>   |
| <b>Net loan charge-offs (annualized) / total average loans and leases</b> |                    |                    |                  |                |
|                                                                           | <b>0.33%</b>       | 0.19%              |                  |                |
|                                                                           | <b>0.41%</b>       | 0.22%              |                  |                |

Net originated loan charge-offs (annualized)  
/ total average originated loans and leases

Allowance for credit losses / total loans and  
leases

**1.06%** 1.15%

Allowance for credit losses (originated loans  
and leases) / total originated loans and leases

**1.23%** 1.22%

The provision for credit losses of \$14.6 million during the third quarter of 2016 increased \$3.9 million from the same period of 2015, primarily due to an increase of \$2.8 million in the provision for the originated portfolio supporting loan growth and limited credit migration. 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.

**Table of Contents***Non-Interest Income*

Total non-interest income increased \$11.9 million, to \$53.2 million for the third quarter of 2016, a 28.7% increase from the same period of 2015. Following is a summary of the items making up non-interest income. The variances in significant individual non-interest income items are further explained in the following paragraphs, with an overriding theme of the increases related to the expanded operations from the acquisitions of METR and the BofA and Fifth Third branches.

| (in thousands)                   | Three Months Ended |                    | Dollar Change    | Percent Change |
|----------------------------------|--------------------|--------------------|------------------|----------------|
|                                  | September 30, 2016 | September 30, 2015 |                  |                |
| Service charges                  | \$ 25,756          | \$ 18,628          | \$ 7,128         | 38.3%          |
| Trust fees                       | 5,268              | 5,210              | 58               | 1.1%           |
| Insurance commissions and fees   | 4,866              | 4,423              | 443              | 10.0%          |
| Securities commissions and fees  | 3,404              | 3,304              | 100              | 3.0%           |
| Net securities gains             | 299                | 314                | (15)             | n/m            |
| Mortgage banking operations      | 3,564              | 2,424              | 1,140            | 47.0%          |
| Bank owned life insurance        | 3,315              | 1,846              | 1,469            | 79.6%          |
| Other                            | 6,768              | 5,210              | 1,558            | 29.9%          |
| <b>Total non-interest income</b> | <b>\$ 53,240</b>   | <b>\$ 41,359</b>   | <b>\$ 11,881</b> | <b>28.7%</b>   |

n/m not meaningful

Service charges on loans and deposits of \$25.8 million for the third quarter of 2016 increased \$7.1 million or 38.3% from the same period of 2015. The impact of the expanded customer base due to acquisitions, combined with organic growth in loans and deposit accounts, resulted in increases of \$4.2 million or 39.5% in deposit-related service charges and \$2.9 million or 36.6% in other service charges and fees over this same period.

Insurance commissions and fees of \$4.9 million for the third quarter of 2016 increased \$0.4 million or 10.0% from the same period of 2015, primarily due to revenues from the insurance businesses acquired in June 2015, combined with the impact of new client acquisition.

Mortgage banking operations income of \$3.6 million for the third quarter of 2016 increased \$1.1 million or 47.0% from \$2.4 million for the same period of 2015. During the third quarter of 2016, the Corporation sold \$211.9 million of residential mortgage loans, a 47.5% increase compared to \$143.7 million for the same period of 2015.

Bank owned life insurance (BOLI) income of \$3.3 million for the third quarter of 2016 increased \$1.5 million or 79.6% from the same period of 2015, due to a combination of reinvesting into a higher yielding policy and death benefits received.

Other non-interest income was \$6.8 million and \$5.2 million for the third quarter of 2016 and 2015, respectively. Included in other non-interest income during the third quarter of 2016, the Corporation recorded \$1.5 million more in fees earned through its commercial loan interest rate swap program, reflecting increased marketing and stronger demand from commercial loan customers to swap floating-rate interest payments for fixed-rate interest

payments enabling those customers to better manage their interest rate risk. The third quarter of 2016 also includes \$0.6 million more in gains from an equity investment. Also during the third quarter of 2016, the Corporation recorded \$0.3 million less in dividends on non-marketable equity securities due to a reduction in dividends paid by the FRB resulting from December 2015 legislation for banks with more than \$10 billion in total assets.

*Non-Interest Expense*

Total non-interest expense of \$121.1 million for the third quarter of 2016 increased \$22.9 million, a 23.3% increase from the same period of 2015. Following is a summary of the items making up non-interest expense. The variances in the individual non-interest expense items are further explained in the following paragraphs, with an overriding theme of the increases related to the expanded operations from the acquisitions of METR and the BofA and Fifth Third branches.

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| (in thousands)                    | Three Months Ended    |                       | Dollar<br>Change | Percent<br>Change |
|-----------------------------------|-----------------------|-----------------------|------------------|-------------------|
|                                   | September 30,<br>2016 | September 30,<br>2015 |                  |                   |
| Salaries and employee benefits    | \$ 60,927             | \$ 51,859             | \$ 9,068         | 17.5%             |
| Net occupancy                     | 10,333                | 7,957                 | 2,376            | 29.9%             |
| Equipment                         | 10,034                | 8,237                 | 1,797            | 21.8%             |
| Amortization of intangibles       | 3,571                 | 2,034                 | 1,537            | 75.6%             |
| Outside services                  | 11,756                | 7,314                 | 4,442            | 60.7%             |
| FDIC insurance                    | 5,274                 | 3,158                 | 2,116            | 67.0%             |
| Merger and acquisition related    | 299                   | 1,312                 | (1,013)          | n/m               |
| Other                             | 18,856                | 16,278                | 2,578            | 15.8%             |
| <b>Total non-interest expense</b> | <b>\$ 121,050</b>     | <b>\$ 98,149</b>      | <b>\$ 22,901</b> | <b>23.3%</b>      |

Salaries and employee benefits of \$60.9 million for the third quarter of 2016 increased \$9.1 million or 17.5% from the same period of 2015, primarily due to employees added in conjunction with the aforementioned acquisitions and heightened regulatory compliance costs, combined with new hires, merit increases and higher medical insurance costs in 2016.

Net occupancy and equipment expense of \$20.4 million for the third quarter of 2016 increased \$4.2 million or 25.8% from the same period of 2015, primarily due to the acquisitions combined with additional costs associated with the Corporation's continued investment in new technology. Technology is being used to meet both customer needs via the utilization of electronic delivery channels, such as online and mobile banking, and various regulatory requirements.

Amortization of intangibles expense of \$3.6 million for the third quarter of 2016 increased \$1.5 million or 75.6% from the third quarter of 2015, due to the additional core deposit intangibles added as a result of the METR acquisition and the recent branch purchases.

Outside services expense of \$11.8 million for the third quarter of 2016 increased \$4.4 million or 60.7% from the same period of 2015, primarily due to additional costs resulting from the acquisitions.

FDIC insurance of \$5.3 million increased \$2.1 million or 67.0% from the same period of 2015, primarily due to a higher assessment base due to merger and acquisition activity combined with a higher level of classified assets relating to the METR acquisition. The FDIC rate calculation also changed on July 1, 2016 to reflect a new quarterly surcharge equal to an annual rate of 4.5 basis points on all assets in excess of \$10.0 billion.

During the third quarter of 2016, the Corporation recorded \$0.3 million in merger and acquisition related costs associated with the METR acquisition and Fifth Third branch acquisition. During the same period of 2015, the Corporation recorded \$1.3 million in merger and acquisition costs associated with the BofA branch acquisition and the METR acquisition. These costs are specific to each individual transaction, and may vary significantly based on the size and complexity of the transaction.

Other non-interest expense was \$18.9 million and \$16.3 million for the third quarter of 2016 and 2015, respectively. During the third quarter of 2016, marketing expenses increased \$0.7 million, supplies expense increased \$0.5 million, loan-related expenses increased \$0.3 million, business development expense increased \$0.3 million, telephone expense increased \$0.3 million and state taxes increased \$0.2 million, all primarily due to acquisitions and volume increases related to organic growth.

*Income Taxes*

The following table presents information regarding income tax expense and certain tax rates:

| (dollars in thousands) | <b>Three Months Ended</b> |                  |
|------------------------|---------------------------|------------------|
|                        | <b>September 30,</b>      |                  |
|                        | <b>2016</b>               | <b>2015</b>      |
| Income tax expense     | <b>\$ 22,889</b>          | <b>\$ 17,581</b> |
| Effective tax rate     | <b>30.5%</b>              | <b>30.5%</b>     |
| Statutory tax rate     | <b>35.0%</b>              | <b>35.0%</b>     |

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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 and loans, tax credits and income from BOLI.

**Nine Months Ended September 30, 2016 Compared to the Nine Months Ended September 30, 2015**

Net income available to common stockholders for the nine months ended September 30, 2016 was \$113.6 million or \$0.55 per diluted common share, compared to net income available to common stockholders for the nine months ended September 30, 2015 of \$114.5 million or \$0.65 per diluted common share. The nine months of 2016 included merger and acquisition costs of \$35.8 million or \$0.12 per diluted common share relating to the METR acquisition that closed on February 13, 2016, the Fifth Third branch purchase that closed on April 22, 2016, and the pending YDKN acquisition. Average diluted common shares outstanding increased 29.9 million shares or 17.0% to 206.1 million shares for the first nine months of 2016, primarily as a result of the METR acquisition, for which the Corporation issued 34.0 million shares on February 13, 2016. Financial highlights are summarized below:

| (in thousands, except per share data)              | Nine Months Ended  |                    | Dollar Change | Percent Change |
|----------------------------------------------------|--------------------|--------------------|---------------|----------------|
|                                                    | September 30, 2016 | September 30, 2015 |               |                |
| Net interest income                                | \$ 452,229         | \$ 370,889         | \$ 81,340     | 21.9%          |
| Provision for credit losses                        | 43,047             | 27,777             | 15,271        | 55.0%          |
| Non-interest income                                | 150,695            | 119,293            | 31,403        | 26.3%          |
| Non-interest expense                               | 387,327            | 289,303            | 98,024        | 33.9%          |
| Income taxes                                       | 52,950             | 52,575             | 375           | 0.7%           |
| <b>Net income</b>                                  | <b>119,600</b>     | 120,527            | (927)         | (0.8)%         |
| Less: Preferred stock dividends                    | 6,030              | 6,030              |               |                |
| <b>Net income available to common stockholders</b> | <b>\$ 113,570</b>  | \$ 114,497         | \$ (927)      | (0.8)%         |
| Net income per common share Basic                  | \$ 0.55            | \$ 0.65            | \$ (0.10)     | (15.4)%        |
| Net income per common share Diluted                | 0.55               | 0.65               | (0.10)        | (15.4)%        |
| Cash dividends per common share                    | 0.36               | 0.36               |               |                |

The following table presents selected financial ratios:

|                                                     | Nine Months Ended  |                    |
|-----------------------------------------------------|--------------------|--------------------|
|                                                     | September 30, 2016 | September 30, 2015 |
| Return on average equity                            | 6.45%              | 7.81%              |
| Return on average tangible common equity (non-GAAP) | 12.26%             | 14.71%             |
| Return on average assets                            | 0.78%              | 0.98%              |
| Return on average tangible assets (non-GAAP)        | 0.88%              | 1.08%              |



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

| (dollars in thousands)                           | Nine Months Ended September 30, |                              |            |                      |                              |            |
|--------------------------------------------------|---------------------------------|------------------------------|------------|----------------------|------------------------------|------------|
|                                                  | Average Balance                 | 2016 Interest Income/Expense | Yield/Rate | Average Balance      | 2015 Interest Income/Expense | Yield/Rate |
| <b>Assets</b>                                    |                                 |                              |            |                      |                              |            |
| Interest-earning assets:                         |                                 |                              |            |                      |                              |            |
| Interest-bearing deposits with banks             | \$ 124,589                      | \$ 357                       | 0.38%      | \$ 75,622            | \$ 90                        | 0.16%      |
| Taxable investment securities (1)                | 3,635,224                       | 52,901                       | 1.94       | 2,847,290            | 43,257                       | 2.03       |
| Non-taxable investment securities (2)            | 296,860                         | 9,815                        | 4.41       | 192,345              | 7,024                        | 4.87       |
| Residential mortgage loans held for sale         | 14,807                          | 504                          | 4.54       | 7,298                | 256                          | 4.68       |
| Loans and leases (2) (3)                         | 14,078,612                      | 446,366                      | 4.23       | 11,528,230           | 360,925                      | 4.19       |
| Total interest-earning assets (2)                | 18,150,092                      | 509,943                      | 3.75       | 14,650,785           | 411,552                      | 3.75       |
| Cash and due from banks                          | 273,457                         |                              |            | 195,583              |                              |            |
| Allowance for credit losses                      | (150,807)                       |                              |            | (131,465)            |                              |            |
| Premises and equipment                           | 213,957                         |                              |            | 166,572              |                              |            |
| Other assets                                     | 1,878,111                       |                              |            | 1,566,238            |                              |            |
| <b>Total Assets</b>                              | <b>\$ 20,364,810</b>            |                              |            | <b>\$ 16,447,713</b> |                              |            |
| <b>Liabilities</b>                               |                                 |                              |            |                      |                              |            |
| Interest-bearing liabilities:                    |                                 |                              |            |                      |                              |            |
| Deposits:                                        |                                 |                              |            |                      |                              |            |
| Interest-bearing demand                          | \$ 6,545,529                    | 11,600                       | 0.24       | \$ 4,889,508         | 6,082                        | 0.17       |
| Savings                                          | 2,212,213                       | 1,278                        | 0.08       | 1,697,732            | 563                          | 0.04       |
| Certificates and other time                      | 2,613,664                       | 17,509                       | 0.89       | 2,584,719            | 16,388                       | 0.85       |
| Short-term borrowings                            | 1,861,438                       | 8,527                        | 0.61       | 1,759,200            | 5,348                        | 0.41       |
| Long-term borrowings                             | 640,474                         | 10,652                       | 2.22       | 542,091              | 6,744                        | 1.66       |
| Total interest-bearing liabilities               | 13,873,318                      | 49,566                       | 0.48       | 11,473,250           | 35,125                       | 0.41       |
| Non-interest-bearing demand                      | 3,804,828                       |                              |            | 2,768,012            |                              |            |
| Other liabilities                                | 211,466                         |                              |            | 143,521              |                              |            |
| <b>Total Liabilities</b>                         | <b>17,889,612</b>               |                              |            | <b>14,384,783</b>    |                              |            |
| <b>Stockholders Equity</b>                       | <b>2,475,198</b>                |                              |            | <b>2,062,930</b>     |                              |            |
| <b>Total Liabilities and Stockholders Equity</b> | <b>\$ 20,364,810</b>            |                              |            | <b>\$ 16,447,713</b> |                              |            |

|                                                                     |              |              |
|---------------------------------------------------------------------|--------------|--------------|
| Excess of interest-earning assets over interest-bearing liabilities | \$ 4,276,774 | \$ 3,177,535 |
| FTE net interest income (2)                                         | 460,377      | 376,427      |
| Tax-equivalent adjustment                                           | (8,148)      | (5,538)      |
| Net interest income                                                 | \$ 452,229   | \$ 370,889   |
| Net interest spread                                                 | 3.27%        | 3.34%        |
| <b>Net interest margin (2)</b>                                      | <b>3.39%</b> | <b>3.43%</b> |

- (1) The average balances and yields earned on taxable investment securities are based on historical cost.
- (2) The interest income amounts are reflected on an FTE basis (non-GAAP), 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 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.

**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 and interest expense paid on liabilities. For the nine months ended September 30, 2016, net interest income, which comprised 75.0% of net revenue compared to 75.7% for the same period in 2015, 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 (non-GAAP) increased \$84.0 million or 22.3% from \$376.4 million for the first nine months of 2015 to \$460.4 million for the first nine months of 2016. Average earning assets of \$18.2 billion increased \$3.5 billion or 23.9% and average interest-bearing liabilities of \$13.9 billion increased \$2.4 billion or 20.9% from the first nine months of 2015 primarily due to the METR acquisition, combined with organic growth in loans and deposits. The Corporation's net interest margin (non-GAAP) was 3.39% for the first nine months of 2016, compared to 3.43% for the same period of 2015, due to the impact of an extended low interest rate environment and a competitive landscape for earning assets. The tax-equivalent adjustment to net interest income (non-GAAP) from amounts reported on the Corporation's financial statements are shown in the preceding table.

The following table sets forth certain information regarding changes in net interest income on an FTE basis (non-GAAP) 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, 2016, compared to the nine months ended September 30, 2015:

| (in thousands)                           | Volume    | Rate       | Net       |
|------------------------------------------|-----------|------------|-----------|
| <b><u>Interest Income</u></b>            |           |            |           |
| Interest-bearing deposits with banks     | \$ 84     | \$ 183     | \$ 267    |
| Securities (2)                           | 15,837    | (3,402)    | 12,435    |
| Residential mortgage loans held for sale | 256       | (8)        | 248       |
| Loans and leases (2)                     | 81,180    | 4,261      | 85,441    |
| Total interest income (2)                | 97,357    | 1,034      | 98,391    |
| <b><u>Interest Expense</u></b>           |           |            |           |
| Deposits:                                |           |            |           |
| Interest-bearing demand                  | 2,998     | 2,520      | 5,518     |
| Savings                                  | 221       | 494        | 715       |
| Certificates and other time              | 189       | 932        | 1,121     |
| Short-term borrowings                    | 1,206     | 1,973      | 3,179     |
| Long-term borrowings                     | 1,371     | 2,537      | 3,908     |
| Total interest expense                   | 5,985     | 8,456      | 14,441    |
| Net change (2)                           | \$ 91,372 | \$ (7,422) | \$ 83,950 |

(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 (non-GAAP) 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 (non-GAAP) of \$509.9 million for the first nine months of 2016, increased \$98.4 million or 23.9% from the same period of 2015, primarily due to increased earning assets, which was offset by lower yields. During the first nine months of 2016 and 2015, the Corporation recognized benefits of \$5.2 million and \$3.8 million, respectively, in accretable yield adjustments on acquired loans. The increase in earning assets was primarily driven by a \$2.6 billion or 22.1% increase in average loans and leases, including \$1.0 billion or 8.3% of organic growth, which reflects the benefit of the Corporation's expanded banking footprint and successful sales management. Additionally, loans added at closing in the Fifth Third branch purchase and METR acquisition were \$95.4 million and \$1.9 billion, respectively. The loans added in the BofA branch purchase were immaterial. The yield on average interest-earning assets (non-GAAP) was 3.75% for both the first nine months of 2016 and 2015.

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Interest expense of \$49.6 million for the first nine months of 2016 increased \$14.4 million or 41.1% from the same period of 2015 due to an increase in rates paid and growth in interest-bearing liabilities, as all categories of interest-bearing liabilities increased over the same period of 2015. Average interest-bearing deposits increased \$2.2 billion or 24.0%, including \$358.2 million or 3.9% of organic growth, which reflects the benefit of the Corporation's expanded banking footprint. Additionally, interest-bearing deposits added at closing in the Fifth Third branch purchase, METR acquisition and the BofA branch purchase were \$258.1 million, \$1.9 billion and \$105.3 million, respectively. Short-term borrowings increased \$102.2 million or 5.8%, primarily as a result of a \$527.7 million increase in federal funds purchased, partially offset by declines of \$284.3 million and \$139.7 million in customer repurchase agreements and short-term FHLB borrowings, respectively. Long-term borrowings increased \$98.4 million or 18.1%, primarily due to \$100.0 million in subordinated notes issued by the Corporation in its October 2015 debt offering in anticipation of the acquisitions in early 2016. The rate paid on interest-bearing liabilities increased 7 basis points to 0.48% for the first nine months of 2016, due to the debt offering as discussed above and changes in the funding mix as borrowings increased faster than deposits. Given the relatively low level of interest rates and the current rates paid on the various deposit products, the Corporation believes there is limited opportunity for reductions in the overall rate paid on interest-bearing liabilities.

*Provision for Credit Losses*

The following table presents information regarding the allowance and provision for credit losses:

| (dollars in thousands)                              | <b>Nine Months Ended</b> |                      | <b>Dollar</b>    | <b>Percent</b> |
|-----------------------------------------------------|--------------------------|----------------------|------------------|----------------|
|                                                     | <b>September 30,</b>     | <b>September 30,</b> | <b>Change</b>    | <b>Change</b>  |
|                                                     | <b>2016</b>              | <b>2015</b>          |                  |                |
| <b>Provision for credit losses:</b>                 |                          |                      |                  |                |
| Originated                                          | \$ 43,296                | \$ 29,097            | \$ 14,199        | 48.8%          |
| Acquired                                            | (249)                    | (1,320)              | 1,071            | (81.1)%        |
| <b>Total provision for credit losses</b>            | <b>\$ 43,047</b>         | <b>\$ 27,777</b>     | <b>\$ 15,270</b> | <b>55.0%</b>   |
| <b>Net loan charge-offs:</b>                        |                          |                      |                  |                |
| Originated                                          | \$ 28,067                | \$ 17,430            | \$ 10,637        | 61.0%          |
| Acquired                                            | 98                       | 90                   | 8                | 8.9%           |
| <b>Total net loan charge-offs</b>                   | <b>\$ 28,165</b>         | <b>\$ 17,520</b>     | <b>\$ 10,645</b> | <b>60.8%</b>   |
| <b>Allowance for credit losses:</b>                 |                          |                      |                  |                |
| Originated                                          | \$ 150,514               | \$ 129,619           | \$ 20,895        | 16.1%          |
| Acquired                                            | 6,380                    | 6,564                | (184)            | (2.8)%         |
| <b>Total allowance for credit losses</b>            | <b>\$ 156,894</b>        | <b>\$ 136,183</b>    | <b>\$ 20,711</b> | <b>15.2%</b>   |
| <b>Net loan charge-offs (annualized) / total</b>    |                          |                      |                  |                |
| <b>average loans and leases</b>                     | <b>0.27%</b>             | <b>0.20%</b>         |                  |                |
| <b>Net originated loan charge-offs (annualized)</b> |                          |                      |                  |                |
| <b>/ total average originated loans and leases</b>  | <b>0.32%</b>             | <b>0.23%</b>         |                  |                |
|                                                     | <b>1.06%</b>             | <b>1.15%</b>         |                  |                |

|                                                      |  |  |
|------------------------------------------------------|--|--|
| Allowance for credit losses / total loans and leases |  |  |
|------------------------------------------------------|--|--|

|                                                                                               |              |       |
|-----------------------------------------------------------------------------------------------|--------------|-------|
| Allowance for credit losses (originated loans and leases) / total originated loans and leases | <b>1.23%</b> | 1.22% |
|-----------------------------------------------------------------------------------------------|--------------|-------|

The provision for credit losses of \$43.0 million during the first nine months of 2016 increased \$15.3 million from the same period of 2015. This increase was related to loan growth in the originated portfolio, credit migration and \$4.0 million in charge-offs from a single commercial relationship involving a borrower alleged to have falsified documents and financial information over an extended period of time. 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 \$31.4 million or 26.3% for the first nine months of 2016, to \$150.7 million compared to the same period of 2015. Following is a summary of the items making up non-interest income. The variances in significant individual non-interest income items are further explained in the following paragraphs, with an overriding theme of the increases related to the expanded operations from the acquisitions of METR and the BofA and Fifth Third branches.

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| (in thousands)                   | Nine Months Ended |                       | Dollar<br>Change | Percent<br>Change |
|----------------------------------|-------------------|-----------------------|------------------|-------------------|
|                                  | 2016              | September 30,<br>2015 |                  |                   |
| Service charges                  | \$ 73,428         | \$ 51,959             | \$ 21,469        | 41.3%             |
| Trust fees                       | 15,955            | 15,803                | 152              | 1.0%              |
| Insurance commissions and fees   | 13,892            | 12,351                | 1,541            | 12.5%             |
| Securities commissions and fees  | 10,400            | 9,958                 | 442              | 4.4%              |
| Net securities gains             | 596               | 319                   | 277              | n/m               |
| Mortgage banking operations      | 7,912             | 6,739                 | 1,173            | 17.4%             |
| Bank owned life insurance        | 7,936             | 5,527                 | 2,409            | 43.6%             |
| Other                            | 20,576            | 16,637                | 3,939            | 23.7%             |
| <b>Total non-interest income</b> | <b>\$ 150,695</b> | <b>\$ 119,293</b>     | <b>\$ 31,402</b> | <b>26.3%</b>      |

Service charges on loans and deposits of \$73.4 million for the first nine months of 2016 increased \$21.5 million or 41.3% from the same period of 2015. The impact of organic growth and the expanded customer base due to acquisitions resulted in increases of \$13.8 million or 47.5% in deposit-related service charges and \$7.7 million or 33.5% in other service charges and fees over this same period.

Insurance commissions and fees of \$13.9 million for the first nine months of 2016 increased \$1.5 million or 12.5% from the same period of 2015, primarily due to revenues from the insurance businesses acquired in June 2015, combined with the impact of new client acquisition.

Securities commissions and fees of \$10.4 million for the first nine months of 2016 increased \$0.4 million or 4.4% from the first nine months of 2015, primarily due to positive results from initiatives generating new customer relationships combined with increased volume, geographic expansion and improved market conditions compared to the same period of 2015.

Mortgage banking operations income of \$7.9 million for the nine months of 2016 increased \$1.2 million or 17.4% from the same period of 2015. During the first nine months of 2016, the Corporation sold \$470.2 million of residential mortgage loans, a 39.3% increase compared to \$337.6 million for the same period of 2015.

BOLI income of \$7.9 million for the first nine months of 2016 increased \$2.4 million or 43.6% from the same period of 2015, due to a combination of reinvesting into a higher yielding policy and death benefits received.

Other non-interest income was \$20.6 million and \$16.6 million for the first nine months of 2016 and 2015, respectively. During the first nine months of 2016, the Corporation recognized a gain of \$2.4 million relating to the \$10.0 million redemption of TPS, as previously discussed. Additionally, during the first nine months of 2016, the Corporation recorded \$3.9 million more in fees earned through its commercial loan interest rate swap program, reflecting stronger demand from commercial loan customers to swap floating-rate interest payments for fixed-rate interest payments enabling those customers to better manage their interest rate risk. Also, the Corporation recorded \$2.3 million less in dividends on non-marketable equity securities, primarily resulting from a special dividend paid by the FHLB totaling \$1.0 million during the first nine months of 2015, combined with a decreased rate of FRB dividends resulting from December 2015 legislation for banks with more than \$10 billion in total assets. The first nine months of 2016 also includes \$0.8 million more in gains from an equity investment and \$0.6 million less in gains on the sale of fixed assets and repossessed assets.

*Non-Interest Expense*

Total non-interest expense of \$387.3 million for the first nine months of 2016 increased \$98.0 million or 33.9% from the same period of 2015. Following is a summary of the items making up non-interest expense. The variances in the individual non-interest expense items are further explained in the following paragraphs, with an overriding theme of the increases related to the expanded operations from the acquisitions of METR and the BofA and Fifth Third branches.



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| (in thousands)                    | Nine Months Ended     |                       | Dollar<br>Change | Percent<br>Change |
|-----------------------------------|-----------------------|-----------------------|------------------|-------------------|
|                                   | September 30,<br>2016 | September 30,<br>2015 |                  |                   |
| Salaries and employee benefits    | \$ 178,681            | \$ 151,559            | \$ 27,122        | 17.9%             |
| Net occupancy                     | 29,792                | 25,405                | 4,387            | 17.3%             |
| Equipment                         | 28,604                | 23,583                | 5,021            | 21.3%             |
| Amortization of intangibles       | 9,608                 | 6,148                 | 3,460            | 56.3%             |
| Outside services                  | 30,884                | 25,254                | 5,630            | 22.3%             |
| FDIC insurance                    | 14,345                | 9,630                 | 4,715            | 49.0%             |
| Merger and acquisition related    | 35,790                | 1,683                 | 34,107           | n/m               |
| Other                             | 59,623                | 46,041                | 13,582           | 29.5%             |
| <b>Total non-interest expense</b> | <b>\$ 387,327</b>     | <b>\$ 289,303</b>     | <b>\$ 98,024</b> | <b>33.9%</b>      |

Salaries and employee benefits of \$178.7 million for the first nine months of 2016 increased \$27.1 million or 17.9% from the same period of 2015, primarily due to employees added in conjunction with the aforementioned acquisitions and heightened regulatory compliance costs, combined with new hires, merit increases and higher medical insurance costs in 2016.

Net occupancy and equipment expense of \$58.4 million for the first nine months of 2016 increased \$9.4 million or 19.2% from the same period of 2015, primarily resulting from the acquisitions, combined with additional costs associated with the Corporation's continued investment in new technology. Technology is being used to meet both customer needs via the utilization of electronic delivery channels, such as online and mobile banking, and regulatory requirements. These increases were partially offset by lower costs attributable to a mild winter season in the first nine months of 2016, compared to the same period in 2015.

Amortization of intangibles expense of \$9.6 million for the first nine months of 2016 increased \$3.5 million or 56.3% from the first nine months of 2015, due to the additional core deposit intangibles added as a result of the METR acquisition and branches purchased from BofA and Fifth Third.

Outside services expense of \$30.9 million for the first nine months of 2016 increased \$5.6 million or 22.3% from the same period of 2015, primarily due to additional costs resulting from the merger and acquisition activity.

FDIC insurance of \$14.3 million increased \$4.7 million or 49.0% from the same period of 2015, primarily due to a higher level of classified assets relating to the METR acquisition combined with a higher assessment base due to merger and acquisition activity.

During the first nine months of 2016, the Corporation recorded \$35.8 million in merger and acquisition related costs associated with the METR acquisition and Fifth Third branch acquisition. During the same period of 2015, the Corporation recorded \$1.7 million in merger expenses associated with the BofA branch acquisition. These costs are specific to each individual transaction, and may vary significantly based on the size and complexity of the transaction.

Other non-interest expense was \$59.6 million and \$46.0 million for the first nine months of 2016 and 2015, respectively. During the first nine months of 2016, the Corporation incurred a \$2.6 million impairment charge on acquired other assets relating to low income housing projects. Additionally, for the first nine months of 2016, supplies expense increased \$2.4 million, marketing expenses increased \$2.2 million, miscellaneous losses increased \$1.8 million, loan-related expenses increased \$1.8 million, state taxes increased \$1.0 million, business development expenses increased \$0.9 million, telephone expense increased \$0.7 million and postage expense increased \$0.4

million, all primarily due to acquisitions and volume increases related to organic growth. Partially offsetting these increases was a decrease of \$1.0 million in OREO expenses.

**Table of Contents***Income Taxes*

The following table presents information regarding income tax expense and certain tax rates:

| (dollars in thousands) | <b>Nine Months Ended<br/>September 30,</b> |             |
|------------------------|--------------------------------------------|-------------|
|                        | <b>2016</b>                                | <b>2015</b> |
| Income tax expense     | <b>\$ 52,950</b>                           | \$ 52,575   |
| Effective tax rate     | <b>30.7%</b>                               | 30.4%       |
| Statutory tax rate     | <b>35.0%</b>                               | 35.0%       |

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 and loans, tax credits and income from BOLI.

**FINANCIAL CONDITION**

The following table presents condensed consolidated ending balance sheets:

| (dollars in thousands)                           | <b>September<br/>30,<br/>2016</b> | <b>December<br/>31,<br/>2015</b> | <b>Dollar<br/>Change</b> | <b>Percent<br/>Change</b> |
|--------------------------------------------------|-----------------------------------|----------------------------------|--------------------------|---------------------------|
| <b>Assets</b>                                    |                                   |                                  |                          |                           |
| Cash and cash equivalents                        | <b>\$ 445,250</b>                 | \$ 489,119                       | \$ (43,869)              | (9.0)%                    |
| Securities                                       | <b>4,326,861</b>                  | 3,267,628                        | 1,059,233                | 32.1%                     |
| Residential mortgage loans held for sale         | <b>17,862</b>                     | 4,781                            | 13,081                   | 273.6%                    |
| Loans and leases, net                            | <b>14,616,552</b>                 | 12,048,428                       | 2,568,124                | 21.3%                     |
| Goodwill and other intangibles                   | <b>1,103,652</b>                  | 878,730                          | 224,922                  | 25.6%                     |
| Other assets                                     | <b>1,073,737</b>                  | 868,976                          | 204,761                  | 23.6%                     |
| <b>Total Assets</b>                              | <b>\$ 21,583,914</b>              | \$ 17,557,662                    | \$ 4,026,252             | 22.9%                     |
| <b>Liabilities and Stockholders Equity</b>       |                                   |                                  |                          |                           |
| Deposits                                         | <b>\$ 15,976,884</b>              | \$ 12,623,463                    | \$ 3,353,421             | 26.6%                     |
| Borrowings                                       | <b>2,823,605</b>                  | 2,690,376                        | 133,229                  | 5.0%                      |
| Other liabilities                                | <b>212,845</b>                    | 147,641                          | 65,204                   | 44.2%                     |
| <b>Total liabilities</b>                         | <b>19,013,334</b>                 | 15,461,480                       | 3,551,854                | 23.0%                     |
| Stockholders equity                              | <b>2,570,580</b>                  | 2,096,182                        | 474,398                  | 22.6%                     |
| <b>Total Liabilities and Stockholders Equity</b> | <b>\$ 21,583,914</b>              | \$ 17,557,662                    | \$ 4,026,252             | 22.9%                     |

The September 30, 2016 balance sheet includes the Fifth Third branch purchase and METR acquisition mentioned previously.

*Non-Performing Assets*

Non-performing loans and OREO increased \$25.1 million, from \$110.8 million at December 31, 2015 to \$136.0 million at September 30, 2016. This reflects increases of \$24.9 million and \$1.6 million in non-accrual loans and OREO, respectively, partially offset by a decrease of \$1.4 million in TDRs. The increase in non-accrual loans is attributable to the migration of a few commercial borrowers in the commercial and industrial portfolio that operate largely within commodity-based industries that have faced pricing pressures. The increase in OREO is the result of properties acquired from METR and Fifth Third, including banking facilities that are no longer in use and was partially offset by the sale of several commercial OREO properties totaling \$7.6 million. The decrease in TDRs was primarily attributable to payoffs of modified commercial credits.

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Following is a summary of total non-performing loans, by class:

| (in thousands)                           | September 30,<br>2016 | December 31,<br>2015 | Dollar<br>Change | Percent<br>Change |
|------------------------------------------|-----------------------|----------------------|------------------|-------------------|
| Commercial real estate                   | \$ 20,137             | \$ 26,087            | \$ (5,950)       | (22.8)%           |
| Commercial and industrial                | 37,334                | 14,846               | 22,488           | 151.5%            |
| Commercial leases                        | 3,359                 | 659                  | 2,700            | 409.7%            |
| <b>Total commercial loans and leases</b> | <b>60,830</b>         | <b>41,592</b>        | <b>19,238</b>    | <b>46.3%</b>      |
| Direct installment                       | 15,071                | 13,791               | 1,280            | 9.3%              |
| Residential mortgages                    | 13,397                | 12,763               | 634              | 5.0%              |
| Indirect installment                     | 1,926                 | 1,514                | 412              | 27.2%             |
| Consumer lines of credit                 | 3,242                 | 2,265                | 977              | 43.1%             |
| Other                                    | 1,000                 |                      | 1,000            | n/m               |
| <b>Total non-performing loans</b>        | <b>\$ 95,466</b>      | <b>\$ 71,925</b>     | <b>\$ 23,541</b> | <b>32.7%</b>      |

Following is a summary of performing, non-performing and non-accrual originated TDRs, by class:

| (in thousands)                | Performing       | Non-<br>Performing | Non-Accrual     | Total            |
|-------------------------------|------------------|--------------------|-----------------|------------------|
| <b>September 30, 2016</b>     |                  |                    |                 |                  |
| Commercial real estate        | \$               | \$ 197             | \$ 3,984        | \$ 4,181         |
| Commercial and industrial     |                  | 7                  | 2,162           | 2,169            |
| <b>Total commercial loans</b> |                  | <b>204</b>         | <b>6,146</b>    | <b>6,350</b>     |
| Direct installment            | 9,954            | 8,703              | 1,704           | 20,361           |
| Residential mortgages         | 4,765            | 10,291             | 1,205           | 16,261           |
| Indirect installment          |                  | 185                | 3               | 188              |
| Consumer lines of credit      | 2,311            | 1,255              | 249             | 3,815            |
| <b>Total TDRs</b>             | <b>\$ 17,030</b> | <b>\$ 20,638</b>   | <b>\$ 9,307</b> | <b>\$ 46,975</b> |
| <b>December 31, 2015</b>      |                  |                    |                 |                  |
| Commercial real estate        | \$               | \$ 1,653           | \$ 6,051        | \$ 7,704         |
| Commercial and industrial     |                  | 361                | 813             | 1,174            |
| <b>Total commercial loans</b> |                  | <b>2,014</b>       | <b>6,864</b>    | <b>8,878</b>     |
| Direct installment            | 7,908            | 8,985              | 1,137           | 18,030           |
| Residential mortgages         | 5,184            | 9,881              | 190             | 15,255           |
| Indirect installment          |                  | 153                | 24              | 177              |
| Consumer lines of credit      | 2,073            | 995                | 92              | 3,160            |
| <b>Total TDRs</b>             | <b>\$ 15,165</b> | <b>\$ 22,028</b>   | <b>\$ 8,307</b> | <b>\$ 45,500</b> |

*Allowance for Credit Losses*

The allowance for credit losses of \$156.9 million at September 30, 2016 increased \$14.9 million or 10.5% from December 31, 2015, primarily in support of growth in originated loans and leases and normal credit migration. The provision for credit losses during the nine months ended September 30, 2016 was \$43.0 million, covering net charge-offs of \$28.2 million and additional specific reserves of \$6.9 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 decreased from 197.44% as of December 31, 2015 to 165.35% as of September 30, 2016, reflecting an increase in the level of non-performing loans relative to the increase in the allowance for credit losses during the nine month period.

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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, *Business Combinations*.

|                                                                                                         | <b>At or For the Three Months Ended</b> |                              |                               |
|---------------------------------------------------------------------------------------------------------|-----------------------------------------|------------------------------|-------------------------------|
|                                                                                                         | <b>September 30,<br/>2016</b>           | <b>December 31,<br/>2015</b> | <b>September 30,<br/>2015</b> |
| Non-performing loans / total originated loans and leases                                                | <b>0.76%</b>                            | 0.64%                        | 0.63%                         |
| Non-performing loans + OREO / total originated loans and leases + OREO                                  | <b>1.08%</b>                            | 0.99%                        | 0.99%                         |
| Allowance for credit losses (originated loans) / total originated loans and leases                      | <b>1.23%</b>                            | 1.23%                        | 1.22%                         |
| Net charge-offs on originated loans and leases (annualized) / total average originated loans and leases | <b>0.41%</b>                            | 0.25%                        | 0.22%                         |

**Deposits**

Following is a summary of deposits:

| (in thousands)                       | <b>September<br/>30,<br/>2016</b> | <b>December<br/>31,<br/>2015</b> | <b>Dollar<br/>Change</b> | <b>Percent<br/>Change</b> |
|--------------------------------------|-----------------------------------|----------------------------------|--------------------------|---------------------------|
| Non-interest-bearing demand          | <b>\$ 4,082,145</b>               | \$ 3,059,949                     | \$ 1,022,196             | 33.4%                     |
| Interest-bearing demand              | <b>7,032,744</b>                  | 5,311,589                        | 1,721,155                | 32.4%                     |
| Savings                              | <b>2,299,408</b>                  | 1,786,459                        | 512,949                  | 28.7%                     |
| Certificates and other time deposits | <b>2,562,587</b>                  | 2,465,466                        | 97,121                   | 3.9%                      |
| <b>Total deposits</b>                | <b>\$ 15,976,884</b>              | \$ 12,623,463                    | \$ 3,353,421             | 26.6%                     |

Total deposits increased from December 31, 2015 primarily as a result of the Fifth Third branch purchase and METR acquisition, combined with organic growth in relationship-based transaction deposits, which are comprised of demand (non-interest-bearing and interest-bearing) and savings accounts (including money market savings). Generating growth in relationship-based transaction deposits remains a key focus of the Corporation.

**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 expected organic growth in the balance sheet, 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 an offering of \$100 million in 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 offering expenses were \$98.4 million. The Corporation used the net proceeds from the sale of the subordinated notes for general corporate purposes, including providing capital to support the growth of FNBPA and its business, including the acquisition of METR and the Fifth Third branches.

Capital management is a continuous process, with capital plans and stress testing for the Corporation and FNBPA updated at least 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



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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. During 2016, the Corporation redeemed \$10.0 million of the TPS issued by Omega Financial Capital Trust I, as these securities are no longer eligible for inclusion in tier 1 capital.

The Corporation and FNBPA are subject to various regulatory capital requirements administered by the federal banking agencies (see discussion under **Enhanced Regulatory 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 minimum 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, 2016 and December 31, 2015, the Corporation and FNBPA met all **well-capitalized** requirements to which each of them was subject.

As of September 30, 2016, 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.

Following are the capital amounts and related ratios as of September 30, 2016 and December 31, 2015 for the Corporation and FNBPA:

| (dollars in thousands)    | Actual       |       | Well-Capitalized Requirements |       | Minimum Capital Requirements |       |
|---------------------------|--------------|-------|-------------------------------|-------|------------------------------|-------|
|                           | Amount       | Ratio | Amount                        | Ratio | Amount                       | Ratio |
| <b>September 30, 2016</b> |              |       |                               |       |                              |       |
| <b>F.N.B. Corporation</b> |              |       |                               |       |                              |       |
| Total capital             | \$ 1,884,325 | 11.9% | \$ 1,587,725                  | 10.0% | \$ 1,369,413                 | 8.6%  |
| Tier 1 capital            | 1,551,008    | 9.8   | 1,270,180                     | 8.0   | 1,051,868                    | 6.6   |
| Common equity tier 1      | 1,444,126    | 9.1   | 1,032,021                     | 6.5   | 813,709                      | 5.1   |
| Leverage                  | 1,551,008    | 7.6   | 1,015,756                     | 5.0   | 812,605                      | 4.0   |
| <b>FNBPA</b>              |              |       |                               |       |                              |       |
| Total capital             | 1,746,373    | 11.1  | 1,575,565                     | 10.0  | 1,358,925                    | 8.6   |
| Tier 1 capital            | 1,593,425    | 10.1  | 1,260,452                     | 8.0   | 1,043,812                    | 6.6   |
| Common equity tier 1      | 1,513,425    | 9.6   | 1,024,117                     | 6.5   | 807,477                      | 5.1   |
| Leverage                  | 1,593,425    | 7.9   | 1,007,321                     | 5.0   | 805,857                      | 4.0   |
| <b>December 31, 2015</b>  |              |       |                               |       |                              |       |
| <b>F.N.B. Corporation</b> |              |       |                               |       |                              |       |
| Total capital             | \$ 1,629,270 | 12.9% | \$ 1,268,396                  | 10.0% | \$ 1,014,717                 | 8.0%  |

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|                      |           |      |           |      |           |     |
|----------------------|-----------|------|-----------|------|-----------|-----|
| Tier 1 capital       | 1,321,972 | 10.4 | 1,014,717 | 8.0  | 761,038   | 6.0 |
| Common equity tier 1 | 1,200,715 | 9.5  | 824,457   | 6.5  | 570,778   | 4.5 |
| Leverage             | 1,321,972 | 8.1  | 811,553   | 5.0  | 649,243   | 4.0 |
| <b><u>FNBPA</u></b>  |           |      |           |      |           |     |
| Total capital        | 1,426,284 | 11.3 | 1,265,990 | 10.0 | 1,012,792 | 8.0 |
| Tier 1 capital       | 1,289,965 | 10.2 | 1,012,792 | 8.0  | 759,594   | 6.0 |
| Common equity tier 1 | 1,209,965 | 9.6  | 822,893   | 6.5  | 569,695   | 4.5 |
| Leverage             | 1,289,965 | 8.0  | 803,041   | 5.0  | 642,433   | 4.0 |

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Beginning in 2016, the minimum capital requirements reflect the phase-in of the capital conservation buffer, in accordance with Basel III standards. The minimum capital requirements presented for December 31, 2015 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 2015 Annual Report on Form 10-K as filed with the SEC on February 26, 2016. 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 published the Basel III Capital Rules (Basel III) establishing a new comprehensive capital framework for U.S. banking organizations. The rules implement the Basel Committee's December 2010 framework for strengthening international capital standards as well as certain provisions of 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 making selected changes to the calculation of risk-weighted assets.

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.

As required by the Dodd-Frank Act, the FRB and OCC published final rules regarding DFAST rules. The DFAST rules require institutions, such as the Corporation and FNBPA, with average total consolidated assets greater than \$10 billion, to conduct an annual company-run stress test of capital, consolidated earnings and losses under one base and at least two stress scenarios provided by the federal bank regulators. Implementation of the DFAST rules for covered institutions with total consolidated assets between \$10 billion and \$50 billion began in 2013. The DFAST rules and guidance require increased involvement by boards of directors in the stress testing process and public disclosure of the results. Public disclosure of summary stress test results under the severely adverse scenario began in June 2015 for stress tests commencing in 2014. The public disclosure of the Corporation's stress testing results using data as of December 31, 2015 was in October 2016. The Corporation's capital ratios reflected in these stress test calculations exceeded the well-capitalized levels, even under the severely adverse scenario. This is an important factor considered by the FRB and OCC

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in evaluating the capital adequacy of the Corporation and FNBPA and whether the appropriateness of any proposed payments of dividends or stock repurchases may be an unsafe or unsound practice. In reviewing the Corporation's and FNBPA's stress test results, the FRB and OCC will consider both quantitative and qualitative factors.

**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 guide management in achieving and maintaining 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 guide management in addressing liquidity crisis conditions. These policies designate the Corporation's Asset/Liability Committee (ALCO) as the body responsible for meeting these objectives. The ALCO, which is comprised of members of executive management, reviews liquidity on a continuous 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, increasing earnings retention rate and capital actions. On October 2, 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 offering expenses were \$98.4 million. The parent's cash position decreased from \$226.9 million at December 31, 2015 to \$158.1 million at September 30, 2016, as the Corporation utilized a portion of the net proceeds from the sale of the subordinated notes to provide \$70.0 million in capital to support the growth of FNBPA.

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 MCH is defined as the number of months of corporate expenses and dividends that can be covered by the cash on hand. In addition, the Corporation, through one of its subsidiaries, issues subordinated notes, which are guaranteed by the Corporation, on a regular basis.

The LCR and MCH ratios, as well as subordinated notes data, are presented in the following table:

| (dollars in thousands) | <b>September<br/>30,</b> | <b>December<br/>31,</b> | <b>Internal<br/>limit</b> |
|------------------------|--------------------------|-------------------------|---------------------------|
|------------------------|--------------------------|-------------------------|---------------------------|

|                                | <b>2016</b>        | <b>2015</b> |             |
|--------------------------------|--------------------|-------------|-------------|
| Liquidity coverage ratio (LCR) | <b>2.2 times</b>   | 1.8 times   | > 1 time    |
| Months of cash on hand (MCH)   | <b>14.4 months</b> | 14.0 months | > 12 months |
| Subordinated notes             | <b>\$ 213,506</b>  | \$ 208,832  | n/a         |

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 totaled \$15.2 billion at September 30, 2016 and increased \$3.2 billion, or 27.1%, year over year, due to the acquisition of METR and the Fifth Third branches, as well as organic growth. Average organic growth was \$1.0 billion or 8.3% annualized for the year-to-date period. Organic growth in low-cost transaction deposits for the first nine months of 2016 was \$1.1 billion, or 11.9%, led by strong organic growth in average non-interest-bearing deposits of \$642.1 million, or 22.9% annualized, and average savings and NOW of \$485.2 million or 7.3% annualized. The strong growth in low-cost transaction deposits was slightly offset by a decline in average time deposits of \$127.0 million or 4.9% annualized for the period on an organic basis.

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FNBPA had unused wholesale credit availability sources that 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 utilized to meet funding needs. The ALCO Policy minimum level for salable unpledged government and agency securities is 3.0%. The following table presents certain information relating to credit availability and salable unpledged securities:

| (dollars in thousands)                                                    | <b>September 30,<br/>2016</b> | <b>December 31,<br/>2015</b> |
|---------------------------------------------------------------------------|-------------------------------|------------------------------|
| Unused wholesale credit availability                                      | \$ 6,500,000                  | \$ 5,200,000                 |
| Unused wholesale credit availability as a % of FNBPA assets               | 30.4%                         | 30.0%                        |
| Salable unpledged government and agency securities                        | \$ 1,100,000                  | \$ 1,300,000                 |
| Salable unpledged government and agency securities as a % of FNBPA assets | 5.2%                          | 7.3%                         |

Another metric for measuring liquidity risk is the liquidity gap analysis. The following liquidity gap analysis for the Corporation as of September 30, 2016 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 0.1% and (2.6)% as of September 30, 2016 and December 31, 2015, respectively.

| (dollars in thousands)            | <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                             | \$ 353,801                | \$ 713,132            | \$ 875,894            | \$ 1,648,769           | \$ 3,591,596            |
| Investments                       | 192,251                   | 162,490               | 267,603               | 524,114                | 1,146,458               |
|                                   | 546,052                   | 875,622               | 1,143,497             | 2,172,883              | 4,738,054               |
| <b>Liabilities</b>                |                           |                       |                       |                        |                         |
| Non-maturity deposits             | 133,098                   | 266,196               | 399,297               | 798,593                | 1,597,184               |
| Time deposits                     | 154,073                   | 266,126               | 346,546               | 532,917                | 1,299,662               |
| Borrowings                        | 1,506,200                 | 116,897               | 100,626               | 92,444                 | 1,816,167               |
|                                   | 1,793,371                 | 649,219               | 846,469               | 1,423,954              | 4,713,013               |
| Period Gap (Assets - Liabilities) | \$ (1,247,319)            | \$ 226,403            | \$ 297,028            | \$ 748,929             | \$ 25,041               |
| Cumulative Gap                    | \$ (1,247,319)            | \$ (1,020,916)        | \$ (723,888)          | \$ 25,041              |                         |
| Cumulative Gap to Total Assets    | (5.8)%                    | (4.7)%                | (3.4)%                | 0.1%                   |                         |

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.

#### **MARKET RISK**

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.



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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 as of September 30, 2016 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.

| (dollars in thousands) | Within<br>1 Month | 2-3<br>Months | 4-6<br>Months | 7-12<br>Months | Total<br>1 Year |
|------------------------|-------------------|---------------|---------------|----------------|-----------------|
| <b>Assets</b>          |                   |               |               |                |                 |
| Loans                  | \$ 6,052,989      | \$ 786,841    | \$ 685,222    | \$ 1,219,959   | \$ 8,745,011    |
| Investments            | 209,720           | 177,092       | 281,642       | 526,607        | 1,195,061       |
|                        | 6,262,709         | 963,933       | 966,864       | 1,746,566      | 9,940,072       |
| <b>Liabilities</b>     |                   |               |               |                |                 |
| Non-maturity deposits  | 4,666,076         |               |               |                | 4,666,076       |
| Time deposits          | 249,100           | 266,113       | 345,145       | 529,431        | 1,389,789       |
| Borrowings             | 1,974,268         | 276,034       | 82,082        | 55,356         | 2,387,740       |
|                        | 6,889,444         | 542,147       | 427,227       | 584,787        | 8,443,605       |
| Off-balance sheet      | (100,000)         | 150,000       |               |                | 50,000          |
|                        | \$ (726,735)      | \$ 571,786    | \$ 539,637    | \$ 1,161,779   | \$ 1,546,467    |

| Period Gap (assets liabilities + off-balance sheet) |              |              |            |              |
|-----------------------------------------------------|--------------|--------------|------------|--------------|
| Cumulative Gap                                      | \$ (726,735) | \$ (154,949) | \$ 384,688 | \$ 1,546,467 |
| Cumulative Gap to Assets                            | (3.8)%       | (0.8)%       | 2.0%       | 8.0%         |

The twelve-month cumulative repricing gap to total assets was 8.0% and 5.6% as of September 30, 2016 and December 31, 2015, 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.

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Utilizing net interest income simulations, 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 and EVE calculated under the particular rate scenario versus the net interest income and EVE that was calculated assuming market rates as of September 30, 2016.

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

|                                         | September 30,<br>2016 | December 31,<br>2015 | ALCO<br>Limits |
|-----------------------------------------|-----------------------|----------------------|----------------|
| Net interest income change (12 months): |                       |                      |                |
| + 300 basis points                      | 4.9%                  | 5.7%                 | n/a            |
| + 200 basis points                      | 3.4%                  | 4.0%                 | (5.0)%         |
| + 100 basis points                      | 1.7%                  | 2.0%                 | (5.0)%         |
| - 100 basis points                      | (3.1)%                | (3.0)%               | (5.0)%         |
| Economic value of equity:               |                       |                      |                |
| + 300 basis points                      | 3.2%                  | 1.6%                 | (25.0)%        |
| + 200 basis points                      | 3.1%                  | 1.8%                 | (15.0)%        |
| + 100 basis points                      | 2.2%                  | 1.3%                 | (10.0)%        |
| - 100 basis points                      | (7.4)%                | (5.3)%               | (10.0)%        |

The Corporation also models rate scenarios which move all rates gradually over twelve months (Rate Ramps) and also models scenarios that gradually change the shape of the yield curve. A +300 basis point Rate Ramp increases net interest income (12 months) by 3.9% and 3.6% at September 30, 2016 and December 31, 2015, 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 modest, 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 were 60.4% and 58.3% of total loans as of September 30, 2016 and December 31, 2015, respectively. As of September 30, 2016, 76.6% of these loans, or 46.3% of total loans, are tied to the Prime and one-month LIBOR rates. 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 to be relatively short and relatively unchanged from the prior year end, resulting in a portfolio duration of 3.2 years and 3.5 years at September 30, 2016 and December 31, 2015, 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, 2016, the commercial swaps totaled \$1.6 billion of notional principal, with \$525.7 million in notional swap principal originated during the first nine months of 2016. The success of the aforementioned tactics has resulted in a moderately asset-sensitive position. For additional information regarding interest rate swaps, see the Derivative and Hedging Activities footnote to the financial statements in this Report.

The Corporation desired to remain modestly asset-sensitive during the first nine months of 2016. A number of management actions and market occurrences resulted in a slight decrease in the asset sensitivity of the Corporation's interest rate risk position during the period. The slight decrease was due to the timing of funding loan and investment growth balanced with deposit activity. The primary drivers decreasing asset sensitivity included an increase in short-term borrowings and seasonal increases to government sweep accounts compared to the prior year end. Offsetting factors, which increased asset-sensitivity, included growth in transaction deposits referred to earlier, an increase in the amount of adjustable loans repricing in twelve months or less, and terming out fixed borrowings. Organic deposit balance sheet growth and the METR and Fifth Third acquisitions provided core transaction accounts which are less rate-sensitive deposits. The amount of outstanding variable and adjustable loans repricing in twelve months or less increased by \$1.4 billion for the first nine months of 2016, and totaled \$6.1 billion at September 30, 2016. In addition, the Corporation executed \$200.0 million of pay fixed/receive floating interest rate swaps against three-month FHLB borrowings.

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The Corporation recognizes that all asset/liability models have some inherent shortcomings. Asset/liability models require certain assumptions to be made, such as prepayment rates on interest-earning assets and repricing impact on non-maturity deposits, which may differ from actual experience. These business assumptions are based upon the Corporation's experience, business plans, economic and market trends and available industry data. While management believes that its methodology for developing 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**

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, legal and compliance risk and strategic risk. In its oversight role of the Corporation's risk management function, the Board of Directors focuses on the Corporation's strategies, analyses and conclusions of management relating to 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 Risk Committee of the Corporation's Board of Directors helps ensure that business decisions in the organization are executed within appropriate risk tolerances. The Risk Committee has oversight responsibilities with respect to the following:

- 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 also 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 Risk Committee of the Corporation's Board of Directors 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. The Corporation's Information and Cyber Security Department, which reports to the Chief Risk Officer, is responsible for maintaining a risk assessment of the Corporation's information and cyber security risks and ensuring appropriate controls are in place to manage and control such risks, including designing appropriate testing plans to ensure the integrity of information and cyber security controls. 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 the internal controls systems and reporting findings to management and the Corporation's Audit Committee. Both the Risk Committee and Audit Committee of the Corporation's Board of Directors regularly report on risk-related matters to the full Board of Directors. In addition, both the Risk Committee of the Corporation's Board of Directors and the Corporation's 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 and enables the Board of Directors to:

assess the quality of the information it receives;

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

oversee and assess how senior management evaluates risk; and

assess appropriately the quality of the Corporation's enterprise-wide risk management process.

**NON-GAAP FINANCIAL MEASURES AND KEY PERFORMANCE INDICATORS**

The Corporation uses certain non-GAAP financial information and performance measures to provide information useful to investors in understanding its operating performance, efficiency and trends, and to facilitate comparisons with the performance of its 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. Non-GAAP financial measures have inherent limitations, are not required to be uniformly applied and are not audited. Although these non-GAAP financial measures are frequently used by stakeholders in the evaluation of a company, they have limitations as analytical tools and should not be considered in isolation or as a substitute for analyses of results as reported under GAAP. As a result, the Corporation encourages readers to consider its Consolidated Financial Statements in their entirety and not to rely on any single financial measure.

Reconciliations of non-GAAP operating measures to the most directly comparable GAAP financial measures are included in the following tables.

*Operating Net Income Available to Common Stockholders*

| (dollars in thousands)                                 | Three Months Ended |                    |                  | Nine Months Ended  |                    |                  |
|--------------------------------------------------------|--------------------|--------------------|------------------|--------------------|--------------------|------------------|
|                                                        | September 30, 2016 | September 30, 2015 | Percent Variance | September 30, 2016 | September 30, 2015 | Percent Variance |
| Net income available to common stockholders            | \$ 50,158          | \$ 38,043          | 31.8%            | \$ 113,570         | \$ 114,497         | (0.8)%           |
| Merger, acquisition and severance costs                | 299                | 1,312              | n/m              | 35,790             | 1,683              | n/m              |
| Tax benefit of merger, acquisition and severance costs | (105)              | (459)              | n/m              | (12,209)           | (589)              | n/m              |

|                                                                  |                  |           |       |                   |            |       |
|------------------------------------------------------------------|------------------|-----------|-------|-------------------|------------|-------|
| Operating net income available to common stockholders (non-GAAP) | <b>\$ 50,352</b> | \$ 38,896 | 29.5% | <b>\$ 137,151</b> | \$ 115,591 | 18.7% |
|------------------------------------------------------------------|------------------|-----------|-------|-------------------|------------|-------|

n/m not meaningful

The table above shows how the Corporation's operating net income available to common stockholders (non-GAAP) for each period indicated is derived from amounts reported in the Corporation's financial statements. Operating net income available to common stockholders is a non-GAAP measure; the Corporation's management believes this information helps investors understand the effect of acquisition activity in reported results. Operating net income available to common stockholders is a measure used by management to measure performance in operating the business that management believes provides investors with the ability to better understand business performance and the underlying trends produced by core business activities. The Corporation believes merger, acquisition and severance costs are not organic costs to run its operations and facilities. These charges represent expenses to satisfy contractual obligations of an acquired entity without any useful benefit to the Corporation and to convert and consolidate the entity's records onto the FNB platforms. These costs are specific to each individual transaction, and may vary significantly based on the size and complexity of the transaction.



**Table of Contents***Operating Net Income per Diluted Common Share*

|                                                                  | Three Months Ended    |                       |                     | Nine Months Ended     |                       |                     |
|------------------------------------------------------------------|-----------------------|-----------------------|---------------------|-----------------------|-----------------------|---------------------|
|                                                                  | September 30,<br>2016 | September 30,<br>2015 | Percent<br>Variance | September 30,<br>2016 | September 30,<br>2015 | Percent<br>Variance |
| Net income per diluted common share                              | \$ 0.24               | \$ 0.22               | 9.1%                | \$ 0.55               | \$ 0.65               | (0.8)%              |
| Effect of merger, acquisition and severance costs                |                       |                       | n/m                 | 0.18                  | 0.01                  | n/m                 |
| Effect of tax benefit of merger, acquisition and severance costs |                       |                       | n/m                 | (0.06)                |                       | n/m                 |
| Operating net income per diluted common share (non-GAAP)         | \$ 0.24               | \$ 0.22               | 9.1%                | \$ 0.67               | \$ 0.66               | 1.5%                |

n/m not meaningful

*Return on Average Tangible Common Equity*

| (dollars in thousands)                                            | Three Months Ended    |                       | Nine Months Ended     |                       |
|-------------------------------------------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
|                                                                   | September 30,<br>2016 | September 30,<br>2015 | September 30,<br>2016 | September 30,<br>2015 |
| Net income available to common stockholders (annualized)          | \$ 199,543            | \$ 150,932            | \$ 151,703            | \$ 153,082            |
| Amortization of intangibles, net of tax (annualized)              | 10,970                | 6,711                 | 9,978                 | 6,826                 |
| Tangible net income available to common stockholders (annualized) | \$ 210,513            | \$ 157,643            | \$ 161,681            | \$ 159,908            |
| Average total stockholders equity                                 | \$ 2,562,693          | \$ 2,082,043          | \$ 2,475,198          | \$ 2,062,929          |
| Less: Average preferred stockholder equity                        | (106,882)             | (106,882)             | (106,882)             | (106,882)             |
| Less: Average intangibles                                         | (1,093,378)           | (869,110)             | (1,049,998)           | (868,843)             |
| Average tangible common equity                                    | \$ 1,362,433          | \$ 1,106,051          | \$ 1,318,318          | \$ 1,087,204          |
| Return on average tangible common equity (non-GAAP)               | 15.45%                | 14.25%                | 12.26%                | 14.71%                |

*Return on Average Tangible Assets*

| Three Months Ended | Nine Months Ended |
|--------------------|-------------------|
| September 30,      | September 30,     |

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| (dollars in thousands)                               | <b>2016</b>          | <b>2015</b>   | <b>2016</b>          | <b>2015</b>   |
|------------------------------------------------------|----------------------|---------------|----------------------|---------------|
| Net income (annualized)                              | \$ <b>207,540</b>    | \$ 158,907    | \$ <b>159,757</b>    | \$ 161,144    |
| Amortization of intangibles, net of tax (annualized) | <b>10,970</b>        | 6,711         | <b>9,978</b>         | 6,826         |
| Tangible net income (annualized)                     | \$ <b>218,510</b>    | \$ 165,618    | \$ <b>169,735</b>    | \$ 167,970    |
| Average total assets                                 | \$ <b>21,386,156</b> | \$ 16,732,310 | \$ <b>20,364,810</b> | \$ 16,447,712 |
| Less: Average intangibles                            | <b>(1,093,378)</b>   | (869,110)     | <b>(1,049,998)</b>   | (868,843)     |
| Average tangible assets                              | \$ <b>20,292,778</b> | \$ 15,863,200 | \$ <b>19,314,812</b> | \$ 15,578,869 |
| Return on average tangible assets (non-GAAP)         | <b>1.08%</b>         | 1.04%         | <b>0.88%</b>         | 1.08%         |

**Table of Contents***Tangible Book Value per Common Share*

| (in thousands, except per share data)              | September 30, |              |
|----------------------------------------------------|---------------|--------------|
|                                                    | 2016          | 2015         |
| Total stockholders equity                          | \$ 2,570,580  | \$ 2,094,749 |
| Less: preferred stockholders equity                | (106,882)     | (106,882)    |
| Less: intangibles                                  | (1,091,876)   | (873,102)    |
| Tangible common equity                             | \$ 1,371,822  | \$ 1,114,765 |
| Ending common shares outstanding                   | 210,224,194   | 175,363,439  |
| Tangible book value per common share<br>(non-GAAP) | \$ 6.53       | \$ 6.36      |

*Core Net Interest Margin*

|                                     | Three Months Ended |         | Nine Months Ended |         |
|-------------------------------------|--------------------|---------|-------------------|---------|
|                                     | September 30,      |         | September 30,     |         |
|                                     | 2016               | 2015    | 2016              | 2015    |
| Net interest margin (FTE)           | 3.36%              | 3.39%   | 3.39%             | 3.43%   |
| Accretable yield adjustment         | (0.04)%            | (0.01)% | (0.03)%           | (0.02)% |
| Core net interest margin (non-GAAP) | 3.32%              | 3.38%   | 3.36%             | 3.41%   |

*Efficiency Ratio*

| (dollars in thousands)                  | Three Months Ended |            | Nine Months Ended |            |
|-----------------------------------------|--------------------|------------|-------------------|------------|
|                                         | September 30,      |            | September 30,     |            |
|                                         | 2016               | 2015       | 2016              | 2015       |
| Non-interest expense                    | \$ 121,050         | \$ 98,149  | \$ 387,327        | \$ 289,303 |
| Less: amortization of intangibles       | (3,571)            | (2,034)    | (9,608)           | (6,148)    |
| Less: OREO expense                      | (1,172)            | (1,299)    | (2,752)           | (3,788)    |
| Less: merger costs                      | (299)              | (1,312)    | (35,790)          | (1,683)    |
| Less: impairment charge on other assets |                    |            | (2,585)           |            |
| Adjusted non-interest expense           | \$ 116,008         | \$ 93,504  | \$ 336,592        | \$ 277,684 |
| Net interest income                     | \$ 157,506         | \$ 125,201 | \$ 452,229        | \$ 370,889 |
| Taxable equivalent adjustment           | 2,895              | 1,950      | 8,148             | 5,539      |
| Non-interest income                     | 53,240             | 41,359     | 150,695           | 119,293    |
| Less: net securities gains              | (299)              | (314)      | (596)             | (319)      |
| Less: gain on redemption of TPS         |                    |            | (2,422)           |            |

|                                                             |            |            |            |            |
|-------------------------------------------------------------|------------|------------|------------|------------|
| Adjusted net interest income (FTE) +<br>non-interest income | \$ 213,342 | \$ 168,196 | \$ 608,054 | \$ 495,402 |
| Efficiency ratio (non-GAAP)                                 | 54.38%     | 55.59%     | 55.36%     | 56.05%     |

n/m not meaningful

### 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 2015 Annual Report on Form 10-K as filed with the SEC on February 26, 2016.

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**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, 2016, 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.

**PART II OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

The information required by this Item is set forth in the "Other Legal Proceedings" discussion in Note 9 of the Notes to the Consolidated Financial Statements, which portion is incorporated herein by reference in response to this Item.

**ITEM 1A. RISK FACTORS**

For information regarding risk factors that could affect the Corporation's results of operations, financial condition and liquidity, see the risk factors disclosed in the "Risk Factors" section of the Corporation's Annual Report on Form 10-K for the year ended December 31, 2015. See also Part I, Item 2 (Management's Discussion and Analysis) of this Report.

The risk factors below relate to the previously announced acquisition of YDKN and its wholly-owned subsidiary, Yadkin Bank, and are in addition to the risk factors previously disclosed in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2015.

*Combining the Corporation and YDKN may be more difficult, costly or time-consuming than expected, and the anticipated benefits and cost savings of the merger with YDKN may not be realized.*

The Corporation and YDKN have operated and, until the completion of the merger, will continue to operate, independently from each other. The success of the merger, including anticipated benefits and cost savings, will depend, in part, on the Corporation's ability to successfully combine and integrate the businesses of FNBPA and Yadkin Bank within the Corporation's projected timeframe in a manner that permits growth opportunities and does not materially disrupt existing customer relationships or result in decreased revenues due to loss of customers.

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A number of factors could affect the Corporation's ability to successfully combine its business with YDKN's. Conversion of core data systems is expected to be more challenging than in prior acquisitions because the Corporation will need to convert two separate core data systems: YDKN's own core data systems and those of NewBridge Bancorp, which was acquired by YDKN in March 2016 and whose core data systems have not yet been converted to YDKN's core systems. Key employees of YDKN, whose services will be needed to complete the integration process, may elect to terminate their employment as a result of, or in anticipation of, the merger. The integration process itself could be disruptive to the Corporation's or YDKN's ongoing businesses, causing loss of momentum in one or more of their businesses or inconsistencies or changes in standards, practices, business models, controls, procedures and policies that could adversely affect the ability of the Corporation to maintain relationships with customers and employees. If the Corporation encounters significant difficulties in the integration process, the anticipated benefits of the merger may not be realized fully, or at all, or may take longer to realize than expected. Failure to achieve the anticipated benefits of the merger in the timeframes projected by the Corporation could result in increased costs and decreased revenues. This could have a dilutive effect on the combined company's earnings per share.

*If the merger is not completed, the Corporation will have incurred substantial expenses without realizing the expected benefits of the merger.*

The Corporation has incurred and will continue to incur substantial expenses in connection with the proposed merger with YDKN, which are charged to earnings as incurred. If the merger is not completed, these expenses will still be charged to earnings even though the Corporation would not have realized the expected benefits of the merger.

*Termination of the merger agreement could negatively impact the Corporation's prospects and stock price.*

If the merger agreement with YDKN is terminated, there may be various adverse consequences to the Corporation. For example, the Corporation may have failed to pursue other beneficial opportunities due to the focus of management on the merger with YDKN without realizing any of the anticipated benefits of completing the merger, and there can be no assurance that the Corporation would be successful in competing with other financial institutions for other potential acquisition candidates. Additionally, the market price of the Corporation's common stock could decline to the extent that the current market prices reflect a market assumption that the merger will be completed.

*Regulatory approvals for the merger may not be received, may take longer than expected or may impose conditions that are not presently anticipated or cannot be met.*

Before the merger between the Corporation and YDKN and the merger between their bank subsidiaries may be completed, various approvals must be obtained from bank regulatory agencies and other governmental authorities. These governmental entities may not grant approval of either the merger or the bank merger, may engage in an extended regulatory review process, or may impose conditions on the granting of their approvals. The regulatory delays, conditions or changes they impose, as well as the process of obtaining regulatory approvals, could have the effect of delaying completion of the merger or of imposing additional costs or limitations on the Corporation following the merger. The Corporation may elect not to consummate the merger if, in connection with any regulatory approval required to consummate the merger, any governmental or regulatory entity imposes a restriction, requirement or condition on the Corporation that, individually or in the aggregate, would be reasonably likely to have a material and adverse effect on the Corporation and its subsidiaries, taken as a whole, after giving effect to the merger. As a result, there can be no assurance that the desired regulatory approvals for the merger will be obtained or that the merger will be completed.

*The Corporation will be subject to business uncertainties while the merger is pending, which could result in loss of key employees or customers.*

Uncertainties about the effect of the merger on employees and customers may have an adverse effect on the Corporation as well as YDKN. These uncertainties may impair the Corporation's or YDKN's ability to attract, retain and motivate key personnel until the merger is completed, and could cause customers and others that deal with the Corporation or YDKN to consider changing their existing business relationships with the Corporation or YDKN. Retention of employees may be challenging during the pendency of the merger, as they may experience uncertainty about their future roles. Departure of key employees and loss of customers could negatively affect the Corporation's ability to realize the anticipated benefits of the merger.



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*The Corporation may not be able to compete successfully in YDKN's market area or in specialty lending areas that are part of YDKN's business.*

The Corporation has no prior operating experience in YDKN's market area. YDKN's market area also is geographically remote from the Corporation's existing market areas, and is a more competitive market environment than the Corporation's primary markets in Pennsylvania, Maryland and Ohio. The Corporation's success in YDKN's market will depend, in part, on its ability to enter YDKN's markets with products and services that YDKN does not currently offer, such as asset-based lending, wealth management and private banking. This business strategy will require the Corporation to attract and retain qualified and experienced personnel in YDKN's markets to support those new products and services. Competition for qualified personnel may be intense, and the Corporation may be unable to recruit these individuals away from other banks and financial institutions, or may be unable to do so at a reasonable cost. YDKN also engages in certain specialty lending areas, such as Small Business Administration lending, in which the Corporation has not developed comparable expertise, and the Corporation must rely on YDKN's existing teams of bankers to maintain and expand those lending areas. Although the Corporation will seek to retain key employees of YDKN following the completion of the merger, including certain members of YDKN's senior management, there can be no guarantee that the Corporation will be able to retain those employees. Moreover, the geographic distance between YDKN's markets and the Corporation's primary markets, as well as the lack of awareness of the Corporation's brand in YDKN's market area, could adversely affect the Corporation's ability to attract and retain qualified personnel and its overall ability to operate successfully and compete in this new market area. The Corporation could lose existing customers or fail to acquire new customers in this new market, may not adequately address its new market in terms of the products and services it offers, and may fail to compete successfully with financial institutions already established within this market area.

*The merger may not be accretive, and may be dilutive, to the Corporation's earnings per share, which may negatively affect the market price of the Corporation's common stock.*

The Corporation currently expects the merger to be accretive to earnings per share in the first full calendar year after closing (excluding one-time charges). This expectation, however, is based on preliminary estimates which may materially change, including the currently expected timing of the merger. The Corporation may encounter additional transaction- and integration-related costs or other factors such as a delay in the closing of the merger, may fail to realize all of the benefits anticipated in the merger or may be subject to other factors that affect preliminary estimates or its ability to realize operational efficiencies. Any of these factors could cause a decrease in the Corporation's earnings per share or decrease or delay the expected accretive effect of the merger and contribute to a decrease in the price of the Corporation's common stock.

**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 Plan of Conversion of F.N.B. Corporation (incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed on August 30, 2016).
- 3.1 Articles of Incorporation of F.N.B. Corporation, effective as of August 30, 2016 (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on August 30, 2016).
- 3.2 Bylaws of F.N.B. Corporation, effective as of August 30, 2016 (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on August 30, 2016).
- 4.1 Second Supplemental Indenture dated as of August 30, 2016, by and between F.N.B. Corporation and Wilmington Trust, National Association, as Trustee (incorporated by reference to Exhibit 4.8 to Post-Effective Amendment No. 1 to the Registrant's Registration Statement on Form S-3 filed on August 31, 2016 (File No. 333-204274)).
- 4.2 Supplemental Indenture dated as of August 30, 2016, by and among FNB Financial Services, LP, F.N.B. Corporation and The Bank of New York Mellon Trust Company, N.A., as Trustee (incorporated by reference to Exhibit 4.5.1 to Post-Effective Amendment No. 1 to the Registrant's Registration Statement on Form S-3 filed on August 30, 2016 (File No. 333-207190-01)).
- 4.3 Third Supplemental Indenture dated as of August 30, 2016, by and among F.N.B. Corporation and The Bank of New York Mellon Trust Company, N.A., as Trustee (incorporated by reference to Exhibit 4.17 to Post-Effective Amendment No. 1 to the Registrant's Registration Statement on Form S-3 filed on August 30, 2016 (File No. 333-207190-01)).
- 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).