CAPITAL ONE FINANCIAL CORP
Form 4
March 17, 2005

FORM 4

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

OMB APPROVAL

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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
SCHUYLER MATTHEW W

(Last) (First) (Middle)

1680 CAPITAL ONE DRIVE

(Street)

MCLEAN, VA 22102

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
CAPITAL ONE FINANCIAL CORP [COF]

3. Date of Earliest Transaction (Month/Day/Year)
03/15/2005

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Executive Vice President

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock (1)	03/15/2005		A		11,350	A	$ 0	28,690	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)	
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares
Employee Stock Option (Right to Buy)	$ 78.71	03/15/2005		A		45,760		(2)	03/14/2015	Common Stock	45,760

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
SCHUYLER MATTHEW W 1680 CAPITAL ONE DRIVE MCLEAN, VA 22102			Executive Vice President	

Signatures

By: Polly A. Nyquist (POA on File)	03/17/2005
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) This grant of resticted stock will vest in the following manner: 25% will vest on March 15, 2006, 25% will vest on March 15, 2007 and 50% will vest on March 15, 2008.

(2) This option becomes exercisable in 33 1/3% increments beginning on March 15, 2006 and annually from that date thereafter.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
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Commercial and industrial

1 204

Total commercial loans

1 204

Direct installment

22 87 75 254

Residential mortgages

2 75 5 179

Indirect installment

1 6 6 12

Consumer lines of credit

1 8

25	$168	88	$657

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Explanation of Responses:

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

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

ALLOWANCE FOR CREDIT LOSSES

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

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

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

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

	Balance at Beginning of Period	Charge-Offs	Recoveries	Net Charge-Offs	Provision for credit losses	Balance at End of Period
Three Months Ended September 30, 2015						
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
Total commercial loans and leases	74,400	(1,967)	710	(1,257)	6,358	79,501
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
Total allowance on originated loans and leases	124,196	(7,481)	1,617	(5,864)	11,287	129,619
Purchased credit-impaired loans	658				36	695
Other acquired loans	6,287	(153)	282	129	(546)	5,869
Total allowance on acquired loans	6,945	(153)	282	129	(510)	6,564
Total allowance	$ 131,141	$ (7,634)	$ 1,899	$ (5,735)	$ 10,777	$ 136,183
Nine Months Ended September 30, 2015						
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
Total commercial loans and leases	72,631	(6,249)	2,260	(3,989)	10,859	79,501
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
Total allowance on originated loans and leases	117,952	(21,948)	4,518	(17,430)	29,097	129,619
Purchased credit-impaired loans	660	(64)	19	(45)	80	695

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

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

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

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

BORROWINGS

Following is a summary of short-term borrowings:

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

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

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

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Following is a summary of long-term borrowings:

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

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

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

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

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

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

Omega Financial Capital Trust I				Variable; 3-month LIBOR + 219 bps
	$ 57,500	$ 1,779	$ 58,285	

DERIVATIVE AND HEDGING ACTIVITIES

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

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

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

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

Derivatives Designated as Hedging Instruments under GAAP

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

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

As of September 30, 2015, the maximum length of time over which forecasted interest cash flows are hedged is eight years. In the twelve months that follow September 30, 2015, the Corporation expects to reclassify from the amount currently reported in AOCI net derivative gains of $2,219 ($1,443 net of tax), in association with interest on the hedged loans and FHLB advance. This amount could differ from amounts actually recognized due to changes in interest rates, hedge de-designations, and the addition of other hedges subsequent to September 30, 2015.

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

Derivatives Not Designated as Hedging Instruments under GAAP

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

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

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

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

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

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

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

Counterparty Credit Risk

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

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

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

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

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

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

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

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

Income

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

Other

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

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COMMITMENTS, CREDIT RISK AND CONTINGENCIES

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

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

	September 30, 2015	December 31, 2014
Commitments to extend credit	$ 3,527,479	$ 3,665,481
Standby letters of credit	97,875	121,186

At September 30, 2015, funding of 75.3% of the commitments to extend credit was dependent on the financial condition of the customer. The Corporation has the ability to withdraw such commitments at its discretion. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Based on management s credit evaluation of the customer, collateral may be deemed necessary. Collateral requirements vary and may include accounts receivable, inventory, property, plant and equipment and income-producing commercial properties.

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

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

Other Legal Proceedings

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

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

STOCK INCENTIVE PLANS

Restricted Stock

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

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

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

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

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

The following table summarizes certain information concerning restricted stock awards:

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

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

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

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

Weighted average remaining life (in years)	2.11	1.99	2.05

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. Shares issued upon the exercise of stock options were 88,899 and 99,284 for the nine months ended September 30, 2015 and 2014, respectively.

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The following table summarizes certain information concerning stock option awards:

	Nine Months Ended September 30, 2015		2014	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Options outstanding at beginning of period	568,834	$ 8.86	533,524	$ 11.50
Assumed from acquisitions			805,507	7.39
Exercised	(88,899)	5.61	(140,817)	6.21
Forfeited	(2,182)	4.34	(54,962)	24.41
Options outstanding and exercisable at end of period	477,753	9.48	1,143,252	8.64

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

Warrants

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

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

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

RETIREMENT PLANS

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

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

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

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

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

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

INCOME TAXES

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

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

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

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COMPREHENSIVE INCOME

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

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

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

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

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

	Unrealized Net	Unrealized Net Gains	Unrecognized Pension and	Total

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

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EARNINGS PER COMMON SHARE

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

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

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

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

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

CASH FLOW INFORMATION

Following is a summary of supplemental cash flow information:

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

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BUSINESS SEGMENTS

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

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

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

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

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

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

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

At or for the Three Months Ended September 30, 2014						
Interest income	$ 120,122	$	$ 24	$ 9,773	$ 1,647	$ 131,566
Interest expense	9,435			826	686	10,947
Net interest income	110,687		24	8,947	961	120,619
Provision for credit losses	9,427			1,519	251	11,197
Non-interest income	27,179	8,174	3,373	719	(1,893)	37,552
Non-interest expense	79,243	6,294	2,943	4,983	(71)	93,392
Intangible amortization	2,282	72	101			2,455
Income tax expense (benefit)	14,347	656	128	1,216	(611)	15,736
Net income (loss)	32,567	1,152	225	1,948	(501)	35,391
Total assets	15,584,832	21,892	19,148	182,301	(51,128)	15,757,045
Total intangibles	856,464	10,792	10,223	1,809		879,288

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	Community Banking	Wealth Management	Insurance	Consumer Finance	Parent and Other	Consolidated
At or for the Nine Months Ended September 30, 2015						
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
At or for the Nine Months Ended September 30, 2014						
Interest income	$ 339,974	$	$ 74	$ 28,716	$ 5,122	$ 373,886
Interest expense	26,413			2,481	2,356	31,250
Net interest income	313,561		74	26,235	2,766	342,636
Provision for credit losses	23,148			4,754	706	28,608
Non-interest income	86,512	23,530	10,582	2,120	(3,932)	118,812
Non-interest expense	231,390	19,038	8,900	14,800	1,270	275,398
Intangible amortization	6,680	216	303			7,199
Income tax expense (benefit)	41,738	1,555	521	3,386	(1,703)	45,497
Net income (loss)	97,117	2,721	932	5,415	(1,439)	104,746
Total assets	15,584,832	21,892	19,148	182,301	(51,128)	15,757,045
Total intangibles	856,454	10,792	10,223	1,809		879,288

FAIR VALUE MEASUREMENTS

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

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

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

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

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

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

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

Securities Available For Sale

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

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

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

Derivative Financial Instruments

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

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

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

Residential Mortgage Loans Held For Sale

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

Impaired Loans

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

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

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

Other Real Estate Owned

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

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

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

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

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

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

The Corporation reviews fair value hierarchy classifications on a quarterly basis. Changes in the observability of the valuation attributes may result in reclassification of certain financial assets or liabilities. Such reclassifications are reported as transfers in/out of Level 3 at fair value at the beginning of the period in which the changes occur. See the Securities Available for Sale footnote in this section of this Report for information relating to determining Level 3 fair values. During the second quarter of 2015, the Corporation transferred an equity security totaling $56 to non-marketable equity securities, reflected in other assets on the Consolidated Balance Sheet. There were no transfers of assets or liabilities between the hierarchy levels for 2014.

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

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

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

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

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

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

Fair Value of Financial Instruments

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

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

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

Loans and Leases. The fair value of fixed rate loans and leases is estimated by discounting the future cash flows using the current rates at which similar loans and leases would be made to borrowers with similar credit ratings and for the same remaining maturities less an illiquidity discount. The fair value of variable and adjustable rate loans and leases approximates the carrying amount. Due to the significant judgment involved in evaluating credit quality, loans and leases are classified within Level 3 of the fair value hierarchy.

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

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

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

Deposits. The estimated fair value of demand deposits, savings accounts and certain money market deposits is the amount payable on demand at the reporting date because of the 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.

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

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

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

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

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

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

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

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

December 31, 2015.

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IMPORTANT CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

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

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

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

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

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

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

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

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

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

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

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

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

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

Results of the regulatory examination and supervisory process.

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

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

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

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

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

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

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

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

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

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

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

CRITICAL ACCOUNTING POLICIES

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

USE OF NON-GAAP FINANCIAL MEASURES

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

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OVERVIEW

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

RESULTS OF OPERATIONS

Three Months Ended September 30, 2015 Compared to the Three Months Ended September 30, 2014

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

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

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

	Three Months Ended September 30,

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

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

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

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

(1) The average balances and yields earned on taxable investment securities are based on historical cost.

(2) The interest income amounts are reflected on a FTE basis, a non-GAAP measure, which adjusts for the tax benefit of income on certain tax-exempt loans and investments using the federal statutory tax rate of 35% for each period presented. The yields on earning assets and the net interest margin are presented on an FTE and annualized basis. The rates paid on interest-bearing liabilities are also presented on an annualized basis. The Corporation believes this measure to be the preferred industry measurement of net interest income and provides relevant comparison between taxable and non-taxable amounts.

(3) Average balances include non-accrual loans. Loans and leases consist of average total loans less average unearned income. The amount of loan fees included in interest income on loans is immaterial.

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Net Interest Income

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

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

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

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

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

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

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

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

Provision for Credit Losses

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

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

Non-Interest Income

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

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

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

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

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

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

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

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

Non-Interest Expense

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

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

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

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

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

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

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

Income Taxes

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

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Nine Months Ended September 30, 2015 Compared to the Nine Months Ended September 30, 2014

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

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

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

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

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

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

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

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

(1) The average balances and yields earned on taxable investment securities are based on historical cost.

(2) The interest income amounts are reflected on a FTE basis, a non-GAAP measure, which adjusts for the tax benefit of income on certain tax-exempt loans and investments using the federal statutory tax rate of 35% for each period presented. The yields on earning assets and the net interest margin are presented on an FTE and annualized basis. The rates paid on interest-bearing liabilities are also presented on an annualized basis. The Corporation believes this measure to be the preferred industry measurement of net interest income and provides relevant comparison between taxable and non-taxable amounts.

(3) Average balances include non-accrual loans. Loans and leases consist of average total loans less average unearned income. The amount of loan fees included in interest income on loans is immaterial.

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Net Interest Income

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

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

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

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

(1) The amount of change not solely due to rate or volume changes was allocated between the change due to rate and the change due to volume based on the net size of the rate and volume changes.

(2) Interest income amounts are reflected on an FTE basis which adjusts for the tax benefit of income on certain tax-exempt loans and investments using the federal statutory tax rate of 35% for each period presented. The Corporation believes this measure to be the preferred industry measurement of net interest income and provides relevant comparison between taxable and non-taxable amounts.

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

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

Provision for Credit Losses

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

Non-Interest Income

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

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

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

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

Securities commissions of $10.0 million for the first nine months of 2015 increased $1.4 million or 16.8% from the same period of 2014, primarily due to positive results from new initiatives generating new customer relationships combined with increased volume, geographic expansion and improved market conditions. Partially offsetting these increases were the costs associated with a securities system conversion combined with the impact of severe weather conditions throughout the Corporation s market area in the first half of 2014.

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

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

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

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

Non-Interest Expense

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

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

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

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

Outside services expense of $25.3 million for the first nine months of 2015 increased $1.6 million or 6.8% from the same period of 2014. For the first nine months of 2015, compared to the same period of 2014, other outside services and data processing services increased $0.3 million and $0.4 million, respectively, primarily resulting from the OBA and BCSB acquisitions and costs related to compliance with new regulations. Additionally, consulting fees increased $1.2 million during this same period, as the first nine months of 2014 reflected a refund of previously paid consulting fees.

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

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

Income Taxes

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

LIQUIDITY

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

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

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

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

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

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

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

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

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

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

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MARKET RISK

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

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

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

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

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

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

	Within 1 Month	2-3 Months	4-6 Months	7-12 Months	Total 1 Year
Assets					
Loans and leases	$ 4,146,464	$ 1,249,844	$ 550,537	$ 1.023.459	$ 6,970,304
Investments	106,441	136,746	221,120	257.877	722,184

	4,252,905	1,386,590	771,657	1.281.336	7,692,488
Liabilities					
Non-maturity deposits	3,647,336				3,647,336
Time deposits	142,205	260,951	342,846	579.961	1,325,963
Borrowings	1,176,874	82,323	14,071	94.443	1,367,711
	4,966,415	343,274	356,917	674.404	6,341,010
Off-balance sheet	(200,000)	50,000			(150,000)
Period Gap (assets liabilities + off-balance sheet)	(913,510)	$ 1,093,316	$ 414,740	$ 606.932	$ 1,201,478
Cumulative Gap	(913,510)	$ 179,806	$ 594,546	$ 1.201.478	
Cumulative Gap to Assets	(5.4)%	1.1%	3.5%	7.1%	

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

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

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

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

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

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

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

The ALCO utilizes several tactics to manage the Corporation s interest rate risk position. As mentioned earlier, the growth in transaction deposits provides funding that is less interest rate-sensitive than time deposits and wholesale borrowings. On the lending side, the Corporation regularly sells long-term fixed-rate residential mortgages to the secondary market and has been successful in the origination of consumer and commercial loans with short-term repricing characteristics. Total variable and adjustable-rate loans and leases were 57.9% of total loans and leases for both September 30, 2015 and December 31, 2014. The investment portfolio is used, in part, to manage the Corporation s interest rate risk position. The Corporation has managed the duration of its investment portfolio over the last year to be relatively unchanged from the prior year end, resulting in a portfolio duration of 3.6 and 3.3 at September 30, 2015 and December 31, 2014, respectively. Finally, the Corporation has made use of interest rate swaps to commercial borrowers (commercial swaps) to manage its interest rate risk position as the commercial swaps effectively increase adjustable-rate loans. As of September 30, 2015, the commercial swaps totaled $1.2 billion of notional principal, with $328.7 million in notional swap principal originated during the nine months of 2015. The success of the aforementioned tactics has resulted in an asset-sensitive position. For additional information regarding interest rate swaps, see the Derivative and Hedging Activities footnote in this Report.

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

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

RISK MANAGEMENT

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

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

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

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

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

- identification and implementation of risk management best practices.

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

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

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

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

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

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

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

DEPOSITS AND CUSTOMER REPURCHASE AGREEMENTS

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

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

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

NON-PERFORMING ASSETS

Non-performing loans and OREO decreased $2.5 million, from $110.0 million at December 31, 2014 to $107.5 million at September 30, 2015. This decrease reflects reductions of $2.2 million and $2.5 million in TDRs and OREO, respectively. Non-accrual loans increased $2.2 million over this same period. The decrease in TDRs was attributed to a shift in residential secured modifications from the non-performing category to performing, while the decrease in OREO was a result of sales activity outpacing transfers in, particularly in the commercial portfolio.

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

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

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

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

ALLOWANCE FOR CREDIT LOSSES

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

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

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

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CAPITAL RESOURCES AND REGULATORY MATTERS

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

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

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

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

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

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

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

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

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

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

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

DODD-FRANK WALL STREET REFORM AND CONSUMER PROTECTION ACT

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

ENHANCED REGULATORY CAPITAL STANDARDS

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

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

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

- revises the components of regulatory capital to phase out certain TPS for banking organizations with greater than $15.0 billion in total assets;
- adds a new minimum common equity Tier 1 (CET1) ratio of 4.5% of risk-weighted assets;
- implements a new capital conservation buffer of CET1 equal to 2.5% of risk-weighted assets, which will be in addition to the 4.5% CET1 ratio and phased in over a three-year period beginning January 1, 2016;
- increases the minimum Tier 1 capital ratio requirement from 4.0% to 6.0%:
- revises the prompt corrective action thresholds;
- retains the existing risk-based capital treatment for 1-4 family residential mortgages;
- increases capital requirements for past-due loans, high volatility commercial real estate exposures and certain short-term loan commitments;
- expands the recognition of collateral and guarantors in determining risk-weighted assets;
- removes references to credit ratings consistent with the Dodd-Frank Act and establishes due diligence requirements for securitization exposures.

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

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

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4. CONTROLS AND PROCEDURES

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

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

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

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PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

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

ITEM 1A. RISK FACTORS

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

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

NONE

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

NONE

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

ITEM 5. OTHER INFORMATION

NONE

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ITEM 6. EXHIBITS
Exhibit Index

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

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SIGNATURES

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

	F.N.B. Corporation
Dated: November 6, 2015	/s/ Vincent J. Delie, Jr. Vincent J. Delie, Jr. President and Chief Executive Officer (Principal Executive Officer)
Dated: November 6, 2015	/s/ Vincent J. Calabrese, Jr. Vincent J. Calabrese, Jr. Chief Financial Officer (Principal Financial Officer)
Dated: November 6, 2015	/s/ Timothy G. Rubritz Timothy G. Rubritz Corporate Controller (Principal Accounting Officer)