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

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934
For the quarterly period ended September 30, 2016

Transition Report Pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934
For the transition period from __________ to __________

Commission file number 001-31940

F.N.B. CORPORATION

(Exact name of registrant as specified in its charter)

Pennsylvania	**25-1255406**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
One North Shore Center, 12 Federal Street, Pittsburgh, PA	**15212**
(Address of principal executive offices)	**(Zip Code)**

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

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

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

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

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

Large Accelerated Filer	Accelerated Filer
Non-accelerated Filer	Smaller reporting company

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

Class	Outstanding at October 31, 2016
Common Stock, $0.01 Par Value	210,454,950 Shares

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F.N.B. CORPORATION

FORM 10-Q

September 30, 2016

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

F.N.B. CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

In thousands, except share and per share data

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

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

See accompanying Notes to Consolidated Financial Statements

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F.N.B. CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

In thousands, except per share data

Unaudited

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

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

See accompanying Notes to Consolidated Financial Statements

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F.N.B. CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

Dollars in thousands, except per share data

Unaudited

	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance at January 1, 2016	**$ 106,882**	**$ 1,766**	**$ 1,808,210**	**$ 243,217**	**$ (51,133)**	**$ (12,760)**	**$ 2,096,182**
Comprehensive income				**119,600**	**23,280**		**142,880**
Dividends declared:							
Preferred stock				**(6,030)**			**(6,030)**
Common stock: $0.36/share				**(76,133)**			**(76,133)**
Issuance of common stock		**10**	**6,694**			**(1,990)**	**4,714**
Issuance of common stock acquisitions		**341**	**403,690**				**404,031**
Restricted stock compensation			**4,644**				**4,644**
Tax benefit of stock-based compensation			**292**				**292**
Balance at September 30, 2016	**$ 106,882**	**$ 2,117**	**$ 2,223,530**	**$ 280,654**	**$ (27,853)**	**$ (14,750)**	**$ 2,570,580**
Balance at January 1, 2015	$ 106,882	$ 1,754	$ 1,798,984	$ 176,120	$ (46,003)	$ (16,281)	$ 2,021,456
Comprehensive income				120,527	11,606		132,133
Dividends declared:							
Preferred stock				(6,030)			(6,030)
Common stock: $0.36/share				(63,330)			(63,330)
Issuance of common stock		12	3,651			3,566	7,229
Restricted stock compensation			3,286				3,286
Tax benefit of stock-based			5				5

compensation

Balance at September 30, 2015	$ 106,882	$ 1,766	$ 1,805,926	$ 227,287	$ (34,397)	$ (12,715)	$ 2,094,749

See accompanying Notes to Consolidated Financial Statements

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F.N.B. CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Dollars in thousands

Unaudited

	Nine Months Ended September 30,	
	2016	**2015**
Operating Activities		
Net income	**$ 119,600**	$ 120,527
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation, amortization and accretion	**45,059**	31,412
Provision for credit losses	**43,047**	27,777
Deferred tax expense	**10,390**	3,874
Net securities gains	**(596)**	(319)
Tax benefit of stock-based compensation	**(292)**	(5)
Loans originated for sale	**(484,437)**	(336,776)
Loans sold	**482,161**	346,174
Gain on sale of loans	**(10,806)**	(6,794)
Net change in:		
Interest receivable	**(1,372)**	(4,457)
Interest payable	**945**	(414)
Bank owned life insurance	**(3,103)**	(4,266)
Other, net	**(10,708)**	8,144
Net cash flows provided by operating activities	**189,888**	184,877
Investing Activities		
Net change in loans and leases	**(666,413)**	(657,586)
Securities available for sale:		
Purchases	**(753,544)**	(279,636)
Sales	**615,199**	33,499
Maturities	**437,406**	212,140
Securities held to maturity:		
Purchases	**(875,597)**	(279,998)
Maturities	**259,202**	203,689
Purchase of bank owned life insurance	**(16,579)**	(72,688)
Withdrawal/surrender of bank owned life insurance		72,664
Increase in premises and equipment	**(37,074)**	(7,304)
Net cash received in business combinations	**245,762**	148,159
Net cash flows used in investing activities	**(791,638)**	(627,061)

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

See accompanying Notes to Consolidated Financial Statements

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F.N.B. CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

September 30, 2016

NATURE OF OPERATIONS

F.N.B. Corporation (FNB or the Corporation), headquartered in Pittsburgh, Pennsylvania, is a diversified financial services company operating in six states and three major metropolitan areas, including Pittsburgh, Pennsylvania, Baltimore, Maryland and Cleveland, Ohio. As of September 30, 2016, the Corporation had 331 banking offices throughout Pennsylvania, Ohio, Maryland and West Virginia. The Corporation provides a full range of commercial banking, consumer banking and wealth management solutions through its subsidiary network which is led by its largest affiliate, First National Bank of Pennsylvania (FNBPA). Commercial banking solutions include corporate banking, small business banking, investment real estate financing, international banking, business credit, capital markets and lease financing. Consumer banking provides a full line of consumer banking products and services including deposit products, mortgage lending, consumer lending and a complete suite of mobile and online banking services. Wealth management services include fiduciary and brokerage services, asset management, private banking and insurance. The Corporation also operates Regency Finance Company (Regency), which had 77 consumer finance offices in Pennsylvania, Ohio, Kentucky and Tennessee as of September 30, 2016.

Redomestication

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

The accompanying consolidated financial statements include all adjustments that are necessary, in the opinion of management, to fairly reflect the Corporation s financial position and results of operations in accordance with U.S. generally accepted accounting principles (GAAP). All significant intercompany balances and transactions have been eliminated. Certain prior period amounts have been reclassified to conform to the current period presentation. Events occurring subsequent to the date of the September 30, 2016 balance sheet have been evaluated for potential recognition or disclosure in the consolidated financial statements through the date of the filing of the consolidated financial statements with the Securities and Exchange Commission (SEC).

Certain information and note disclosures normally included in consolidated financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to the rules and regulations of the SEC. The interim operating results are not necessarily indicative of operating results the Corporation expects for the full year. These interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Corporation s Annual Report on Form 10-K filed with the SEC on February 26, 2016.

Use of Estimates

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

Business Combinations

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

Cloud Computing Arrangements

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

Stock Based Compensation

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

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

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

Variable Interest Entities

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

2. NEW ACCOUNTING STANDARDS

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

Statement of Cash Flows

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

Credit Losses

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

Revenue Recognition

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

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

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

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

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

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Stock Based Compensation

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

Investments

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

Derivative and Hedging Activities

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

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

Extinguishments of Liabilities

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

Leases

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

Financial Instruments Recognition and Measurement

ASU 2016-01, *Financial Instruments Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities,* amends the presentation and accounting for certain financial instruments, including liabilities measured at fair value under the fair value option, and equity investments. The guidance also updates fair value presentation and disclosure requirements for financial instruments measured at amortized cost. The Update is effective in the first quarter of 2018 with a cumulative-effect adjustment as of the beginning of the fiscal year of adoption. Early application is prohibited except for the provision requiring the recognition of changes in fair value related to changes in an entity s own credit risk in other comprehensive income for financial liabilities measured using the fair value option. This Update is not expected to have a material effect on the Consolidated Financial Statements.

3. MERGERS AND ACQUISITIONS

Branch Purchase Fifth Third Bank

On April 22, 2016, the Corporation completed its purchase of 17 branch-banking locations and certain consumer loans in the Pittsburgh, Pennsylvania metropolitan area from Fifth Third Bank (Fifth Third). The fair value of the acquired assets totaled $316.6 million, including $198.9 million in cash, $97.7 million in loans and $14.1 million in fixed and other assets. The Corporation also assumed $302.5 million in deposits, for which it paid a deposit premium of 1.97%, as part of the transaction. The assets and liabilities relating to these purchased branches were recorded on the Corporation s balance sheet at their preliminary fair values as of April 22, 2016, and the related results of operations for these branches have been included in the Corporation s consolidated statement of comprehensive income since that date. Based on the preliminary purchase price allocation, the Corporation recorded $12.3 million in goodwill and $6.0 million in core deposit intangibles. These fair value estimates are provisional amounts based on third party valuations that are currently under review. The goodwill for this transaction is deductible for income tax purposes.

Metro Bancorp, Inc.

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

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

(dollars in thousands, except per share data)	**FNB**	**METR**	**Pro Forma Adjustments**	**Pro Forma**

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

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

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

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

Branch Purchase Bank of America

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

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

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

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

Pending Acquisition Yadkin Financial Corporation

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

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4. SECURITIES

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

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

Agency collateralized mortgage obligations	**787,120**	**3,927**	**(3,054)**	**787,993**
Non-agency collateralized mortgage obligations	**1,877**	**8**	**(5)**	**1,880**
Commercial mortgage-backed securities	**50,022**	**1,478**	**(120)**	**51,380**
States of the U.S. and political subdivisions	**306,421**	**6,558**	**(691)**	**312,288**
Total securities held to maturity	**$ 2,249,245**	**$ 33,576**	**$ (4,066)**	**$ 2,278,755**
December 31, 2015				
U.S. Treasury	$ 500	$ 153	$	$ 653
U.S. government-sponsored entities	137,385	809	(395)	137,799
Residential mortgage-backed securities:				
Agency mortgage-backed securities	709,970	9,858	(1,176)	718,652
Agency collateralized mortgage obligations	499,694	803	(7,657)	492,840
Non-agency collateralized mortgage obligations	2,681	14		2,695
Commercial mortgage-backed securities	51,258	115	(259)	51,114
States of the U.S. and political subdivisions	235,573	4,191	(101)	239,663
Total securities held to maturity	$ 1,637,061	$ 15,943	$ (9,588)	$ 1,643,416

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2016	2015	2016	2015
Gross gains	$ 299	$ 314	$ 597	$ 328
Gross losses			(1)	(9)
Net gains	$ 299	$ 314	$ 596	$ 319

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

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

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

Following is information relating to securities pledged:

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

Collateral for short-term borrowings	**332,095**	272,629
Securities pledged as a percent of total securities	**74.2%**	61.3%

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

(dollars in thousands)	Less than 12 Months #	Fair Value	Unrealized Losses	12 Months or More #	Fair Value	Unrealized Losses	Total #	Fair Value	Unrealized Losses
Securities Available for Sale									
September 30, 2016									
U.S. government-sponsored entities	**2**	**$ 39,961**	**$ (39)**		**$**	**$**	**2**	**$ 39,961**	**$ (39)**
Residential mortgage-backed securities:									
Agency collateralized mortgage obligations	**9**	**127,838**	**(290)**	**9**	**96,505**	**(1,478)**	**18**	**224,343**	**(1,768)**
Commercial mortgage-backed securities	**1**	**2,817**	**(1)**				**1**	**2,817**	**(1)**
States of the U.S. and political subdivisions	**11**	**14,304**	**(30)**				**11**	**14,304**	**(30)**
Other debt securities				**3**	**4,322**	**(580)**	**3**	**4,322**	**(580)**
Total impaired securities available for sale	**23**	**$ 184,920**	**$ (360)**	**12**	**$ 100,827**	**$ (2,058)**	**35**	**$ 285,747**	**$ (2,418)**
December 31, 2015									
U.S. government-sponsored entities	6	$ 99,131	$ (814)	2	$ 34,487	$ (511)	8	$ 133,618	$ (1,325)
Residential mortgage-backed securities:									
Agency mortgage-backed securities	19	359,250	(2,832)				19	359,250	(2,832)
Agency collateralized mortgage obligations	9	126,309	(1,366)	18	215,330	(7,164)	27	341,639	(8,530)
Commercial mortgage-backed securities	1	4,287	(12)				1	4,287	(12)
Other debt securities				3	4,245	(651)	3	4,245	(651)
Equity securities	1	632	(3)				1	632	(3)
Total impaired securities available for sale	36	$ 589,609	$ (5,027)	23	$ 254,062	$ (8,326)	59	$ 843,671	$ (13,353)
Securities Held to Maturity									
September 30, 2016									
	2	**$ 39,804**	**$ (196)**		**$**	**$**	**2**	**$ 39,804**	**$ (196)**

U.S. government-sponsored entities									
Residential mortgage-backed securities:									
Agency collateralized mortgage obligations	**12**	**317,349**	**(1,623)**	**12**	**121,880**	**(1,431)**	**24**	**439,229**	**(3,054)**
Non-agency collateralized mortgage obligations	**3**	**1,239**	**(5)**				**3**	**1,239**	**(5)**
Commercial mortgage-backed securities	**1**	**8,415**	**(120)**				**1**	**8,415**	**(120)**
States of the U.S. and political subdivisions	**12**	**36,447**	**(691)**				**12**	**36,447**	**(691)**
Total impaired securities held to maturity	**30**	**$ 403,254**	**$ (2,635)**	**12**	**$ 121,880**	**$ (1,431)**	**42**	**$ 525,134**	**$ (4,066)**
December 31, 2015									
U.S. government-sponsored entities	3	$ 39,843	$ (173)	1	$ 14,778	$ (222)	4	$ 54,621	$ (395)
Residential mortgage-backed securities:									
Agency mortgage-backed securities	17	212,024	(1,159)	1	917	(17)	18	212,941	(1,176)
Agency collateralized mortgage obligations	11	150,593	(1,434)	14	160,716	(6,223)	25	311,309	(7,657)
Commercial mortgage-backed securities	3	46,278	(259)				3	46,278	(259)
States of the U.S. and political subdivisions	9	17,616	(101)				9	17,616	(101)
Total impaired securities held to maturity	43	$ 466,354	$ (3,126)	16	$ 176,411	$ (6,462)	59	$ 642,765	$ (9,588)

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

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Other-Than-Temporary Impairment

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

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

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

States of the U.S. and Political Subdivisions

The Corporation s municipal bond portfolio with a carrying amount of $343.6 million as of September 30, 2016 is highly rated with an average entity-specific rating of AA and 99.0% of the portfolio rated A or better. General obligation bonds comprise 99.9% of the portfolio. Geographically, municipal bonds support the Corporation s primary footprint as 92.6% of the securities are from municipalities located throughout Pennsylvania, Ohio and Maryland. The average holding size of the securities in the municipal bond portfolio is $1.9 million. In addition to the strong stand-alone ratings, 79.2% of the municipalities have some formal credit enhancement insurance that strengthens the creditworthiness of their issue. Management also reviews the credit profile of each issuer on a quarterly basis.

5. LOANS AND LEASES

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

(in thousands)	Originated Loans and	Acquired Loans	Total Loans and

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

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

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

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

Commercial and industrial includes loans to business that are not secured by real estate;

Commercial leases are made for new or used equipment;

Direct installment is comprised of fixed-rate, closed-end consumer loans for personal, family or household use, such as home equity loans and automobile loans;

Residential mortgages consist of conventional and jumbo mortgage loans for non-commercial properties;

Indirect installment is comprised of loans originated by third parties and underwritten by the Corporation, primarily automobile loans;

Consumer lines of credit include home equity lines of credit (HELOC) and consumer lines of credit that are either unsecured or secured by collateral other than home equity; and

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

The loans and leases portfolio consists principally of loans to individuals and small- and medium-sized businesses within the Corporation s primary market area of Pennsylvania, eastern Ohio, Maryland and northern West Virginia.

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

(dollars in thousands)	**September 30, 2016**	**December 31, 2015**
Regency consumer finance loans	**$ 182,527**	$ 186,162
Percent of total loans and leases	**1.2%**	1.5%

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

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

Acquired Loans

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

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

The carrying amount of purchased credit impaired loans included in the table above totaled $2.9 million at September 30, 2016 and $5.9 million at December 31, 2015, representing less than 1% of the carrying amount of total acquired loans as of each date.

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

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

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

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

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

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

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

Credit Quality

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

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

Following is a summary of non-performing assets:

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

Other real estate owned (OREO)	**40,523**	38,918
Total non-performing assets	**$ 135,989**	$ 110,843
Asset quality ratios:		
Non-performing loans / total loans and leases	**0.65%**	0.59%
Non-performing loans + OREO / total loans and leases + OREO	**0.92%**	0.91%
Non-performing assets / of total assets	**0.63%**	0.63%

The carrying value of residential OREO held as a result of obtaining physical possession upon completion of a foreclosure or through completion of a deed in lieu of foreclosure totaled $5.1 million at September 30, 2016 and $5.2 million at December 31, 2015. The recorded investment of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are in process at September 30, 2016 and December 31, 2015 totaled $9.5 million and $11.7 million, respectively.

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

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

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

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

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

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

Rating	**Definition**

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

The use of these internally assigned credit quality categories within the commercial loan and lease portfolio permits management s use of transition matrices to estimate a quantitative portion of credit risk. The Corporation s internal credit risk grading system is based on past experiences with similarly graded loans and leases and conforms with regulatory categories. In general, loan and lease risk ratings within each category are reviewed on an ongoing basis

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according to the Corporation s policy for each class of loans and leases. Each quarter, management analyzes the resulting ratings, as well as other external statistics and factors such as delinquency, to track the migration performance of the commercial loan and lease portfolio. Loans and leases within the Pass credit category or that migrate toward the Pass credit category generally have a lower risk of loss compared to loans and leases that migrate toward the Substandard or Doubtful credit categories. Accordingly, management applies higher risk factors to Substandard and Doubtful credit categories.

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

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

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

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

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

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

Loans and leases are designated as impaired when, in the opinion of management, based on current information and events, the collection of principal and interest in accordance with the loan and lease contract is doubtful. Typically, the Corporation does not consider loans and leases for impairment unless a sustained period of delinquency (i.e., 90-plus days) is noted or there are subsequent events that impact repayment probability (i.e., negative financial trends, bankruptcy filings, imminent foreclosure proceedings, etc.). Impairment is evaluated in the aggregate for consumer installment loans, residential mortgages, consumer lines of credit and commercial loan and lease relationships less than $500,000 based on loan and lease segment loss given default. For commercial loan relationships greater than or equal to $500,000, a specific valuation allowance is allocated, if necessary, so that the loan is reported net, at the present value of estimated future cash flows using a market interest rate or at the fair value of collateral if repayment is expected solely from the collateral. Consistent with the Corporation s existing method of income recognition for loans and leases, interest, except for those loans classified as non-accrual, is recognized as income using the accrual method. Impaired loans, or portions thereof, are charged off when deemed uncollectible.

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

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

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

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

(in thousands)	September 30, 2016	December 31, 2015
Commercial real estate	**$ 3,631**	$ 3,073
Commercial and industrial	**493**	695

Total commercial loans	**4,124**	3,768
Direct installment	**1,110**	1,557
Residential mortgages	**659**	659
Indirect installment	**221**	221
Consumer lines of credit	**267**	522
Total	**$ 6,381**	$ 6,727

Troubled Debt Restructurings

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

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

(in thousands)	September 30, 2016	December 31, 2015
Accruing:		
Performing	**$ 17,030**	$ 15,165
Non-performing	**20,638**	22,028
Non-accrual	**9,307**	8,307
Total TDRs	**$ 46,975**	$ 45,500

TDRs that are accruing and performing include loans that met the criteria for non-accrual of interest prior to restructuring for which the Corporation can reasonably estimate the timing and amount of the expected cash flows on such loans and for which the Corporation expects to fully collect the new carrying value of the loans. During the nine months ended September 30, 2016, the Corporation returned to performing status $4.9 million in restructured residential mortgage loans that have consistently met their modified obligations for more than nine months. TDRs that are accruing and non-performing are comprised of consumer loans that have not demonstrated a consistent repayment pattern on the modified terms for more than nine months, however it is expected that the Corporation will collect all future principal and interest payments. TDRs that are on non-accrual are not placed on accruing status until all delinquent principal and interest have been paid and the ultimate collectability of the remaining principal and interest is reasonably assured. Some loan modifications classified as TDRs may not ultimately result in the full collection of principal and interest, as modified, and may result in potential incremental losses which are factored into the allowance for credit losses.

Excluding purchased impaired loans, commercial loans over $500,000 whose terms have been modified in a TDR are generally placed on non-accrual, individually analyzed and measured for estimated impairment based on the fair value of the underlying collateral. The Corporation s allowance for credit losses included specific reserves for commercial TDRs and pooled reserves for individual loans under $500,000 based on loan segment loss given default. Upon default, the amount of the recorded investment in the TDR in excess of the fair value of the collateral, less estimated selling costs, is generally considered a confirmed loss and is charged-off against the allowance for credit losses. The reserve for commercial TDRs included in the allowance for credit losses are as follows:

(in thousands)	September 30, 2016	December 31, 2015
Specific reserves	**$ 608**	$ 300
Pooled reserves for individual loans under $500	**302**	929

All other classes of loans, which are primarily secured by residential properties, whose terms have been modified in a TDR are pooled and measured for estimated impairment based on the expected net present value of the estimated future cash flows of the pool. The Corporation s allowance for credit losses included pooled reserves for these classes of loans of $3.6 million and $3.5 million at September 30, 2016 and December 31, 2015, respectively. Upon default of an individual loan, the Corporation s charge-off policy is followed accordingly for that class of loan.

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

	Three Months Ended September 30, 2016			Nine Months Ended September 30, 2016		
(dollars in thousands)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial real estate		$	$	4	$ 778	$ 737
Commercial and industrial	3	1,504	1,504	3	1,727	1,504
Total commercial loans	3	1,504	1,504	7	2,505	2,241
Direct installment	123	1,029	1,018	388	5,051	4,749
Residential mortgages	9	508	532	36	1,946	1,893
Indirect installment	9	23	22	14	40	40
Consumer lines of credit	20	395	364	56	878	837
Total	164	$ 3,459	$ 3,440	501	$ 10,420	$ 9,760

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

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

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

	Three Months Ended September 30, 2015		Nine Months Ended September 30, 2015	
(dollars in thousands)	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
Commercial real estate		$		$
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
Other				
Total	25	$ 168	88	$ 657

6. ALLOWANCE FOR CREDIT LOSSES

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

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

(in thousands)	Balance at Beginning of Period	Charge-Offs	Recoveries	Net Charge-Offs	Provision for Credit Losses	Balance at End of Period
Three Months Ended September 30, 2016						
Commercial real estate	**$ 44,428**	**$ (3,537)**	**$ 1,810**	**$ (1,727)**	**$ (334)**	**$ 42,367**
Commercial and industrial	**51,475**	**(6,753)**	**598**	**(6,155)**	**8,388**	**53,708**
Commercial leases	**3,047**	**(100)**	**3**	**(97)**	**257**	**3,207**
Total commercial loans and leases	**98,950**	**(10,390)**	**2,411**	**(7,979)**	**8,311**	**99,282**
Direct installment	**21,543**	**(2,464)**	**545**	**(1,919)**	**1,463**	**21,087**
Residential mortgages	**8,410**	**(144)**	**11**	**(133)**	**969**	**9,246**
Indirect installment	**9,543**	**(1,781)**	**617**	**(1,164)**	**1,983**	**10,362**
Consumer lines of credit	**9,149**	**(459)**	**82**	**(377)**	**499**	**9,271**
Other	**1,124**	**(709)**	**3**	**(706)**	**847**	**1,265**
Total allowance on originated loans and leases	**148,719**	**(15,947)**	**3,669**	**(12,278)**	**14,072**	**150,513**