ANNUAL ★ REPORT

2017

F.N.B. Corporation

F.N.B. CORPORATION AT A GLANCE

F.N.B. Corporation (FNB) is a premier regional financial services company with more than $31 billion in assets. We are pleased to provide nearly 2.5 million consumer and business clients across our eight-state footprint with a broad suite of products and services to meet their financial needs.

Pittsburgh Corporate Headquarters

CONSUMER BANKING
- Deposit Products
- Mobile and Online Banking
- Mortgage Banking
- Consumer Lending
- Indirect Auto Lending

COMMERCIAL BANKING
- Corporate and Business Banking
- Investment Real Estate
- Asset-Based Lending
- Lease Financing
- Capital Markets
- Treasury Management
- International Banking
- Small Business Administration Lending

WEALTH MANAGEMENT
- Trust and Fiduciary
- Retirement Services
- Investment Advisory
- Brokerage
- Private Banking

INSURANCE
- Property and Casualty
- Employee Benefits
- Personal
- Title

CONSUMER FINANCE
- Regency Finance Company

FINANCIAL HIGHLIGHTS

Year ended December 31 *(Dollars in millions, except per share data)*

For the Year	2017	2016	2015	2014	2013
Total revenue	$1,099	$813	$661	$625	$532
Non-interest expense	682	511	391	379	338
Net income	199	171	160	144	118
Net income available to common stockholders	191	163	152	136	118
Operating net income available to common stockholders (non-GAAP)(1)	281	188	154	144	123
Per Common Share					
Net income – diluted	$ 0.63	$ 0.78	$ 0.86	$ 0.80	$ 0.80
Operating net income – diluted (non-GAAP)(1)	0.93	0.90	0.87	0.85	0.84
Cash dividends declared	0.48	0.48	0.48	0.48	0.48
Tangible book value (non-GAAP)(1)	6.06	6.53	6.38	5.99	5.38
Common stock closing price	13.82	16.03	13.34	13.32	12.62
Financial Ratios					
Return on average assets	0.68%	0.83%	0.96%	0.96%	0.93%
Return on average tangible assets (non-GAAP)(1)	0.78	0.91	1.05	1.07	1.04
Return on average equity	4.89	6.84	7.70	7.50	7.78
Return on average tangible common equity (non-GAAP)(1)	10.90	12.76	14.33	14.74	16.52
Net interest margin (FTE) (non-GAAP)(1) (2)	3.43	3.38	3.42	3.59	3.65
Efficiency ratio (FTE) (non-GAAP)(1) (2)	54.25	55.36	56.12	57.21	58.94
Tangible common equity/Tangible assets (non-GAAP)(1)	6.74	6.64	6.71	6.83	6.71
Common equity tier 1 risk-based capital ratio	8.88	9.23	9.41	9.63	9.28
Tier 1 risk-based capital ratio	9.33	9.90	10.36	11.07	11.07
Total risk-based capital ratio	11.39	12.00	12.77	12.36	12.46
Leverage ratio	7.58	7.70	8.14	8.43	8.81
At December 31					
Total assets	$31,418	$21,845	$17,558	$16,127	$13,563
Earning assets	27,169	19,546	15,745	14,332	11,870
Loans	20,999	14,897	12,190	11,247	9,506
Allowance for credit losses	175	158	142	126	111
Deposits	22,400	16,066	12,623	11,382	10,198
Total stockholders' equity	4,409	2,572	2,096	2,021	1,774
Common shares outstanding (thousands)	323,465	211,060	175,442	173,992	158,967

(1) To supplement our consolidated financial statements presented in accordance with GAAP, we use certain non-GAAP financial measures to provide information useful in understanding our operating performance and trends, and to facilitate comparisons with the performance of our peers. These non-GAAP financial measures should be viewed as supplemental in nature, and not as a substitute for, or superior to, our reported results prepared in accordance with GAAP. Non-GAAP financial measures in this Annual Report, including reconciliations to the most directly comparable GAAP financial measures, should be reviewed in conjunction with our corresponding GAAP financial measures disclosed in our 2017 Form 10-K filing as well as other periodic filings with the SEC.

(2) Fully taxable equivalent basis, adjusted for tax-favored status of income from certain loans and investments.

2017

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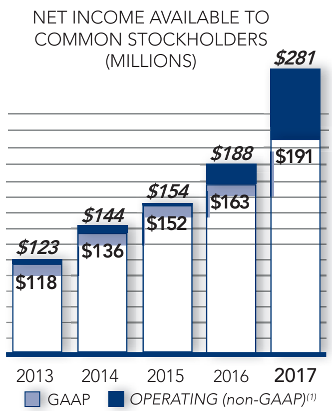
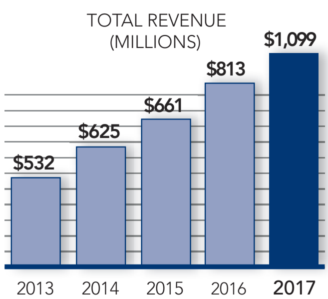
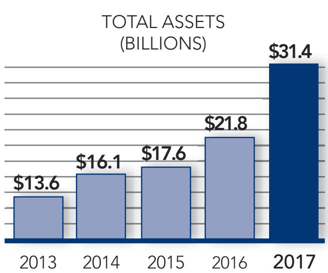
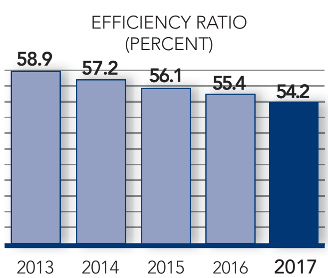
F.N.B. Corporation









To Our Fellow Shareholders:

For FNB, 2017 was a transformational year. After successfully completing the largest acquisition in our history, FNB now has total assets of more than $31 billion, a market capitalization approaching $5 billion and more than 400 consumer banking locations covering eight states. We possess the scale and depth necessary to compete with banks of all sizes and with our new markets we now have greater opportunity for significant growth and expanded profitability.

FNB has further enhanced our long-term prospects by establishing top ten deposit shares in Raleigh, Charlotte and the Piedmont Triad (Winston-Salem, Greensboro and High Point) in North Carolina. These very attractive banking markets join Pittsburgh, Baltimore and Cleveland as FNB's largest commercial regions. We have also extended our coverage of Washington, D.C., with the addition of several bankers and a specialized government contractor lending group. FNB has now established a very diverse footprint which includes some of the highest growth markets in the nation, placing us in an enviable position relative to our regional peers.

In total, our expanded footprint provides FNB with access to more than one million businesses and a population of more than 36 million people. Our acquisition and organic growth strategies have created a premier banking organization with nearly 2.5 million customers and an expansive delivery channel that is not easily replicated and provides us with significant intrinsic value.

Our growth has been accompanied by our focus on delivering long-term shareholder value. In 2017, we delivered record net income, and our annual operating earnings per share increased 3.3 percent to $0.93. On a reported basis, earnings per diluted common share equaled $0.63, including merger and tax-related items. Returning capital to our shareholders by providing an industry-leading dividend yield, coupled with increasing profitability, has led to a five year total shareholder return of 56 percent.

As a result of the Yadkin acquisition and continued organic growth throughout our footprint, we increased our loan portfolio by 41 percent to $21 billion and diversified our lines of business through the addition of the Small Business Administration lending platform. Asset quality results also remain favorable as we apply a consistent approach to underwriting credit and effectively managing risk. During the year, the Yadkin acquisition, along with our successful deposit gathering strategy, resulted in deposit growth of nearly 40 percent, ending the year at $22 billion. Our year-end loan to deposit ratio was 94 percent and transaction deposits comprised 79 percent of total deposits.

In 2017, FNB also enjoyed positive performance from our fee-based businesses. On a year-over-year basis, total non-interest income grew 25 percent, supported by growth in all our fee-based businesses, including Capital Markets, Insurance, Wealth Management and Mortgage Banking. This performance, combined with higher net interest income from our balance sheet growth, led to total revenue that exceeded $1 billion for the first time in our history.

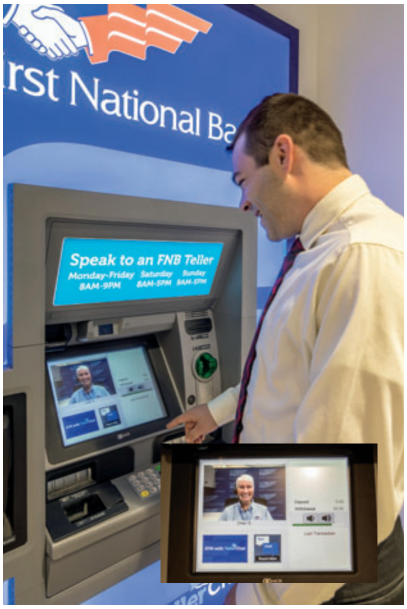
(1) To supplement our consolidated financial statements presented in accordance with GAAP, we use certain non-GAAP financial measures to provide information useful in understanding our operating performance and trends, and to facilitate comparisons with the performance of our peers. These non-GAAP financial measures should be viewed as supplemental in nature, and not as a substitute for, or superior to, our reported results prepared in accordance with GAAP. Non-GAAP financial measures in this Annual Report, including reconciliations to the most directly comparable GAAP financial measures, should be reviewed in conjunction with our corresponding GAAP financial measures disclosed in our 2017 Form 10-K filing as well as other periodic filings with the SEC.

We continue to demonstrate our diligent expense management philosophy as our efficiency ratio improved 111 basis points to 54.2 percent. Today, we are in a unique position because the most substantial infrastructure investments required to support our recent growth are now behind us. We will continue to make critical investments in the long-term success of the Company — including in the people, technology, product development and risk management systems necessary to organically build a stronger and more comprehensive organization. Our ability to make such investments in the future with a lower level of incremental expense leads to increased effectiveness as well as positive operating leverage and enhanced shareholder value.

Our Clients

Our dedication to providing a best-in-class client experience is at the core of each of the investments we make. Driving toward this goal, we have committed significant resources to becoming a strong technology-driven company, delivering a universally consistent experience across our online, mobile and branch channels through our Clicks-to-Bricks strategy. Our efforts were validated by the "2017 U.S. Mobile Banking Landscape" study performed by S&P Global Market Intelligence. The study reveals that FNB's Mobile Banking App is a leader in both features and innovation when compared to many national and regional competitors.

We have committed significant resources to becoming a strong technology-driven company.



We continue to enhance the elements that make Clicks-to-Bricks unique and expand our efforts to build out the digital bank going forward. Among the more recent updates was the complete refresh of our Online Banking platform, which features a redesigned account dashboard, enhanced security and expanded transactional and application capabilities. Continuing to optimize our physical network, we also added multiple locations in key growth markets using our new, more efficient branch design that features Solutions Centers and focuses on a consultative customer engagement. Additionally, we have enabled customers to conduct transactions 24 hours a day by adding Smart ATMs and ATMs with TellerChat in strategic locations across the footprint.

Looking ahead, our digital capabilities continue to evolve as we execute our previously announced plan to replace Popmoney with Zelle℠. A highly-publicized person-to-person (P2P) payments solution, Zelle allows customers to securely and easily send and receive funds within minutes using just a recipient's email address or mobile phone number. Zelle joins FNB's suite of innovative online and mobile banking tools, which already includes the most prominent payment solutions available today with Apple Pay, Samsung Pay and Google Pay.

Our philosophy around innovation and simplification is the impetus behind recent enhancements to our checking products that benefit our clients and position FNB to be more competitive. Our commercial banking clients have benefited through the introduction of a series of high-value-added products and services during the past several years, including swaps, foreign exchange, syndications and small business solutions, with plans to offer more in the future. Across the board, we have improved our data management processes, which should accelerate the evolution of our internal marketing capabilities as we seek to identify, acquire and deepen client relationships with more tailored products and services that meet our clients' needs.

F.N.B. Corporation

Our commitment to delivering a superior experience is demonstrated in our improvements to education and transparency, empowering clients to understand, select and use our products more effectively. This is most evident with the introduction of our Help Me Decide tool in mobile and online banking. FNB deploys interactive educational content across multiple channels, including through our unique Solutions Centers, website and hands-on consultation with branch employees. Additionally, in-person engagement has been further bolstered by the strategic roll-out of iPads to branch staff. These tablets are programmed with product demonstrations and educational modules along with the ability to apply for products, sign up for online and mobile banking and pre-qualify for a mortgage. This enables employees to have more streamlined and meaningful client conversations both in the office and in the field.

New, more efficient branch design features Solutions Centers and focuses on a consultative customer engagement.

Decisions regarding these and other investments in FNB's product offerings are largely driven by the feedback we receive from our clients and by our desire to achieve better returns for our shareholders. At FNB, we take customer satisfaction very seriously. We employ a proprietary Customer Service Satisfaction & Loyalty program to measure, report and improve upon the customer experience across our consumer client base. Greenwich Associates, a national third-party market intelligence research firm, provides our commercial bank with research and insight that has enabled us to make adjustments and continually elevate our client satisfaction levels. Analyzing and acting on this information has ultimately led to FNB receiving seven consecutive years of recognition for our outstanding service.

Our Communities

We continue to make great progress fulfilling our ongoing mission of improving the quality of life in the communities we serve. During the first half of 2017, we made a $5.6 million contribution to our Foundation, which provides grants for a range of non-profits throughout our footprint. This contribution was part of a broader community benefit plan focusing on charitable giving, community development investments and lending efforts serving financially-vulnerable, predominantly minority and historically underserved populations.

The community benefit plan builds on the strong partnerships FNB has always had in our communities, where we deploy capital and other support to both individuals and businesses. We strategically invest in local initiatives that stimulate job growth, create affordable housing opportunities and champion overall social and economic development. Additionally, we participate in programs intended to drive expansion, including Low Income Housing and Educational Improvement Tax Credit programs and the Small Business Administration Preferred Lender Program. Overall, we continue to strengthen our efforts to serve low-to-moderate income members of our communities through access to proprietary mortgage programs designed to make homeownership more accessible.

FNB further benefits the regions where we do business through investments related to our own ongoing growth. In 2017, we announced plans to occupy First National Bank Tower in Raleigh, NC, a viable brand statement on our lasting commitment to one of our newest regions. FNB is the primary tenant in the new regional headquarters building. This project was made possible through FNB's commitment to its newest market and will add office, residential and retail space to Raleigh's thriving downtown area. The building is designed to achieve U.S. Green Building Council LEED (Leadership in Energy and Environmental Design) Platinum certification. We have successfully deployed our regional headquarters strategy in other major U.S. cities previously entered through expansion, further demonstrating our commitment to the regions we serve.

FNB further benefits the regions where we do business through investments related to our own ongoing growth.

We also strive to provide our clients with the resources and education they need to effectively manage their finances. FNB is excited to announce the development of a robust financial literacy program with digital educational content which will be available at our branch Solutions Centers and online. This enables us to mobilize our financial literacy program, giving our customers the option to interact with employees in the branch or in the privacy of their home.

To best address the needs of our clients and communities, it is important that a broad range of perspectives and experiences are incorporated in our direction. FNB continuously seeks to promote and advance diversity on our board, within our ranks and in the business community in which we operate. This is evident in our support and underwriting of a variety of programs supporting female and African American directorship within FNB and beyond. FNB's culture of inclusion starts at the top and is carried throughout the organization, ultimately impacting the communities we serve in a positive way.

Critical to FNB's ability to positively impact and connect with our regions is our passionate and engaged employee base. Employees at all levels are actively involved in their communities, serving on a wide range of boards and performing tens of thousands of volunteer hours each year. In the second half of 2017, they contributed hundreds of thousands of their own dollars to aid those impacted by natural disasters and other tragedies, demonstrating an inspirational level of care that characterizes our team and, as a result, our Company.

To show our support and appreciation for the tremendous commitment of our employees to the communities where they live and work, FNB introduced a new Community Spirit Award in 2017. Part of our prestigious employee recognition program, our Community Spirit Award is given to employees who have an outstanding history of community service. In keeping with the theme of the award, recipients have the opportunity to choose a qualified charity to receive a contribution from FNB.

F.N.B. Corporation

Our Employees

FNB's culture embraces collaboration, innovation, diversity, inclusion, community service and recognition. Our employees are our greatest asset, in part because they bring that culture to life as the face of FNB in the community. In return, some of the most important investments we can make as an organization are those that ensure our employees have the appropriate resources to develop their careers in a positive environment, succeed in growing our Company and live healthy, balanced lives.

FNB's culture embraces collaboration, innovation, diversity, inclusion, community service and recognition.

Training and employee engagement are crucial to our efforts. Based on feedback from the field, a new Consumer Banking training program is being designed to re-educate employees regarding FNB's culture, including our expectations for teamwork, collaboration and a consultative approach when serving the needs of our clients. Multi-day in-person sessions for key sales personnel, in one of our newest concept branches at our Pittsburgh headquarters, will consist of pre-recorded videos, web-based training and instructor-led educational courses. The program will also provide real-life examples, including demonstrations of how our leading-edge technology can be leveraged to improve the customer experience. Our ongoing process ensures that, ultimately, the full employee base is prepared to be consistent in how they care for our clients and instill FNB's core values.

Throughout the organization, we have taken strides to improve development opportunities for our workforce. This has included a focus on diversity and inclusion that starts with our Board of Directors and has resulted in the forming of a cross-functional Diversity Council. This group of individuals represents a variety of roles, backgrounds and experience levels from all areas of our Company. The Diversity Council's primary objective is to promote an inclusive culture that attracts, retains and develops the best possible talent.

A Mentor Program pilot, developed through the Diversity Council, has already been launched in support of this objective. Designed to enhance individual performance at all levels and furnish our employees with valuable career coaching and insight, this program provides development opportunities for leadership positions and advancement within the Company. When deployed on a broader scale, the intended outcome is an organizational lift that we are able to return to our clients and our shareholders in the form of an improved experience and better financial performance.

The investments we make in our employees contribute to our status as an employer of choice, which has been recognized repeatedly through independent, third-party awards. In fact, FNB has been honored as a leading workplace a total of 18 times. However, the most powerful evidence of our success in building an exceptional culture has come directly from our employees in the form of our highest employee engagement score to date, based on results from an independent survey conducted by a third-party firm. FNB's scores place us in the outstanding category when compared across multiple industries, a result that is especially impressive considering the amount of growth and change our Company experienced in 2017.

Our values and culture differentiate FNB in the marketplace, embodied by an exceptional team that continually strives to make the Company better and to improve financial performance. FNB employees are empowered to think differently and always do the right thing as leaders within the organization and their communities. They are recognized with the Five Star Awards, which honor employees who exhibit our core values and identify new, innovative ideas that move the company ahead. By cultivating a rewarding, inclusive and productive employee experience, we can attract and retain top-tier talent. This results in significant benefit for our clients, shareholders and communities as these exceptional individuals execute our plans and grow relationships throughout our markets, in turn providing superior financial performance.

2017 FINALIST BPtW BBJ BEST PLACES TO WORK

PITTSBURGH BUSINESS TIMES BPtW 2017 BEST PLACES TO WORK 7th year

GREENWICH ASSOCIATES Greenwich Excellence 2017

TOP WORK PLACES 2017 Pittsburgh Post-Gazette 7th year

TOP WORK PLACES 2017 THE PLAIN DEALER cleveland.com 3rd year

Vincent J. Delie, Jr.
Chairman, President & CEO
F.N.B. Corporation
First National Bank

Looking Ahead

Our organization has emerged as a strong and successful regional competitor and is better positioned than ever before to build on the success we have had serving our clients, communities, employees and shareholders. Our 2017 record levels of assets, revenue and franchise value, while maintaining industry-leading profitability metrics, are testaments to the success of our long-term growth strategy.

We have repeatedly proven our ability to execute. As we leverage our investments in technology and people as well as our increased scale and strength, we continue to deliver quality results for our customers and increased value for our shareholders. Our success is driven by our dedicated employees, and I want to express my personal gratitude for their commitment and remarkable efforts throughout 2017. I also want to thank you, our shareholder, for your continued support of FNB.

We continue to deliver quality results for our customers and increased value for our shareholders.

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FORM 10-K

F.N.B. Corporation

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

FORM 10-K

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

For the fiscal year ended December 31, 2017
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.)
12 Federal Street, One North Shore Center, Pittsburgh, PA	**15212**
(Address of principal executive offices)	(Zip Code)
Registrant's telephone number, including area code:	**800-555-5455**

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Exchange on which Registered
Common Stock, par value $0.01 per share	New York Stock Exchange
Depositary Shares each representing a 1/40th interest in a share of Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series E, par value $0.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ☐ No ☒

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer ☒ Accelerated Filer ☐ Non-accelerated Filer ☐ Smaller Reporting Company ☐ Emerging Growth Company ☐
(Do not check if a smaller reporting company)

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

The aggregate market value of the registrant's outstanding voting common stock held by non-affiliates on June 30, 2017, determined using a per share closing price on that date of $14.16, as quoted on the New York Stock Exchange, was $4,464,901,676.

As of January 31, 2018, the registrant had outstanding 323,523,445 shares of common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of F.N.B. Corporation's definitive proxy statement to be filed pursuant to Regulation 14A for the Annual Meeting of Stockholders to be held on May 16, 2018 are incorporated by reference into Part III, Items 10, 11, 12, 13 and 14, of this Annual Report on Form 10-K. F.N.B. Corporation will file its definitive proxy statement with the Securities and Exchange Commission on or before April 15, 2018.

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PART I

Forward-Looking Statements: From time to time F.N.B. Corporation has made and may continue to make written or oral forward-looking statements with respect to our outlook or expectations for earnings, revenues, expenses, capital levels, asset quality or other future financial or business performance, strategies or expectations, or the impact of legal, regulatory or supervisory matters on our business operations or performance. This Annual Report on Form 10-K (the Report) also includes forward-looking statements. See Cautionary Statement Regarding Forward-Looking Information in Item 7 of this Report.

The terms “FNB,” “the Corporation,” “we,” “us” and “our” throughout this Report mean F.N.B. Corporation and its subsidiaries, when appropriate.

ITEM 1. BUSINESS

Overview

We are a financial holding company under the Gramm-Leach-Bliley Act of 1999 (GLB Act). We were formed in 1974 as a bank holding company and are headquartered in Pittsburgh, Pennsylvania. We completed a 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 our Board of Directors and stockholders. As a result of the redomestication, we are organized under and subject to Pennsylvania law, and remain the same entity that existed before the redomestication, with the same legal existence without interruption, and are deemed to have commenced our existence as of the time we were incorporated under Florida law in 2001. We were originally incorporated in 1974 in Pennsylvania and reincorporated in Florida in 2001 after experiencing substantial growth of our business and operations in Florida in prior years. In 2004, we spun-off our Florida operations in a newly formed public company and refocused on growing our markets in Pennsylvania. Since that time, the majority of our assets, operations and employees have been located in Pennsylvania.

The redomestication did not cause any change in the business, physical location, management, assets, debts or liabilities of FNB. All individuals who served as directors, officers and employees of FNB prior to the redomestication continued to serve in those capacities after the redomestication. Except for the change in the state law governing our legal existence, the redomestication did not affect our common stock or Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series E shares or the trading of those securities on the New York Stock Exchange (NYSE) under the symbols “FNB” and “FNBPrE,” respectively.

As a diversified financial services holding company, FNB, through our subsidiaries, provides a full range of financial services, principally to consumers, corporations, governments and small- to medium-sized businesses in our market areas through our subsidiary network, which is led by our largest subsidiary, First National Bank of Pennsylvania (FNBPA). Our business strategy focuses primarily on providing quality, consumer- and commercial-based financial services adapted to the needs of each of the markets we serve. We seek to maintain our community orientation by providing local management with certain autonomy in decision making, enabling them to respond to customer requests more quickly and to concentrate on transactions within their market areas. We seek to preserve some decision making at a local level, however, we have centralized legal, loan review, credit underwriting, accounting, investment, audit, loan operations, deposit operations and data processing functions. The centralization of these processes enables us to maintain consistent quality of these functions and to achieve certain economies of scale.

We have four reportable business segments: Community Banking, Wealth Management, Insurance and Consumer Finance. As of December 31, 2017, we have 417 Community Banking offices in Pennsylvania, Ohio, Maryland, West Virginia, North Carolina and South Carolina and 77 Consumer Finance offices in Pennsylvania, Ohio, Tennessee and Kentucky.

As of December 31, 2017, we had total assets of $31.4 billion, loans of $21.0 billion and deposits of $22.4 billion. See Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and Item 8, “Financial Statements and Supplementary Data,” of this Report.

Recent Developments

We seek to grow organically. During the year ended December 31, 2017, our total assets have grown $9.6 billion, or 43.8%, through a combination of an acquisition and organic growth. A description of the acquisition completed during 2017 follows.

Yadkin Financial Corporation

On March 11, 2017, we completed our acquisition of Yadkin Financial Corporation (YDKN), a bank holding company based in Raleigh, North Carolina. On the acquisition date, YDKN had assets with a net book value of $6.8 billion, of which included $5.1 billion in loans and $5.2 billion in deposits. The acquisition was valued at $1.8 billion and resulted in FNB issuing 111,619,622 shares of our common stock in exchange for 51,677,565 shares of YDKN common stock.

Other acquisitions, exclusive of branch and insurance acquisitions, completed during the last five years are summarized below:

Acquired Entity	Acquired Bank	Year	Fair Value of Assets Acquired
(dollars in millions)			
Metro Bancorp, Inc.	Metro Bank	2016	$ 2,783.7
OBA Financial Services, Inc. (OBA)	OBA Bank	2014	390.2
BCSB Bancorp, Inc. (BCSB)	Baltimore County Savings Bank	2014	596.1
PVF Capital Corp. (PVF)	Park View Federal Savings Bank	2013	737.2
Annapolis Bancorp, Inc. (ANNB)	BankAnnapolis	2013	430.3

For more detailed information concerning the most recent acquisitions, see Note 3, “Mergers and Acquisitions” in the Notes to Consolidated Financial Statements, which is included in Item 8 of this Report.

Business Segments

In addition to the following information relating to our business segments, more detailed information is contained in Note 23, “Business Segments” in the Notes to Consolidated Financial Statements, which is included in Item 8 of this Report. As of December 31, 2017, FNB had four business segments, with the largest being the Community Banking segment consisting of a regional community bank. The Wealth Management segment consists of a trust company, a registered investment advisor and a subsidiary that offers broker-dealer services through a third party networking arrangement with a non-affiliated licensed broker-dealer entity. The Insurance segment consists of an insurance agency and a reinsurer. The Consumer Finance segment consists of a multi-state consumer finance company.

Community Banking

Our Community Banking segment consists of FNBPA, which offers commercial and consumer banking services. Commercial banking solutions include corporate banking, small business banking, investment real estate financing, 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. Additionally, Bank Capital Services, LLC, a subsidiary of FNBPA, offers commercial loans and leases to customers in need of new or used equipment. As of December 31, 2017, our Community Banking segment operated in Pennsylvania, Ohio, Maryland, West Virginia, North Carolina and South Carolina.

The goals of Community Banking are to generate high-quality, profitable revenue growth through increased business with our current customers, attract new customer relationships through FNBPA’s current branches and expand into new and existing markets through de novo branch openings and the establishment of loan production offices. We consider Community Banking an important source of revenue opportunity through the cross-selling of products and services offered by our other business segments.

The lending philosophy of Community Banking is to establish high-quality customer relationships, while minimizing credit losses by following strict credit approval standards (which include independent analysis of realizable collateral value), diversifying our loan portfolio by industry, product and borrower, and conducting ongoing review and management of the loan portfolio. Commercial loans are generally made to established businesses within the geographic market areas served by Community Banking.

No material portion of the loans or deposits of Community Banking has been obtained from a single customer or small group of customers, and the loss of any one customer’s loans or deposits or a small group of customers’ loans or deposits by Community Banking would not have a material adverse effect on the Community Banking segment or on FNB. The substantial majority of the loans and deposits have been generated within the geographic market areas in which Community Banking operates.

Wealth Management

Our Wealth Management segment delivers wealth management services to individuals, corporations and retirement funds, as well as existing customers of Community Banking, located primarily within our geographic markets.

Our Wealth Management operations are conducted through three subsidiaries of FNBPA. First National Trust Company (FNTC) provides a broad range of personal and corporate fiduciary services, including the administration of decedent and trust estates. As of December 31, 2017, the fair value of trust assets under management was approximately $4.9 billion. FNTC is required to maintain certain minimum capitalization levels in accordance with regulatory requirements. FNTC periodically measures its capital position to ensure all minimum capitalization levels are maintained.

Our Wealth Management segment also includes two other subsidiaries. First National Investment Services Company, LLC (FNIS) offers a broad array of investment products and services for customers of Wealth Management through a networking relationship with a third-party licensed brokerage firm. F.N.B. Investment Advisors, Inc. (FNBIA), an investment advisor registered with the Securities and Exchange Commission (SEC), offers customers of Wealth Management comprehensive investment programs featuring mutual funds, annuities, stocks and bonds.

No material portion of the business of Wealth Management has been obtained from a single customer or small group of customers, and the loss of any one customer's business or the business of a small group of customers by Wealth Management would not have a material adverse effect on the Wealth Management segment or on FNB.

Insurance

Our Insurance segment operates principally through First National Insurance Agency, LLC (FNIA), which is a subsidiary of FNB. FNIA is a full-service insurance brokerage agency offering numerous lines of commercial and personal insurance through major carriers to businesses and individuals primarily within FNB's geographic markets. The goal of FNIA is to grow revenue through cross-selling to existing clients of Community Banking and to gain new clients through its own channels.

Our Insurance segment also includes a reinsurance subsidiary, Penn-Ohio Life Insurance Company (Penn-Ohio). Penn-Ohio underwrites, as a reinsurer, credit life and accident and health insurance sold by FNB's lending subsidiaries. Additionally, FNBPA owns a direct subsidiary, First National Corporation, which offers title insurance products.

No material portion of the business of Insurance has been obtained from a single customer or small group of customers, and the loss of any one customer's business or the business of a small group of customers by Insurance would not have a material adverse effect on the Insurance segment or on FNB.

Consumer Finance

Our Consumer Finance segment operates through our subsidiary, Regency Finance Company (Regency), which is involved principally in making personal installment loans to individuals and purchasing installment sales finance contracts from retail merchants. Such activity is primarily funded through the sale at Regency's branch offices of subordinated notes which are issued by one of our indirect subsidiaries, FNB Financial Services, LP, and guaranteed by FNB. The Consumer Finance segment operates in Pennsylvania, Ohio, Tennessee and Kentucky.

No material portion of the business of Consumer Finance has been obtained from a single customer or small group of customers, and the loss of any one customer's business or the business of a small group of customers by Consumer Finance would not have a material adverse effect on the Consumer Finance segment or on FNB.

Other

We also operate other non-banking subsidiaries which are not to be considered reportable segments of FNB. F.N.B. Capital Corporation, LLC (FNBCC) was formed as a merchant banking subsidiary to offer mezzanine financing options for small- to medium-sized businesses that need financial assistance beyond the parameters of typical commercial bank lending products. FNBCC ceased financing new portfolio companies in July 2013. FNBCC has a 21.9% funding commitment in Tecum Capital Partners, L.P. (formerly known as F.N.B. Capital Partners, L.P.) (Tecum), a Small Business Investment Company licensed by the U.S. Small Business Administration. Tecum is not an affiliate or a subsidiary of FNB. We have six companies that issued trust preferred securities (TPS) to third-party investors: F.N.B. Statutory Trust II, Omega Financial Capital Trust I, Yadkin Valley Statutory Trust I, FNB Financial Services Capital Trust I, American Community Capital Trust II and Crescent Financial Capital Trust I, the last four of which were acquired in conjunction with the YDKN acquisition. Regency Consumer Financial

Services, Inc. and FNB Consumer Financial Services, Inc. are subsidiaries of FNB and are the general partner and limited partner, respectively, of FNB Financial Services, LP, the company established to issue, administer and repay the subordinated notes. The proceeds received from the subordinated notes issuances are used to fund loans in the Consumer Finance segment. Certain financial information concerning these subsidiaries, along with the parent company and intercompany eliminations, are included in the “Parent and Other” category in Note 23, “Business Segments” in the Notes to Consolidated Financial Statements, which is included in Item 8 of this Report.

Market Area and Competition

We operate in Pennsylvania, eastern Ohio, and northern West Virginia, which are areas with relatively stable markets and modest growth. Additionally, we operate in the Baltimore, Maryland, Metropolitan Statistical Area and Montgomery County, Maryland, which are relatively higher growth markets. The YDKN acquisition enabled us to enter the high growth North Carolina markets of Raleigh-Durham, Charlotte and the Piedmont Triad, which is comprised of Winston-Salem, Greensboro and High Point, and South Carolina. In addition to Pennsylvania and Ohio, our Consumer Finance segment also operates in northern and central Tennessee and western and central Kentucky.

We compete for loans, deposits and financial services business with a large number of bank and non-bank financial institutions and other lenders engaged in the business of extending credit, including financial technology companies and marketplace lenders. Competition for loans comes principally from commercial banks, savings banks, mortgage banking companies, credit unions, insurance companies and other financial services companies. The most direct competition for deposits comes from commercial banks, savings banks and credit unions. Additional competition for deposits comes from non-depositary competitors such as financial technology companies, mutual funds, securities and brokerage firms and insurance companies. In providing wealth and asset management services, as well as insurance brokerage services, our subsidiaries compete with many other financial services firms, brokerage firms, mutual fund complexes, investment management firms, trust and fiduciary service providers and insurance agencies. Competition for loans and deposits often is based on the rates of interest charged, the rates of interest paid to obtain funds and the availability of customer services.

In Regency’s market areas of Pennsylvania, Ohio, Tennessee and Kentucky, our active competitors include banks, credit unions and national, regional and local consumer finance companies, some of which have substantially greater resources than that of Regency. The ready availability of consumer credit through charge accounts and credit cards constitutes additional competition.

The ability to deploy and use technology effectively is an important competitive factor in the financial services industry. Technology is not only important with respect to the delivery of financial services, risk management, regulatory compliance and security of customer information, but also in processing information. FNB and each of our subsidiaries must continually make technological investments to remain competitive in the financial services industry. FNBPA has executed several initiatives that have integrated and streamlined its physical branch and e-delivery channels.

Underwriting

Commercial Loans

Our commercial loan policy requires, among other things, that all commercial loans be underwritten to document the borrower’s financial capacity to support the cash flow required to repay the loan. The commercial loan policy also contains additional guidelines and requirements applicable to specific loan products or lines of business. We have developed a proprietary underwriting system for all corporate business loan relationships and utilize a third party solution for small business loan relationships, with both platforms supporting consistency in underwriting across the entire footprint and credit decisions to be made at the local and regional level in accordance with approval policies. As part of this underwriting, we require clear and concise documentation of the borrower’s ability to repay the loan based on current financial statements and/or tax returns, plus pro-forma financial statements, as appropriate. Specific guidelines for loan terms and conditions are outlined in our Credit Policy. The guidelines also detail the collateral requirements for various loan types. It is our general practice to obtain personal guarantees, supported by current personal financial statements and/or tax returns, to reduce the credit risk, as appropriate.

For loans secured by commercial real estate, we obtain current and independent appraisals from licensed or certified appraisers to assess the value of the underlying collateral. Our general policy for commercial real estate loans is to limit the terms of the loans to not more than 20 years and to have loan-to-value (LTV) ratios not exceeding 80% on owner-occupied and income producing properties, while land and development-secured projects have more stringent LTV requirements of 65% and 75%, respectively. For non-owner occupied commercial real estate loans, the loan terms are generally aligned with the property’s lease terms, and in many instances, these loans mature within 5 years. As it relates to non-real estate secured loans, our Credit Policy dictates similar guidelines for maximum terms and acceptable advance rates for loans that are not secured by real estate.

Consumer Loans

Our revolving home equity lines of credit (HELOC) are generally variable rate loans underwritten based on fully indexed rates. For home equity loans, our policy is to generally require a LTV ratio not in excess of 85% and Fair Isaac Corporation (FICO) scores of not less than 710. In certain circumstances, we will extend credit to borrowers with an LTV ratio over 85% on a limited and closely monitored basis. Our underwriters evaluate a borrower's debt service capacity on all line of credit applications by utilizing an interest shock rate of 3% over the prevailing variable interest rate at origination. The borrower's debt-to-income ratio must remain within our guidelines under the shock rate repayment formula. FNB has elected, with the onset of the qualified mortgage (QM) rules established by the Consumer Financial Protection Bureau (CFPB) in 2014, to tightly limit the origination of non-QM loans (see discussion under the caption "*Consumer Protection Statutes and Regulations*").

FNB's policy for our indirect installment loans, which third parties (primarily auto dealers) within our approved dealer network originate, is to require a minimum FICO score of 640 for the borrower, the age of the vehicle not to exceed 8 years or 100,000 miles and an appropriate LTV ratio, not to exceed 115% inclusive of back-end added products, based on the year and make of the vehicle financed.

We structure our consumer loan products to meet the diverse credit needs of consumers in our market for personal and household purposes. These loan products are on a fixed amount or revolving basis depending on customer need and borrowing capacity. Our loans and lines of credit attempt to balance borrower budgeting sensitivities with realistic repayment maturities within a philosophy that encourages consumer financial responsibility, sound credit risk management and development of strong customer relationships.

Our consumer loan policies and procedures require prospective borrowers to provide appropriate and accurate financial information that will enable our loan underwriting personnel to make sound credit decisions. Specific information requirements vary based on loan type, risk profile and secondary investor requirements where applicable. In all extensions of credit, however, our consumer loan policy requires that we obtain evidence of capacity to repay as well as an independent credit report, both of which help assess the prospective borrower's willingness and ability to repay the debt. If any information submitted by the prospective borrower raises reasonable doubts with respect to the willingness and ability of the borrower to repay the loan, FNB denies the credit. We do not provide loans in which there is no verification of the prospective borrower's income. We do not make interest-only or similar type residential mortgage loans.

We often take collateral to support an extension of credit and to provide additional protection should the primary source of repayment fail. Consequently, we limit unsecured extensions of credit in amount and only grant them to borrowers with adequate capacity and above-average credit profiles. We expressly discourage unsecured credit lines for debt consolidation, unless there is compelling evidence that the borrower has sufficient liquidity and net worth to repay the loan from alternative sources in the event of income disruption.

Our loan policy requires full independent appraisals of residential real estate collateral values on residential mortgage applications of $250,000 and greater, though it is our general practice to obtain full independent appraisals for applications of $100,000 and greater. We may use algorithm-based valuation models for residential mortgages under $100,000. We recognize the limitations as well as the benefits of these valuation products. FNB's policy is to be conservative in their use but fluid and flexible in interpreting reasonable collateral values when obtained.

We monitor consumer loans with exceptions to our policy including, but not limited to, LTV ratios, FICO scores and debt-to-income ratios. Management routinely evaluates the type, nature, trend and scope of these exceptions and reacts through policy changes, lender counseling, adjustment of loan authorities and similar prerogatives to assure that the retail assets generated meet acceptable credit quality standards. As an added precaution, our risk management personnel conduct periodic reviews of loan files.

Regency Finance Company Loans

Regency originates three general types of loans: direct non-real estate, indirect sales finance and limited direct real estate. Regency uses a quality control program to review, in an independent manner, loan origination and servicing on a monthly basis to ensure adherence with compliance and credit criteria standards. Regency loans comprise 0.8% of our total loans and leases as of December 31, 2017, with an average loan size of $2 thousand.

Regency evaluates each applicant for credit on an individual basis measuring attributes derived from the review of credit reports, income verification and collateral, if applicable, with product-specific underwriting standards. Regency utilizes a prospective borrower's reported income to derive debt-to-income ratios that permit Regency to follow a conservative approach in evaluating a potential borrower's ability to pay debt service. Regency utilizes an on-line loan origination system that provides consistency in its loan application and approval process.

Regency underwrites a limited number of direct real estate loans utilizing a risk-based pricing matrix that evaluates the applicants by FICO score, credit criteria and LTV ratio. First lien general LTV standards permit a maximum of 85% of appraised value. Regency does not offer variable rate real estate secured loans. Regency does not offer unverified or no documentation loans.

Regency underwrites direct financing for automobile secured loans utilizing a risk-based pricing matrix that evaluates the applicants by FICO score, credit criteria and advance rate as a percentage of the book value of the vehicle. Regency will only grant credit secured by an automobile at the current (time of application) National Automobile Dealers Association Book retail price.

Regency generates indirect sales finance applications and subsequent loans through retailers that Regency approves for the purpose of the customer's finance of a purchase such as furniture or electronics. Regency grants credit in a similar manner as set forth above for direct real estate loans. Pricing parameters are generally dealer and geography specific. Regency underwrites direct non-real estate personal and secured loans represented above with the exception that this product does not rely solely on FICO scores. Specific analysis of the applicant's credit report and income verification are the principal elements of Regency's credit decision with respect to direct non-real estate personal and secured loans.

Employees

As of January 31, 2018, FNB and our subsidiaries had 4,215 full-time and 533 part-time employees. Our management considers our relationship with our employees to be satisfactory.

Government Supervision and Regulation

The following summary sets forth certain material elements of the regulatory framework applicable to FNB, FNBPA and our subsidiaries and affiliates. The bank regulatory framework is intended primarily for the protection of depositors through the federal deposit insurance guarantee, and not for the protection of security holders. Numerous laws and regulations govern the operations of financial services institutions and their holding companies. Significant elements of the laws and regulations applicable to FNB and our affiliates are described in this section. To the extent that the following information describes statutory and regulatory provisions or governmental policies, such descriptions are qualified in their entirety by reference to the full text of the statutes, regulations and policies referenced herein. In addition, certain of FNB's public disclosure, internal control environment, risk and capital management and corporate governance principles are subject to the Sarbanes-Oxley Act of 2002 (SOX), the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act) and related regulations and rules of the SEC under the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended. Also, FNB is subject to the rules of the NYSE for listed companies. New laws or regulations or changes to existing laws and regulations (including changes in interpretation or enforcement) could materially adversely affect our financial condition or results of operations. As a financial institution, to the extent that different regulatory systems impose overlapping or inconsistent requirements on the conduct of our business, we face increased complexity and additional risks and costs in our compliance efforts.

In 2017, both the House of Representatives and the Senate introduced legislation that would repeal or modify provisions of the Dodd-Frank Act and significantly impact financial services regulation. Although the bills vary in content, certain key aspects include revisions to rules related to mortgage loans, delayed implementation of rules related to the Home Mortgage Disclosure Act (HMDA), reform and simplification of certain "Volcker Rule" requirements, and raising the threshold for applying enhanced prudential standards to bank holding companies with total consolidated assets equal to or greater than $50 billion to those with total consolidated assets equal to or greater than $250 billion (see discussion under Risk Factors - caption *"We could be adversely affected by changes in the law, especially changes in the regulation of the banking industry").*

GENERAL

FNB is a legal entity separate and distinct from our subsidiaries. As a financial holding company and a bank holding company, FNB is regulated under the Bank Holding Company Act of 1956, as amended (BHC Act), and is subject to regulation, inspection, examination and supervision by the Board of Governors of the Federal Reserve System (FRB).

The FRB is the “umbrella” regulator of a financial holding company. In addition, a financial holding company’s operating entities, meaning its subsidiary broker-dealers, investment managers, investment advisory companies, insurance companies and banks, as applicable, are subject to the jurisdiction of various federal and state “functional” regulators and self-regulatory organizations, such as FINRA.

Our subsidiary bank, FNBPA, and FNBPA’s subsidiary trust company, FNTC, are organized as national banking associations, which are subject to regulation, supervision and examination by the Office of the Comptroller of the Currency (OCC), which is a bureau of the U.S. Department of the Treasury (UST). FNBPA is also subject to certain regulatory requirements of the CFPB, Federal Deposit Insurance Corporation (FDIC), the FRB and other federal and state regulatory agencies, including but not limited to requirements to maintain reserves against deposits, capital requirements, limitations regarding dividends, restrictions on the types and amounts of loans that may be granted and the interest that may be charged on loans, affiliate transactions, Community Reinvestment Act (CRA), consumer compliance and anti-discrimination laws and unfair, deceptive or abusive acts and practices prohibitions, monitoring obligations under the federal bank secrecy act and anti-money laundering requirements, limitations on the types of investments that may be made, cybersecurity and consumer privacy requirements, activities that may be engaged in and types of services that may be offered. In addition to banking laws, regulations and regulatory agencies, FNB and our subsidiaries are subject to various other laws and regulations and supervision and examination by other regulatory agencies, all of which directly or indirectly affect the operations and management of FNB and our ability to make distributions to our stockholders. If we fail to comply with these or other applicable laws and regulations, we may be subject to civil monetary penalties, imposition of cease and desist orders or other written directives, removal of management and, in certain cases, criminal penalties.

Pursuant to the GLB Act, bank holding companies such as FNB that have qualified as financial holding companies because they are “well-capitalized” and “well managed” have broad authority to engage in activities that are financial in nature or incidental to such financial activity, including insurance underwriting and brokerage, merchant banking, securities underwriting, dealing and market-making; and such additional activities as the FRB in consultation with the Secretary of the UST determines to be financial in nature, incidental thereto or complementary to a financial activity. The GLB Act repealed or modified a number of significant statutory provisions, including those of the Glass-Steagall Act and the BHC Act, which had previously restricted banking organizations’ ability to engage in certain types of business activities (subsequently further modified by the Dodd-Frank Act, as discussed below). As a result of the GLB Act, a bank holding company may engage in those activities directly or through subsidiaries by qualifying as a “financial holding company.” FNB is a financial holding company. A financial holding company may engage directly or indirectly in activities considered financial in nature, either de novo or by acquisition, provided the financial holding company continues such status and gives the FRB after-the-fact notice of the new activities. The GLB Act also permits national banks, such as FNBPA, to engage in activities considered financial in nature through a financial subsidiary, subject to certain conditions and limitations and with the approval of the OCC (see discussion under the caption, *“Financial Holding Company Status and Activities”*).

As a regulated financial holding company, FNB’s relationships and good standing with our regulators are of fundamental importance to the continuation and growth of our businesses. The FRB, OCC, FDIC, CFPB and SEC have broad enforcement powers and authority to approve, deny or refuse to act upon applications or notices of FNB or our subsidiaries to open new or close existing offices, conduct new activities, acquire or divest businesses or assets or reconfigure existing operations. In addition, FNB, FNBPA, FNTC and other affiliates are subject to examination by the various federal and state regulators, which involves periodic examinations and supervisory inquiries, the reports of which are not publicly available and can affect ratings that can impact the conduct and growth of our businesses. These examinations consider not only safety and soundness principles, but also compliance with applicable laws and regulations, including anti-money laundering requirements, loan quality and administration, capital levels, asset quality and risk management ability and performance, earnings, liquidity, consumer compliance, anti-discrimination laws, unfair, deceptive or abusive acts and practices prohibitions, community reinvestment, cybersecurity and consumer privacy requirements, and various other factors. The federal banking interagency Guidelines for Establishing Standards for Safety and Soundness set forth compliance considerations and guidance with respect to the following operations of banking organizations: (1) internal controls and information systems; (2) internal audit systems; (3) loan documentation; (4) credit underwriting; (5) interest rate exposure; (6) asset growth; (7) executive compensation, fees and benefits; (8) asset quality; and (9) earnings. Significant adverse findings reporting safety and soundness or violations of laws or regulations by any of FNB’s federal bank regulators could potentially result in the imposition of significant fines, penalties, reimbursements, enforcement actions as well as limitations and prohibitions on the activities and growth of FNB and our subsidiaries.

There are numerous laws, regulations and rules governing the activities of financial institutions - including non-bank financial institutions, such as financial technology companies and marketplace lenders, which provide products and services comparable to banking organizations - financial holding companies and bank holding companies. The following discussion is general in nature and seeks to highlight some of the more significant of these regulatory requirements, but does not purport to be complete or to describe all of the laws and regulations that apply to us and our subsidiaries.

Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010

The Dodd-Frank Act continues to have a broad impact on the financial services industry by introducing significant regulatory and compliance changes including, among other things:

- enhanced authority over troubled and failing banks and their holding companies;
- increased capital and liquidity requirements;
- increased regulatory examination fees;
- increased assessments banks must pay the FDIC for federal deposit insurance; and
- specific provisions designed to improve supervision and oversight of bank safety and soundness and consumer practices, by imposing restrictions and limitations on the scope and type of banking and financial activities.

In addition, the Dodd-Frank Act established a new framework for systemic risk oversight within the financial system that is enforced by new and existing federal regulatory agencies and authorities, including the Financial Stability Oversight Council (FSOC), FRB, OCC, FDIC and CFPB. The following description briefly summarizes certain impacts of the Dodd-Frank Act on the operations and activities, both currently and prospectively, of FNB, FNBPA, and our subsidiaries and affiliates.

Deposit Insurance. The Dodd-Frank Act established a $250,000 deposit insurance limit for insured deposits. Amendments to the Federal Deposit Insurance Act also revised the assessment base against which an insured depository institution's deposit insurance premiums paid to the FDIC's Deposit Insurance Fund (DIF) are calculated. Under the amendments, the FDIC assessment base is no longer the institution's deposit base, but rather its average consolidated total assets less its average tangible equity. The Dodd-Frank Act requires a phase-in of the minimum designated reserve ratio for the DIF, increasing it from 1.15% to 1.35% of the estimated amount of total insured deposits. This increase is required to occur by September 30, 2020. In addition, the Dodd-Frank Act eliminated the requirement of the FDIC to pay dividends to depository institutions when the reserve ratio exceeds certain thresholds. The FDIC has set the target designated reserve ratio at 2%. As of June 30, 2016, the FDIC began to collect a 4.5 basis point annualized premium surcharge assessed on assets over $10 billion of each institution assessment base. In 2017, the premium surcharge resulted in an additional expense of $8.1 million. In addition, H.R.1, An Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018, commonly referred to as the Tax Cuts and Jobs Act of 2017 (TCJA), which was signed into law on December 22, 2017, disallows the deduction of FDIC deposit insurance premium payments for banking organizations with total consolidated assets of $50 billion or more. For banks with less than $50 billion in total consolidated assets, such as FNBPA, the premium deduction is phased-out based on the proportion of the bank's assets exceeding $10 billion.

Interest on Demand Deposits. Under the Dodd-Frank Act, depository institutions are permitted to pay interest on demand deposits. In accordance therewith, we pay interest on certain classes of commercial demand deposits.

Volcker Rule. Section 619 of the Dodd-Frank Act (known as the Volcker Rule) prohibits insured depository institutions and their holding companies from engaging in proprietary trading, except under limited circumstances, and prohibits them from owning equity interests in excess of three percent (3%) of Tier 1 capital in private equity and hedge funds. In December 2013, the federal banking agencies adopted final rules implementing the Volcker Rule (the Volcker Implementing Rules). The Volcker Implementing Rules prohibit banking entities from (1) engaging in short-term proprietary trading for their own accounts, and (2) having certain ownership interests in and relationships with hedge funds or private equity funds, which are referred to as "covered funds." The Volcker Implementing Rules are intended to provide greater clarity with respect to both the extent of those primary prohibitions and of the related exemptions and exclusions and require each regulated entity to establish an internal compliance program that is consistent with the extent to which it engages in activities covered by the Volcker Rule, which must include (for the largest entities) making regular reports about those activities to the entity's regulators. Although the Volcker Implementing Rules provide for some tiering of compliance and reporting obligations based on the size of an institution, the fundamental prohibitions of the Volcker Rule apply to banking organizations of any size. The Volcker Implementing Rules became effective April 1, 2014, but the conformance period was extended from its statutory end date of July 21, 2014 until July 21, 2015. In addition, the FRB granted extensions until July 21, 2017 of the conformance period for banking entities to conform investments in and relationships with covered funds that were in place prior to December 31, 2013, and in December 2016 provided guidance allowing for additional extensions to the conformance period for certain illiquid funds. We have evaluated the requirements of the Volcker Implementing Rules with respect to our investments and we do not expect any material divestitures of such investments or other financial implications.

In addition, in August 2017 the OCC published a notice and request for comment on whether certain aspects of the Volcker Rule should be revised to better accomplish the purposes the Dodd-Frank Act while decreasing the compliance burden on banking organizations and fostering economic growth. The request for comment invited input on ways in which to tailor the Volcker Rule's requirements and clarify key provisions that define prohibited and permissible activities, as well as input on how the federal regulatory agencies could implement the existing Rule more effectively without revising the Volcker Implementing Rules. Specifically, the OCC requested comments on the scope of entities subject to the Volcker Rule, the proprietary trading prohibition, the covered funds prohibition, and the compliance program and metrics reporting requirements. We cannot predict whether regulations that would simplify compliance with the Volcker Implementing Regulations will be adopted or, if such regulations were to be adopted, the extent to which they would reduce our compliance burdens.

The Consumer Financial Protection Bureau. The CFPB's responsibility is to establish, implement and enforce laws, rules and regulations under certain federal consumer financial laws, as defined by the Dodd-Frank Act and interpreted by the CFPB, with respect to the conduct of both bank and non-bank providers of certain consumer financial products and services. The CFPB has rulemaking and enforcement authority over many of the statutes that govern products and services banks offer to consumers. The CFPB has authority to prevent unfair, deceptive or abusive acts and practices in connection with the offering of consumer financial products and services. In addition, the Dodd-Frank Act permits states to adopt consumer protection laws and regulations that are more stringent than those regulations promulgated by the CFPB, and state attorneys general will have the authority to enforce consumer protection rules that the CFPB adopts against state-chartered institutions and against, with respect to certain non-preempted laws, national banks. Compliance with any such new regulation or other precedent established by the CFPB and/or states could reduce our revenue, increase our cost of operations and compliance, and limit, prevent, or make more costly, our ability to expand into certain products and services. Over the past several years, the CFPB has been active in bringing enforcement actions against banks and nonbank financial institutions to enforce federal consumer financial laws, and has developed a number of new enforcement theories and applications of these laws. Other federal financial regulatory agencies, including the OCC, as well as state attorneys general and state banking agencies and other state financial regulators also have been increasingly active in this area with respect to institutions over which they have jurisdiction. Notwithstanding the historical trends of supervision and enforcement of consumer financial laws, the CFPB experienced a leadership change in late 2017 that, although subject to ongoing litigation, may impact the CFPB's internal policies and supervision, enforcement and rulemaking priorities and philosophy.

Debit Card Interchange Fees. The FRB, pursuant to its authority under the Dodd-Frank Act, has issued rules regarding interchange fees charged for electronic debit transactions by payment card issuers having assets over $10 billion, adopting a per-transaction interchange cap base of $0.21 plus 0.05% of the transaction total (and an additional one cent to account for fraud protection costs).

Transactions with Affiliates. Pursuant to Sections 23A and 23B of the Federal Reserve Act, as implemented by Regulation W, banks are subject to restrictions that limit certain types of transactions between banks and their non-bank affiliates. In general, banks are subject to quantitative and qualitative limits on extensions of credit, purchases of assets and certain other transactions involving non-bank affiliates. Also, transactions between banks and their non-bank affiliates are required to be on arms-length terms and consistent with safe and sound banking practices. The Dodd-Frank Act enhances the requirements for certain transactions with affiliates under Sections 23A and 23B of the Federal Reserve Act, including an expansion of the definition of "covered transactions" to include the borrowing or lending of securities or derivative transactions, and an increase in the amount of time for which collateral requirements regarding covered transactions must be maintained. In addition, the provisions of the Volcker Rule apply similar restrictions on transactions between a bank and any "covered fund" that the bank advises or sponsors.

Transactions with Insiders. The Dodd-Frank Act expands insider transaction limitations through the strengthening of loan restrictions to insiders and extending the types of transactions subject to the various requirements to include derivative transactions, repurchase agreements, reverse repurchase agreements and securities lending and borrowing transactions. The Dodd-Frank Act also places restrictions on certain asset sales to and from an insider of an institution, including requirements that such sales be on market terms and, in certain circumstances, receive the approval of the institution's board of directors.

Enhanced Lending Limits. Federal banking law limits a national bank's ability to extend credit to one person or group of related persons to an amount that does not exceed certain thresholds. Among other things, the Dodd-Frank Act expanded the scope of these restrictions to include credit exposure arising from derivative transactions, repurchase agreements and securities lending and borrowing transactions.

The changes resulting from the Dodd-Frank Act continue to impact our profitability, require changes to certain of our business practices, including limitations on fee income opportunities, increased compliance costs, imposition of more stringent capital, liquidity and leverage requirements upon us or otherwise adversely affect our business. These changes may also require us to continue to invest significant management attention and compliance, legal, risk and audit resources to evaluate and make any changes necessary to comply with new statutory and regulatory requirements. We cannot predict what effect any newly implemented, presently contemplated or future changes in the laws or regulations or their interpretations may have on us.

Capital and Operational Requirements

The FRB, OCC and FDIC issued substantially similar risk-based and leverage capital guidelines applicable to U.S. banking organizations. In addition, these regulatory agencies may from time to time require that a banking organization maintain capital above the minimum levels, due to its financial condition or actual or anticipated growth.

FNB, like other bank holding companies, through December 31, 2017 was required to maintain common equity tier 1 (CET1), tier 1 and total capital (the sum of tier 1 and tier 2 capital) equal to at least 5.75%, 7.25% and 9.25%, respectively, of our total risk-weighted assets (including various off-balance sheet items). The risk-based capital standards are designed to make regulatory capital requirements more sensitive to differences in credit and market risk profiles among banks and financial holding companies, to account for off-balance sheet exposure, and to minimize disincentives for holding liquid assets. Assets and off-balance sheet items are assigned to broad risk categories, each with appropriate weights. The resulting capital ratios represent capital as a percentage of total risk-weighted assets and off-balance sheet items. At December 31, 2017, our CET1, tier 1 and total capital ratios under these guidelines were 8.9%, 9.3% and 11.4%, respectively. At December 31, 2017, we had $302.7 million of capital securities and subordinated debt that qualified as tier 2 capital.

In addition, the FRB has established minimum leverage ratio guidelines for bank holding companies. These guidelines currently provide for a minimum ratio of tier 1 capital to average total assets, less goodwill and certain other intangible assets (the leverage ratio), of 4.0% for bank holding companies that meet certain specified criteria, including the highest regulatory rating. The guidelines also provide that bank holding companies experiencing internal growth or making acquisitions will be expected to maintain strong capital positions substantially above the minimum supervisory levels without significant reliance on intangible assets. Our leverage ratio at December 31, 2017 was 7.6%.

Increased Capital Standards and Enhanced Supervision

The Dodd-Frank Act's regulatory capital requirements are intended to ensure that "financial institutions hold sufficient capital to absorb losses during future periods of financial distress" and requires the federal banking agencies to establish minimum leverage and risk-based capital requirements on a consolidated basis for insured depository institutions, their holding companies and non-bank financial companies that have been determined to be systemically important by the FSOC.

Basel III Capital Rules

In July 2013, FNB's and FNBPA's primary federal regulator, the FRB, published the Basel III Capital Rules (Basel III) establishing a new comprehensive capital framework for U.S. banking organizations. The rules implement the Basel Committee's December 2010 framework for strengthening international capital standards as well as certain provisions of the Dodd-Frank Act. Basel III substantially revised the risk-based capital requirements applicable to bank holding companies and depository institutions, including FNB and FNBPA, compared to the then-existing U.S. risk-based capital rules. Basel III defines the components of capital and addresses other issues affecting the numerator in banking institutions' regulatory capital ratios. Basel III also addresses risk weights and other issues affecting the denominator in a banking institution's regulatory capital ratios.

Basel III, among other things, (i) introduces the concept of CET1, (ii) specifies that tier 1 capital consists of CET1 and "Additional Tier 1" capital instruments meeting specified requirements, (iii) defines CET1 narrowly by requiring that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital and (iv) expands the scope of the deductions/adjustments as compared to existing regulations.

When fully phased in on January 1, 2019, Basel III will require FNB and FNBPA to maintain (i) a minimum ratio of CET1 to risk-weighted assets of at least 4.5%, plus a 2.5% "capital conservation buffer" (which is added to the 4.5% CET1 ratio as that buffer is phased in, effectively resulting in a minimum ratio of CET1 to risk-weighted assets of at least 7% upon full implementation), (ii) a minimum ratio of tier 1 capital to risk-weighted assets of at least 6.0%, plus the capital conservation buffer (which is added to the 6.0% tier 1 capital ratio as that buffer is phased in, effectively resulting in a minimum tier 1 capital ratio of 8.5% upon full implementation), (iii) a minimum ratio of total capital (that is, tier 1 plus tier 2) to risk-weighted assets of at least 8.0%, plus the capital conservation buffer (which is added to the 8.0% total capital ratio as that buffer is phased in, effectively resulting in a minimum total capital ratio of 10.5% upon full implementation) and (iv) a minimum leverage ratio of 4%, calculated as the ratio of tier 1 capital to average quarterly assets (as compared to a current minimum leverage ratio of 3% for banking organizations that either have the highest supervisory rating or have implemented the appropriate federal regulatory authority's risk-adjusted measure for market risk).

Under Basel III, the effects of certain accumulated other comprehensive items are not excluded; however, banking organizations which do not use the advanced approach, such as FNB and FNBPA, may make a one-time permanent election to continue to exclude these items. FNB and FNBPA made this election in order to avoid significant variations in the level of capital depending upon the impact of interest rate fluctuations on the fair value of FNB's available-for-sale securities portfolio. Basel III also precludes certain hybrid securities, such as TPS, as tier 1 capital of bank holding companies, subject to phase-out. TPS no longer included in FNB's tier 1 capital may nonetheless be included as a component of tier 2 capital on a permanent basis without phase-out.

Implementation of the deductions and other adjustments to CET1 began on January 1, 2015 and will be phased-in over a four-year period (starting at 40% on January 1, 2015, with an additional 20% per year thereafter over the implementation period). The implementation of the capital conservation buffer will begin on January 1, 2016 at the 0.625% level and be phased in over a four-year period (increasing by that amount on each subsequent January 1, until it reaches 2.5% on January 1, 2019).

With respect to FNBPA, Basel III also revises the "prompt corrective action" regulations pursuant to Section 38 of the Federal Deposit Insurance Act, as discussed below under the caption *"Prompt Corrective Action."*

Basel III prescribes a standardized approach for risk weightings that expands the risk-weighting categories from the four Basel I-derived categories (0%, 20%, 50% and 100%) to a much larger and more risk-sensitive number of categories, depending on the nature of the assets, generally ranging from 0% for U.S. government and agency securities, to 600% for certain equity exposures, and resulting in higher risk weights for a variety of asset categories.

In addition, Basel III provides more advantageous risk weights for derivatives and repurchase-style transactions cleared through a qualifying central counterparty and increases the scope of eligible guarantors and eligible collateral for purposes of credit risk mitigation. In November 2017, the federal banking agencies adopted a final rule to extend the regulatory capital treatment applicable during 2017 under Basel III for certain items, including regulatory capital deductions, risk weights, and certain minority interest limitations. The relief provided under the final rule applies to banking organizations that are not subject to the capital rules' advanced approaches, such as FNB. Specifically, the final rule extends the current regulatory capital treatment of MSAs, DTAs arising from temporary differences that could not be realized through net operating loss carrybacks, significant investments in the capital of unconsolidated financial institutions in the form of common stock, non-significant investments in the capital of unconsolidated financial institutions, significant investments in the capital of unconsolidated financial institutions that are not in the form of common stock, and CET1 minority interest, tier 1 minority interest, and total capital minority interest exceeding applicable minority interest limitations. Management believes that, as of December 31, 2017, FNB and FNBPA meet all capital adequacy requirements under Basel III on a fully phased-in basis as if such requirements had been in effect.

In October 2017, the federal banking agencies issued a notice of proposed rulemaking on simplifications to Basel III, a majority of which would apply solely to banking organizations that are not subject to the advanced approaches capital rules. Under the proposed rulemaking, non-advanced approaches banking organizations, such as FNB and FNBPA, would apply a simpler regulatory capital treatment for MSAs; certain DTAs; investments in the capital of unconsolidated financial institutions; and capital issued by a consolidated subsidiary of a banking organization and held by third parties. Specifically, the proposed rulemaking would eliminate: (i) the 10 percent CET1 capital deduction threshold that applies individually to MSAs, temporary difference DTAs, and significant investments in the capital of unconsolidated financial institutions in the form of common stock; (ii) the aggregate 15 percent CET1 capital deduction threshold that subsequently applies on a collective basis across such items; (iii) the 10 percent CET1 capital deduction threshold for non-significant investments in the capital of unconsolidated financial institutions; and (iv) the deduction treatment for significant investments in the capital of unconsolidated financial institutions not in the form of common stock. Basel III would no longer have distinct treatments for significant and non-significant investments in the capital of unconsolidated financial institutions, but instead would require that non-advanced approaches banking organizations deduct from CET1 capital any amount of MSAs, temporary difference DTAs, and investments in the capital of unconsolidated financial institutions that individually exceeds 25 percent of CET1 capital. The proposed rulemaking also includes revisions to the treatment of certain acquisition, development, or construction exposures that are designed to address comments regarding the current definition of high volatility commercial real estate exposure under the capital rule's standardized approach. If these are adopted as proposed, we anticipate a positive impact on our capital ratios.

In December 2017, the Basel Committee on Banking Supervision published the last version of the Basel III accord, generally referred to as "Basel IV." The Basel Committee stated that a key objective of the revisions incorporated into the framework is to reduce excessive variability of risk-weighted assets, which will be accomplished by enhancing the robustness and risk sensitivity of the standardized approaches for credit risk and operational risk, which will facilitate the comparability of banks' capital ratios; constraining the use of internally modelled approaches; and complementing the risk-weighted capital ratio with a finalized leverage ratio and a revised and robust capital floor. Leadership of the FRB, OCC, and FDIC, who are tasked with implementing Basel IV, supported the revisions. Although it is uncertain at this time, we anticipate some, if not all, of the Basel IV accord may be incorporated into the regulatory capital requirements framework applicable to FNB and FNBPA.

Stress Testing

As required by the Dodd-Frank Act, the FRB and OCC published final rules regarding company-run stress testing (DFAST). The DFAST rules require institutions, such as FNB and FNBPA, with average total consolidated assets greater than $10 billion, to conduct an annual company-run stress test of capital, consolidated earnings and losses under one base and at least two stress scenarios provided by the federal bank regulators. Implementation of the DFAST rules for covered institutions with total consolidated assets between $10 billion and $50 billion began in 2013. The DFAST rules and guidance require increased involvement by boards of directors in the stress testing process and public disclosure of the results. Public disclosure of summary stress test results under the severely adverse scenario began in June 2015 for stress tests commencing in 2014. The public disclosure of FNB's stress testing results using data as of December 31, 2016 was in October 2017. Our capital ratios reflected in the stress test calculations exceeded the well-capitalized levels, even under the severely adverse scenario. This is an important factor considered by the FRB and OCC in evaluating the capital adequacy of FNB and FNBPA and whether the appropriateness of any proposed payments of dividends or stock repurchases may be an unsafe or unsound practice. In reviewing FNB's and FNBPA's stress test results, the FRB and OCC will consider both quantitative and qualitative factors.

Prompt Corrective Action

The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), among other things, classifies insured depository institutions into five capital categories (well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized) and requires the respective federal regulatory agencies to implement systems for "prompt corrective action" for insured depository institutions that do not meet minimum capital requirements within such categories. FDICIA imposes progressively more restrictive constraints on operations, management and capital distributions, depending on the category in which an institution is classified. Failure to meet the capital guidelines could also subject a banking institution to capital-raising requirements, restrictions on its business and a variety of enforcement remedies, including the termination of deposit insurance by the FDIC, and in certain circumstances the appointment of a conservator or receiver. An "undercapitalized" bank must develop a capital restoration plan and its parent holding company must guarantee that bank's compliance with the plan. The liability of the parent holding company under any such guarantee is limited to the lesser of five percent of the bank's assets at the time it became "undercapitalized" or the amount needed to comply with the plan. Furthermore, in the event of the bankruptcy of the parent holding company, the obligation under such guarantee would take priority over the parent's general unsecured creditors. In addition, FDICIA requires the various regulatory agencies to prescribe certain non-capital standards for safety and soundness relating generally to operations and management, asset quality and executive compensation and permits regulatory action against a financial institution that does not meet such standards.

The various regulatory agencies have adopted substantially similar regulations that define the five capital categories identified by FDICIA, using the total risk-based capital, tier 1 risk-based capital, CET1 and leverage capital ratios as the relevant capital measures. Such regulations establish various degrees of corrective action to be taken when an institution is considered undercapitalized. Under the regulations, a "well-capitalized" institution must have a CET1 risk-based capital ratio of at least 6.5%, a tier 1 risk-based capital ratio of at least 8.0%, a total risk-based capital ratio of at least 10.0% and a leverage ratio of at least 5.0% and not be subject to a capital directive order. Under these guidelines, FNBPA was considered well-capitalized as of December 31, 2017.

When determining the adequacy of an institution's capital, federal regulators must also take into consideration (a) concentrations of credit risk; (b) interest rate risk (when the interest rate sensitivity of an institution's assets does not match the sensitivity of its liabilities or its off-balance sheet position) and (c) risks from non-traditional activities, as well as an institution's ability to manage those risks. This evaluation is made as part of the institution's regular safety and soundness examination. In addition, any bank with significant trading activity, must incorporate a measure for market risk in their regulatory capital calculations.

Expanded FDIC Powers Upon Insolvency of Insured Depository Institutions

The Dodd-Frank Act provides a mechanism for appointing the FDIC as receiver for a financial company if the failure of the company and its liquidation under the Bankruptcy Code or other insolvency procedures would pose a significant risk to the financial stability of the U.S.

If appointed as receiver for a failing financial company for which a systemic risk determination has been made, the FDIC has broad authority under the Dodd-Frank Act and the Orderly Liquidation Authority (OLA) it created to operate or liquidate the business, sell the assets, and resolve the liabilities of the company immediately after its appointment as receiver or as soon as conditions make this appropriate. This authority will enable the FDIC to act immediately to sell assets of the company to another entity or, if that is not possible, to create a bridge financial company to maintain critical functions as the entity is wound down. In receiverships of insured depository institutions, the ability to act quickly and decisively has been found to reduce losses to creditors while maintaining key banking services for depositors and businesses. The FDIC will similarly be able to act quickly in resolving non-bank financial companies under the Dodd-Frank Act.

The FDIC Office of Complex Financial Institutions is responsible for implementing its expanded responsibilities attendant to its new receivership authority. The FDIC adopted five major rules for the implementation of its new receivership authority.

Under these rules, if the FDIC is appointed the conservator or receiver of an insured depository institution upon its insolvency or in certain other events, the FDIC has the power to:

- transfer any of the depository institution's assets and liabilities to a new obligor without the approval of the depository institution's creditors;
- enforce the terms of the depository institution's contracts pursuant to their terms; and
- repudiate or disaffirm any contract or lease to which the depository institution is a party, the performance of which is determined by the FDIC to be burdensome and the disaffirmation or repudiation of which is determined by the FDIC to promote the orderly administration of the depository institution. Also, under applicable law, the claims of a receiver of an insured depository institution for administrative expense and claims of holders of U.S. deposit liabilities (including the FDIC, as subrogee of the depositors) have priority over the claims of other unsecured creditors of the institution in the event of the liquidation or other resolution of the institution. As a result, whether or not the FDIC would ever seek to repudiate any obligations held by public note holders, such persons would be treated differently from, and could receive, if anything, substantially less than the depositors of the depository institution.

In April 2017, the Administration directed the UST to conduct a thorough review of the OLA to determine, among other things, the effectiveness of the framework and the extent to which it is consistent with the Core Principles for Regulation the United States Financial System, as established by Executive Order of the President in February 2017. The UST has not yet completed this review.

Community Reinvestment Act and Fair Lending

The Community Reinvestment Act of 1977 (CRA) requires depository institutions to assist in meeting the credit needs of their market areas consistent with safe and sound banking practices. Under the CRA, each depository institution is required to help meet the credit needs of its market areas by, among other things, providing credit to and investments in low- and moderate-income individuals and communities. Depository institutions are periodically examined for compliance with the CRA and are assigned ratings. In order for a financial holding company to commence any new activity permitted by the BHC Act, or to acquire any company engaged in any new activity permitted by the BHC Act, each insured depository institution subsidiary of the financial holding company must have received a rating of at least "satisfactory" in its most recent examination under the CRA. In its most recent CRA examination, FNBPA received a "satisfactory" rating. Furthermore, banking regulators take into account CRA ratings when considering approval of a proposed transaction.

Fair lending laws prohibit discrimination in the provision of banking services, and the enforcement of these laws has been an increasing focus for the CFPB, the Department of Housing and Urban Development (HUD), and other regulators. Fair lending laws include the Equal Credit Opportunity Act (ECOA) and the Fair Housing Act (FHA), which outlaw discrimination in credit and residential real estate transactions on the basis of prohibited factors including, among others, race, color, national origin, gender, and religion. A lender may be liable for policies that result in a disparate treatment of or have a disparate impact on a protected class of applicants or borrowers. If a pattern or practice of lending discrimination is alleged by a regulator, then that agency may refer the matter to the U.S. Department of Justice (DOJ) for investigation. In December 2012, the DOJ and CFPB entered into a Memorandum of Understanding under which the agencies have agreed to share information, coordinate investigations and have generally committed to strengthen their coordination efforts. Given recent leadership changes at the DOJ and CFPB, as well as changes in the enforcement policies and priorities of each agency, the extent to which such coordination will continue to occur in the near term is uncertain. FNBPA is required to have a fair lending program that is of sufficient scope to monitor the inherent fair lending risk of the institution and that appropriately remediates issues which are identified.

Financial Privacy

In accordance with the GLB Act, federal banking regulators adopted rules that limit the ability of banks and other financial institutions to disclose non-public information about consumers to nonaffiliated third parties. These limitations require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to a nonaffiliated third party. The privacy provisions of the GLB Act affect how consumer information is transmitted through diversified financial companies and conveyed to outside vendors.

Cybersecurity

The federal banking agencies have adopted guidelines for establishing information security standards and cybersecurity programs for implementing safeguards under the supervision of a banking organization's the board of directors. These guidelines, along with related regulatory materials, increasingly focus on risk management, processes related to information technology and operational resiliency, and the use of third parties in the provision of financial services. In October 2016, the federal banking agencies issued an advance notice of proposed rulemaking on enhanced cybersecurity risk-management and resilience standards that would apply to large and interconnected banking organizations and to services provided by third parties to these firms. These enhanced standards would apply only to depository institutions and depository institution holding companies with total consolidated assets of $50 billion or more; however, it is anticipated that, if these enhanced standards are implemented, the OCC will consider them in connection with the examination and supervision of banks below the $50 billion threshold. The federal banking agencies have not yet taken further action on these proposed standards. The OCC, however, part of its bank supervision operational plan has prioritized review of national bank's information security, data protection and third-party risk management, including the extent to which national banks' are positioned to assess and the evolving cyber-threat environment and maintain resilient against such threats.

In late 2017, the SEC announced that they plan to issue guidelines governing the manner in which public companies report cybersecurity breaches to investors. The federal bank regulatory agencies and state laws govern the manner in which banks report cybersecurity breaches to affected customers.

Anti-Money Laundering Initiatives and the USA PATRIOT Act

A major focus of governmental policy on financial institutions in recent years has been aimed at combating money laundering and terrorist financing. The USA PATRIOT Act of 2001 (USA PATRIOT Act), which amended the Bank Secrecy Act of 1970, substantially broadened the scope of U.S. anti-money laundering laws and regulations by imposing significant new compliance and due diligence obligations, creating new crimes and penalties and expanding the extra-territorial jurisdiction of the U.S. The UST has issued a number of regulations that apply various requirements of the USA PATRIOT Act to financial institutions such as FNBPA. These regulations require financial institutions to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing and to verify the identity of their customers. In 2016, these regulations were amended to include express requirements regarding risk-based procedures for conducting ongoing customer due diligence. Such procedures require banks to take appropriate steps to understand the nature and purpose of customer relationships. In addition, absent an applicable exclusion, banks must identify and verify the identity of the beneficial owners of all legal entity customers at the time a new account is established. These requirements become effective in May 2018. The failure of a financial institution to maintain and implement adequate programs to combat money laundering and terrorist financing, or to comply with all of the relevant laws or regulations, could have serious legal, including criminal law enforcement, and reputational consequences for the institution.

Office of Foreign Assets Control Regulation

The U.S. has instituted economic sanctions which affect transactions with designated foreign countries, nationals and others. These are typically known as the "OFAC rules" because they are administered by the UST Office of Foreign Assets Control (OFAC). The OFAC-administered sanctions target countries in various ways. Generally, however, they contain one or more of the following elements: (i) restrictions on trade with or investment in a sanctioned country, including prohibitions against direct or indirect imports from and exports to a sanctioned country, and prohibitions on "U.S. persons" engaging in financial transactions which relate to investments in, or providing investment-related advice or assistance to, a sanctioned country; and (ii) a blocking of assets in which the government or specially designated nationals of the sanctioned country have an interest, by prohibiting transfers of property subject to U.S. jurisdiction (including property in the possession or control of U.S. persons). Blocked assets (e.g., property and bank deposits) cannot be paid out, withdrawn, set off or transferred in any manner without a license from OFAC. Failure to comply with these sanctions could have serious legal and reputational consequences for the institution.

Consumer Protection Statutes and Regulations

In addition to the consumer regulations promulgated by the FRB, OCC and state agencies, and the regulations that may be issued by the CFPB pursuant to its authority under the Dodd-Frank Act, FNBPA is subject to various federal consumer protection statutes including the Truth in Lending Act (TILA), Truth in Savings Act, ECOA, FHA, Real Estate Settlement Procedures Act (RESPA), Fair Debt Collection Practices Act, Fair Credit Reporting Act, Electronic Fund Transfer Act and HMDA, and regulations and guidance promulgated thereunder by the CFPB and the federal banking agencies. Among other things, these acts and regulations:

- require banks to disclose credit terms in meaningful and consistent ways;
- prohibit discrimination against an applicant in any consumer or business credit transaction;
- prohibit discrimination in housing-related lending activities;
- require banks to collect and report applicant and borrower data regarding loans for home purchases or improvement projects;
- require lenders to provide borrowers with more detailed information regarding the nature and cost of real estate settlements;
- prohibit certain lending practices and limit escrow account amounts with respect to real estate transactions;
- prescribe possible penalties for violations of the requirements of consumer protection statutes and regulations;
- require prescribed consumer disclosures and the adoption of error resolution procedures and other consumer protection protocols with respect to electronic fund transfers; and
- prohibit unfair, deceptive or abusive acts and practices in connection with consumer loans, the collection of debt, and the provision of other consumer financial products and services.

The CFPB has implemented a series of final consumer protection and disclosure rules related to mortgage loan origination and mortgage loan servicing designed to address the Dodd-Frank Act mortgage lending protections. In particular, the CFPB issued a rule implementing the ability-to-repay and QM provisions of the Truth in Lending Act, as amended by the Dodd-Frank Act (the QM Rule). The ability-to-repay provision requires creditors to make reasonable, good faith determinations that borrowers are able to repay their mortgages before extending the credit based on a number of factors and consideration of financial information about the borrower from reasonably reliable third-party documents. Under the Dodd-Frank Act and the QM Rule, loans meeting the definition of "qualified mortgage" are entitled to a presumption that the lender satisfied the ability-to-repay requirements. The presumption is a conclusive presumption/safe harbor for prime loans meeting the QM requirements, and a rebuttable presumption for higher-priced/subprime loans meeting the QM requirements. The definition of a "qualified mortgage" incorporates the statutory requirements, such as not allowing negative amortization or terms longer than 30 years. The QM Rule also adds an explicit maximum 43% debt-to-income ratio for borrowers if the loan is to meet the QM definition, though some mortgages that meet underwriting guidelines of U.S. government-sponsored entities, the Federal Housing Administration and the U.S. Department of Veteran Affairs may, for a period not to exceed seven years, meet the QM definition without being subject to the 43% debt-to-income limits. Additionally, regulations governing the servicing of residential mortgages have placed additional requirements on mortgage servicers that often lengthen the process for foreclosing on residential mortgages. The CFPB also adopted integrated disclosure requirements related to mortgage originations under RESPA and TILA and each statute's implementing regulations. These disclosure requirements became effective in October 2015. The CFPB issued proposed amendments to the requirements in July 2016, which were finalized in July 2017. The CFPB also issued interpretive guidance and updated model disclosure forms in 2017.

As discussed, the CFPB has the authority to take supervisory and enforcement action against banks and other financial services companies under the agency's jurisdiction that fail to comply with federal consumer financial laws. As an insured depository institution with total assets of more than $10 billion, FNBPA is subject to the CFPB's supervisory and enforcement authorities. The Dodd-Frank Act also permits states to adopt stricter consumer protection laws and state attorneys general to enforce consumer protection rules issued by the CFPB. We continuously evaluate the impact of the consumer rules issued by the CFPB to determine if they will have any long-term impact on our mortgage loan origination and servicing activities. Compliance with these rules will likely increase our overall regulatory compliance costs and decrease fee income opportunities.

Dividend Restrictions

Our primary source of funds for cash distributions to our stockholders, and funds used to pay principal and interest on our indebtedness, is dividends received from FNBPA. FNBPA is subject to federal laws and regulations governing its ability to pay dividends to FNB, including requirements to maintain capital above regulatory minimums. Under federal law, the amount of dividends that a national bank, such as FNBPA, may pay in a calendar year is dependent on the amount of its net income for the current year combined with its retained net income for the two preceding years. The OCC has the authority to prohibit the payment of dividends by a national bank if it determines such payment would be an unsafe or unsound banking practice. In addition to dividends from FNBPA, other sources of parent company liquidity for FNB include cash and short-term investments, as well as dividends and loan repayments from other subsidiaries.

In addition, the ability of FNB and FNBPA to pay dividends may be affected by the various minimum capital requirements previously described in the *"Capital and Operational Requirements," "Basel III Capital Rules" and "Stress Testing"* discussions herein, and the capital and non-capital standards established under FDICIA, as described above. The right of FNB, our stockholders and our creditors to participate in any distribution of the assets or earnings of our subsidiaries is further subject to the prior claims of creditors of the respective subsidiaries.

Source of Strength

According to the Dodd-Frank Act and FRB policy, a financial or bank holding company is expected to act as a source of financial strength to each of its subsidiary banks and to commit resources to support each such subsidiary. Consistent with the "source of strength" policy, the FRB has stated that, as a matter of prudent banking, a bank or financial holding company generally should not maintain a rate of cash dividends unless its net income has been sufficient to fully fund the dividends and the prospective rate of earnings retention appears to be consistent with our capital needs, asset quality and overall financial condition. This support may be required at times when the parent holding company may not be able to provide such support.

In addition, if FNBPA was no longer "well-capitalized" and "well-managed" within the meaning of the BHC Act and FRB rules (which take into consideration capital ratios, examination ratings and other factors), the expedited processing of certain types of FRB applications would not be available to us. Moreover, examination ratings of "3" or lower, "unsatisfactory" ratings, capital ratios below well-capitalized levels, regulatory concerns regarding management, controls, assets, operations or other factors can all potentially result in the loss of financial holding company status, practical limitations on the ability of a bank or bank (or financial) holding company to engage in new activities, grow, acquire new businesses, repurchase its stock or pay dividends or continue to conduct existing activities.

Financial Holding Company Status and Activities

Under the BHC Act, an eligible bank holding company may elect to be a "financial holding company" and thereafter may engage in a range of activities that are financial in nature and that were not previously permissible for banks and bank holding companies. FNB is a financial holding company under the BHC Act. The financial holding company may engage directly or through a subsidiary in certain statutorily authorized activities (subject to certain restrictions and limitations imposed by the Dodd-Frank Act). A financial holding company may also engage in any activity that has been determined by rule or order to be financial in nature, incidental to such financial activity, or (with prior FRB approval) complementary to a financial activity and that does not pose substantial risk to the safety and soundness of an institution or to the financial system generally. In addition to these activities, a financial holding company may engage in those activities permissible for a bank holding company that has not elected to be treated as a financial holding company.

For a bank holding company to be eligible for financial holding company status, all of its subsidiary U.S. depository institutions must be "well-capitalized" and "well-managed." The FRB generally must deny expanded authority to any bank holding company with a subsidiary insured depository institution that received less than a satisfactory rating on its most recent CRA review as of the time it submits its request for financial holding company status. If, after becoming a financial holding company and undertaking activities not permissible for a bank holding company under the BHC Act, the company fails to continue to meet any of the requirements for financial holding company status, the company must enter into an agreement with the FRB to comply with all applicable capital and management requirements. If the company does not return to compliance within 180 days, the FRB may order the company to divest its subsidiary banks or the company may discontinue or divest investments in companies engaged in activities permissible only for a bank holding company that has elected to be treated as a financial holding company.

Activities and Acquisitions

The BHC Act requires a bank or financial holding company to obtain the prior approval of the FRB before:

- the company may acquire direct or indirect ownership or control of any voting shares of any bank or savings and loan association, if after such acquisition the bank holding company will directly or indirectly own or control more than five percent of any class of voting securities of the institution;
- any of the company's subsidiaries, other than a bank, may acquire all or substantially all of the assets of any bank or savings and loan association; or
- the company may merge or consolidate with any other bank or financial holding company.

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (Interstate Banking Act) generally permits bank holding companies to acquire banks in any state, and preempts all state laws restricting the ownership by a holding company of banks in more than one state. A bank is subject to any state requirement that the bank has been organized and operating for a minimum period of time and the requirement that the bank holding company, after the proposed transaction, controls no more than 10 percent of the total amount of deposits of insured depository institutions in the U.S. and no more than 30 percent or such lesser or greater amount set by the state law of such deposits in that state. The Interstate Banking Act also permits:

- a bank to merge with an out-of-state bank and convert any offices into branches of the resulting bank;
- a bank to acquire branches from an out-of-state bank; and
- a bank to establish and operate de novo interstate branches whenever the host state permits de novo branching of its own state-chartered banks.

Bank or financial holding companies and banks seeking to engage in mergers authorized by the Interstate Banking Act must be at least adequately capitalized as of the date that the application is filed, and the resulting institution must be well-capitalized and managed upon consummation of the transaction.

The Change in Bank Control Act prohibits a person, entity or group of persons or entities acting in concert, from acquiring "control" of a bank holding company or bank unless the FRB has been given prior notice and has not objected to the transaction. Under FRB regulations, the acquisition of 10% or more (but less than 25%) of the voting stock of a corporation would, under the circumstances set forth in the regulations, create a rebuttable presumption of acquisition of control of the corporation.

Incentive Compensation

Guidelines adopted by the federal banking agencies pursuant to the Federal Deposit Insurance Act (FDI Act) prohibit excessive compensation as an unsafe and unsound practice. The federal banking agencies jointly adopted the Guidance on Sound Incentive Compensation Policies intended to ensure that banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. This guidance, which covers all employees that have the ability to expose the organization to material amounts of risk, either individually or as part of a group, is based upon the key principles that a banking organization's incentive compensation arrangements should (i) provide employee incentives that appropriately balance risk in a manner that does not encourage employees to expose their organizations to imprudent risk, (ii) be compatible with effective controls and risk management, and (iii) be supported by strong corporate governance, including active and effective oversight by the organization's board of directors. Any deficiencies in the compensation practices of FNB or its subsidiaries and affiliates could lead to supervisory or enforcement action.

Section 956 of the Dodd-Frank Act required the federal banking agencies and the SEC to establish joint regulations or guidelines prohibiting incentive-based payment arrangements at specified regulated entities, such as us, having at least $1 billion in total assets that encourage inappropriate risk-taking by providing an executive officer, employee, director or principal shareholder with excessive compensation, fees, or benefits or that could lead to material financial loss to the entity. In addition, these regulators were required to establish regulations or guidelines requiring enhanced disclosure to regulators of incentive-based compensation arrangements. The federal banking agencies proposed such regulations in April 2011 and issued a second proposed rule in April 2016. The second proposed rule would apply to all banks, among other institutions, with at least $1 billion in average total consolidated assets, for which it would go beyond the Guidance on Sound Incentive Compensation Policies discussed above to prohibit certain types and features of incentive-based compensation arrangements, require incentive-based compensation arrangements to adhere to certain basic principles, and require appropriate board or committee oversight and recordkeeping and disclosures to the appropriate agency. In addition, institutions with at least $50 billion in average total consolidated assets would be subject to additional compensation-related requirements and prohibitions. The prospects for continued consideration of these proposed rules by the SEC and federal banking agencies are uncertain, but implementation of any final rules is not expected in the near term. Nevertheless, incentive compensation and sales practices, particularly in connection with certain products and services that are viewed as high-risk from a supervisory perspective-such as cross-selling and overdraft services-continue to be priority issues on the examination and supervision agendas of the CFPB and the federal banking agencies.

Securities and Exchange Commission

FNBIA is registered with the SEC as an investment advisor and, therefore, is subject to the requirements of the Investment Advisers Act of 1940 and other applicable SEC regulations. The principal purpose of the regulations applicable to investment advisors is the protection of investment advisory clients and the securities markets, rather than the protection of creditors and stockholders of investment advisors. The regulations applicable to investment advisors cover all aspects of the investment advisory business, including limitations on the ability of investment advisors to charge performance-based or non-refundable fees to clients, record-keeping, operating, marketing and reporting requirements, disclosure requirements, limitations on principal transactions between an advisor or its affiliates and advisory clients, as well as other anti-fraud prohibitions. FNBIA also may be subject to certain state securities laws and regulations.

Additional legislation, changes in or new rules promulgated by the SEC and other federal and state regulatory authorities and self-regulatory organizations or changes in the interpretation or enforcement of existing laws and rules, may directly affect the method of operation and profitability of FNBIA. The profitability of FNBIA could also be affected by rules and regulations that impact the business and financial communities in general, including changes to the laws governing taxation, antitrust regulation, homeland security and electronic commerce.

Under various provisions of the federal and state securities laws, including in particular those applicable to broker-dealers, investment advisors and registered investment companies and their service providers, a determination by a court or regulatory agency that certain violations have occurred at a company or its affiliates can result in a limitation of permitted activities and disqualification to continue to conduct certain activities.

FNBIA also may be required to conduct its business in a manner that complies with rules and regulations promulgated by the U.S. Department of Labor (DOL) under the Employee Retirement Income Security Act of 1974 (ERISA), among others. The principal purpose of these regulations is the protection of clients and ERISA plan and individual retirement account assets and beneficiaries, rather than the protection of stockholders and creditors. The DOL has adopted a new fiduciary rule that is expected to affect FNBIA's business and compliance practices to the extent it provides fiduciary investment advice to clients regarding individual retirement accounts or other retirement accounts. The rule was initially scheduled to become applicable in April 2017 and became partially effective in June 2017. However, full implementation of the rule, including key provisions encompassing the "best interest contract" exemption and other exemptions, has been delayed until July 2019 to provide the DOL additional time to complete its evaluation of whether the rule may adversely affect access to retirement information and financial advice, as directed by the Presidential Memorandum issued on February 3, 2017, and to consider public comments submitted to the DOL. Additionally, in September 2017, the SEC announced it is drafting its own proposal for a fiduciary rule for brokers and investment advisers. Due to these developments, we cannot predict whether there will be material changes to existing laws and regulations or how any changes may affect FNBIA's business and industry; however, until further action is taken by the Administration, Congress, or the DOL, entities and persons subject to the rule are expected by the DOL to exercise good faith compliance during the transition period.

Consumer Finance Subsidiary

Regency is subject to regulation under Pennsylvania, Tennessee, Ohio and Kentucky state laws that require, among other things, that it maintain licenses in effect for consumer finance operations for each of its offices. Representatives of the Pennsylvania Department of Banking and Securities, the Tennessee Department of Financial Institutions, the Ohio Division of Financial Institutions and the Kentucky Department of Financial Institutions may periodically visit Regency's offices and conduct examinations in order to determine compliance with such laws and regulations. Additionally, the FRB, as "umbrella" regulator of FNB pursuant to the GLB Act, may conduct an examination of Regency's offices or operations. Such examinations include a review of loans and the collateral securing those loans, as well as a check of the procedures employed for making and collecting loans. Additionally, Regency is under the jurisdiction of the CFPB and is subject to certain federal consumer protection laws that require that certain information relating to credit terms be disclosed to customers and, in certain instances, afford customers the right to rescind transactions. The CFPB may also periodically visit Regency's offices and conduct extensive consumer protection examinations. As a Pennsylvania corporation, Regency is subject to Pennsylvania's requirements concerning dividend payments.

Insurance Agencies

FNIA is subject to licensing requirements and extensive regulation under the laws of the Commonwealth of Pennsylvania and the various states in which FNIA conducts its insurance agency business. These laws and regulations are primarily for the protection of policyholders. In all jurisdictions, the applicable laws and regulations are subject to amendment or interpretation by regulatory authorities. Generally, those authorities are vested with relatively broad discretion to grant, renew and revoke licenses and approvals and to implement regulations. Licenses may be denied or revoked for various reasons, including for regulatory violations or upon conviction for certain crimes. Possible sanctions that may be imposed for violation of regulations include the suspension of individual employees, limitations on engaging in a particular business for a specified period of time, revocation of licenses, censures and fines.

Penn-Ohio is subject to examination by the Arizona Department of Insurance. Representatives of the Arizona Department of Insurance periodically determine whether Penn-Ohio has maintained required reserves, established adequate deposits under a reinsurance agreement and complied with reporting requirements under the applicable Arizona statutes.

Other Laws and Regulations Pertaining to Banks and Financial Services Companies

FNB, FNBPA and our subsidiaries and affiliates are also subject to a variety of other laws and regulations in addition to those already discussed herein with respect to the operation of our businesses, including but not limited to Expedited Funds Availability (and its implementing Regulation CC), Reserve Requirements (and its implementing Regulation D), Margin Stock Loans (and its implementing Regulation U), Right To Financial Privacy Act, Flood Disaster Protection Act, Homeowners Protection Act, Servicemembers Civil Relief Act, Telephone Consumer Protection Act, CAN-SPAM Act, Children's Online Privacy Protection Act, and the John Warner National Defense Authorization Act.

In addition, SOX addresses, among other issues, corporate governance, auditing and accounting, executive compensation, and enhanced and timely disclosure of corporate information. As directed by SOX, our Chief Executive Officer and Chief Financial Officer are required to certify that our quarterly and annual reports do not contain any untrue statement of a material fact. The rules adopted by the SEC under SOX have several requirements, including having these officers certify that: they are responsible for establishing, maintaining and regularly evaluating the effectiveness of our internal control over financial reporting; they have made certain disclosures to our auditors and the audit committee of the board of directors about our internal control over financial reporting; and they have included information in our quarterly and annual reports about their evaluation and whether there have been changes in our internal control over financial reporting or in other factors that could materially affect internal control over financial reporting.

Governmental Policies

The operations of FNB and our subsidiaries are affected not only by general economic conditions, but also by the policies of various regulatory authorities. In particular, the FRB regulates monetary policy and interest rates in order to influence general economic conditions. These policies have a significant influence on overall growth and distribution of loans, investments and deposits and affect interest rates charged on loans or paid for deposits. FRB monetary policies have had a significant effect on the operating results of all financial institutions in the past and may continue to do so in the future.

The 2016 U.S. presidential election resulted in a new Administration controlling the Executive Branch of the Federal Government. The new Administration may bring changes to the U.S. financial services industry, and monetary and fiscal policy that we cannot predict at this time. In 2017, the President issued an Executive Order directing the UST to evaluate the laws and regulations (including the Dodd-Frank Act) governing the financial services industry. At this point, we are unable to determine the impact that the Administration's possible policy changes may have on FNB and its subsidiaries. (see discussion under Risk Factors - caption "*We could be adversely affected by changes in the law, especially changes in the regulation of the banking industry*").

Tax Cuts and Jobs Act of 2017

The TCJA includes a number of provisions that impact FNB, including the following:

Tax Rate. The TCJA replaces the corporate tax rate of 35% applicable under prior law with a reduced 21% statutory tax rate. Although the reduced tax rate generally should be favorable to us by resulting in increased earnings and capital, it decreased the value of our existing DTAs. GAAP requires that the impact of the provisions of the TCJA be accounted for in the period of enactment. Accordingly, the estimated incremental income tax expense recorded by FNB in the fourth quarter of 2017 related to the TCJA was $54 million, resulting from a revaluation of our net deferred tax assets at the lower federal corporate tax rate. Modifications to the tax regime applicable to individual taxpayers will impact our customers in various ways, which will have a corresponding additional impact on our earnings.

FDIC Insurance Premiums. As discussed above, the TCJA prohibits taxpayers with consolidated assets over $50 billion from deducting any FDIC insurance premiums and prohibits taxpayers with consolidated assets between $10 and $50 billion from deducting the portion of their FDIC premiums equal to the ratio, expressed as a percentage, that (i) the taxpayer's total consolidated assets over $10 billion, as of the close of the taxable year, bears to (ii) $40 billion. As a result, FNBPA's ability to deduct its FDIC premiums will now be limited.

Employee Compensation. A "publicly held corporation" is not permitted to deduct compensation in excess of $1 million per year paid to certain employees. The TCJA eliminates certain exceptions applicable under prior to law for performance-based compensation, such as equity grants and cash bonuses that are paid only on the attainment of performance goals. As a result, our ability to deduct certain compensation paid to our most highly compensated employees will now be limited.

Business Asset Expensing. The TCJA allows taxpayers immediately to expense the entire cost (instead of only 50%, as under prior law) of certain depreciable tangible property and real property improvements acquired and placed in service after September 27, 2017 and before January 1, 2023 (with an additional year for certain property). This 100% "bonus" depreciation is phased down proportionately for property placed in service on or after January 1, 2023 and before January 1, 2027 (with an additional year for certain property).

Interest Expense. The TCJA limits a taxpayer's annual deduction of business interest expense to the sum of (i) business interest income and (ii) 30% of "adjusted taxable income," defined as a business's taxable income without taking into account business interest income or expense, net operating losses, and, for 2018 through 2021, depreciation, amortization and depletion. Because we generate significant amounts of net interest income, we do not expect to be impacted by this limitation.

The foregoing description of the impact of the TCJA and its impact on us should be read in conjunction with our Notes to Consolidated Financial Statements, which is included in Item 8 of this report.

Available Information

We make available through our website at www.fnbcorporation.com, free of charge, our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K (and amendments to any of the foregoing) as soon as reasonably practicable after such reports are filed with or furnished to the SEC. Information on our website is not incorporated by reference into this document and should not be considered part of this Report. Our common stock is traded on the NYSE under the symbol "FNB".

ITEM 1A. RISK FACTORS

FNB is subject to numerous risks, many of which are inherent to our business. As a financial services organization, we must balance revenue generation and profitability with the risks associated with our business activities. For information about how our risk oversight and management process operates, see Item 7 of this Report, "Management's Discussion and Analysis of Financial Condition and Results of Operations – Risk Management." The following discussion highlights specific risks that could affect us and our business, financial condition, results of operations and cash flows. Based on the information currently known, FNB believes that the following information identifies the material risk factors affecting us. The risks and uncertainties we face are not limited to those described below. Additional risks and uncertainties not presently known or that we currently believe to be immaterial may also adversely affect our business.

You should carefully consider each of the following risks and all of the other information set forth in this Report. If any of the following risks and uncertainties develop into actual events or if the circumstances described in the risks and uncertainties occur or continue to occur, these events or circumstances could have a material adverse effect on our business, financial condition, results of operations or cash flows. These events could also have a negative effect on the trading price of our securities.

If we are not able to continue our historical levels of growth, we may not be able to maintain our historical revenue trends.

To achieve our past levels of growth, we have focused on both organic growth and acquisitions. We may not be able to sustain our historical rate of growth or may not be able to grow at all. More specifically, we may not be able to obtain the financing necessary to fund additional growth. Various factors, such as economic conditions and competition, may impede or prohibit the opening of new retail branches. Further, we may be unable to attract and retain experienced bankers, which could adversely affect our internal growth. If we are not able to continue our historical levels of growth, we may not be able to maintain our historical revenue trends.

Our results of operations are significantly affected by the ability of our borrowers to repay their loans.

Lending money is an essential part of the banking business. However, for various reasons, borrowers do not always repay their loans. The risk of non-payment is affected by:

- credit risks of a particular borrower;

- changes in economic conditions that impact certain geographic markets or industries;
- the duration of the loan; and
- in the case of a collateralized loan, uncertainties as to the future value of the collateral.

Generally, commercial loans and leases present a greater risk of non-payment by a borrower than other types of loans. They typically involve larger loan balances and are particularly sensitive to economic conditions. The borrower's ability to repay usually depends on the successful operation of its business and income stream. In addition, some of our commercial borrowers have more than one loan outstanding with us, which means that an adverse development with respect to one loan or one credit relationship can expose us to significantly greater risk of loss. In the case of commercial and industrial loans, collateral often consists of accounts receivable, inventory and equipment, which may not yield substantial recovery of principal losses incurred, and is susceptible to deterioration or other loss in advance of liquidation of such collateral. These types of loans, however, have historically driven the growth in our loan portfolio and we intend to continue our lending efforts for commercial and industrial products. At December 31, 2017, commercial loans and leases comprised 62.8% of our loan portfolio and consumer loans comprised 37.2% of our loan portfolio. Consumer loans typically have shorter terms and lower balances with higher yields compared to real estate mortgage loans, but generally carry higher risks of default. Consumer loan collections are dependent on the borrower's continuing financial stability, and thus are more likely to be affected by adverse personal circumstances. Furthermore, the application of various federal and state laws, including bankruptcy and insolvency laws, may limit the amount that can be recovered on these loans. For additional information, see the Lending Activity section of "Management's Discussion and Analysis of Financial Condition and Results of Operations", which is included in Item 7 of this Report.

Our mortgage banking profitability could be significantly reduced if we are not able to originate and resell a high volume of mortgage loans.

Mortgage banking is generally considered a volatile source of income because it depends largely on the volume of loans we originate and sell in the secondary market. If our originations of mortgage loans decreases, resulting in fewer loans that are available to be sold to investors, this would result in a decrease in mortgage revenues and a corresponding decrease in non-interest income.

- Mortgage loan production levels are sensitive to changes in economic conditions and activity, strengths or weaknesses in the housing market and interest rate fluctuations. Generally, any sustained period of decreased economic activity or higher interest rates could reduce demand for mortgage loans and refinancings. In addition, our results of operations are affected by the amount of non-interest expense associated with mortgage banking activities, such as salaries and employee benefits, occupancy, equipment and data processing expense and other operating costs. During periods of reduced loan demand, our results of operations may be adversely affected to the extent that we are unable to reduce expenses commensurate with the decline in loan originations.
- Our ability to originate and resell mortgage loans readily is dependent upon the availability of an active secondary market. Government-sponsored entities (GSEs) - Fannie Mae, Freddie Mac and Ginnie Mae -- account for a substantial portion of the secondary market in residential mortgage loans. Any future changes in laws that significantly affect the activity of these GSEs could, in turn, adversely affect our mortgage banking business. In September 2008, the GSEs were placed into conservatorship by the U.S. government. We cannot predict if, when or how the conservatorship will end, or any associated changes to the business structure and operations of the GSEs that could result. Additionally, there are various proposals to reform the role of the GSEs in the U.S. housing finance market. The extent and timing of any such regulatory reform regarding the housing finance market and the GSEs are uncertain.
- Future changes to our eligibility to participate in the programs offered by the GSEs and other secondary purchasers, or the loan criteria of the GSEs and other secondary purchasers could also result in a lower volume of corresponding loan originations.

Our financial condition and results of operations may be adversely affected by changes in tax rules and regulations, or interpretations.

Our income tax expense has differed from the tax computed at the U.S. federal statutory income tax rate due primarily to discrete items. Unanticipated changes in our tax rates could affect our future results of operations. Our future effective tax rates could be affected by changes in the tax rates in jurisdictions where our income is earned, by changes in or our interpretation of tax rules and regulations in the jurisdictions in which we do business, by unexpected negative changes in business and market conditions that could reduce certain tax benefits, or by changes in the valuation of our deferred tax assets and liabilities. Changes in statutory tax rates or deferred tax assets and liabilities may adversely affect our profitability.

Liquidity risk could impair our ability to fund operations and meet our obligations as they become due.

Our ability to implement our business strategy will depend on our liquidity and ability to obtain funding for loan originations, working capital and other general purposes. Liquidity is needed to fund various obligations, including credit commitments to borrowers, mortgage and other loan originations, withdrawals by depositors, repayment of borrowings, dividends to shareholders, operating expenses and capital expenditures. Liquidity risk is the potential that we will be unable to meet our obligations as they come due, capitalize on growth opportunities as they arise, or pay regular dividends on our common stock because of an inability to liquidate assets or obtain adequate funding on a timely basis, at a reasonable cost and within acceptable risk tolerances. Our preferred sources for funding are deposits and customer repurchase agreements, which are a low cost and stable sources of funding for us. We compete with commercial banks, savings banks and credit unions, as well as non-depository competitors such as mutual funds, securities and brokerage firms and insurance companies, for deposits and customer repurchase agreements. If we are unable to attract and maintain sufficient levels of deposits and customer repurchase agreements to fund our loan growth and liquidity objectives, we may be subject to paying higher funding costs by raising interest rates that are paid on deposits and customer repurchase agreements or cause us to source funds from third party providers which may be higher cost funding.

Secondary sources of liquidity include principal and interest payments on loans; principal and interest payments on investment securities; sale, maturity and prepayment of investment securities; net cash provided from operations; Federal Home Loan Bank (FHLB) advances and subordinated notes issued through one of our subsidiaries, which are fully and unconditionally guaranteed by us.

Our liquidity and ability to fund and run our business could be materially adversely affected by a variety of conditions and factors, including financial and credit market disruptions and volatility or a lack of market or customer confidence in financial markets in general, which may result in a loss of customer deposits or outflows of cash or collateral and/or ability to access capital markets on favorable terms. Other conditions and factors that could materially adversely affect our liquidity and funding include a lack of market or customer confidence in, or negative news about, us or the financial services industry generally, which could result in a loss of deposits and negatively affect our ability to access the capital markets and to sell or securitize loans or other assets. If we are unable to continue to fund assets through deposits and customer repurchase agreements or access funding sources on favorable terms, or if we suffer an increase in borrowing costs or otherwise fail to manage liquidity effectively, our liquidity, operating margins, financial condition and results of operations may be materially adversely affected.

Our financial condition and results of operations could be adversely affected if we must further increase our provision for credit losses or if our allowance for credit losses is not sufficient to absorb actual losses.

There is no precise method of predicting loan losses. We can give no assurance that our allowance for credit losses will be sufficient to absorb actual loan losses. Excess loan losses could have a material adverse effect on our financial condition and results of operations. We attempt to maintain an appropriate allowance for credit losses to provide for estimated losses inherent in our loan portfolio as of the corresponding reporting date based on various assumptions and judgments about the collectability of the loan portfolio. We periodically determine the amount of our allowance for credit losses based upon consideration of several quantitative and qualitative factors including, but not limited to, the following:

- a regular review of the quality, mix and size of the overall loan portfolio;
- historical loan loss experience;
- evaluation of non-performing loans;
- geographic or industry concentrations;
- assessment of economic conditions and their effects on FNB's existing portfolio;
- the amount and quality of collateral, including guarantees, securing loans; and
- geographic or industry economic market conditions.

The level of the allowance for credit losses reflects the judgment and estimates of management regarding the amount and timing of future cash flows, current fair value of the underlying collateral and other qualitative risk factors that may affect the loan. Determination of the allowance is inherently subjective and is based on factors that are susceptible to significant change. Continuing deterioration in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of our control, may require an increase in the allowance for credit losses. In addition, bank regulatory agencies periodically review our allowance and may require an increase in the provision for credit losses or the recognition of additional loan charge-offs, based on judgments different from those of management. In addition, if charge-offs in future periods exceed the allowance for credit losses, we will need additional provisions to increase the allowance. Any increases in the allowance will result in a decrease in net income and capital and may have a material adverse effect on our financial condition and results of operations. For additional discussion relating to this matter, refer to the Allowance and Provision for Credit Losses section of "Management's Discussion and Analysis of Financial Condition and Results of Operations", which is included in Item 7 of this Report.

Changes in economic conditions and the composition of our loan portfolio could lead to higher loan charge-offs or an increase in our provision for credit losses and may reduce our net income.

Changes in national and regional economic conditions, and in large metropolitan areas within our market, continue to impact our loan portfolios. For example, an increase in unemployment, a decrease in real estate values or changes in interest rates, as well as other factors, could weaken the economies of the communities we serve. Weakness in the market areas served by FNB could depress our earnings and consequently our financial condition because customers may not want or need our products or services; borrowers may not be able to repay their loans; the value of the collateral securing our loans to borrowers may decline; and the quality of our loan portfolio may decline. Any of the latter three scenarios could require us to charge-off a higher percentage of our loans and/or increase our provision for credit losses, which would reduce our net income.

Our business and financial performance is impacted significantly by market rates and changes in those rates. The monetary, tax and other policies of governmental agencies, including the UST and the FRB, have a direct impact on interest rates and overall financial market performance over which we have no control and which may not be able to be predicted with reasonable accuracy.

As a result of the high percentage of our assets and liabilities that are in the form of interest-bearing or interest-related instruments, changes in interest rates, in the shape of the yield curve or in spreads between different market interest rates can have a material effect on our business, profitability and the value of our financial assets and liabilities. Such scenarios may include the following:

- changes in interest rates or interest rate spreads can affect the difference between the interest that FNBPA can earn on assets and the interest that FNBPA may pay on liabilities, which impacts FNBPA's overall net interest income and profitability;
- such changes can affect the ability of borrowers to meet obligations under variable or adjustable rate loans and other debt instruments and can, in turn, affect our loss rates on those assets;
- such changes may decrease the demand for interest rate-based products or services, including bank loans and deposit products and the subordinated notes offered at Regency offices;
- such changes can also affect our ability to hedge various forms of market and interest rate risks and may decrease the profitability or increase the risk associated with such hedges; and
- movements in interest rates also affect mortgage repayment speeds and could result in impairments of mortgage servicing assets or otherwise affect the profitability of such assets.

The monetary, tax and other policies of the U.S. Government and its agencies also have a significant impact on interest rates and overall financial market performance. An important function of the FRB is to regulate the national supply of bank credit and certain interest rates. The actions of the FRB influence the rates of interest that FNBPA may charge on loans and what FNBPA may pay on borrowings and interest-bearing deposits and can also affect the value of FNB's and FNBPA's on-balance sheet and off-balance sheet financial instruments. Principally due to the impact of rates and by controlling access to direct funding from the FRB, the FRB's policies also influence to a significant extent, FNBPA's cost of funding. We cannot predict the nature or timing of future changes in monetary, fiscal, tax and other policies or the effects that may be implemented by the new Administration and that they may have on FNBPA's and other affiliates' activities and financial results. However, the FRB has signaled that expected increased growth, economic expansion and a continued healthy market in 2018, related to the TCJA, may produce changes to the monetary policy which may result in increased interest rates.

The financial soundness of other financial institutions may adversely affect FNB, FNBPA and other affiliates.

Financial institutions are interrelated as a result of trading, clearing, counterparty and other relationships. FNB, FNBPA and other affiliates are exposed to many different industries and counterparties and they routinely execute transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks and other institutional clients. Many of these types of transactions expose FNB, FNBPA and other affiliates to credit risk in the event of default of the counterparty or client. In addition, FNBPA and other affiliates' credit risks may be exacerbated when the collateral held by us cannot be realized or is liquidated at prices that are not sufficient to recover the full amount of the loan or derivative exposure that we are due.

There may be risks resulting from the extensive use of models in our business.

We rely on quantitative models to measure risks and to estimate certain financial values. Models may be used in such processes as determining the pricing of various products, developing presentations made to market analysts and others, creating loans and extending credit, measuring interest rate and other market risks, predicting losses, assessing capital adequacy, testing, developing strategic planning initiatives, capital stress testing and calculating regulatory capital levels, as well as to estimate the value of financial instruments and balance sheet items. Poorly designed or implemented models present the risk that our business decisions based on information incorporating models will be adversely affected due to the inadequacy of such information. Also, information we provide to the public or to our regulators based on poorly designed or implemented models could be inaccurate or misleading. Certain decisions that the regulators make, including those related to capital distributions and dividends to our stockholders, could be adversely affected due to the regulator's perception that the quality of the models used to generate our relevant information is insufficient.

Our asset valuations may include methodologies, estimations and assumptions that are subject to differing interpretations and this, along with market factors such as volatility in one or more markets or industries, could result in changes to asset valuations that may materially adversely affect our results of operations or financial condition.

We must use estimates, assumptions and judgments when assets are measured and reported at fair value. Assets carried at fair value inherently result in a higher degree of financial statement volatility. Because the assets are carried at fair value, a decline in their value may cause us to incur losses even if the assets in question present minimal risk. Fair values and information used to record valuation adjustments for certain assets and liabilities are based on quoted market prices and/or other observable inputs provided by independent third-party resources, when available. When such third-party information is not available, we estimate fair value primarily by using cash flow and other financial modeling techniques utilizing assumptions such as credit quality, liquidity, interest rates and other relative inputs. Changes in underlying factors or assumptions in any of the areas underlying these estimates could materially impact our future financial condition and results of operations.

During periods of market disruption, including periods of significantly rising or high interest rates, rapidly widening credit spreads or illiquidity, it may be more difficult to value certain assets if trading becomes less frequent and/or market data becomes less observable. There may be certain asset classes that were historically in active markets with significant observable data that rapidly become illiquid due to market volatility, a loss in market confidence or other factors. In such cases, valuations in certain asset classes may require more subjectivity and management discretion; valuations may include inputs and assumptions that are less observable or require greater estimation. Further, rapidly changing and unprecedented market conditions in any particular market (e.g., credit, equity, fixed income) could materially impact the valuation of assets as reported within our consolidated financial statements, and the period-to-period changes in value could vary significantly.

We may be required to record future impairment charges if the declines in asset values are considered other-than-temporary. If the impairment charges are significant enough, they could affect the ability of FNBPA to pay dividends to FNB (which could have a material adverse effect on our liquidity and our ability to pay dividends to stockholders), and could also negatively impact our regulatory capital ratios and result in FNBPA not being classified as "well-capitalized" for regulatory purposes.

We are subject to operational risk that could damage our reputation and our business. We engage in a variety of businesses in diverse markets and rely on systems, employees, service providers and counterparties to properly process a high volume of transactions.

Like all businesses, we are subject to operational risk, which represents the risk of loss resulting from inadequate or failed internal processes in our systems, human error and external events. Operational risk also encompasses technology, compliance and legal risk, which is the risk of loss from violations of, or noncompliance with, rules, regulations, prescribed practices or ethical standards, as well as the risk of FNB's and our subsidiaries' noncompliance with contractual and other obligations. Many strategic initiatives, such as development of new products, product enhancements, use of technology, staffing reductions, changes in business processes and acquisitions of other financial services companies or their assets, could substantially increase operational risk. We are also exposed to operational risk through our outsourcing arrangements, and the effect the changes in circumstances or capabilities of FNB's outsourcing vendors can have on our ability to continue to perform operational functions necessary to FNB's business. We outsource certain data processing and online and mobile banking services to third party providers. Those third-party providers could also be sources of operational and information security risk to FNB, including from breakdowns or failures of their own systems or capacity constraints. Although we take steps to mitigate operational risks through a system of internal controls which we review on a regular basis and update as required, no system of controls - however well designed and maintained - is infallible, and, to the extent the risks arise from the operations of third party vendors or customers, we have limited ability to control those risks. Control weaknesses or failures or other operational risk could result in charges, increased operational costs, harm to our reputation, inability to secure insurance, civil litigation, regulatory intervention, including enforcement action and enhanced supervisory scrutiny, foregone business opportunities, the loss of customer business, especially if customers are discouraged from using our mobile bill pay, mobile banking and online banking services, or the unauthorized release, gathering, monitoring, misuse, loss or destruction of proprietary information.

Our business could be adversely affected by difficult economic conditions in the regions in which we operate.

We operate primarily in Pennsylvania, eastern Ohio, Maryland, northern West Virginia, North Carolina and South Carolina. Most of our customers are individuals and small- and medium-sized businesses that are dependent upon their regional economies. The economic conditions in these local markets may be different from, and in some instances worse than, economic conditions in the United States as a whole. Difficult economic and employment conditions in the market areas FNB serves could result in the following consequences, any of which could have a material adverse effect on our business, financial condition and results of operations:

- demand for our loans, deposits and services may decline;
- loan delinquencies, problem assets and foreclosures may increase;
- weak economic conditions could limit the demand for loans by creditworthy borrowers, limiting our capacity to leverage our retail deposits and maintain our net interest income;
- collateral for our loans may decline in value; and
- the amount of our low-cost or non-interest-bearing deposits may decrease.

Our financial condition and results of operations may be adversely affected by changes in accounting policies, standards and interpretations.

The Financial Accounting Standards Board (FASB), regulatory agencies and other bodies that establish accounting standards periodically change the financial accounting and reporting standards governing the preparation of our financial statements. Additionally, those bodies that establish and interpret the accounting standards (such as the FASB, SEC and banking regulators) may change prior interpretations or positions on how these standards should be applied. Changes resulting from these new standards may result in materially different financial results and may require that we change how we process, analyze and report financial information and that we change financial reporting controls.

Of the newly issued guidance, the most significant to us is the FASB Accounting Standards Update (ASU) 2016-13, *Financial Instruments – Credit Losses (Topic 326)*, commonly referred to as "CECL," which introduces new guidance for the accounting for credit losses on instruments within its scope. CECL requires loss estimates for the remaining estimated life of the financial asset using historical experience, current conditions, and reasonable and supportable forecasts. It also modifies the impairment model for debt securities available for sale and provides for a simplified accounting model for purchased financial assets with credit deterioration since their origination. The impact of this Update will be dependent on the portfolio composition, credit quality and economic conditions at the time of adoption. For further information regarding new or updated standards, see Note 2, "New Accounting Standards" of the Notes to Consolidated Financial Statements.

Changes in the federal, state or local tax laws may negatively impact our financial performance.

We are subject to legislative tax rate changes that could increase our effective tax rates. Depending on enactment dates, these law changes may be retroactive to previous periods and as a result could negatively affect our current and future financial performance. The TCJA, the full impact of which is subject to further evaluation and analysis, is likely to have both positive and negative effects on our financial performance. For example, the TCJA will result in a reduction in our corporate tax rate to 21% beginning in 2018, which will have a favorable impact on our earnings and capital generation abilities. However, as a result of the lower corporate tax rate we recorded income tax provision of $54.0 million in the fourth quarter of 2017 as we were required under GAAP to remeasure our deferred tax assets and liabilities at the enacted rate. In addition, the TCJA also enacted limitations on certain deductions, such as the deduction of FDIC deposit insurance premiums, which will partially offset the anticipated increase in net earnings from the lower tax rate. The impact of the TCJA may differ from the foregoing, possibly materially, due to changes in interpretations or in assumptions that we have made, guidance or regulations that may be promulgated, and other actions that we may take as a result of the TCJA. Similarly, FNB's customers are likely to experience varying effects from both the individual and business tax provisions of the TCJA and such effects, whether positive or negative, may have a corresponding impact on our business and the economy as a whole.

We could be adversely affected by changes in the law, especially changes in the regulation of the banking industry.

We operate in a highly regulated environment and our businesses are subject to supervision and regulation by several governmental agencies, including the SEC, FRB, OCC, CFPB, FDIC, FSOC, DOJ, UST, SEC, FINRA, HUD and state attorneys general and banking, financial services, securities and regulators. Regulations are generally intended to provide protection for depositors, borrowers and other customers, as well as the stability of the financial services industry, rather than for investors in our securities. We are subject to changes in federal and state law, regulations, governmental policies, agency supervisory and enforcement policies and priorities, and tax laws and accounting principles. Changes in regulations or the regulatory environment could adversely affect the banking and financial services industry as a whole and could limit our growth and the return to investors by restricting such activities as, for example:

- the payment of dividends and stock repurchases;
- mergers with or acquisitions of other institutions or branches;
- balance sheet growth;
- investments;
- loans and interest rates;
- assessments of fees, such as overdraft and electronic transfer interchange fees;
- the provision of securities, insurance, brokerage or trust services;
- the types of non-deposit activities in which our subsidiaries may engage; and
- offering of new products and services.

Under regulatory capital adequacy guidelines and other regulatory requirements, FNB and FNBPA must meet guidelines subject to qualitative judgments by regulators about components, risk weightings and other factors. From time to time, the regulators implement changes to those regulatory capital adequacy guidelines. Changes resulting from the Dodd-Frank Act and the regulatory accords on international banking institutions formulated by the Basel Committee on banking supervision and implemented by the FRB, when fully phased in, will likely require FNB to satisfy additional, more stringent and complex capital adequacy standards (see discussion under Business – Government Supervision and Regulation – caption "*Basel III Capital Rules"*). Changes to present capital and liquidity requirements could restrict our activities and require us to maintain additional capital. Compliance with heightened capital standards may reduce our ability to generate or originate revenue-producing assets and thereby restrict revenue generation from banking and non-banking operations. If we fail to meet these minimum capital guidelines and other regulatory requirements, our financial condition would be materially and adversely affected.

With respect to the prospects of future legislation that would impact banking and financial services regulation, the Administration continues to advocate for reform of the Dodd-Frank Act and the bank and financial services regulatory framework. In 2017, the UST, in response to an Executive Order issued by the President, released a report on the Administration's Core Principles for Regulation the United States Financial System. The report detailed several findings and recommendations, including but not limited to, capital, liquidity and leverage rules should be simplified to promote the flow of credit, consumer regulation and the structure and authority of the CFPB are in need of reform, the regulatory burden on community financial institutions should be eased, and Congress should play a more significant role in overseeing the federal banking agencies to ensure that regulations are better-tailored, more efficient and more effective.

In 2017, the House of Representatives passed "The Financial CHOICE Act," a comprehensive reform measure which would, if adopted as passed by the House of Representatives, modify or repeal several provisions of the Dodd-Frank Act and other existing financial services laws and regulations, and would therefore have a significant impact on banking and financial services regulation. The Senate continues to deliberate over legislation titled "The Economic Growth, Regulatory Relief and Consumer Protection Act," which would have a similar, but more targeted, impact on the banking and financial services regulatory framework. The Senate legislation is focused more narrowly on improving consumer access to credit, providing regulatory relief for community banks and smaller financial institutions, and limiting the applicability of systemic risk designation and prudential regulatory standards to very large bank holding companies (those with more than $250 billion in total consolidated assets).

Other notable areas addressed by the above-described legislation include reform of TILA and the CFPB's mortgage regulations-including the TILA and RESPA integrated mortgage disclosure rules-delayed implementation of regulations to be implemented under HMDA, regulatory relief for community banks and smaller financial institutions, and simplification of the Volcker Rule. To the extent that any financial regulatory reform measure is enacted by Congress in 2018, published news reports indicate that it is more likely to reflect the narrower focus of the above-described Senate legislation.

Although significant changes to existing laws, regulations and policies may be finalized by Congress and/or the federal banking agencies and the CFPB, it is difficult to predict with precision the changes that will be implemented into law and when such changes may occur. Accordingly, the impact of any legislative or regulatory changes on our competitors and on the financial services industry as a whole cannot be determined at this time. In any event, the laws and regulations to which we are subject are constantly under review by Congress, federal regulatory agencies, and state authorities. These laws and regulations could be changed drastically in the future, which could affect our profitability, our ability to compete effectively, or the composition of the financial services industry in which we compete.

The financial services industry is experiencing leadership changes at the federal banking agencies, which may impact regulations and government policies applicable to us.

As a result of the change of Administration and the current constitution and recent actions of Congress, it is possible that certain aspects of the existing banking and financial services regulatory framework, as amended by the Dodd-Frank Act, will be repealed or modified in the near-term. For example, the President, senior members of the Administration, and senior members of Congress have advocated for substantial changes to the Dodd-Frank Act and other federal banking laws and regulations. Moreover, the federal banking agencies are presently experiencing leadership changes which could impact the supervision, enforcement and rulemaking policies of such agencies. In 2017 and early 2018, Congress confirmed a new Chairman of the FRB, a new Comptroller of the Currency and a new Vice Chairman for Supervision at the FRB. In addition, the President nominated a new Chairwoman of the FDIC and the Director of the CFPB resigned and was replaced by an interim Director. Consistent with the views of the Administration and Congress, certain members of this new leadership group have advocated for a reduction in financial services regulation, supervision and enforcement. Moreover, the senior staffs of these agencies charged with carrying out agency policies and responsibilities have experienced significant turnover as a result of these changes. Consequently, certain new regulatory initiatives may be delayed or suspended and existing regulations may be re-evaluated, modified or repealed. At this time, however, the full impact of these and other pending leadership changes, as well as the potential impact to financial services regulation to result from such changes, is uncertain. It is also difficult to predict the impact that any legislative or regulatory changes will have on our competitors and on the financial services industry as a whole. Our results of operations also could be adversely affected by changes in the way in which existing statutes, regulations, and laws are interpreted or applied by courts and government agencies.

The Dodd-Frank Act continues to have a significant impact on our business.

The Dodd-Frank Act imposed substantial regulatory requirements and oversight over banks and other financial institutions in a number of ways. Among its numerous provisions and requirements, the Dodd-Frank Act: (i) created the CFPB to regulate consumer financial products and services sold by banks and non-banks, and to review their compliance with federal consumer protection unfair and deceptive practice standards and fair lending laws; (ii) created the FSOC to identify and impose stronger regulatory oversight on large financial firms and to identify systemic risks; (iii) established OLA to enable the FDIC to liquidate financial corporations that pose a risk to the financial system of the U.S.; (iv) limited debit card interchange fees; (v) adopted certain changes to public company corporate governance, including a stockholder “say on pay” vote on executive compensation; (vi) strengthened the SEC’s powers to regulate securities markets; (vii) regulated OTC derivative markets; (viii) made more loans subject to provisions for higher cost loans, new disclosures, and certain other revisions; (ix) provided consumers with a defense of set-off or recoupment in a foreclosure or collection action if the lender violates the newly created “reasonable ability to repay” provision; (x) amended TILA with respect to mortgage originations, including originator compensation, disallowing mandatory arbitration, and prepayment considerations; (xi) established the Volcker Rule which, among other things, imposes restrictions on proprietary trading and investment activities of banks and bank holding companies and restricts the sponsoring of hedge funds or private equity funds; (xii) established reforms related to the regulation of credit rating agencies; and (xiii) placed additional and sometimes more time consuming requirements on the process of foreclosing on residential mortgage loans in default.

Regulators have been tasked with adopting regulations that implement and define the breadth and scope of the Dodd-Frank Act. Although many of the regulations implementing the Dodd-Frank Act have been finalized, a number of the regulations that must be adopted under the Dodd-Frank Act have yet to be proposed or have been proposed and are still subject to public comment or otherwise under continued consideration, and it is difficult to gauge the impact of certain provisions of the Dodd-Frank Act because many important details relate to the concepts adopted in the Dodd-Frank Act that were left within the sole discretion of the regulators.

We anticipate that the increased regulatory scrutiny resulting from the Dodd-Frank Act and its implementing regulations will likely continue to be a significant driver of our compliance-related expenditures. We may therefore be required to continue to divert resources to these compliance efforts, which may adversely affect our profitability, including in the following ways, among others:

- limitations on debit card interchange fees may adversely affect our revenues and earnings;
- changing the methodology for calculating deposit insurance premium rates will become more complex, less predictable and more pro-cyclical, diverting our resources and potentially having a material adverse effect on our financial condition, results of operations and ability to pay dividends;

- changing the procedures for liquidation may adversely impact our credit ratings and adversely impact our liquidity, financial condition, and our ability to adequately fund our activities;
- increases in requirements for regulatory capital while eliminating certain sources of capital may adversely affect our financial condition and ability to pay dividends;
- the ability to pay interest on commercial demand deposit accounts may increase our interest expenses; and
- uncertainty as to the types of activities which may be deemed unfair and deceptive practices which may impact fee income opportunities.

These provisions have, to varying degrees, limited the types of products we are able to offer, the methods of offering them and prices at which they are offered, and may continue to do so in the future. These provisions have and will likely continue to affect different financial institutions in different ways, and therefore, may also affect the competitive landscape in ways that we cannot predict with precision (see discussion under Business - Government Supervision and Regulation - captions "*Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010*," "*Deposit Insurance*," "*Volcker Rule*," "*The Consumer Financial Protection Bureau*," "*Debit Card Interchange Fees*," "*Increased Capital Standards and Enhanced Supervision*," "*Stress Testing*," "*Expanded FDIC Powers Upon Insolvency of Insured Depository Institutions*," and "*Consumer Protection Statutes and Regulations*," among others, for additional detail on the impact of the Dodd-Frank Act on our business operations).

Increases in or required prepayments of FDIC insurance premiums may adversely affect our earnings.

In order to maintain a strong funding position and restore reserve ratios of the DIF, the FDIC has increased assessment rates of insured institutions. Pursuant to the Dodd-Frank Act, the minimum reserve ratio for the DIF was increased from 1.15% to 1.35% of estimated insured deposits, or the assessment base, and the FDIC was directed to take the steps needed to cause the reserve ratio of the DIF to reach 1.35% of estimated insured deposits by September 30, 2020. As part of its long-range management plan to ensure that the DIF is able to maintain a positive balance despite banking crises and steady, moderate assessment rates despite economic and credit cycles, the FDIC set the DIF's designated reserve ratio (DRR) at 2% of estimated insured deposits. The FDIC is required to offset the effect of the increased minimum reserve ratio for banks with assets of less than $10 billion, so smaller community banks will be spared the cost of funding the increase in the minimum reserve ratio.

Historically, the FDIC utilized a risk-based assessment system that imposed insurance premiums based upon a risk matrix that takes into account several components, including but not limited to the bank's capital level and supervisory rating. Pursuant to the Dodd-Frank Act, the FDIC amended its regulations to base insurance assessments on the average consolidated assets less the average tangible equity of the insured depository institution during the assessment period; to set deposit insurance assessment rates in light of the new assessment base; and to revise the assessment system applicable to large banks (those having at least $10 billion in total assets) to better differentiate for the risks that a large bank could pose to the DIF.

The likely effect of the new assessment pricing will be to increase assessment fees for institutions that rely more heavily on non-deposit funding sources. However, the higher assessments for institutions that have relied on non-deposit sources of funding in the past could force these institutions to change their funding models and more actively search for deposits. If this happens, it could drive up the costs to attain deposits across the market, a situation that would negatively impact community banks like FNBPA, which derive the majority of their funding from deposits. Moreover, as a result of the TCJA's disallowance of the deduction of FDIC deposit insurance premium payments for certain banking organizations, the after-tax cost of our deposit insurance premium payments is anticipated to increase.

We generally have limited ability to control the amount of premiums that we are required to pay for FDIC insurance. Any future increases in or required prepayments of FDIC insurance premiums may adversely affect our financial condition and results of operations. In light of our recent increase in the assessment rates, the potential for additional increases, and our status as a large bank, FNBPA may be required to pay additional amounts to the DIF, which could have an adverse effect on our earnings. If FNBPA's deposit insurance premium assessment rate increases again, either because of our risk classification, a change in the concentration of our loan portfolio, emergency assessments, or because of another uniform increase, our earnings could be further adversely impacted.

We must comply with stress-testing requirements.

The stress testing requirements under the Dodd-Frank Act stipulate that all U.S. banks and bank holding companies with consolidated assets between $10 billion and $50 billion, such as FNB, are required to conduct annual stress tests calculated under a multi-scenario analysis (see discussion under Business – Government Supervision and Regulation –*"Stress Testing"*).

The economic and financial market scenarios used in the annual company-run stress test include baseline, adverse and severely adverse scenarios. Each scenario includes numerous variables, including economic activity, unemployment, exchange rates, prices, incomes and interest rates. The adverse and severely adverse scenarios are not forecasts, but rather hypothetical scenarios designed to assess the strength and resilience of financial institutions under severe economic conditions. If we fail to meet these stress-test requirements, we could be required to take certain actions, including raising additional capital. The results of the stress test could also impact the FRB's decision-making regarding future dividend payments, as well as acquisitions and new business activities by FNB.

An interruption in or breach in security of our information systems could result in a loss of customer business, civil litigation or governmental regulatory action, and have an adverse effect on our results of operations, financial condition and cash flows.

As part of our business, we collect, process and retain sensitive and confidential client and customer information in both paper and electronic form and rely heavily on communications and information systems for these functions. This information includes non-public, personally-identifiable information that is protected under applicable federal and state laws and regulations. Additionally, certain of these data processing functions are not handled by us directly, but are outsourced to third party providers. We devote significant resources and management focus to ensuring the integrity of our systems, including adoption of policies and plans that involve our third party providers to detect and deter cyber-related crimes intended to infiltrate our networks, capture sensitive client and customer information, deny service to customers, or harm electronic processing capabilities. Despite these efforts, our facilities and systems, and those of our third party service providers, may be vulnerable to security breaches, acts of vandalism and other physical security threats, computer viruses or compromises, ransomware attacks, misplaced or lost data, programming and/or human errors or other similar events. Any security breach involving the misappropriation, loss or other unauthorized disclosure of our confidential business, employee or customer information, whether originating with us, our vendors or retail businesses, could severely damage our reputation, expose us to the risks of civil litigation and liability, require the payment of regulatory fines or penalties or undertaking of costly remediation efforts with respect to third parties affected by a security breach, disrupt our operations, and have a material adverse effect on our business, financial condition and results of operations. The additional cost to the Corporation of our day-to-day cyber security monitoring and protection systems and controls includes the cost of hardware and software, third party technology providers, consulting and forensic testing firms, insurance premium costs and legal fees, in addition to the incremental cost of our personnel who focus a substantial portion of their responsibilities on cyber security. We may also need to expend substantial resources to comply with the data security breach notification requirements adopted by banking regulators and the states, which have varying levels of individual, consumer, regulatory or law enforcement notification and remediation requirements in certain circumstances in the event of a security breach. Moreover, cyber-security risks appear to be growing and, as a result, the cyber-resilience of banking organizations is of increased importance to federal and state banking agencies and other regulators. New or revised laws and regulations may significantly impact the Corporation's current and planned privacy, data protection and information security-related practices, the collection, use, sharing, retention and safeguarding of consumer and employee information, and current or planned business activities. Compliance with current or future privacy, data protection and information security laws to which the Corporation is subject could result in higher compliance and technology costs and could restrict the Corporation's ability to provide certain products and services, which could materially and adversely affect the Corporation's profitability. In the last few years, there have been an increasing number of cyber incidents, including several well-publicized cyber-attacks that targeted other U.S. companies, including financial services companies much larger than us. These cyber incidents have been initiated from a variety of sources, including terrorist organizations and hostile foreign governments. As technology advances, the ability to initiate transactions and access data has also become more widely distributed among mobile devices, personal computers, automated teller machines, remote deposit capture sites and similar access points, some of which are not controlled or secured by FNB. It is possible that we could have exposure to liability and suffer losses as a result of a security breach or cyber-attack that occurred through no fault of FNB. Further, the probability of a successful cyber attack against us or one of our third party services providers cannot be predicted. Although we maintain specific "cyber" insurance coverage, which would apply in the event of various breach scenarios, the amount of coverage may not be adequate in any particular case. In addition, cyber threat scenarios are inherently difficult to predict and can take many forms, several of which may not be covered under our cyber insurance coverage. As cyber threats continue to evolve and increase, we may be required to spend significant additional resources to continue to modify or enhance our protective and preventative measures or to investigate and remediate any information security vulnerabilities.

The banking and financial services industry continually encounters technological change, especially in the systems that are used to deliver products to, and execute transactions on behalf of, customers, and if we fail to continue to invest in technological improvements as they become appropriate or necessary, our ability to compete effectively could be severely impaired.

The banking and financial services industry continually undergoes technological changes, with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and reduce costs. Our future success will depend, in part, on our ability to address customer needs by using secure technology to provide products and services that will satisfy customer demands, as well as create additional efficiencies in our operations. Many of our competitors have greater resources to invest in technological improvements, and we may not effectively implement new technology-driven products and services or do so as quickly as our competitors. Failure to successfully keep pace with technological change affecting the banking and financial services industry could negatively affect our revenue and profitability.

Our day-to-day operations rely heavily on the proper functioning of products, information systems and services provided by third-party, external vendors.

We rely on certain external vendors to provide products, information systems and services necessary to maintain our day-to-day operations. These third parties provide key components of our business operations such as data processing, recording and monitoring transactions, online banking interfaces and services, Internet connections and network access. While we have selected these third party vendors carefully and we oversee their provision of service to us in accordance with applicable enterprise risk management and third-party vendor risk management standards and in a manner consistent with the supervisory expectations of our regulators, we cannot control the actions of our third-party vendors entirely. Any complications caused by these third parties, including those resulting from disruptions in communication services provided by a vendor, failure of a vendor to handle current or higher volumes, cyber-attacks and security breaches at a vendor, failure of a vendor to comply with applicable laws and regulations or to conform to our internal controls and risk management procedures, and failure of a vendor to provide services for any reason or poor performance of services, could adversely affect our ability to deliver products and services to our customers and otherwise conduct our business. Financial or operational difficulties of a third party vendor could also hurt our operations if those difficulties interfere with the vendor's ability to provide services. Furthermore, our vendors could also be sources of operational and information security risk, including from breakdowns or failures of their own systems or capacity constraints. Replacing these third-party vendors could also create significant delay and expense. Problems caused by external vendors could be disruptive to our operations, which could have a material adverse impact on our business and, in turn, our financial condition and results of operations.

Our failure to continue to recruit and retain qualified banking professionals could adversely affect our ability to compete successfully and affect our profitability.

Our continued success and future growth depends heavily on our ability to attract and retain highly skilled and motivated banking professionals. We compete against many institutions with greater financial resources both within our industry and in other industries to attract these qualified individuals. Our failure to recruit and retain adequate talent could reduce our ability to compete successfully and adversely affect our business and profitability.

We may not be able to compete successfully in our new North Carolina and South Carolina markets.

On March 11, 2017, we completed the acquisition of YDKN. Prior to the acquisition, we had no operating experience in the North Carolina and South Carolina markets served by YDKN, which is a more competitive market environment than our primary markets in Pennsylvania, Maryland and Ohio. Our success in these new markets will depend on a variety of factors, including our ability to successfully integrate the YDKN businesses with ours; our ability to retain and attract experienced personnel, build brand awareness, and retain existing customers as well as acquire new customers; the continued availability of desirable business opportunities and locations; and the competitive responses from other financial institutions in the new market areas. Additionally, unlike our previous acquisitions, the North Carolina and South Carolina markets are not geographically contiguous with our current market area, which could increase the difficulty of integrating the YDKN businesses with ours. Failure to compete successfully in these new market areas could have a material adverse effect on our business, financial condition and results of operations.

We may be unable to successfully integrate YDKN's operations and may not realize the anticipated benefits of acquiring YDKN.

FNB and YDKN had operated independently until the completion of the merger. Integration of operations is a long-term initiative. The success of the merger, including anticipated benefits and cost savings, will depend, in part, on FNB's ability to successfully integrate YDKN's operations in a manner that results in various benefits, including, among other things, enhanced revenues and revenue synergies, an expanded market reach and operating efficiencies and that does not materially disrupt existing customer relationships nor result in decreased revenues due to loss of customers. The process of integrating operations could result in a loss of key personnel or cause an interruption of, or loss of momentum in, the activities of one or more of our businesses or inconsistencies in standards, controls, procedures and policies that adversely affect our ability to maintain relationships with customers and employees. The diversion of management's attention and any delays or difficulties encountered in connection with the merger and the integration of YDKN's operations could have an adverse effect on our business, financial condition, operating results and prospects.

If FNB experiences difficulties in the integration process, including those listed above, FNB may fail to realize the anticipated benefits of the merger in a timely manner or at all. Failure to achieve these anticipated benefits could result in increased costs, decreases in the amount of expected revenues and diversion of management's time and energy and could have an adverse effect on our business, financial condition, operating results and prospects.

Among the factors considered by the boards of directors of FNB and YDKN in connection with their respective approvals of the merger were the benefits that could result therefrom. We cannot give any assurance that these benefits will be realized within the time periods contemplated or at all.

The merger may not be accretive, and may be dilutive, to FNB's earnings per share, which may negatively affect the market price of FNB's common stock received by you as a result of the merger.

Because shares of FNB common stock were issued in the merger, it is possible that, although FNB currently expects the merger to be accretive to earnings per share in 2018, excluding one-time charges, the merger may be dilutive to FNB's earnings per share, which could negatively affect the market price of shares of FNB's common stock.

Hurricanes, excessive rainfall, droughts or other adverse weather events could negatively affect the local economies in the North Carolina and South Carolina markets, or disrupt our operations in those markets, which could have an adverse effect on our business or results of operations.

The economy of the coastal regions of North Carolina and South Carolina is affected, from time to time, by adverse weather events, particularly hurricanes. Upon completion of the YDKN acquisition, our market area will include the Outer Banks and other portions of coastal North Carolina. Agricultural interests are highly sensitive to excessive rainfall or droughts. We cannot predict whether, or to what extent, damage caused by future weather conditions will affect our operations, customers or the economies in our North Carolina and South Carolina markets. Weather events could cause a disruption in our day-to-day business activities in branches located in coastal communities, a decline in loan originations, destruction or decline in the value of properties securing our loans, or an increase in the risks of delinquencies, foreclosures, and loan losses. Even if a hurricane does not cause any physical damage in our North Carolina and South Carolina market areas, a turbulent hurricane season could significantly affect the market value of all coastal property.

The Small Business Administration (SBA) lending program is dependent upon the federal government, and we will have specific risks associated with originating SBA loans.

We are a SBA Preferred Lender, and as a result of the YDKN acquisition, we increased our participation in the SBA lending program, which is dependent upon the federal government. SBA Preferred Lenders enable their clients to obtain SBA loans without being subject to the potentially lengthy SBA approval process necessary for lenders that are not SBA Preferred Lenders. The SBA periodically reviews the lending operations of participating lenders to assess, among other things, whether the lender exhibits prudent risk management. When weaknesses are identified, the SBA may request corrective actions or impose enforcement actions, including revocation of the lender's Preferred Lender status. If we lose our status as a Preferred Lender, we may lose our customers to lenders who are SBA Preferred Lenders, and as a result we could experience a material adverse effect to our financial results. Any changes to the SBA program, including changes to the level of guarantee provided by the federal government on SBA loans, may also have an adverse effect on our business.

We plan to continue YDKN's practice of selling the guaranteed portion of our SBA 7(a) loans in the secondary market. Those sales may earn premium income and/or create a stream of future servicing income. We have not previously operated a SBA lending program similar to YDKN's. There can be no assurance that we will be able to continue originating these loans, that a secondary market will exist or that we will continue to realize premiums upon the sale of the guaranteed portion of these loans. When the guaranteed portion of our SBA 7(a) loans is sold, we will incur credit risk on the non-guaranteed portion of the loans. We also will share pro-rata with the SBA in any recoveries. If the SBA establishes that a loss on an SBA guaranteed loan is attributable to significant technical deficiencies in the manner in which the loan was originated, funded or serviced by us, the SBA may seek recovery of the principal loss related to the deficiency from us, which could materially adversely affect our results of operations. In certain situations, we may elect to repurchase previously sold portions of SBA 7(a) loans that are delinquent, which may result in higher levels of nonperforming loans.

We could experience significant difficulties and complications in connection with future growth through acquisitions.

We have grown significantly over the last few years, including through acquisitions, and may continue to seek growth by acquiring financial institutions and branches as well as non-depository entities engaged in permissible activities for our financial institution subsidiaries. However, the market for acquisitions is highly competitive. We may not be as successful as we anticipate in identifying financial institutions and branch acquisition candidates, integrating acquired institutions or preventing deposit erosion at acquired institutions or branches. Even if we are successful with this strategy, there can be no assurance that we will be able to manage this growth adequately and profitably. For example, acquiring any bank or non-bank entity will involve risks commonly associated with acquisitions, including:

- potential exposure to unknown or contingent liabilities, including fraud, of banks and non-bank entities that we acquire;
- exposure to potential asset quality issues of acquired banks and non-bank entities due to different underwriting standards that may have been employed by the predecessor entities;
- potential disruption to our business;
- potential diversion of the time and attention of our management;
- the possible loss of key employees and customers of the banks and other businesses that we acquire; and
- potential dilution of our current stockholders' ownership to the extent that we issue additional shares of stock to pay for those acquisitions.

We may encounter unforeseen expenses, as well as difficulties and complications in integrating expanded operations and new employees without disruption to our overall operations. Following each acquisition, we must expend substantial resources to integrate the entities. The integration of non-banking entities often involves combining different industry cultures and business methodologies. The failure to integrate acquired entities successfully with our existing operations may adversely affect our results of operations and financial condition. As we grow, our regulatory costs also may become more significant.

In addition to acquisitions, we may expand into additional communities or attempt to strengthen our position in our current markets by undertaking additional de novo branch openings. Based on our experience, we believe that it generally takes up to three years for new banking facilities to achieve operational profitability due to the impact of organizational and overhead expenses and the start-up phase of generating loans and deposits. To the extent that we undertake additional de novo branch openings or branch acquisitions, we are likely to continue to experience the effects of higher operating expenses relative to operating income from the new banking facilities, which may have an adverse effect on our net income, earnings per share, return on average stockholders' equity and return on average assets.

Our growth may require us to raise additional capital in the future, but that capital may not be available when it is needed.

We are required by federal and state regulatory authorities to maintain adequate levels of capital to support our operations (see the *"Government Supervision and Regulation"* section included in Item 1 of this Report). As a financial holding company, we seek to maintain capital sufficient to meet the "well-capitalized" standard set by regulators. We anticipate that our current capital resources will satisfy our capital requirements for the foreseeable future. We may at some point, however, need to raise additional capital to support continued growth, whether such growth occurs organically or through acquisitions.

The availability of additional capital or financing will depend on a variety of factors, many of which are outside of our control, such as market conditions, the general availability of credit, the overall availability of credit to the financial services industry, our credit ratings and credit capacity, marketability of our stock, as well as the possibility that lenders could develop a negative perception of our long- or short-term financial prospects if we incur large credit losses or if the level of business activity decreases due to economic conditions. Accordingly, there can be no assurance of our ability to expand our operations through internal growth or acquisitions. As such, we may be forced to delay raising capital, issue shorter term securities than desired or bear an unattractive cost of capital, which could decrease profitability and significantly reduce financial flexibility. In addition, if we decide to raise additional equity capital, it could be dilutive to our existing stockholders.

Our key assets include our brand and reputation and our business may be affected by how we are perceived in the market place.

Our brand and our reputation are key assets of FNB. Our ability to attract and retain banking, insurance, consumer finance, wealth management and corporate clients and employees is highly dependent upon external perceptions of our level of service, security, trustworthiness, business practices and financial condition. Negative perceptions or publicity regarding these matters could damage our reputation among existing customers and corporate clients and employees, which could make it difficult for us to attract new clients and employees and retain existing ones. Adverse developments with respect to the financial services industry may also, by association, negatively impact our reputation, or result in greater regulatory or legislative scrutiny or litigation against us. Although we monitor developments for areas of potential risk to our reputation and brand, negative perceptions or publicity could materially and adversely affect our revenues and profitability.

We are dependent on dividends from our subsidiaries to meet our financial obligations and pay dividends to stockholders.

We are a holding company and conduct almost all of our operations through our subsidiaries. We do not have any significant assets other than cash and the stock of our subsidiaries. Accordingly, we depend on dividends from our subsidiaries to meet our financial obligations and to pay dividends to stockholders. Our right to participate in any distribution of earnings or assets of our subsidiaries is subject to the prior claims of creditors of such subsidiaries. Under federal law, the amount of dividends that a national bank, such as FNBPA, may pay in a calendar year is dependent on the amount of our net income for the current year combined with our retained net income for the two preceding years. The OCC has the authority to prohibit FNBPA from paying dividends if it determines such payment would be an unsafe and unsound banking practice. Likewise, FNB's state-based entities are subject to state laws governing dividend practices and payments.

Regulatory authorities may restrict our ability to pay dividends on and repurchase our common stock.

Dividends on our common stock will be payable only if, when and as authorized and declared by our board of directors. In addition, banking laws and regulations and our banking regulators may limit our ability to pay dividends and make share repurchases. For example, our ability to make capital distributions, including our ability to pay dividends or repurchase shares of our common stock, is subject to the review and non-objection of our annual capital plan by the FRB. In certain circumstances, we will not be able to make a capital distribution unless the FRB has approved such distribution, including if the dividend could not be fully funded by our net income over the last four quarters (net of dividends paid), our prospective rate of earnings retention appears inconsistent with our capital needs, asset quality, and overall financial condition, or we will not be able to continue meeting minimum required capital ratios. As a bank holding company, we also are required to consult with the FRB before increasing dividends or redeeming or repurchasing capital instruments. Additionally, the FRB could prohibit or limit our payment of dividends if it determines that payment of the dividend would constitute an unsafe or unsound practice. There can be no assurance that we will declare and pay any dividends or repurchase any shares of our common stock in the future.

We have outstanding securities senior to the common stock which could limit our ability to pay dividends on our common stock.

We have outstanding TPS and Series E preferred stock that are senior to the common stock and could adversely affect our ability to declare or pay dividends or distributions on our common stock. The terms of the TPS prohibit us from declaring or paying dividends or making distributions on our junior capital stock, including the common stock, or purchasing, acquiring, or making a liquidation payment on any junior capital stock, if: (1) an event of default has occurred and is continuing under the junior subordinated debentures underlying the TPS, (2) we are in default with respect to a guarantee payment under the guarantee of the related TPS or (3) we have given notice of our election to defer interest payments, but the related deferral period has not yet commenced or a deferral period is continuing. We also would be prohibited from paying dividends on our common stock unless all full dividends for the latest dividend period have been declared and paid on all outstanding shares of the Series E preferred stock. If we experience a material deterioration in our financial condition, liquidity, capital, results of operations or risk profile, our regulators may not permit us to make future payments on our TPS or preferred stock, which would also prevent us from paying any dividends on our common stock.

Certain provisions of our Articles of Incorporation and By-laws and Pennsylvania law may discourage takeovers.

Our Articles of Incorporation and By-laws contain certain anti-takeover provisions that may discourage or may make more difficult or expensive a tender offer, change in control or takeover attempt that is opposed by our Board of Directors. In particular, our Articles of Incorporation and By-laws:

- require shareholders to give us advance notice to nominate candidates for election to our Board of Directors or to make shareholder proposals at a shareholders' meeting;
- permit our Board of Directors to issue, without approval of our common shareholders unless otherwise required by law, preferred stock with such terms as our Board of Directors may determine;
- require the vote of the holders of at least 75% of our voting shares for shareholder amendments to our By-laws;
- in the case of a proposed business combination with a shareholder owning 10% or more of the voting shares of FNB, the vote of the holders of at least two-thirds of the voting shares not owned by such shareholder is required to approve the business combination, unless it is approved by a majority of FNB's disinterested directors.

Under Pennsylvania law, only shareholders holding at least 25% of a corporation's outstanding stock may call a special meeting for any purpose. In addition, Pennsylvania law provides that in discharging their duties, including in the context of a takeover attempt, the board of directors, committees of the board and individual directors may consider a broad range of factors as they deem pertinent, which may include but is not limited to shareholders' interests, in considering the best interests of the corporation.

These provisions of our Articles of Incorporation and By-laws and of Pennsylvania law could discourage potential acquisition proposals and could delay or prevent a change in control, even though the holders of a majority of our stock may consider such proposals desirable. Such provisions could also make it more difficult for third parties to remove and replace members of our Board of Directors. Moreover, these provisions could diminish the opportunities for shareholders to participate in certain tender offers, including tender offers at prices above the then-current market price of our common stock, and may also inhibit increases in the trading price of our common stock that could result from takeover attempts.

ITEM 1B. UNRESOLVED STAFF COMMENTS

NONE.

ITEM 2. PROPERTIES

Our corporate headquarters are located in Pittsburgh, Pennsylvania. The Pittsburgh headquarters, which are leased, are also occupied by Community Banking, Wealth Management and Insurance employees, as well as customer support and operations personnel. We also lease office space for regional headquarters in the Cleveland, Ohio, Baltimore, Maryland, and Raleigh and Charlotte, North Carolina markets. In Hermitage, Pennsylvania, we continue to maintain administrative offices, as well as offices for Community Banking and Wealth Management personnel, in a six-story office building, and a data processing and technology center in a two-story office building, both of which are owned by us. Additionally, we lease other office space in Harrisburg and Hermitage, Pennsylvania, and in Raleigh, North Carolina which house various support departments.

The operating leases for the Community Banking and Consumer Finance branches/retail offices expire at various dates through the year 2037 and generally include options to renew. For additional information regarding the lease commitments, see Note 9, "Premises and Equipment" in the Notes to Consolidated Financial Statements, which is included in Item 8 of this Report.

Following is a table that shows the branches/retail offices, by state, for the Community Banking and Consumer Finance segments, as well as the total branches/retail offices owned and leased for each of these segments:

December 31, 2017	**Community Banking**	**Consumer Finance**
Pennsylvania	254	25
Ohio	32	16
Maryland	31	—
West Virginia	2	—
North Carolina	95	—
South Carolina	3	—
Tennessee	—	18
Kentucky	—	18
Total number of branches/retail offices	417	77
Total branches/retail offices owned	238	—
Total branches/retail offices leased	179	77

ITEM 3. LEGAL PROCEEDINGS

The Corporation is involved in various pending and threatened legal proceedings in which claims for monetary damages and other relief are asserted. These claims result from ordinary business activities relating to our current and/or former operations. Although the ultimate outcome for any asserted claim cannot be predicted with certainty, we believe that the Corporation has valid defenses for all asserted claims. In accordance with applicable accounting guidance, when a loss is considered probable and reasonably estimable, we, in conjunction with internal and outside counsel handling the matter, record a liability in the amount of our best estimate for the ultimate loss. We continue to monitor the matter for further developments that could affect the amount of the accrued liability that has previously been established.

Litigation expense represents a key area of judgement and is subject to uncertainty and factors outside of our control. Significant judgment is required in making these estimates and our financial liabilities may ultimately be more or less than the current estimate.

The information required by this Item is set forth in the “Other Legal Proceedings” discussion in Note 15, “Commitments, Credit Risk and Contingencies” in the Notes to the Consolidated Financial Statements, which is included in Item 8 of this Report, and which is incorporated herein by reference in response to this Item.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

EXECUTIVE OFFICERS OF THE REGISTRANT

The name, age and principal occupation for each of our executive officers as of January 31, 2018 are set forth below:

Name	Age	Principal Occupation
Vincent J. Delie, Jr.	53	President and Chief Executive Officer of FNB; Chief Executive Officer of FNBPA
Vincent J. Calabrese, Jr.	55	Chief Financial Officer of FNB; Executive Vice President of FNBPA
Gary L. Guerrieri	57	Chief Credit Officer of FNB; Executive Vice President of FNBPA
James G. Orie	59	Chief Legal Officer and Corporate Secretary of FNB; Executive Vice President of FNBPA
James L. Dutey	44	Corporate Controller and Senior Vice President of FNB
Robert M. Moorehead	63	Chief Wholesale Banking Officer of FNBPA
Barry C. Robinson	54	Chief Consumer Banking Officer of FNBPA

There are no family relationships among any of the above executive officers, and there is no arrangement or understanding between any of the above executive officers and any other person pursuant to which he was selected as an officer. The executive officers are elected by our Board of Directors subject in certain cases to the terms of an employment agreement between the officer and us.

PART II.

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is listed on the NYSE under the symbol "FNB." The accompanying table shows the range of high and low sales prices per share of the common stock as reported by the NYSE for 2017 and 2016. The table also shows dividends per share paid on the outstanding common stock during those periods. As of January 31, 2018, there were 17,541 holders of record of our common stock.

	Low	High	Dividends
Quarter Ended 2017			
March 31	**$ 13.99**	**$ 16.35**	**$ 0.12**
June 30	**13.00**	**15.00**	**0.12**
September 30	**12.02**	**14.62**	**0.12**
December 31	**12.73**	**14.73**	**0.12**
Quarter Ended 2016			
March 31	$ 11.16	$ 13.40	$ 0.12
June 30	11.69	13.59	0.12
September 30	11.75	13.44	0.12
December 31	12.08	16.43	0.12

The information required by this Item 5 with respect to securities authorized for issuance under equity compensation plans is set forth in Part III, Item 12 of this Report.

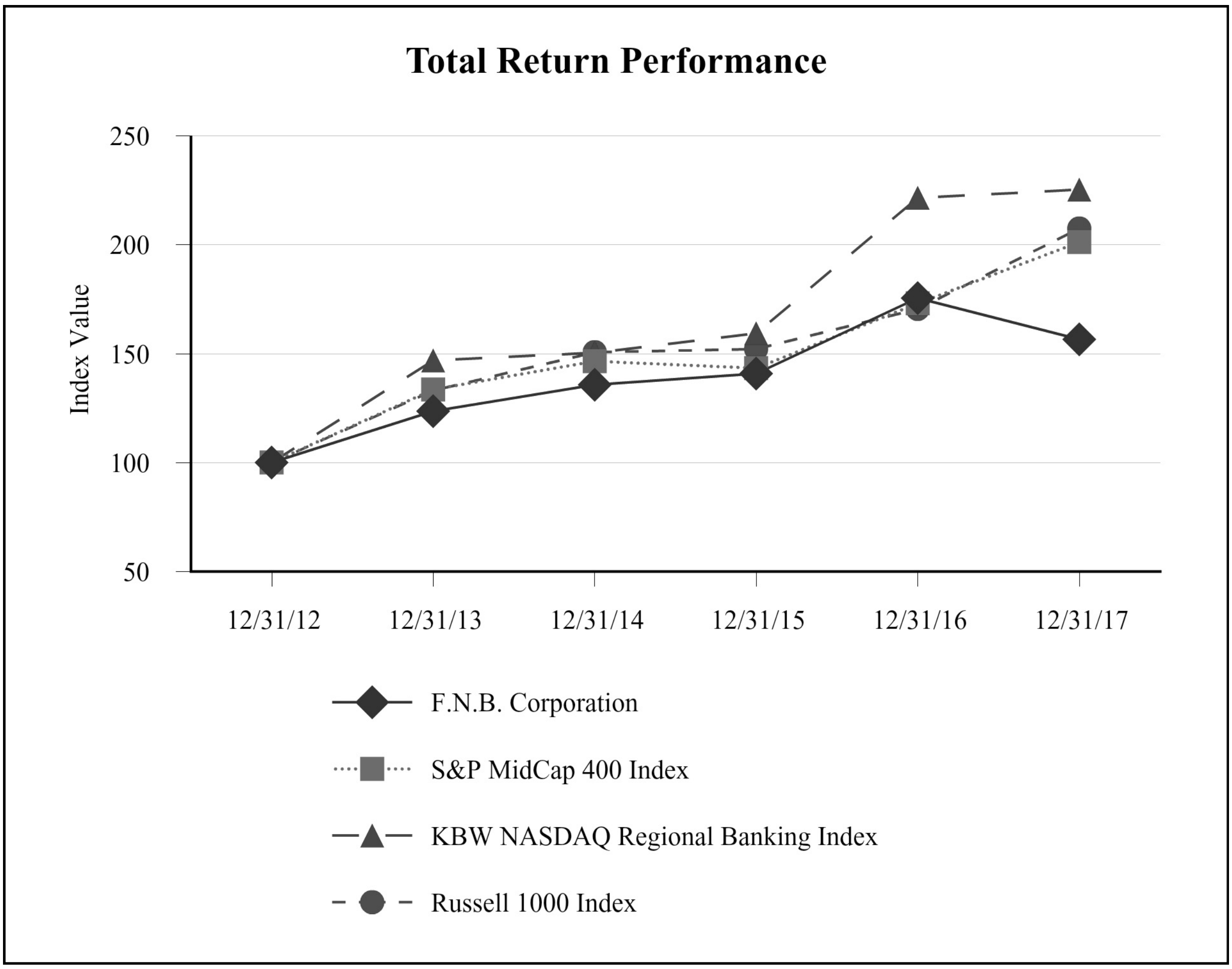
We did not purchase any of our own equity securities during the fourth quarter of 2017.

STOCK PERFORMANCE GRAPH

Comparison of Total Return on F.N.B. Corporation's Common Stock with Certain Averages

The following five-year performance graph compares the cumulative total shareholder return (assuming reinvestment of dividends) on our common stock (♦), the S&P MidCap 400 Index (■), KBW NASDAQ Regional Banking Index (▲), and the Russell 1000 Index (●). This stock performance graph assumes $100 was invested on December 31, 2012, and the cumulative return is measured as of each subsequent fiscal year end.

F.N.B. Corporation Five-Year Stock Performance
Total Return, Including Stock and Cash Dividends



ITEM 6. SELECTED FINANCIAL DATA

Year Ended December 31	(1) 2017	(2) 2016	(3) 2015	(4) 2014	(5) 2013
Dollars in thousands, except per share data					
Total interest income	**$ 980,326**	$ 678,963	$ 546,795	$ 508,983	$ 440,386
Total interest expense	**133,892**	67,451	48,573	42,686	44,344
Net interest income	**846,434**	611,512	498,222	466,297	396,042
Provision for credit losses	**61,073**	55,752	40,441	38,648	31,090
Total non-interest income	**252,449**	201,761	162,410	158,274	135,778
Total non-interest expense	**681,541**	511,133	390,549	379,253	338,170
Net income	**199,204**	170,891	159,649	144,050	117,804
Net income available to common stockholders	**191,163**	162,850	151,608	135,698	117,804
At Year-End					
Total assets	**$31,417,635**	$21,844,817	$17,557,662	$16,127,090	$13,563,405
Net loans	**20,823,386**	14,738,884	12,048,428	11,121,112	9,395,310
Deposits	**22,399,725**	16,065,647	12,623,463	11,382,208	10,198,232
Short-term borrowings	**3,678,337**	2,503,010	2,048,896	2,041,658	1,241,239
Long-term borrowings	**668,173**	539,494	641,480	541,443	219,133
Total stockholders' equity	**4,409,194**	2,571,617	2,096,182	2,021,456	1,774,383
Per Common Share					
Basic earnings per share	**$ 0.63**	$ 0.79	$ 0.87	$ 0.81	$ 0.81
Diluted earnings per share	**0.63**	0.78	0.86	0.80	0.80
Cash dividends declared	**0.48**	0.48	0.48	0.48	0.48
Book value	**13.30**	11.68	11.34	11.00	10.49
Tangible book value (non-GAAP) (6)	**6.06**	6.53	6.38	5.99	5.38
Ratios					
Return on average assets	**0.68%**	0.83%	0.96%	0.96%	0.93%
Return on average tangible assets (non-GAAP) (6)	**0.78**	0.91	1.05	1.07	1.04
Return on average equity	**4.89**	6.84	7.70	7.50	7.78
Return on average tangible common equity (non-GAAP) (6)	**10.90**	12.76	14.33	14.74	16.52
Equity to assets (period-end)	**14.03**	11.77	11.94	12.53	13.08
Tangible equity to tangible assets (period-end) (non-GAAP) (6)	**7.11**	7.16	7.35	7.53	7.55
Common equity to assets (period-end)	**13.69**	11.28	11.33	11.87	12.29
Tangible common equity to tangible assets (period-end) (non-GAAP) (6)	**6.74**	6.64	6.71	6.83	6.71
Dividend payout ratio	**74.61**	62.43	55.74	59.85	60.48
Average equity to average assets	**13.98**	12.09	12.48	12.84	11.98

(1) On March 11, 2017, we completed our acquisition of Yadkin Financial Corporation.

(2) On April 22, 2016 and February 13, 2016, we completed our purchase of 17 branch-banking locations and related consumer loans from Fifth Third Bank and completed the acquisition of Metro Bancorp, Inc., respectively.

(3) On September 18, 2015, we completed our purchase of five branch-banking locations from Bank of America. On June 22 and July 18, 2015, we, through our wholly owned subsidiary, First National Insurance Agency, LLC, acquired certain insurance-related assets from Pittsburgh-area insurance companies.

(4) On February 15, 2014 and September 19, 2014, we completed the acquisitions of BCSB Bancorp, Inc. and OBA Financial Services, Inc., respectively.

(5) On April 6, 2013 and October 12, 2013, we completed the acquisitions of Annapolis Bancorp, Inc. and PVF Capital Corp., respectively.

(6) Refer to the *Reconciliations of Non-GAAP Financial Measures and Key Performance Indicators to GAAP* section in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," of this Report.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's discussion and analysis represents an overview of our consolidated results of operations and financial condition. This discussion and analysis should be read in conjunction with the consolidated financial statements and notes presented in Item 8 of this Report. Results of operations for the periods included in this review are not necessarily indicative of results to be obtained during any future period.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

A number of statements in this Report may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 including our expectations relative to business and financial metrics, post-YDKN merger integration and conversion activities, our outlook regarding revenues, expenses, earnings. liquidity, asset quality and statements regarding the impact of technology enhancements and customer and business process improvements.

All forward-looking statements speak only as of the date they are made and are based on information available at that time. We assume no obligation to update forward-looking statements to reflect circumstances or events that occur after the date the forward-looking statements were made or to reflect the occurrence of unanticipated events except as required by federal securities laws. As forward-looking statements involve significant risks and uncertainties, caution should be exercised against placing undue reliance on such statements**.**

Such forward-looking statements may be expressed in a variety of ways, including the use of future and present tense language expressing expectations or predictions of future financial or business performance or conditions based on current performance and trends. Forward-looking statements are typically identified by words such as, "believe," "plan," "expect," "anticipate," "intend," "outlook," "estimate," "forecast," "will," "should," "project," "goal," and other similar words and expressions. These forward-looking statements involve certain risks and uncertainties. In addition to factors previously disclosed in our reports filed with the SEC, the following factors among others, could cause actual results to differ materially from forward-looking statements or historical performance: changes in asset quality and credit risk; the inability to sustain revenue and earnings growth; changes in interest rates and capital markets; inflation; potential difficulties encountered in expanding into a new and remote geographic market; customer borrowing, repayment, investment and deposit practices; customer disintermediation; the introduction, withdrawal, success and timing of business and technology initiatives; competitive conditions; the inability to realize cost savings or revenues or to implement integration plans and other consequences associated with YDKN merger, acquisitions and divestitures; economic conditions; and the impact, extent and timing of technological changes, capital management activities, and other actions of the Office of the Comptroller of the Currency (OCC), the Board of Governors of the Federal Reserve System (FRB) and legislative and regulatory actions and reforms.

Actual results may differ materially from those expressed or implied as a result of these risks and uncertainties, including, but not limited to, the risk factors and other uncertainties described in this Annual Report on Form 10-K, our subsequent 2018 Quarterly Reports on Form 10-Q's (including the risk factors and risk management discussion) and our other subsequent filings with the SEC, which are available on our corporate website at https://www.fnb-online.com/about-us/investor-relations-shareholder-services. We have included our web address as an inactive textual reference only. Information on our website is not part of this Report.

APPLICATION OF CRITICAL ACCOUNTING POLICIES

Our consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP). Application of these principles requires management to make estimates, assumptions and judgments that affect the amounts reported in the consolidated financial statements and accompanying notes. These estimates, assumptions and judgments are based on information available as of the date of the consolidated financial statements; accordingly, as this information changes, the consolidated financial statements could reflect different estimates, assumptions and judgments. Certain policies inherently are based to a greater extent on estimates, assumptions and judgments of management and, as such, have a greater possibility of producing results that could be materially different than originally reported.

The most significant accounting policies followed by FNB are presented in Note 1, "Summary of Significant Accounting Policies" in the Notes to Consolidated Financial Statements, which is included in Item 8 of this Report. These policies, along with the disclosures presented in the Notes to Consolidated Financial Statements, provide information on how we value significant assets and liabilities in the consolidated financial statements, how we determine those values and how we record transactions in the consolidated financial statements.

Management views critical accounting policies to be those which are highly dependent on subjective or complex judgments, estimates and assumptions, and where changes in those estimates and assumptions could have a significant impact on the consolidated financial statements. Management currently views the determination of the allowance for credit losses, accounting for acquired loans, fair value of financial instruments, goodwill and other intangible assets, litigation, income taxes and deferred tax assets to be critical accounting policies.

Allowance for Credit Losses

The allowance for credit losses addresses credit losses inherent in the existing loan portfolio and in unfunded loan commitments and standby letters of credit at the balance sheet date, and is presented as a reserve against loans and other liabilities, respectively, on the consolidated balance sheets.

Management's assessment of the appropriateness of the allowance for credit losses considers individual impaired loans, pools of homogeneous loans with similar risk characteristics and other risk factors concerning the economic environment. These analyses involve a high degree of judgment in estimating the amount of loss associated with specific impaired loans, including estimating the amount and timing of future cash flows, current fair value of the underlying collateral and other qualitative risk factors that may affect the loan, all of which may be susceptible to significant change. The evaluation of this component of the allowance for credit losses requires considerable judgment in order to reasonably estimate inherent loss exposures.

Loans with similar risk characteristics are categorized into pools based on loan type and by internal risk rating for commercial loans, or payment performance and credit score for consumer loans. There is considerable judgment involved in setting internal commercial risk ratings, including an evaluation of the borrower's current financial condition and ability to repay the loan. Transition matrices are generated on a monthly basis to determine probabilities of default, while historical loss experience is used to generate loss given default results for the pools. Inherent but undetected losses may arise due to uncertainties in economic conditions, delays in obtaining information, including unfavorable information about a borrower's financial condition, the difficulty in identifying triggering events that correlate to subsequent loss rates and risk factors that have not yet manifested themselves in loss allocation factors. Uncertainty surrounding the strength and timing of economic cycles also affects estimates of loss. The historical loss experience used in the transition matrices and historical loss experience analysis may not be representative of actual unrealized losses inherent in the portfolio.

Management evaluates the impact of various qualitative factors which pose additional risks that may not be adequately addressed in the analyses described above. Expected loss rates for each loan category may be adjusted for levels of and trends in loan volumes, net charge-offs, delinquency and non-performing loans. In addition, management takes into consideration the impact of changes to lending policies; the experience and depth of lending management and staff; the results of internal loan reviews; concentrations of credit; competition, legal and regulatory risk; market uncertainty and collateral illiquidity; national and local economic trends; or any other common risk factor that might affect loss experience across one or more components of the portfolio. Economic factors influencing management's estimate of allowance for credit losses include, but are not limited to, uncertainty of the labor markets, industrial presence, commercial real estate activity and residential real estate values. The determination of this qualitative component of the allowance for credit losses is particularly dependent on the judgment of management. To the extent actual outcomes differ from management estimates, additional provisions for credit losses could be required that may affect our earnings or financial position in future periods.

The Provision for Credit Losses section in the Results of Operations includes a discussion of the factors affecting changes in the allowance for credit losses during the current period. See Note 1, "Summary of Significant Accounting Policies" and Note 6, "Loans and Leases" in the Notes to Consolidated Financial Statements for further information on the allowance for credit losses.

Accounting for Acquired Loans

All acquired loans are initially measured at fair value at the date of acquisition. The fair value of acquired loans is based on a discounted cash flow methodology that involves assumptions and judgments as to credit risk, default rates, loss severity, collateral values, discount rates, prepayment speeds, prepayment risk and liquidity risk. The measurement of fair value on acquired loans prohibits the carryover or establishment of an allowance for loan losses at acquisition date.

Acquired loans are considered impaired if there is evidence of credit deterioration since origination and if it is probable at time of acquisition that all contractually required payments will not be collected. The present value of any decreases in expected cash flows after the acquisition date will generally result in an impairment charge recorded as a provision for credit losses.

For acquired non-impaired loans, including revolving loans (lines of credit and credit card loans) and leases that are excluded from acquired impaired loan accounting, the difference between the acquisition date fair value and the contractual amounts due at the acquisition date represents the fair value adjustment. Fair value adjustments may be discounts (or premiums) to a loan's cost basis and are accreted (or amortized) to interest income over the loan's remaining life using the level yield method. Subsequent to the acquisition date, the methods utilized to estimate the required allowance for credit losses for these loans is similar to originated loans; however, we record a provision for credit losses only when the required allowance exceeds the remaining fair value adjustment.

These estimates are inherently subjective and can result in significant changes in the cash flow estimates over the life of the loan. To the extent actual outcomes differ from management estimates, the outcome may affect our earnings or financial position in future periods.

See Note 1, "Summary of Significant Accounting Policies" and Note 6, "Loans and Leases" in the Notes to Consolidated Financial Statements for further discussion of accounting for acquired loans.

Fair Value of Financial Instruments

We use fair value measurements to record fair value adjustments to certain financial assets and liabilities and determine fair value disclosures. Additionally, from time to time we may be required to record at fair value other assets on a non-recurring basis, such as loans held for sale, certain impaired loans, OREO and certain other assets. The accounting guidance for fair value measurements includes a three-level hierarchy for disclosure of assets and liabilities recorded at fair value based on whether the inputs to the valuation methodology used for measurement are observable or unobservable. Judgement is required to determine which level of the three-level hierarchy certain assets or liabilities measured at fair value are classified.

Fair value represents the price that would be received to sell a financial asset or paid to transfer a financial liability in an orderly transaction between market participants at the measurement date. We use significant and complex estimates, assumptions and judgements when assets and liabilities are required to be recorded at, or adjusted to reflect, fair value. Where available, fair value and information used to record valuation adjustments for certain assets or liabilities is based on either quoted market prices or are provided by independent third-party sources, including appraisers and valuation specialists. When such third-party information is not available, we may estimate fair value by using cash flow and other financial modeling techniques. Our assumptions about what a market participant would use in pricing an asset or liability is developed based on the best information available in the circumstances. These estimates are inherently subjective and can result in significant changes in the fair value estimates over the life of the asset or liability. Assets and liabilities carried at fair value inherently result in a higher degree of financial statement volatility.

See Note 1, "Summary of Significant Accounting Policies" and Note 24, "Fair Value Measurements" in the Notes to Consolidated Financial Statements for further discussion of accounting for financial instruments.

Goodwill and Other Intangible Assets

As a result of acquisitions, we have recorded goodwill and other identifiable intangible assets on our balance sheet. Goodwill represents the cost of acquired companies in excess of the fair value of net assets, including identifiable intangible assets, at the acquisition date. Our recorded goodwill relates to value inherent in our Community Banking, Wealth Management, Insurance and Consumer Finance segments.

The value of goodwill and other identifiable intangibles is dependent upon our ability to provide quality, cost-effective services in the face of competition. As such, these values are supported ultimately by revenue that is driven by the volume of business transacted. A decline in earnings as a result of a lack of growth or our inability to deliver cost-effective services over sustained periods can lead to impairment in value which could result in additional expense and adversely impact earnings in future periods.

In our assessment of goodwill we perform a quantitative assessment to determine whether it is more likely than not that the fair value of each reporting unit is less than its carrying amount. Prior to 2017, if, after assessing updated quantitative factors, we determined it was more likely than not that the fair value of a reporting unit was less than its carrying amount, we performed the two-step goodwill impairment test to measure a goodwill impairment charge.

Determining fair values of each reporting unit, of its individual assets and liabilities, and also of other identifiable intangible assets requires considering market information that is publicly available as well as the use of significant estimates and assumptions. These estimates and assumptions could have a significant impact on whether or not an impairment charge is recognized and also the magnitude of any such charge. Inputs used in determining fair values where significant estimates and assumptions are necessary include discounted cash flow calculations, market comparisons and recent transactions, projected future cash flows, discount rates reflecting the risk inherent in future cash flows, long-term growth rates and determination and evaluation of appropriate market comparables.

See Note 1, “Summary of Significant Accounting Policies,” Note 2, “New Accounting Standards” and Note 10, “Goodwill and Other Intangible Assets” in the Notes to Consolidated Financial Statements for further discussion of accounting for goodwill and other intangible assets.

Income Taxes and Deferred Tax Assets

We are subject to the income tax laws of the U.S., the states and other jurisdictions where we conduct business. The laws are complex and subject to different interpretations by the taxpayer and various taxing authorities. In determining the provision for income taxes, management must make judgments and estimates about the application of these inherently complex tax statutes, related regulations and case law. In the process of preparing our tax returns, management attempts to make reasonable interpretations of the tax laws. These interpretations are subject to challenge by the taxing authorities or based on management’s ongoing assessment of the facts and evolving case law.

We determine deferred income taxes using the balance sheet method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and recognizes the effect of enacted changes in tax rates and laws in the period in which they occur. That effect would be included in income from continuing operations in the reporting period that includes the enactment date of the change. See the Results of Operations, Income Taxes section later in this Management's Discussion and Analysis of Financial Condition for further tax-related discussion.

On a quarterly basis, management assesses the reasonableness of our effective tax rate based on management’s current best estimate of net income and the applicable taxes for the full year. Deferred tax assets and liabilities are assessed on an annual basis, or sooner, if business events or circumstances warrant. Deferred income taxes represent amounts available to reduce income taxes payable on taxable income in future years. Such assets arise because of temporary differences between the financial reporting and tax bases of assets and liabilities, and from operating loss and tax credit carryforwards. We evaluate the recoverability of these future tax deductions and credits by assessing the adequacy of future expected taxable income from all sources, including reversal of taxable temporary differences, forecasted operating earnings and available tax planning strategies.

We establish a valuation allowance when it is more likely than not that we will not be able to realize a benefit from our deferred tax assets, or when future deductibility is uncertain. Periodically, the valuation allowance is reviewed and adjusted based on management’s assessments of realizable deferred tax assets.

See Note 1, “Summary of Significant Accounting Policies” and Note 18, “Income Taxes” in the Notes to Consolidated Financial Statements for further discussion of accounting for income taxes.

Litigation Reserves

The Corporation is involved in various pending and threatened legal proceedings in which claims for monetary damages and other relief are asserted. These claims result from ordinary business activities relating to our current and/or former operations. Although the ultimate outcome for any asserted claim cannot be predicted with certainty, we believe that the Corporation has valid defenses for all asserted claims. In accordance with applicable accounting guidance, when a loss is considered probable and reasonably estimable, we, in conjunction with internal and outside counsel handling the matter, record a liability in the amount of our best estimate for the ultimate loss. We continue to monitor the matter for further developments that could affect the amount of the accrued liability that has previously been established.

Litigation expense represents a key area of judgement and is subject to uncertainty and factors outside of our control. Significant judgment is required in making these estimates and our financial liabilities may ultimately be more or less than the current estimate. See the Corporation’s policy on establishing accruals for litigation in Note 15, "Commitments, Credit Risk and Contingencies" in the Notes to Consolidated Financial Statements.

Recent Accounting Pronouncements and Developments

Note 2, “New Accounting Standards” in the Notes to Consolidated Financial Statements, which is included in Item 8 of this Report, discusses new accounting pronouncements adopted by us in 2017 and the expected impact of accounting pronouncements recently issued or proposed but not yet required to be adopted.

USE OF NON-GAAP FINANCIAL MEASURES AND KEY PERFORMANCE INDICATORS

To supplement our consolidated financial statements presented in accordance with GAAP, we use certain non-GAAP financial measures, such as operating net income available to common stockholders, operating earnings per diluted common share, return on average tangible common equity, return on average tangible assets, tangible book value per common share, the ratio of tangible equity to tangible assets, the ratio of tangible common equity to tangible assets, efficiency ratio and net interest margin (FTE) to provide information useful to investors in understanding our operating performance and trends, and to facilitate comparisons with the performance of our peers. Management uses these measures internally to assess and better understand our underlying business performance and trends related to core business activities. The non-GAAP financial measures and key performance indicators we use may differ from the non-GAAP financial measures and key performance indicators other financial institutions use to assess their performance and trends.

These non-GAAP financial measures should be viewed as supplemental in nature, and not as a substitute for or superior to, our reported results prepared in accordance with GAAP. When non-GAAP financial measures are disclosed, the SEC's Regulation G requires: (i) the presentation of the most directly comparable financial measure calculated and presented in accordance with GAAP and (ii) a reconciliation of the differences between the non-GAAP financial measure presented and the most directly comparable financial measure calculated and presented in accordance with GAAP. Reconciliations of non-GAAP operating measures to the most directly comparable GAAP financial measures are included later in this report under the heading “Reconciliation of Non-GAAP Financial Measures and Key Performance Indicators to GAAP”.

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

Management also considers the remeasurement of the deferred tax assets and liabilities due to the reduction in the corporate tax rate to be a significant item impacting earnings. This tax item is specific to the Tax Cuts and Jobs Act (the “TCJA”) that was signed into law in December 2017 which included a reduction of the U.S. corporate income tax rate from 35% to 21%, effective January 1, 2018. We recognized the income tax effects of the net deferred tax asset revaluation in our 2017 financial statements. We believe adjusting for this tax change gives supplemental comparative data from the prior years’ presentation.

For the calculation of net interest margin and efficiency ratio, net interest income amounts are reflected on a fully taxable equivalent (FTE) basis which adjusts for the tax benefit of income on certain tax-exempt loans and investments using the federal statutory tax rate of 35% for each period presented. We use these non-GAAP measures to provide an economic view believed to be the preferred industry measurement for these items and to provide relevant comparison between taxable and non-taxable amounts.

OVERVIEW

FNB, headquartered in Pittsburgh, Pennsylvania, is a diversified financial services company operating in eight states. FNB holds a significant retail deposit market share in metropolitan markets including: Pittsburgh, Pennsylvania; Baltimore, Maryland; Cleveland, Ohio; and Charlotte, Raleigh, Durham and the Piedmont Triad (Winston-Salem, Greensboro and High Point) in North Carolina. As of December 31, 2017, we had 417 banking offices throughout Pennsylvania, Ohio, Maryland, West Virginia, North Carolina and South Carolina. We provide a full range of commercial banking, consumer banking, insurance and wealth management solutions through our subsidiary network which is led by our largest affiliate, FNBPA. Commercial banking solutions include corporate banking, small business banking, investment real estate financing, 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. Wealth management services include asset management, private banking and insurance. We also operate Regency, which had 77 consumer finance offices in Pennsylvania, Ohio, Kentucky and Tennessee as of December 31, 2017.

FINANCIAL SUMMARY

We continue to grow organically and through our successful acquisition of YDKN, which closed on March 11, 2017. On the acquisition date, the estimated fair values of the acquired assets and assumed liabilities included $6.8 billion in assets, $5.1 billion in loans, and $5.2 billion in deposits. The acquisition was valued at $1.8 billion based on the acquisition date FNB common stock closing price of $15.97. Under the terms of the merger agreement, shareholders of YDKN received 2.16 shares of FNB common stock for each share of YDKN common stock.

Commercial loan growth during 2017 was largely driven by activity in the Pittsburgh, Baltimore and Cleveland metro markets. Potential commercial lending opportunities were strong, commensurate with the expanded geographic footprint, including new opportunities provided by the aforementioned YDKN acquisition. We also experienced strong growth in the indirect auto and residential mortgage portfolios.

We continue to invest in new technology geared towards enhancing the client experience both online and within our retail locations. During 2017, we deployed leading-edge technology to offer extended hours and improved efficiency throughout our footprint.

For 2017, we were again recognized as a Greenwich Excellence in Banking Awards winner, receiving high scores both nationally and regionally for satisfaction among Small Business clients. Since 2009, we have received a total of 43 Greenwich Excellence Awards for our commercial banking client experience.

Income Statement Highlights

- Net income available to common stockholders was $191.2 million for 2017, compared to $162.9 million for 2016.
- Operating net income available to common stockholders (non-GAAP) was $281.2 million for 2017, compared to $187.7 million for 2016.
- Earnings per diluted common share was $0.63 for 2017, compared to $0.78 for 2016.
- Operating earnings per diluted common share (non-GAAP) was $0.93 for 2017, compared to $0.90 for 2016.
- Non-interest income was $252.4 million for 2017, compared to $201.8 million for 2016.
- Net interest margin on an FTE basis (non-GAAP) was 3.43% for 2017, compared to 3.38% for 2016.
- Non-interest expense, excluding merger-related costs, was $625.0 million for 2017, compared to $473.7 million for 2016.
- Income tax expense for 2017 increased $81.6 million or 108.0% from 2016, primarily due to the impact of a reduction in the valuation of net deferred tax assets of $54.0 million due to the enactment of the TCJA.
- The efficiency ratio (non-GAAP) was 54.2% for 2017, compared to 55.4% for 2016.

Balance Sheet Highlights

- Total assets were $31.4 billion at December 31, 2017, compared to $21.8 billion at December 31, 2016.
- Total stockholders’ equity was $4.4 billion at December 31, 2017, compared to $2.6 billion at December 31, 2016.
- Average loans grew 36.8% for 2017, compared to 2016, through continued organic growth and the loans added through the YDKN acquisition.
- Average deposits grew 32.9%, compared to 2016, through continued growth and the deposits added through the YDKN acquisition.
- The ratio of loans to deposits was 93.7% at December 31, 2017, compared to 92.7% at December 31, 2016.
- Asset quality was satisfactory with a delinquency ratio of 0.88% on the originated portfolio at December 31, 2017, compared to 1.04% at December 31, 2016.

RESULTS OF OPERATIONS

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

Net income available to common stockholders for 2017 was $191.2 million or $0.63 per diluted common share, compared to net income available to common stockholders for 2016 of $162.9 million or $0.78 per diluted common share. Operating earnings per diluted common share (non-GAAP) was $0.93 for 2017 compared to $0.90 for 2016. The results for 2017 included $56.5 million, or $0.13 per diluted common share, in merger costs and reflect costs and benefits associated with the YDKN acquisition that closed on March 11, 2017. The results for 2016 included $37.4 million, or $0.12 per diluted common share, in merger costs and reflect costs and benefits associated with the METR acquisition that closed on February 13, 2016, combined with the Fifth Third branch purchase that closed on April 22, 2016. Average diluted common shares outstanding increased 96.1 million shares, or 46.2%, to 303.9 million shares for 2017, primarily as a result of the YDKN acquisition, for which we issued 111.6 million shares.

The major categories of the income statement and their respective impact to the increase (decrease) in net income are presented below:

TABLE 1

	Year Ended December 31			
(in thousands, except per share data)	**2017**	**2016**	**$ Change**	**% Change**
Net interest income	**$ 846,434**	$ 611,512	$ 234,922	38.4 %
Provision for credit losses	**61,073**	55,752	5,321	9.5
Non-interest income	**252,449**	201,761	50,688	25.1
Non-interest expense	**681,541**	511,133	170,408	33.3
Income taxes	**157,065**	75,497	81,568	108.0
Net income	**199,204**	170,891	28,313	16.6
Less: Preferred stock dividends	**8,041**	8,041	—	—
Net income available to common stockholders	**$ 191,163**	$ 162,850	$ 28,313	17.4 %
Earnings per common share – Basic	**$ 0.63**	$ 0.79	$ (0.16)	(20.3)%
Earnings per common share – Diluted	**0.63**	0.78	(0.15)	(19.2)
Cash dividends per common share	**0.48**	0.48	—	—

The following table presents selected financial ratios and other relevant data used to analyze our performance.

TABLE 2

Year Ended December 31 (dollars in thousands)	**2017**	**2016**
Return on average equity	**4.89%**	6.84%
Return on average tangible common equity (2)	**10.90%**	12.76%
Return on average assets	**0.68%**	0.83%
Return on average tangible assets (2)	**0.78%**	0.91%
Book value per common share (1)	**$ 13.30**	$ 11.68
Tangible book value per common share (1) (2)	**$ 6.06**	$ 6.53
Equity to assets (1)	**14.03%**	11.77%
Tangible equity to tangible assets (1) (2)	**7.11%**	7.16%
Common equity to assets (1)	**13.69%**	11.28%
Tangible common equity to tangible assets (1) (2)	**6.74%**	6.64%
Dividend payout ratio	**74.61%**	62.43%
Average equity to average assets	**13.98%**	12.09%

(1) Period-end (2) Non-GAAP

Average equity for 2017 reflects the impact of the YDKN acquisition.

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

TABLE 3

(dollars in thousands)	Year Ended December 31								
	2017			2016			2015		
Assets	**Average Balance**	**Interest Income/ Expense**	**Yield/ Rate**	**Average Balance**	**Interest Income/ Expense**	**Yield/ Rate**	**Average Balance**	**Interest Income/ Expense**	**Yield/ Rate**
Interest-earning assets:									
Interest-bearing deposits with banks	**$ 94,261**	**$ 894**	**0.95%**	$ 116,769	$ 444	0.38%	$ 70,116	$ 117	0.17%
Federal funds sold	**1,129**	**8**	**0.72**	—	—	—	—	—	—
Taxable investment securities [1]	**4,824,688**	**97,843**	**2.03**	3,720,800	71,853	1.93	2,864,795	58,148	2.03
Tax-exempt investment securities [1] [2]	**720,039**	**30,056**	**4.17**	319,836	13,815	4.32	204,076	9,853	4.83
Loans held for sale	**89,558**	**5,672**	**6.33**	16,525	726	4.39	7,773	382	4.91
Loans and leases [2] [3]	**19,520,234**	**864,619**	**4.43**	14,265,032	603,373	4.23	11,650,742	485,930	4.17
Total interest-earning assets [2]	**25,249,909**	**999,092**	**3.96**	18,438,962	690,211	3.74	14,797,502	554,430	3.75
Cash and due from banks	**344,791**			275,432			206,566		
Allowance for credit losses	**(167,364)**			(152,751)			(133,508)		
Premises and equipment	**324,092**			219,192			165,253		
Other assets	**3,379,681**			1,896,882			1,570,334		
Total assets	**$ 29,131,109**			$ 20,677,717			$ 16,606,147		
Liabilities									
Interest-bearing liabilities:									
Deposits:									
Interest-bearing demand	**$ 8,927,700**	**32,822**	**0.37**	$ 6,652,953	16,029	0.24	$ 5,040,102	8,562	0.17
Savings	**2,477,644**	**2,796**	**0.11**	2,237,020	1,712	0.08	1,714,587	787	0.05
Certificates and other time	**3,770,172**	**35,964**	**0.95**	2,600,340	23,498	0.90	2,565,937	21,858	0.85
Short-term borrowings	**3,761,297**	**43,969**	**1.16**	1,975,742	12,183	0.61	1,664,143	7,075	0.42
Long-term borrowings	**634,107**	**18,341**	**2.89**	616,283	14,029	2.28	566,914	10,291	1.82
Total interest-bearing liabilities	**19,570,920**	**133,892**	**0.68**	14,082,338	67,451	0.48	11,551,683	48,573	0.42
Non-interest-bearing demand	**5,264,256**			3,884,941			2,832,982		
Other liabilities	**222,233**			210,462			149,312		
Total liabilities	**25,057,409**			18,177,741			14,533,977		
Stockholders' equity	**4,073,700**			2,499,976			2,072,170		
Total liabilities and stockholders' equity	**$ 29,131,109**			$ 20,677,717			$ 16,606,147		
Excess of interest-earning assets over interest-bearing liabilities	**$ 5,678,989**			$ 4,356,624			$ 3,245,819		
Net interest income (FTE) [2]		**865,200**			622,760			505,857	
Tax-equivalent adjustment		**(18,766)**			(11,248)			(7,635)	
Net interest income		**$ 846,434**			$ 611,512			$ 498,222	
Net interest spread			**3.28%**			3.26%			3.33%
Net interest margin [2]			**3.43%**			3.38%			3.42%

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

(2) The interest income amounts are reflected on an FTE basis (non-GAAP), which adjusts for the tax benefit of income on certain tax-exempt loans and investments using the federal statutory tax rate of 35% for each period presented. The yield on earning assets and the net interest margin are presented on an FTE basis. We believe 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.

Net Interest Income

In 2017, net interest income, which comprised 77.0% of revenue (net interest income plus non-interest income) compared to 75.2% in 2016, was affected by the general level of interest rates, changes in interest rates, the timing of repricing of assets and liabilities, the shape of the yield curve, the level of non-accrual loans and changes in the amount and mix of interest-earning assets and interest-bearing liabilities.

Net interest income on an FTE basis (non-GAAP) of $865.2 million for 2017 increased $242.4 million or 38.9% from $622.8 million for 2016. Average interest earning assets increased $6.8 billion or 36.9% and average interest-bearing liabilities increased $5.5 billion or 39.0% from 2016, primarily due to our acquisitions and organic growth in loans and deposits. Our net interest margin (non-GAAP) was 3.43% for 2017, compared to 3.38% for 2016, due to an extended low interest rate environment and a competitive landscape for earning assets, offset by higher purchase accounting accretion and FOMC interest rate increases. The tax-equivalent adjustment (non-GAAP) to net interest income from amounts reported on our financial statements are shown in the preceding table.

The following table provides certain information regarding changes in net interest income on an FTE basis (non-GAAP) attributable to changes in the average volumes and yields earned on interest-earning assets and the average volume and rates paid for interest-bearing liabilities for the periods indicated:

TABLE 4

	2017 vs 2016			2016 vs 2015		
(in thousands)	**Volume**	**Rate**	**Net**	**Volume**	**Rate**	**Net**
Interest Income						
Interest-bearing deposits with banks	**$ (86)**	**$ 536**	**$ 450**	$ 112	$ 215	$ 327
Federal funds sold	**4**	**4**	**8**	—	—	—
Securities (2)	**40,349**	**1,882**	**42,231**	22,677	(5,010)	17,667
Loans held for sale	**3,383**	**1,563**	**4,946**	388	(44)	344
Loans and leases (2)	**233,286**	**27,960**	**261,246**	110,659	6,784	117,443
Total interest income (2)	**276,936**	**31,945**	**308,881**	133,836	1,945	135,781
Interest Expense						
Deposits:						
Interest-bearing demand	**6,766**	**10,027**	**16,793**	3,868	3,599	7,467
Savings	**358**	**726**	**1,084**	320	605	925
Certificates and other time	**10,752**	**1,714**	**12,466**	297	1,343	1,640
Short-term borrowings	**20,461**	**11,325**	**31,786**	2,702	2,406	5,108
Long-term borrowings	**958**	**3,354**	**4,312**	954	2,784	3,738
Total interest expense	**39,295**	**27,146**	**66,441**	8,141	10,737	18,878
Net change (2)	**$ 237,641**	**$ 4,799**	**$ 242,440**	$ 125,695	$ (8,792)	$ 116,903

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

(2) Interest income amounts are reflected on an FTE basis (non-GAAP) which adjusts for the tax benefit of income on certain tax-exempt loans and investments using the federal statutory tax rate of 35.0% for each period presented. We believe this measure to be the preferred industry measurement of net interest income and provides relevant comparison between taxable and non-taxable amounts.

Interest income on an FTE basis (non-GAAP) of $999.1 million for 2017, increased $308.9 million or 44.8% from 2016, primarily due to increased interest-earning assets, in addition to higher yields. During 2017 and 2016, we recognized $21.5 million and $13.1 million, respectively, in incremental purchase accounting accretion and cash recoveries on acquired loans; which included $4.0 million of higher incremental purchase accounting accretion and $4.4 million of higher cash recoveries. The increase in interest-earning assets was primarily driven by a $5.3 billion or 36.8% increase in average loans and leases, which reflects the benefit of our expanded banking footprint resulting from the YDKN and METR acquisitions and successful sales management, and $918.1 million or 6.3% of organic growth. Loans added at closing of the YDKN acquisition were $5.1 billion. Additionally, average securities increased $1.5 billion or 37.2%, primarily as a result of the securities portfolio acquired from YDKN and the subsequent repositioning of that portfolio. The yield on average interest-earning assets (non-GAAP) increased 22 basis points for 2016 to 3.96% for 2017, driven by an increase in yields in both investments and loans.

Interest expense of $133.9 million for 2017 increased $66.4 million or 98.5% from 2016 due to an increase in rates paid and growth in average interest-bearing liabilities, as all categories of interest-bearing liabilities increased over the same period of 2016. Average interest-bearing deposits increased $3.7 billion or 32.1%, which reflects the benefit of our expanded banking footprint resulting from the YDKN and METR acquisitions, including $2.9 billion added at closing of the YDKN acquisition and organic growth in transaction deposits. Average short-term borrowings increased $1.8 billion or 90.4%, primarily as a result of increases of $1.4 billion in short-term FHLB borrowings and $414.2 million in federal funds purchased. Average long-term borrowings increased $17.8 million or 2.9%, primarily as a result of increases of $50.4 million and $49.0 million in subordinated debt and junior subordinated debt, respectively, assumed in the YDKN transaction, partially offset by a decrease of $84.8 million in long-term FHLB advances. Subsequent to the close of the acquisition, we remixed the long–term position based on our funding needs. The rate paid on interest-bearing liabilities increased 20 basis points to 0.68% for 2017, in response to the FRB's Federal Open Market Committee (FOMC) interest rate increases and changes in the funding mix. Given the relatively low level of interest rates and the current rates paid on the various deposit products, we believe there is limited opportunity for reductions in the overall rate paid on interest-bearing liabilities.

Provision for Credit Losses

The provision for credit losses is determined based on management's estimates of the appropriate level of allowance for credit losses needed to absorb probable losses inherent in the existing loan and lease portfolio, after giving consideration to charge-offs and recoveries for the period. The following table presents information regarding the provision for credit losses and net charge-offs for the years 2015 through 2017:

TABLE 5

			2017 vs 2016			2016 vs 2015	
(dollars in thousands)	2017	2016	$ Change	% Change	2015	$ Change	% Change
Provision for credit losses:							
Originated	**$64,559**	$ 55,422	$ 9,137	16.5%	$ 41,484	$ 13,938	33.6%
Acquired	**(3,486)**	330	(3,816)	n/m	(1,043)	1,373	n/m
Total provision for credit losses	**$61,073**	$ 55,752	$ 5,321	9.5%	$ 40,441	$ 15,311	37.9%
Net loan charge-offs:							
Originated	**$46,668**	$ 39,916	$ 6,752	16.9%	$ 24,151	$ 15,765	65.3%
Acquired	**(2,916)**	(211)	(2,705)	n/m	204	(415)	n/m
Total net loan charge-offs	**$43,752**	$ 39,705	$ 4,047	10.2%	$ 24,355	$ 15,350	63.0%
Net loan charge-offs / total average loans and leases	**0.22%**	0.28%			0.21%		
Net originated loan charge-offs / total average originated loans and leases	**0.33%**	0.34%			0.24%		

n/m - Not meaningful

The provision for credit losses of $61.1 million during 2017 increased $5.3 million from 2016, primarily due to an increase of $9.1 million in the provision for the originated portfolio, which was attributable to higher organic loan growth and higher net charge-offs in 2017. This was partially offset by a decrease of $3.8 million in the provision for the acquired portfolio due to generally favorable credit quality results and the resolution of certain non-performing assets. 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

The breakdown of non-interest income for the years 2015 through 2017 is presented in the following table:

TABLE 6

			2017 vs 2016			2016 vs 2015	
(dollars in thousands)	**2017**	**2016**	**$ Change**	**% Change**	**2015**	**$ Change**	**% Change**
Service charges	**$ 124,310**	$ 97,524	$ 26,786	27.5%	$ 69,877	$ 27,647	39.6%
Trust services	**23,121**	21,173	1,948	9.2	20,934	239	1.1
Insurance commissions and fees	**19,063**	18,328	735	4.0	16,270	2,058	12.6
Securities commissions and fees	**15,286**	13,468	1,818	13.5	13,642	(174)	(1.3)
Capital markets income	**16,603**	15,471	1,132	7.3	10,246	5,225	51.0
Mortgage banking operations	**19,977**	12,106	7,871	65.0	8,619	3,487	40.5
Bank owned life insurance	**11,693**	10,249	1,444	14.1	8,135	2,114	26.0
Net securities gains	**5,916**	712	5,204	730.9	822	(110)	(13.4)
Other	**16,480**	12,730	3,750	29.5	13,865	(1,135)	(8.2)
Total non-interest income	**$ 252,449**	$ 201,761	$ 50,688	25.1%	$ 162,410	$ 39,351	24.2%

Total non-interest income of $252.4 million for 2017 increased $50.7 million or 25.1% from $201.8 million in 2016. The variances in significant individual non-interest income items are further explained in the following paragraphs, with an overriding theme of the increases relating to expanded operations from the acquisition of YDKN in the first quarter of 2017 and the acquisition of METR and Fifth Third branches in the first half of 2016.

Service charges on loans and deposits of $124.3 million for 2017 increased $26.8 million or 27.5% from $97.5 million in 2016. The impact of the expanded customer base due to acquisitions, combined with organic growth in loans and deposit accounts, resulted in increases of $13.1 million or 22.7% in deposit-related service charges and $13.7 million or 34.4% in other service charges and fees over this same period.

Trust services of $23.1 million for 2017 increased $1.9 million or 9.2% from the same period of 2016, primarily driven by strong organic growth activity and improved market conditions. The market value of assets under management increased $818.2 million or 20.2% to $4.9 billion at December 31, 2017.

Insurance commissions and fees of $19.1 million for 2017 increased $0.7 million or 4.0% from $18.3 million in 2016, primarily due to revenues from new client acquisition and expanded product capabilities.

Capital markets income of $16.6 million for 2017 increased $1.1 million or 7.3% from $15.5 million for 2016, as we earned more in fees through our commercial loans interest rate swap program, reflecting stronger demand from commercial loan customers to swap floating-rate interest payments for fixed-rate interest payments enabling those customers to better manage their interest rate risk.

Mortgage banking operations income of $20.0 million for 2017 increased $7.9 million or 65.0% from $12.1 million for 2016, primarily due to growth in the servicing portfolio and higher sold volume due to acquisitions and expansion into new markets. During 2017, we sold $1.0 billion of residential mortgage loans, compared to $704.2 million for 2016.

Income from BOLI of $11.7 million for 2017 increased $1.4 million or 14.1% from $10.2 million in 2016, due to a combination of reinvesting into a higher yielding policy and death benefits received.

Net securities gains were $5.9 million for 2017, compared to $0.7 million for 2016. These gains in 2017 relate to the sale of certain acquired YDKN securities after the closing of the acquisition to align their portfolio with our investment profile and the sale of certain amortizing held to maturity securities which were sold to improve operational efficiencies. The held to maturity securities had already returned more than 85% of their principal outstanding at the time we acquired the securities and could be sold without tainting the remaining held to maturity portfolio.

Other non-interest income was $16.5 million and $12.7 million for 2017 and 2016, respectively. During 2017, dividends on non-marketable equity securities increased $5.1 million, as we have more shares of FHLB stock resulting from the YDKN acquisition. Additionally, net gains on sale of fixed assets increased $1.4 million during 2017. During 2016, we recognized a gain of $2.4 million relating to the $10.0 million redemption of TPS that was originally issued by a company that we acquired.

Non-Interest Expense

The breakdown of non-interest expense for the years 2015 through 2017 is presented in the following table:

TABLE 7

(dollars in thousands)	2017	2016	2017 vs 2016 $ Change	2017 vs 2016 % Change	2015	2016 vs 2015 $ Change	2016 vs 2015 % Change
Salaries and employee benefits	**$ 326,893**	$ 239,798	$ 87,095	36.3%	$ 202,068	$ 37,730	18.7%
Net occupancy	**53,787**	40,086	13,701	34.2	33,670	6,416	19.1
Equipment	**49,361**	38,046	11,315	29.7	31,869	6,177	19.4
Amortization of intangibles	**17,517**	11,210	6,307	56.3	8,305	2,905	35.0
Outside services	**56,113**	43,737	12,376	28.3	34,698	9,039	26.1
FDIC insurance	**32,902**	19,203	13,699	71.3	12,888	6,315	49.0
Supplies	**8,326**	10,834	(2,508)	(23.1)	8,064	2,770	34.4
Bank shares and franchise taxes	**10,256**	8,940	1,316	14.7	8,139	801	9.8
Telephone	**10,218**	7,159	3,059	42.7	6,234	925	14.8
Marketing	**11,505**	10,141	1,364	13.5	8,396	1,745	20.8
Other real estate owned	**4,438**	5,153	(715)	(13.9)	4,637	516	11.1
Merger-related	**56,513**	37,439	19,074	50.9	3,033	34,406	1,134.4
Other	**43,712**	39,387	4,325	11.0	28,548	10,839	38.0
Total non-interest expense	**$ 681,541**	$ 511,133	$ 170,408	33.3%	$ 390,549	$ 120,584	30.9%

Total non-interest expense of $681.5 million for 2017 increased $170.4 million or 33.3% from $511.1 million in 2016. The variances in the individual non-interest expense items are further explained in the following paragraphs with an overriding theme of the increases for several line items related to the expanded operations due to the acquisition of YDKN in the first quarter of 2017 and the acquisition of METR and Fifth Third branches in the first half of 2016.

Salaries and employee benefits of $326.9 million for 2017 increased $87.1 million or 36.3% from $239.8 million in 2016, primarily due to employees added in conjunction with the aforementioned acquisitions, combined with merit increases and higher medical insurance costs in 2017. Our total full-time equivalent employees were 4,626 and 3,648 at December 31, 2017 and 2016, respectively.

Net occupancy and equipment expense of $103.1 million for 2017 increased $25.0 million or 32.0% from $78.1 million in 2016, primarily resulting from the aforementioned acquisitions, and our continued investment in new technology. The increased technology costs include upgrades to meet customer needs via the utilization of electronic delivery channels, such as online and mobile banking, investment in infrastructure to support our larger company and expenditures deemed necessary by management to maintain proficiency and compliance with expanding regulatory requirements.

Amortization of intangibles expense of $17.5 million for 2017 increased $6.3 million or 56.3% from $11.2 million in 2016, due to the additional core deposit intangibles added as a result of the YDKN, METR and Fifth Third branches.

Outside services expense of $56.1 million for 2017 increased $12.4 million or 28.3% from $43.7 million in 2016, primarily due to increases of $6.8 million in data processing services, $1.8 million in information technology services, $0.5 million in armored car services and $3.0 million in other outsourced services, such as reporting, monitoring, shredding, printing, filing, security and legal expense. These increases were driven primarily by the aforementioned acquisitions.

FDIC insurance of $32.9 million for 2017 increased $13.7 million or 71.3% from $19.2 million in 2016, primarily due to a higher assessment base resulting from merger and acquisition activity combined with an increased rate due to YDKN's construction loan portfolio. Additionally, effective July 1, 2016, the FDIC assessment rate was increased to include a surcharge equal to 4.5 basis points on assets in excess of $10.0 billion.

Supplies expense of $8.3 million for 2017 decreased $2.5 million or 23.1% from $10.8 million in 2016, primarily due to the reclassification of $5.3 million in software subscriptions to equipment expense, partially offset by additional costs associated with the recent acquisitions.

Bank shares and franchise taxes expense of $10.3 million for 2017 increased $1.3 million or 14.7% from $8.9 million in 2016, primarily due to an increase in the bank shares tax rate from 0.89% to 0.95%, effective beginning January 1, 2017, and an increase in the capital base of the Pennsylvania bank shares tax, partially offset by apportionment dilution from increased activity in other states during the same reporting tax period.

Telephone expense of $10.2 million for 2017 increased $3.1 million or 42.7% from $7.2 million in 2016, as we recognized additional costs associated with the recent acquisitions.

Marketing expense of $11.5 million for 2017 increased $1.4 million or 13.5% from $10.1 million in 2016, primarily due to the YDKN acquisition, as well as continued ongoing marketing initiatives across our footprint, particularly in our metropolitan markets.

OREO expense of $4.4 million for 2017 decreased $0.7 million or 13.9% from $5.2 million in 2016, primarily due to lower property write-downs that were taken in 2017 as compared to the level of write-downs taken in 2016.

We recorded $56.5 million and $37.4 million in merger-related costs in 2017 and 2016, respectively. The 2017 costs were related to the YDKN acquisition, while the 2016 costs were associated with the METR acquisition, the Fifth Third branch purchase and the 2017 YDKN acquisition. These costs are specific to each individual transaction, and may vary significantly based on the size and complexity of the transaction. The costs for 2016 and 2017 are summarized in the following table:

TABLE 8

Year ended December 31	**2017**	**2016**
(in thousands)		
Professional services	**$ 26,161**	$ 18,114
Severance and other employee benefit costs	**17,778**	14,149
Charitable contributions	**5,635**	1,115
Data processing conversion costs	**3,974**	2,028
Marketing costs	**1,546**	1,219
Other expenses	**1,419**	814
Total merger-related costs	**$ 56,513**	$ 37,439

Other non-interest expense was $43.7 million and $39.4 million for 2017 and 2016, respectively. During 2017, we recorded $6.2 million more in expense relating to historic and other tax credit investments and $3.1 million more in business development costs. Additionally, miscellaneous losses increased $2.0 million from 2016, primarily due to higher credit card disputes and fraud losses given our expanded size and geographic footprint. During 2016, we incurred a $2.6 million impairment charge on acquired other assets relating to low income housing projects.

Income Taxes

On December 22, 2017, the U.S. federal government enacted a tax bill, the Tax Cuts and Jobs Act, or the (TCJA). The TCJA provides significant changes to the U.S. federal income tax laws, such as the reduction of the federal tax rate for corporations from 35% to 21%, effective January 1, 2018. The TCJA also includes other provisions such as the acceleration of depreciation for certain assets placed into service after September 27, 2017.

On the same date, the SEC issued Staff Accounting Bulletin (SAB) No. 118, which provides guidance regarding the recognition of the effect of enacted changes in tax rates and laws in the period in which they occur when a registrant does not have the necessary information available, prepared or analyzed in reasonable detail to complete the accounting for certain income tax effects of the TCJA for the reporting period in which the TCJA was enacted. SAB No. 118 expresses the view that a company must first reflect the income tax effect of the TCJA in the period of enactment on items for which the accounting is complete (these completed amounts would not be provisional) and also report provisional amounts for certain income tax effects of the TCJA for which reasonable estimates can be determined. We have recorded reasonable estimates of the effects of the TCJA's impact on our financial statements for the period ended December 31, 2017. Certain information necessary to record precise amounts are not yet available or analyzed, yielding the amounts booked as provisional. Examples of unavailable or unanalyzed information for which we have provisional estimates include depreciation (including lease financing), partnership earnings, and realized built-in losses from a prior acquisition. For effects of the TCJA for which a reasonable estimate cannot be determined, a company would not report provisional amounts and would continue to account for amounts based on the provisions of the tax laws that were in effect immediately prior to the TCJA enactment. We have not identified any items for which the income tax effects of the TCJA have not been completed or a reasonable estimate could not be determined as of December 31, 2017.

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

TABLE 9

Year ended December 31	**2017**	**2016**	**2015**
(dollars in thousands)			
Income tax expense	**$ 157,065**	$ 75,497	$ 69,993
Effective tax rate	**44.1%**	30.6%	30.5%
Statutory tax rate	**35.0%**	35.0%	35.0%

Our income tax expense for 2017 increased $81.6 million or 108.0% from 2016, primarily due to the impact of a reduction in the valuation of net deferred tax assets of $54.0 million due to the enactment of the TCJA. The effective tax rate was 44.1% for 2017 compared to 30.6% for 2016. The effective tax rate for 2016 was lower than the 35% federal statutory tax rate due to the tax benefits primarily resulting from tax-exempt income on investments and loans, tax credits and income from BOLI. The variance between 2017 and 2016 in income tax expense and effective tax rate primarily relates to the aforementioned reduction in valuation of net deferred tax assets, combined with increases in merger expenses and in the level of renewable energy, historic and low-income housing tax credits recognized in 2017.

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

Refer to the previous section of this Management's Discussion and Analysis for tables which reflect a comparison of the years ended 2016 versus 2015. Certain significant changes for the years ended 2016 versus 2015 are discussed in the paragraphs that follow.

Net income available to common stockholders for 2016 was $162.9 million or $0.78 per diluted common share, compared to net income available to common stockholders for 2015 of $151.6 million or $0.86 per diluted common share. The results for 2016 included $37.4 million, or $0.12 per diluted common share, in merger costs and reflect costs and benefits associated with the METR acquisition that closed on February 13, 2016, combined with the Fifth Third branch purchase that closed on April 22, 2016. The results for 2015 included $3.0 million, or $0.01 per diluted common share, in merger costs and reflect costs and benefits associated with the BofA branch purchase that closed on September 18, 2015, combined with costs associated with the METR acquisition. Average diluted common shares outstanding increased 31.4 million shares or 17.8% to 207.8 million shares for 2016, primarily as a result of the METR acquisition.

Net Interest Income

In 2016, net interest income, which comprised 75.2% of revenue compared to 75.4% in 2015, was affected by the general level of interest rates, changes in interest rates, the timing of repricing of assets and liabilities, the shape of the yield curve, the level of non-accrual loans and changes in the amount and mix of interest-earning assets and interest-bearing liabilities.

Net interest income on an FTE basis (non-GAAP) of $622.8 million for 2016 increased $116.9 million or 23.1% from $505.9 million for 2015. Average interest earning assets increased $3.6 billion or 24.6% and average interest-bearing liabilities increased $2.5 billion or 21.9% from 2015, primarily due to the METR acquisition, combined with organic growth in loans and deposits. Our net interest margin (non-GAAP) was 3.38% for 2016, compared to 3.42% for 2015, reflecting the impact of an extended low interest rate environment and a competitive landscape for interest-earning assets.

Interest income on an FTE basis (non-GAAP) of $690.2 million for 2016, increased $135.8 million or 24.5% from 2015, primarily due to increased interest-earning assets, which was slightly offset by lower yields. During 2016 and 2015, we recognized benefits of $6.7 million and $5.0 million, respectively, in incremental purchase accounting accretion and cash recoveries on acquired loans. The increase in interest-earning assets was primarily driven by a $2.6 billion or 22.4% increase in average loans and leases, including $929.2 million or 8.0% of organic growth, which reflects the benefit of our expanded banking footprint and successful sales management. Loans added at closing in the Fifth Third branch purchase and METR acquisition were $95.4 million and $1.9 billion, respectively. The loans added in the BofA branch purchase were immaterial. Additionally, average securities increased $971.8 million or 31.7%, primarily due to replacing the securities acquired from METR with new securities. The yield on average interest-earning assets (non-GAAP) decreased 1 basis point from 3.75% for 2015 to 3.74% for 2016.

Interest expense of $67.5 million for 2016 increased $18.9 million or 38.9% from 2015 due to an increase in rates paid and growth in interest-bearing liabilities, as all categories of interest-bearing liabilities increased over the same period of 2015. Average interest-bearing deposits increased $2.2 billion or 23.3%, including $242.4 million or 11.2% of organic growth, which reflects the benefit of our expanded banking footprint. Additionally, interest-bearing deposits added at closing in the Fifth Third branch purchase, METR acquisition and BofA branch purchase were $258.1 million, $1.9 billion and $105.3 million, respectively. Average short-term borrowings increased $311.6 million or 18.7%, primarily as a result of a $538.2 million increase in federal funds purchased, partially offset by declines of $201.3 million and $25.3 million in customer repurchase agreements and short-term FHLB borrowings, respectively. Average long-term borrowings increased $49.4 million or 8.7%, primarily due to $100.0 million in subordinated notes that we issued in our October 2015 debt offering in anticipation of the acquisitions in early 2016. The rate paid on interest-bearing liabilities increased 6 basis points to 0.48% for 2016, compared to 0.42% for 2015, due to the debt offering and changes in the funding mix as borrowings increased faster than deposits. Given the relatively low level of interest rates and the rates paid in 2016 on the various deposit products, we believed there was limited opportunity for reductions in the overall rate paid on interest-bearing liabilities at that time.

Provision for Credit Losses

The provision for credit losses of $55.8 million during 2016 increased $15.3 million from 2015. This increase was related to organic loan growth, an increase in charge-offs, which included a $4.0 million charge-off from a single commercial relationship involving a borrower alleged to have falsified documents and financial information over an extended period of time, and credit migration. For additional information relating to the allowance and provision for credit losses, refer to the Allowance for Credit Losses section of this Management's Discussion and Analysis.

Non-Interest Income

Total non-interest income of $201.8 million for 2016 increased $39.4 million or 24.2% from $162.4 million in 2015. The variances in significant individual non-interest income items are further explained in the following paragraphs, with an overriding theme of the increases for several line items related to the expanded operations from the METR acquisition and BofA and Fifth Third branch purchases.

Service charges on loans and deposits of $97.5 million for 2016 increased $26.8 million or 37.9% from $70.7 million in 2015. The impact of organic growth and the expanded customer base due to acquisitions resulted in increases of $17.9 million or 45.0% in deposit-related service charges and $10.4 million or 33.7% in other service charges and fees over this same period.

Insurance commissions and fees of $18.3 million for 2016 increased $2.1 million or 12.6% from $16.3 million in 2015, primarily due to revenues from the insurance businesses acquired in June 2015, combined with the impact of new client acquisition due to expanded product capabilities and the benefits of new hires during 2015.

Capital markets income of $13.9 million for 2016 increased $4.4 million or 46.9% from $9.5 million for 2015, as we earned more in fees through our commercial loans interest rate swap program, reflecting stronger demand from commercial loan customers to swap floating-rate interest payments for fixed-rate interest payments enabling those customers to better manage their interest rate risk.

Mortgage banking operations income of $12.1 million for 2016 increased $3.5 million or 40.5% from $8.6 million for 2015, primarily due to strong organic growth resulting from our strategic decision to expand the scope of this business unit. During 2016, we sold $704.2 million of residential mortgage loans, compared to $444.7 million for 2015.

Income from BOLI of $10.2 million for 2016 increased $2.0 million or 24.8% from $8.0 million in 2015, due to a combination of reinvesting into a higher yielding policy and death benefits received.

Other non-interest income was $14.4 million and $13.8 million for 2016 and 2015, respectively. During 2016, we recognized a gain of $2.4 million relating to the $10.0 million redemption of TPS that was originally issued by a company that we acquired.

Additionally during 2016, we recorded $2.2 million less in dividends on non-marketable equity securities, primarily resulting from a special dividend paid by the FHLB totaling $1.0 million during 2015, combined with a decreased rate of FRB dividends resulting from December 2015 legislation for banks with more than $10 billion in total assets. During 2016, we also recorded $0.8 million more in gains from an equity investment and $0.5 million less in gains on the sale of fixed assets and repossessed assets.

Non-Interest Expense

Total non-interest expense of $511.1 million for 2016 increased $120.6 million or 30.9% from $390.5 million in 2015. The variances in the individual non-interest expense items are further explained in the following paragraphs with an overriding theme of the increases for several line items related to the expanded operations from the METR acquisition and BofA and Fifth Third branch purchases.

Salaries and employee benefits of $239.8 million for 2016 increased $37.7 million or 18.7% from $202.1 million in 2015, primarily due to employees added in conjunction with the aforementioned acquisitions and heightened regulatory compliance costs, combined with new hires, merit increases and higher medical insurance costs in 2016.

Net occupancy and equipment expense of $78.1 million for 2016 increased $12.6 million or 19.2% from $65.5 million in 2015, primarily resulting from the acquisitions, combined with additional costs associated with our continued investment in new technology. The increased technology costs include upgrades to meet customer needs via the utilization of electronic delivery channels, such as online and mobile banking, investment in infrastructure to support our larger company and expenditures to meet regulatory requirements. These increases were partially offset by lower costs attributable to a mild winter season in the early part of 2016, compared to the same period of 2015.

Amortization of intangibles expense of $11.2 million for 2016 increased $2.9 million or 35.0% from $8.3 million in 2015, due to the additional core deposit intangibles added as a result of the METR acquisition and BofA and Fifth Third branch purchases.

Outside services expense of $43.7 million for 2016 increased $9.0 million or 26.0% from $34.7 million in 2015, primarily due to an increase of $5.1 million in services such as reporting and monitoring, shredding, printing and filing. Additionally, data processing services, check card expenses and licenses, fees and dues increased $1.3 million, $0.9 million and $0.7 million, respectively. These increases were all primarily due to additional costs associated with the recent acquisitions and were partially offset by a decrease of $0.8 million in consulting fees.

FDIC insurance of $19.2 million for 2016 increased $6.3 million or 49.0% from $12.9 million in 2015, primarily due to a higher assessment base given merger and acquisition activity. Additionally, we are now paying a surcharge for banks with over $10 billion in assets and a higher level due to increased classified assets relating to the METR acquisition. The surcharge is assessed on all assets over $10 billion at the rate of 4.5 basis points annualized, which resulted in additional expense in the last half of 2016 of $2.2 million.

Supplies expense of $10.8 million for 2016 increased $2.8 million or 34.4% from $8.1 million in 2015, as we recognized additional costs associated with the recent acquisitions.

Bank shares and franchise taxes expense of $8.9 million for 2016 increased $0.8 million or 9.8% from $8.1 million in 2015, primarily due to a higher assessment base resulting from enhanced capital levels at FNBPA in conjunction with the recent acquisitions.

Telephone expense of $7.2 million for 2016 increased $0.9 million or 14.8% from $6.2 million in 2015, as we recognized additional costs associated with the recent acquisitions.

Marketing expense of $10.1 million for 2016 increased $1.7 million or 20.8% from $8.4 million in 2015, primarily due to higher expenses associated with the recent acquisitions, combined with additional costs associated with promotional efforts to support further expansion in the Cleveland, Ohio and Baltimore, Maryland metropolitan markets.

OREO expense of $5.2 million for 2016 increased $0.5 million or 11.1% from $4.6 million in 2015, primarily due to write-downs to permit the sale of certain properties during the year, combined with updated valuations.

We recorded $37.4 and $3.0 million in merger-related costs in 2016 and 2015, respectively. The 2016 costs were related to the METR acquisition, the Fifth Third branch purchase and the pending YDKN acquisition, while the 2015 costs were associated with the METR acquisition and BofA branch purchase. These costs are specific to each individual transaction, and may vary significantly based on the size and complexity of the transaction.

Other non-interest expense was $39.4 million and $28.5 million for 2016 and 2015, respectively. During 2016, we incurred a $2.6 million impairment charge on acquired other assets relating to low income housing projects. Additionally, during 2016, business development expenses increased $1.0 million and postage expense increased $0.7 million, both primarily due to the recent acquisitions. Loan-related expense increased $2.0 million primarily due to higher appraisal fees and collection expenses, partially offset by lower filing fees. Also, other miscellaneous losses increased $2.2 million over this same period, primarily due to higher credit card disputes and fraud losses given our expanded size and geographic footprint.

Income Taxes

Our income tax expense for 2016 increased $5.5 million or 7.9% from 2015. The effective tax rate was 30.6% for 2016, compared to 30.5% for 2015. Both periods' tax rates are lower than the 35% federal statutory tax rate due to the tax benefits primarily resulting from tax-exempt income on investments and loans, tax credits and income from BOLI.

FINANCIAL CONDITION

The following table presents our condensed consolidated balance sheets:

TABLE 10

(dollars in thousands)	December 31 2017	December 31 2016	$ Change	% Change
Assets				
Cash and cash equivalents	**$ 479,443**	$ 371,407	$ 108,036	29.1%
Securities	**6,006,830**	4,569,329	1,437,501	31.5
Loans held for sale	**92,891**	11,908	80,983	680.1
Loans and leases, net	**20,823,386**	14,738,884	6,084,502	41.3
Goodwill and other intangibles	**2,341,263**	1,085,935	1,255,328	115.6
Other assets	**1,673,822**	1,067,354	606,468	56.8
Total Assets	**$ 31,417,635**	$ 21,844,817	$ 9,572,818	43.8%
Liabilities and Stockholders' Equity				
Deposits	**$ 22,399,725**	$ 16,065,647	$ 6,334,078	39.4%
Borrowings	**4,346,510**	3,042,504	1,304,006	42.9
Other liabilities	**262,206**	165,049	97,157	58.9
Total liabilities	**27,008,441**	19,273,200	7,735,241	40.1
Stockholders' equity	**4,409,194**	2,571,617	1,837,577	71.5
Total Liabilities and Stockholders' Equity	**$ 31,417,635**	$ 21,844,817	$ 9,572,818	43.8%

The December 31, 2017 balance sheet includes the YDKN acquisition mentioned previously.

Lending Activity

The loan and lease portfolio consists principally of loans and leases to individuals and small- and medium-sized businesses within our primary market area of Pennsylvania, eastern Ohio, Maryland, northern West Virginia, North Carolina and South Carolina. The total portfolio also contains consumer finance loans to individuals in Pennsylvania, Ohio, Tennessee and Kentucky, which totaled $174.9 million or 0.8% of total loans at December 31, 2017, compared to $184.7 million or 1.2% of total loans at December 31, 2016. Due to the relative size of the consumer finance loan portfolio, they are not segregated from other consumer loans.

Following is a summary of loans and leases:

TABLE 11

December 31 (in thousands)	**2017**	**2016**	**2015**	**2014**	**2013**
Commercial real estate	**$ 8,741,864**	$ 5,435,162	$ 4,109,056	$ 3,815,708	$ 3,245,209
Commercial and industrial	**4,170,667**	3,042,781	2,601,722	2,318,015	1,881,474
Commercial leases	**266,720**	196,636	204,553	177,824	158,895
Other	**17,063**	35,878	38,518	41,290	45,183
Total commercial loans and leases	**13,196,314**	8,710,457	6,953,849	6,352,837	5,330,761
Direct installment	**1,905,535**	1,844,399	1,706,636	1,644,621	1,467,236
Residential mortgages	**2,702,691**	1,844,574	1,395,971	1,263,053	1,086,739
Indirect installment	**1,448,433**	1,196,313	996,729	875,551	655,587
Consumer lines of credit	**1,745,793**	1,301,200	1,137,255	1,110,976	965,771
Total consumer loans	**7,802,452**	6,186,486	5,236,591	4,894,201	4,175,333
Total loans and leases	**$ 20,998,766**	$14,896,943	$12,190,440	$11,247,038	$ 9,506,094

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 businesses that are not secured by real estate.
- Commercial leases consist of leases for new or used equipment.
- Other is comprised primarily of credit cards and mezzanine loans.
- 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 1-4 family properties.
- Indirect installment is comprised of loans originated by approved third parties and underwritten by us, 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.

Additional information relating to originated and acquired loans is provided in Note 6, “Loans and Leases” in the Notes to Consolidated Financial Statements, which is included in Item 8 of this Report.

Total loans and leases increased $6.1 billion or 41.0% to $21.0 billion at December 31, 2017, compared to $14.9 billion at December 31, 2016, as we acquired $5.1 billion in loans from the YDKN acquisition. Additionally, organic growth resulted in an additional increase of $1.0 billion in total loans.

Total loans and leases increased $2.7 billion or 22.2% to $14.9 billion at December 31, 2016, compared to $12.2 billion at December 31, 2015, as we acquired $1.9 billion and $97.7 million in loans from the METR acquisition and Fifth Third branch purchase, respectively. Additionally, organic growth resulted in an additional increase of $748.1 million in total loans led by growth in residential mortgage and indirect auto loans.

As of December 31, 2017, 35.3% of the commercial real estate loans were owner-occupied, while the remaining 64.7% were non-owner-occupied, compared to 36.2% and 63.8%, respectively, as of December 31, 2016. As of December 31, 2017 and 2016, we had commercial construction loans of $1.2 billion and $597.6 million, respectively, representing 5.6% and 4.0% of total loans and leases, respectively. This increase is primarily due to the YDKN acquisition.

Within our primary lending footprint, certain industries are more predominant given the geographic location of these lending markets. We strive to maintain a diverse commercial loan portfolio by avoiding undue concentrations or exposures to any particular sector, and we actively monitor our commercial loan portfolio to ensure that our industry mix is appropriate and within targeted thresholds. Several factors are taken into consideration when determining these thresholds, including recent economic and market trends. As of December 31, 2017 and 2016, there were no concentrations of loans relating to any industry in excess of 10% of total loans.

Following is a summary of the maturity distribution of certain loan categories with fixed and floating interest rates for those loans with maturity dates over one year as of December 31, 2017:

TABLE 12

(in thousands)	Within 1 Year	1-5 Years	Over 5 Years	Total
Commercial loans and leases	$ 1,659,709	$ 5,675,933	$ 5,860,672	$ 13,196,314
Residential mortgages	9,285	47,157	2,646,249	2,702,691
Total	$ 1,668,994	$ 5,723,090	$ 8,506,921	$ 15,899,005
Interest rates for loans with maturities over one year:				
Fixed		$ 2,335,483	$ 2,726,890	$ 5,062,373
Floating		3,387,606	5,780,032	9,167,638

For additional information relating to lending activity, see Note 6, "Loans and Leases" in the Notes to Consolidated Financial Statements, which is included in Item 8 of this Report.

Non-Performing Assets

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. We place a loan on non-accrual status and discontinue interest accruals on originated loans generally when principal or interest is due and has remained unpaid for a certain number of days, 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 accrued 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. Non-performing assets also include debt securities on which OTTI has been taken in the current or prior periods that have not been returned to accrual status.

Following is a summary of non-performing assets:

TABLE 13

December 31	**2017**	**2016**	**2015**	**2014**	**2013**
(dollars in thousands)					
Non-accrual loans	**$ 74,635**	$ 65,479	$ 49,897	$ 45,113	$ 58,755
Troubled debt restructurings	**23,481**	20,428	22,028	23,439	18,698
Total non-performing loans	**98,116**	85,907	71,925	68,552	77,453
Other real estate owned (OREO)	**40,606**	32,490	38,918	41,466	40,681
Total non-performing loans and OREO	**138,722**	118,397	110,843	110,018	118,134
Non-performing investments	**—**	—	—	—	797
Total non-performing assets	**$ 138,722**	$ 118,397	$ 110,843	$ 110,018	$ 118,931
Non-performing loans / total loans and leases	**0.47%**	0.58%	0.59%	0.61%	0.81%
Non-performing loans + OREO / total loans and leases + OREO	**0.66%**	0.79%	0.91%	0.97%	1.24%
Non-performing assets / total assets	**0.44%**	0.54%	0.63%	0.68%	0.88%

During 2017, non-performing loans and OREO increased $20.3 million. This reflects an increase of $9.2 million in non-accrual loans, $3.1 million in TDRs, and $8.1 million in OREO. The increase in non-accrual loans was primarily attributable to the migration of a few borrowers in the commercial real estate portfolio, while the increase in TDRs was due largely to the modification of an acquired commercial credit. The increase in OREO was largely due to the addition of properties that were acquired from YDKN.

During 2016, non-performing loans and OREO increased $7.6 million. This reflects an increase of $15.6 million in non-accrual loans, partially offset by decreases of $1.6 million and $6.4 million in TDRs and OREO, respectively. The increase in non-accrual loans was primarily attributable to the migration of a few borrowers in the commercial and industrial portfolio that operate largely within commodity-based industries that have faced pricing pressures. The decrease in TDRs was primarily attributable to payoffs of commercial credits. Despite the additional OREO properties acquired from METR and Fifth Third, including banking facilities that are no longer in use, OREO decreased, primarily due to the sale of several commercial OREO properties.

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

TABLE 14

December 31	**2017**	**2016**	**2015**	**2014**	**2013**
(in thousands)					
Commercial real estate	**$ 31,399**	$ 21,225	$ 26,087	$ 26,134	$ 43,648
Commercial and industrial	**22,740**	26,256	14,846	8,852	6,683
Commercial leases	**1,574**	3,429	659	722	734
Other	**1,000**	1,000	—	—	—
Total commercial loans and leases	**56,713**	51,910	41,592	35,708	51,065
Direct installment	**16,725**	14,952	13,791	15,901	10,577
Residential mortgages	**16,409**	13,367	12,763	13,842	14,012
Indirect installment	**2,435**	2,181	1,514	1,305	1,202
Consumer lines of credit	**5,834**	3,497	2,265	1,796	597
Total consumer loans	**41,403**	33,997	30,333	32,844	26,388
Total non-performing loans and leases	**$ 98,116**	$ 85,907	$ 71,925	$ 68,552	$ 77,453

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.

TDRs that are accruing and performing include loans for which we can reasonably estimate the timing and amount of the expected cash flows on such loans and for which we expect to fully collect the new carrying value of the loans. TDRs that are accruing and non-performing are comprised of loans that have not demonstrated a consistent repayment pattern on the modified terms for more than nine months, however it is expected that we 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 ability to collect 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 incremental losses which are factored into the allowance for credit losses estimate. Additional information related to our TDRs is included in Note 6, “Loans and Leases” in the Notes to Consolidated Financial Statements, which is included in Item 8 of this Report.

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

TABLE 15

(in thousands)	Performing	Non-Performing	Non-Accrual	Total
December 31, 2017				
Commercial real estate	**$ 92**	**$ —**	**$ 3,870**	**$ 3,962**
Commercial and industrial	**3,085**	**—**	**601**	**3,686**
Total commercial loans and leases	**3,177**	**—**	**4,471**	**7,648**
Direct installment	**10,890**	**7,758**	**3,197**	**21,845**
Residential mortgages	**3,659**	**10,638**	**2,161**	**16,458**
Indirect installment	**—**	**195**	**14**	**209**
Consumer lines of credit	**1,812**	**1,582**	**629**	**4,023**
Total consumer loans	**16,361**	**20,173**	**6,001**	**42,535**
Total	**$ 19,538**	**$ 20,173**	**$ 10,472**	**$ 50,183**
December 31, 2016				
Commercial real estate	$ —	$ 162	$ 3,857	$ 4,019
Commercial and industrial	—	4	2,113	2,117
Total commercial loans and leases	—	166	5,970	6,136
Direct installment	10,414	8,468	1,597	20,479
Residential mortgages	4,730	10,051	1,128	15,909
Indirect installment	—	198	2	200
Consumer lines of credit	1,961	1,369	338	3,668
Total consumer loans	17,105	20,086	3,065	40,256
Total	$ 17,105	$ 20,252	$ 9,035	$ 46,392
December 31, 2015				
Commercial real estate	$ —	$ 1,653	$ 6,051	$ 7,704
Commercial and industrial	—	361	813	1,174
Total commercial loans and leases	—	2,014	6,864	8,878
Direct installment	7,908	8,985	1,137	18,030
Residential mortgages	5,184	9,881	190	15,255
Indirect installment	—	153	24	177
Consumer lines of credit	2,073	995	92	3,160
Total consumer loans	15,165	20,014	1,443	36,622
Total	$ 15,165	$ 22,028	$ 8,307	$ 45,500
December 31, 2014				
Commercial real estate	$ —	$ 2,002	$ 6,188	$ 8,190
Commercial and industrial	727	542	132	1,401
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
Total consumer loans	8,714	20,895	1,952	31,561
Total	$ 9,441	$ 23,439	$ 8,272	$ 41,152

(in thousands)	Performing	Non-Performing	Non-Accrual	Total
December 31, 2013				
Commercial real estate	$ 24	$ 2,688	$ 10,435	$ 13,147
Commercial and industrial	749	40	237	1,026
Total commercial loans and leases	773	2,728	10,672	14,173
Direct installment	5,404	5,891	1,070	12,365
Residential mortgages	3,743	9,752	883	14,378
Indirect installment	—	142	80	222
Consumer lines of credit	300	185	—	485
Total consumer loans	9,447	15,970	2,033	27,450
Total	$ 10,220	$ 18,698	$ 12,705	$ 41,623

Following is a summary of loans and leases 90 days or more past due on which interest accruals continue:

TABLE 16

December 31 (dollars in thousands)	**2017**	**2016**	**2015**	**2014**	**2013**
Loans and leases 90 days or more past due:					
Originated loans and leases	**$ 9,121**	$ 9,113	$ 7,024	$ 9,248	$ 7,971
Acquired loans	**89,950**	40,524	29,718	38,024	45,823
Total loans and leases 90 days or more past due	**$ 99,071**	$ 49,637	$ 36,742	$ 47,272	$ 53,794
As a percentage of total loans and leases	**0.47%**	0.33%	0.30%	0.42%	0.57%

The increases in loans and leases 90 days or more past due and accruing in 2017 were primarily the result of acquisitions. Acquired loans that are 90 days or more past due are considered to be accruing since we can reasonably estimate future cash flows and we expect to fully collect the carrying value of these loans. The acquired loans were discounted and marked to fair value with interest income recognized via accretion in accordance with GAAP.

Following is a table showing the amounts of contractual interest income and actual interest income related to non-accrual loans and non-performing TDRs:

TABLE 17

December 31 (in thousands)	**2017**	**2016**	**2015**	**2014**	**2013**
Gross interest income:					
Per contractual terms	**$ 22,640**	$ 11,756	$ 7,328	$ 7,366	$ 9,221
Recorded during the year	**707**	696	747	650	559

Allowance for Credit Losses

The allowance for credit losses represents management's estimate of probable loan losses inherent in the loan portfolio at a specific point in time. This estimate includes losses associated with specifically identified loans, as well as estimated probable credit losses inherent in the remainder of the loan portfolio. Additions are made to the allowance for credit losses through both periodic provisions charged to income and recoveries of losses previously recorded. Reductions to the allowance for credit losses occur as loans are charged off. Additional information related to our policy for our allowance for credit losses is included in the Application of Critical Accounting Policies section of this financial review and in Note 1, "Summary of Significant Accounting Policies" in the Notes to Consolidated Financial Statements, which is included in Item 8 of this Report.

Following is a summary of changes in the allowance for credit losses related to loans and leases:

TABLE 18

Year Ended December 31	**2017**	**2016**	**2015**	**2014**	**2013**
(dollars in thousands)					
Balance at beginning of period	**$ 158,059**	$ 142,012	$ 125,926	$ 110,784	$ 104,374
Charge-offs:					
Commercial real estate	**(2,178)**	(6,657)	(4,443)	(6,568)	(5,465)
Commercial and industrial	**(26,188)**	(19,584)	(3,562)	(3,454)	(5,124)
Commercial leases	**(1,017)**	(962)	(544)	(415)	(432)
Other	**(4,099)**	(2,729)	(1,691)	(1,329)	(965)
Commercial loans and leases	**(33,482)**	(29,932)	(10,240)	(11,766)	(11,986)
Direct installment	**(12,401)**	(10,153)	(10,844)	(9,600)	(9,059)
Residential mortgages	**(595)**	(441)	(1,010)	(760)	(1,345)
Indirect installment	**(9,201)**	(7,855)	(6,427)	(3,627)	(3,337)
Consumer lines of credit	**(2,204)**	(2,085)	(1,653)	(1,495)	(1,974)
Consumer loans	**(24,401)**	(20,534)	(19,934)	(15,482)	(15,715)
Purchased impaired loans	**(469)**	(399)	(64)	(2,614)	(299)
Other acquired loans	**(1,233)**	(649)	(830)	(873)	(2,530)
Total charge-offs	**(59,585)**	(51,514)	(31,068)	(30,735)	(30,530)
Recoveries:					
Commercial real estate	**2,311**	3,669	1,117	2,351	1,799
Commercial and industrial	**1,275**	2,508	1,773	1,412	2,108
Commercial leases	**6**	66	101	105	179
Other	**1,255**	131	55	24	—
Commercial loans and leases	**4,847**	6,374	3,046	3,892	4,086
Direct installment	**2,015**	1,822	1,527	1,163	931
Residential mortgages	**184**	74	85	74	162
Indirect installment	**3,708**	2,015	1,190	875	773
Consumer lines of credit	**461**	265	175	218	274
Consumer loans	**6,368**	4,176	2,977	2,330	2,140
Purchased impaired loans	**36**	42	19	1	—
Other acquired loans	**4,582**	1,217	671	1,006	(376)
Total recoveries	**15,833**	11,809	6,713	7,229	5,850
Net charge-offs	**(43,752)**	(39,705)	(24,355)	(23,506)	(24,680)
Provision for credit losses	**61,073**	55,752	40,441	38,648	31,090
Balance at end of period	**$ 175,380**	$ 158,059	$ 142,012	$ 125,926	$ 110,784
Net loan charge-offs/average loans	**0.22%**	0.28%	0.21%	0.23%	0.28%
Allowance for credit losses/total loans	**0.84%**	1.06%	1.16%	1.12%	1.17%
Allowance for credit losses/ non-performing loans	**178.75%**	183.99%	197.44%	183.69%	143.03%

The allowance for credit losses at December 31, 2017 increased $17.3 million or 11.0% from December, 31, 2016, primarily in support of organic loan growth and to a lesser extent, moderate credit migration in commercial and industrial. The provision for credit losses for 2017 was $61.1 million, compared to $55.8 million in 2016. Net charge-offs totaled $43.8 million, or 0.22% of average loans, compared to $39.7 million or 0.28% of average loans in 2016.

The allowance for credit losses at December 31, 2016 increased $16.1 million or 11.3% from December 31, 2015, primarily in support of organic loan growth, credit migration. The provision for credit losses for 2016 was $55.8 million, due to organic loan growth and net charge-offs of $39.7 million, which included a $4.0 million charge-off from a single commercial relationship involving a borrower alleged to have falsified documents and financial information over an extended period of time, and credit migration.

The allowance for credit losses at December 31, 2015 increased $16.1 million or 12.8% from December 31, 2014 as the provision for credit losses for 2015 of $40.4 million exceeded net charge-offs of $24.4 million, with the remainder supporting loan growth in the originated portfolio and some credit migration within the commercial and industrial and indirect installment portfolios.

The allowance for credit losses at December 31, 2014 increased $15.1 million or 13.7% from December 31, 2013, as the provision for credit losses for 2014 of $38.6 million exceeded net charge-offs of $23.5 million, with the remainder supporting loan growth and incurred losses in the originated and acquired loan portfolios.

The allowance for credit losses at December 31, 2013 increased $6.4 million or 6.1% from December 31, 2012, as the provision for loans losses for 2013 of $31.1 million exceeded net charge-offs of $24.7 million, with the remainder supporting loan growth and incurred losses in the originated and acquired loan portfolios.

Following is a summary of the allocation of the allowance for credit losses and the percentage of loans in each category to total loans:

TABLE 19

December 31	2017		2016		2015		2014		2013	
(dollars in thousands)	Allowance	% of Loans	Allowance	% of Loans	Allowance	% of Loans	Allowance	% of Loans	Allowance	% of Loans
Commercial real estate	**$ 50,281**	**25%**	$ 46,635	28%	$ 41,741	29%	$ 37,588	27%	$ 32,548	28%
Commercial and industrial	**51,963**	**17**	47,991	18	41,023	21	32,645	19	32,603	18
Commercial leases	**5,646**	**1**	3,280	1	2,541	1	2,398	2	1,903	2
Other	**1,843**	**—**	1,392	—	1,013	—	759	—	530	—
Commercial loans and leases	**109,733**	**43**	99,298	47	86,318	51	73,390	48	67,584	48
Direct installment	**20,936**	**8**	21,391	12	21,587	14	20,538	14	17,824	15
Residential mortgages	**15,507**	**10**	10,082	10	7,909	9	8,024	7	5,836	7
Indirect installment	**11,967**	**7**	10,564	8	9,889	8	7,504	8	6,409	7
Consumer lines of credit	**10,539**	**5**	9,456	7	9,582	8	8,496	9	7,231	9
Consumer loans	**58,949**	**30**	51,493	37	48,967	39	44,562	38	37,300	38
Total originated loans	**168,682**	**73**	150,791	84	135,285	90	117,952	86	104,884	86
Purchased credit-impaired loans	**635**	**—**	572	—	834	—	660	—	1,000	—
Other acquired loans	**6,063**	**27**	6,696	16	5,893	10	7,314	14	4,900	14
Total	**$ 175,380**	**100%**	$ 158,059	100%	$ 142,012	100%	$ 125,926	100%	$ 110,784	100%

During 2017, the allowance for credit losses allocated to commercial real estate, residential mortgages and indirect loans all increased to support organic loan growth. The allowance for credit losses allocated to commercial and industrial increased to support organic growth and moderate credit migration.

During 2016, the allowance for credit losses allocated to commercial loans increased to support organic loan growth, as well as migration within the commercial and industrial portfolio, which was impacted by the continued softness in the commodity industries, which has adversely impacted certain borrowers that operate in this area. The allowance for credit losses allocated to residential mortgages increased during 2016 largely due to organic growth within that portfolio.

During 2015, the allowance for credit losses allocated to commercial loans and consumer loans increased to support organic loan growth, while a portion of the commercial and industrial and indirect installment allowance for credit losses also supported some limited credit migration within those portfolios. The allowance for credit losses allocated to residential mortgages decreased slightly during this same period, which was the result of growth-related reserves being more than offset by general improvements in asset quality within that portfolio. The allowance for credit losses allocated to acquired loans decreased during the year as a result of favorable quarterly cash flow re-estimation results and problem credit resolution, with the PVF, ANNB, and Comm Bancorp, Inc. (CBI) portfolios driving the decrease.

During 2014, the allowance for credit losses allocated to commercial loans, consumer loans and residential mortgages increased to support organic loan growth. The allowance for credit losses increased as a result of the growth in each of the loan portfolios noted above and was partially offset by allowance declines as a result of the general improvement in asset quality and charge-offs throughout 2014, particularly in the commercial loan portfolios. Furthermore, we expanded the number of modeling segments in 2014, which allowed for a more precise allowance calculation and moderately offset the required allowance as a result of organic loan growth. The allowance for credit losses allocated to acquired loans increased during the year as a result of the quarterly cash flow re-estimation process, moderate builds in a few loan pools and, to a lesser extent, the addition of the BCSB and OBA portfolios.

During 2013, the allowance for credit losses allocated to residential mortgages and consumer loans increased to support organic loan growth. Positive asset quality results in the commercial loan portfolio outpaced loan provisions for organic growth, resulting in the allowance for credit losses allocated to that portfolio to decrease. The allowance for credit losses related to acquired loans increased during the year primarily as a result of some deterioration in expected cash flows since acquisition in a few small business pools within the PVF and CBI portfolios.

Investment Activity

Investment activities serve to enhance net interest income while supporting interest rate sensitivity and liquidity positions. Securities purchased with the intent and ability to hold until maturity are categorized as securities held to maturity and carried at amortized cost. All other securities are categorized as securities available for sale and are recorded at fair value. Securities, like loans, are subject to similar interest rate and credit risk. In addition, by their nature, securities classified as available for sale are also subject to fair value risks that could negatively affect the level of liquidity available to us, as well as stockholders' equity. A change in the value of securities held to maturity could also negatively affect the level of stockholders' equity if there was a decline in the underlying creditworthiness of the issuers and an OTTI is deemed to have occurred or if there was a change in our intent and ability to hold the securities to maturity.

As of December 31, 2017, securities totaling $2.8 billion and $3.2 billion were classified as available for sale and held to maturity, respectively. During 2017, securities available for sale increased by $532.6 million and securities held to maturity increased by $904.9 million from December 31, 2016, primarily due to the acquisition of YDKN. As of December 31, 2017 and 2016, we did not hold any trading securities.

The following table indicates the respective maturities and weighted-average yields of securities as of December 31, 2017:

TABLE 20

(dollars in thousands)	Amount	Weighted Average Yield
Obligations of U.S. Treasury:		
Maturing within one year	$ —	—%
Maturing after ten years	500	5.25
Obligations of U.S. government-sponsored entities:		
Maturing within one year	111,261	1.17
Maturing after one year but within five years	477,710	1.57
Maturing after ten years	2,281	3.23
States of the U.S. and political subdivisions:		
Maturing within one year	771	4.13
Maturing after one year but within five years	21,860	2.52
Maturing after five years but within ten years	90,575	3.41
Maturing after ten years	824,611	3.57
Other debt securities:		
Maturing after five years but within ten years	1,870	2.20
Maturing after ten years	2,800	2.38
Residential mortgage-backed securities:		
Agency mortgage-backed securities	2,818,676	2.17
Agency collateralized mortgage obligations	1,572,103	2.07
Non-agency collateralized mortgage obligations	1	2.92
Commercial mortgage-backed securities	80,786	2.43
Equity securities	1,025	0.61
Total	$ 6,006,830	2.29

The weighted average yields for tax-exempt securities are computed on an FTE basis using the federal statutory tax rate of 35.0%. The weighted average yields for securities available for sale are based on amortized cost.

The amortized cost of AFS and HTM securities are summarized in the following table:

TABLE 21

December 31 (in thousands)	**2017**	2016	2015
Securities Available for Sale (AFS):			
U.S. Treasury	**$ —**	$ 29,874	$ 29,738
U.S. government-sponsored entities	**347,767**	367,604	368,463
Residential mortgage-backed securities:			
Agency mortgage-backed securities	**1,615,168**	1,267,535	703,069
Agency collateralized mortgage obligations	**813,034**	546,659	503,328
Non-agency collateralized mortgage obligations	**1**	891	1,177
Commercial mortgage-backed securities	**—**	1,292	4,299
States of the U.S. and political subdivisions	**21,151**	36,065	10,748
Other debt securities	**4,913**	9,828	14,729
Total debt securities	**2,802,034**	2,259,748	1,635,551
Equity securities	**587**	273	975
Total securities available for sale	**$ 2,802,621**	$ 2,260,021	$ 1,636,526
Securities Held to Maturity (HTM):			
U.S. Treasury	**$ 500**	$ 500	$ 500
U.S. government-sponsored entities	**247,310**	272,645	137,385
Residential mortgage-backed securities:			
Agency mortgage-backed securities	**1,219,802**	852,215	709,970
Agency collateralized mortgage obligations	**777,146**	743,148	499,694
Non-agency collateralized mortgage obligations	**—**	1,689	2,681
Commercial mortgage-backed securities	**80,786**	49,797	51,258
States of the U.S. and political subdivisions	**916,724**	417,348	235,573
Total securities held to maturity	**$ 3,242,268**	$ 2,337,342	$ 1,637,061

For additional information relating to investment activity, see Note 4, “Securities” in the Notes to Consolidated Financial Statements, which is included in Item 8 of this Report.

Deposits

As a bank holding company, our primary source of funds is deposits. These deposits are provided by businesses, municipalities and individuals located within the markets served by our Community Banking subsidiary.

Following is a summary of deposits:

TABLE 22

December 31 (in thousands)	**2017**	**2016**	**$ Change**	**% Change**
Non-interest-bearing demand	**$ 5,720,030**	$ 4,205,337	$ 1,514,693	36.0%
Interest-bearing demand	**9,571,038**	6,931,381	2,639,657	38.1
Savings	**2,488,178**	2,352,434	135,744	5.8
Certificates and other time deposits	**4,620,479**	2,576,495	2,043,984	79.3
Total deposits	**$ 22,399,725**	$ 16,065,647	$ 6,334,078	39.4%

Total deposits increased from December 31, 2016 primarily as a result of the YDKN acquisition, combined with organic growth in relationship-based transaction deposits, which are comprised of demand (non-interest-bearing and interest-bearing) and savings accounts (including money market savings), and an increase in organic certificates and other time deposits, partially offset by a planned decline in higher-cost brokered time deposits. The growth reflects heightened deposit gathering efforts during 2017 focused on attracting new customer relationships through targeted promotional interest rates on 13-month and 19-month certificates of deposit, combined with deepening relationships with existing customers through internal lead generation efforts. Generating growth in relationship-based transaction deposits remains a key focus for us.

Following is a summary of time deposits of $100,000 or more by remaining maturity at December 31, 2017:

TABLE 23

(in thousands)	Certificates of Deposit	Other Time Deposits	Total
Three months or less	$ 145,699	$ 11,543	$ 157,242
Three to six months	157,622	11,233	168,855
Six to twelve months	928,938	32,703	961,641
Over twelve months	720,427	151,300	871,727
Total	$ 1,952,686	$ 206,779	$ 2,159,465

Short-Term Borrowings

Short-term borrowings, made up of customer repurchase agreements (also referred to as securities sold under repurchase agreements), FHLB advances, federal funds purchased and subordinated notes, increased to $3.7 billion at December 31, 2017 from $2.5 billion at December 31, 2016, primarily due to an increase of $1.3 billion in FHLB advances.

Following is a summary of selected information relating to certain components of short-term borrowings:

TABLE 24

At or for the Year Ended December 31 (dollars in thousands)	**2017**	**2016**	**2015**
FHLB Advances (Short-term)			
Balance at year-end	**$ 2,285,000**	$ 1,025,000	$ 1,090,000
Maximum month-end balance	**2,780,000**	1,075,000	1,090,000
Average balance during year	**1,867,551**	490,771	516,025
Weighted average interest rates:			
At year-end	**1.53%**	0.73%	0.48%
During the year	**1.20%**	0.59%	0.40%
Federal Funds Purchased			
Balance at year-end	**$ 1,000,000**	$ 1,037,000	$ 568,000
Maximum month-end balance	**1,607,000**	1,238,000	1,003,000
Average balance during year	**1,459,679**	1,045,489	507,321
Weighted average interest rates:			
At year-end	**1.38%**	0.62%	0.29%
During the year	**1.10%**	0.49%	0.28%

For additional information relating to deposits and short-term borrowings, see Note 11, "Deposits" and Note 12, "Short-Term Borrowings" in the Notes to Consolidated Financial Statements, which is included in Item 8 of this Report.

Capital Resources

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 our capital position.

The assessment of capital adequacy depends on a number of factors such as expected organic growth in the balance sheet, asset quality, liquidity, earnings performance, changing competitive conditions and economic forces. We seek to maintain a strong capital base to support our growth and expansion activities, to provide stability to current operations and to promote public confidence.

In accordance with the terms of our mergers with YDKN and METR, we issued 111,619,622 shares of our common stock on March 11, 2017 and 34,041,181 shares of our common stock on February 13, 2016, respectively.

We have an effective shelf registration statement filed with the SEC. Pursuant to this registration statement, we 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, we completed an offering of $100.0 million aggregate principal amount of 4.875% subordinated notes due in 2025 under this registration statement. The subordinated notes are treated as tier 2 capital for regulatory capital purposes. The net proceeds of the debt offering after deducting underwriting discounts and commissions and offering expenses were $98.4 million. We used the net proceeds from the sale of the subordinated notes for general corporate purposes, which included investments at the holding company level, providing capital to support the growth of FNBPA and our business, including the acquisition of METR and the Fifth Third branches.

Capital management is a continuous process with capital plans and stress testing for FNB and FNBPA updated at least annually. These capital plans include assessing the adequacy of expected capital levels assuming various scenarios by projecting capital needs for a forecast period of 2-3 years beyond the current year. Both FNB and FNBPA are subject to various regulatory capital requirements administered by federal banking agencies. For additional information, see Note 21, "Regulatory Matters" in the Notes to the Consolidated Financial Statements, which is included in Item 8 of this Report. From time to time, we issue shares initially acquired by us as treasury stock under our various benefit plans. We may continue to grow through acquisitions, which can potentially impact our capital position. We may issue additional preferred or common stock in order to maintain our well-capitalized status.

CONTRACTUAL OBLIGATIONS, COMMITMENTS AND OFF-BALANCE SHEET ARRANGEMENTS

The following table sets forth contractual obligations of principal that represent required and potential cash outflows as of December 31, 2017:

TABLE 25

(in thousands)	Within 1 Year	1-3 Years	3-5 Years	After 5 Years	Total
Deposits without a stated maturity	$ 17,779,246	$ —	$ —	$ —	$ 17,779,246
Certificates and other time deposits	2,778,467	1,377,653	313,569	150,790	4,620,479
Operating leases	26,949	41,582	27,213	49,342	145,086
Long-term debt	69,684	257,168	58,261	283,060	668,173
Total	$ 20,654,346	$ 1,676,403	$ 399,043	$ 483,192	$ 23,212,984

The following table sets forth the amounts and expected maturities of commitments to extend credit and standby letters of credit as of December 31, 2017:

TABLE 26

(in thousands)	Within 1 Year	1-3 Years	3-5 Years	After 5 Years	Total
Commitments to extend credit	$ 4,680,950	$ 949,639	$ 811,381	$ 515,852	$ 6,957,822
Standby letters of credit	119,399	12,579	926	—	132,904
Total	$ 4,800,349	$ 962,218	$ 812,307	$ 515,852	$ 7,090,726

Commitments to extend credit and standby letters of credit do not necessarily represent future cash requirements because while the borrower has the ability to draw upon these commitments at any time, these commitments often expire without being drawn upon. Additionally, a significant portion of these commitments can be terminated by FNB. For additional information relating to commitments to extend credit and standby letters of credit, see Note 15, "Commitments, Credit Risk and Contingencies" in the Notes to Consolidated Financial Statements, which is included in Item 8 of this Report.

LIQUIDITY

Our goal in liquidity management is to satisfy the cash flow requirements of customers and the operating cash needs of FNB with cost-effective funding. Our Board of Directors has established an Asset/Liability Management Policy in order to guide management in achieving and maintaining earnings performance consistent with long-term goals, while maintaining acceptable levels of interest rate risk, a "well-capitalized" balance sheet and adequate levels of liquidity. Our Board of Directors has also established a Contingency Funding Policy to guide management in addressing stressed liquidity conditions. These policies designate our Asset/Liability Committee (ALCO) as the body responsible for meeting these objectives. The ALCO, which is comprised of members of executive management, reviews liquidity on a continuous basis and approves significant changes in strategies that affect balance sheet or cash flow positions. Liquidity is centrally managed on a daily basis by our 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. FNB 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 we 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. In addition, FNB, through one of our subsidiaries, regularly issues subordinated notes, which are guaranteed by FNB. Cash on hand at the parent has been managed by various strategies over the last few years. These include strong earnings, increasing earnings retention rate and capital actions. The parent's cash position increased $1.4 million from $164.3 million at December 31, 2016 to $165.7 million at December 31, 2017, due to dividends from subsidiaries and cash acquired from YDKN.

Management believes our cash levels are appropriate given the current environment. Two metrics that are used to gauge the adequacy of the parent company's cash position are the Liquidity Coverage Ratio (LCR) and Months of Cash on Hand (MCH). The LCR is defined as the sum of cash on hand plus projected cash inflows over the next 12 months divided by projected cash outflows over the next 12 months. The MCH is defined as the number of months of corporate expenses and dividends that can be covered by the cash on hand and was impacted by the YDKN acquisition.

The LCR and MCH ratios are presented in the following table:

TABLE 27

December 31 (dollars in thousands)	**2017**	**2016**	**Internal Limit**
Liquidity coverage ratio (LCR)	**1.8 times**	2.3 times	> 1 time
Months of cash on hand (MCH)	**10.2 months**	14.9 months	> 12 months

The MCH ratio fell below our internal limit due to the YDKN acquisition in March 2017. As a result of YDKN, our twelve-month projected dividend payout is estimated at $155 million, an increase of approximately $54 million pre-merger. YDKN did not manage to a similar ratio and held only a minimal amount of cash on hand at their holding company. Our ALCO is evaluating several alternatives, each of which would place the MCH ratio back into policy compliance. Management believes that this policy exception will be cured in the first half of 2018.

Our liquidity position has been positively impacted by our ability to generate growth in relationship-based accounts. Organic growth in low-cost transaction deposits was complemented by management's strategy of heightened deposit gathering efforts during the third and fourth quarters of 2017 focused on attracting new customer relationships and deepening relationships with existing customers through internal lead generation efforts. Full-year organic growth in low-cost transaction deposits for 2017 was $408.7 million, or 3.0%, due to organic growth in non-interest-bearing deposits of $280.5 million, or 6.7%, and organic growth in savings and NOW of $128.2 million, or 1.4%. Full-year organic growth in certificates and other time deposits was $756.6 million, or 29.4%. Total deposits were $22.4 billion at December 31, 2017, an increase of $6.3 billion, or 39.4%, from December 31, 2016, due to the acquisition of YDKN, as well as organic growth of $1.2 billion, or 7.3%.

FNBPA has significant unused wholesale credit availability sources that include the availability to borrow from the FHLB, the FRB, correspondent bank lines, access to brokered deposits and multiple other channels. In addition to credit availability, FNBPA also possesses salable unpledged government and agency securities which could be utilized to meet funding needs. The ALCO Policy minimum guideline level for salable unpledged government and agency securities is 3.0%.

The following table presents certain information relating to FNBPA's credit availability and salable unpledged securities:

TABLE 28

December 31 (dollars in thousands)	**2017**	2016
Unused wholesale credit availability	**$ 8,189,379**	$ 6,343,433
Unused wholesale credit availability as a % of FNBPA assets	**26.3%**	29.3%
Salable unpledged government and agency securities	**$ 2,231,812**	$ 1,451,157
Salable unpledged government and agency securities as a % of FNBPA assets	**7.2%**	6.7%

Another metric for measuring liquidity risk is the liquidity gap analysis. The following liquidity gap analysis as of December 31, 2017 compares the difference between our cash flows from existing earning assets and interest-bearing 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 liquidity gap increased during 2017 as the twelve-month cumulative gap to total assets was (5.8)% and (3.3)% as of December 31, 2017 and 2016, respectively. Management calculates this ratio at least quarterly and it is reviewed monthly by ALCO.

TABLE 29

(dollars in thousands)	**Within 1 Month**	**2-3 Months**	**4-6 Months**	**7-12 Months**	**Total 1 Year**
Assets					
Loans	**$ 468,226**	**$ 944,312**	**$ 1,299,768**	**$ 2,240,447**	**$ 4,952,753**
Investments	**146,430**	**158,333**	**206,380**	**488,623**	**999,766**
	614,656	**1,102,645**	**1,506,148**	**2,729,070**	**5,952,519**
Liabilities					
Non-maturity deposits	**174,217**	**348,435**	**522,654**	**1,045,311**	**2,090,617**
Time deposits	**195,424**	**445,679**	**522,109**	**1,610,396**	**2,773,608**
Borrowings	**2,748,822**	**66,670**	**55,025**	**50,940**	**2,921,457**
	3,118,463	**860,784**	**1,099,788**	**2,706,647**	**7,785,682**
Period Gap (Assets - Liabilities)	**$ (2,503,807)**	**$ 241,861**	**$ 406,360**	**$ 22,423**	**$ (1,833,163)**
Cumulative Gap	**$ (2,503,807)**	**$ (2,261,946)**	**$ (1,855,586)**	**$ (1,833,163)**	
Cumulative Gap to Total Assets	**(8.0)%**	**(7.2)%**	**(5.9)%**	**(5.8)%**	

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

MARKET RISK

Market risk refers to potential losses arising from changes in interest rates, foreign exchange rates, equity prices and commodity prices. We are primarily exposed to interest rate risk inherent in our lending and deposit-taking activities as a financial intermediary. To succeed in this capacity, we offer an extensive variety of financial products to meet the diverse needs of our customers. These products sometimes contribute to interest rate risk for us 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 our 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. We use 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.

We use an asset/liability model to measure our interest rate risk. Interest rate risk measures we utilize 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, our 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 us with a comprehensive view of our interest rate risk profile.

The following repricing gap analysis as of December 31, 2017 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.

TABLE 30

(dollars in thousands)	Within 1 Month	2-3 Months	4-6 Months	7-12 Months	Total 1 Year
Assets					
Loans	$ 8,978,695	$ 862,772	$ 932,166	$ 1,562,348	$ 12,335,981
Investments	157,037	163,057	208,023	490,583	1,018,700
	9,135,732	1,025,829	1,140,189	2,052,931	13,354,681
Liabilities					
Non-maturity deposits	6,195,207	—	—	—	6,195,207
Time deposits	288,407	445,989	519,527	1,606,447	2,860,370
Borrowings	3,185,441	542,484	38,996	18,882	3,785,803
	9,669,055	988,473	558,523	1,625,329	12,841,380
Off-balance sheet	(100,000)	405,000	—	—	305,000
Period Gap (assets - liabilities + off-balance sheet)	$ (633,323)	$ 442,356	$ 581,666	$ 427,602	$ 818,301
Cumulative Gap	$ (633,323)	$ (190,967)	$ 390,699	$ 818,301	
Cumulative Gap to Assets	(2.3)%	(0.7)%	1.4%	3.0%	

The twelve-month cumulative repricing gap to total assets was 3.0% and 4.9% as of December 31, 2017 and 2016, respectively. The positive cumulative gap positions indicate that we have 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.

Utilizing net interest income simulations, the following net interest income metrics were calculated using rate shocks which move market rates in an immediate and parallel fashion. The variance percentages represent the change between the net interest income and EVE calculated under the particular rate scenario versus the net interest income and EVE that was calculated assuming market rates as of December 31, 2017. Using a static balance sheet structure, the measures do not reflect all of management's potential counteractions.

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

TABLE 31

December 31,	**2017**	**2016**	**ALCO Limits**
Net interest income change (12 months):			
+ 300 basis points	**3.0 %**	3.9 %	n/a
+ 200 basis points	**2.3 %**	2.8 %	(5.0)%
+ 100 basis points	**1.3 %**	1.5 %	(5.0)%
– 100 basis points	**(3.9)%**	(4.0)%	(5.0)%
Economic value of equity:			
+ 300 basis points	**(5.9)%**	(3.8)%	(25.0)%
+ 200 basis points	**(3.7)%**	(2.4)%	(15.0)%
+ 100 basis points	**(1.2)%**	(0.6)%	(10.0)%
– 100 basis points	**(2.6)%**	(4.3)%	(10.0)%

We also model rate scenarios which move all rates gradually over twelve months (Rate Ramps) and model scenarios that gradually change the shape of the yield curve. Assuming a static balance sheet, a +300 basis point Rate Ramp increases net interest income (12 months) by 2.0% and 3.3% at December 31, 2017 and 2016, respectively.

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

The ALCO utilizes several tactics to manage our interest rate risk position. As mentioned earlier, the growth in transaction deposits provides funding that is less interest rate-sensitive than short-term time deposits and wholesale borrowings. On the lending side, we regularly sell long-term fixed-rate residential mortgages to the secondary market and have been successful in the origination of consumer and commercial loans with short-term repricing characteristics. Total variable and adjustable-rate loans were 56.6% and 60.3% of total loans as of December 31, 2017 and 2016, respectively. As of December 31, 2017, 78.8% of these loans, or 44.7% of total loans, are tied to the Prime and one-month LIBOR rates. The investment portfolio is used, in part, to manage our interest rate risk position. We have managed the duration of our investment portfolio to be relatively short, resulting in a portfolio duration of 4.5 years and 3.9 years as of December 31, 2017 and 2016, respectively. Finally, we have made use of interest rate swaps to commercial borrowers (commercial swaps) to manage our interest rate risk position as the commercial swaps effectively increase adjustable-rate loans. As of December 31, 2017, the commercial swaps totaled $2.2 billion of notional principal, with $787.3 million in notional swap principal originated during 2017. The success of the aforementioned tactics has resulted in a moderately asset-sensitive position. For additional information regarding interest rate swaps, see Note 14, "Derivative and Hedging Activities" to the financial statements in this Report.

We desired to remain modestly asset-sensitive during 2017. A number of management actions and market occurrences resulted in a decrease in the asset sensitivity of our interest rate risk position during the period. The decrease was due to management's actions with the acquisition of YDKN in conjunction with the timing of funding loan and investment growth as well as deposit activity. The primary drivers increasing asset sensitivity involved repositioning the acquired investments and FHLB advances portfolios, which helped offset an increase in our short-term funding position. These actions were done in conjunction with normal activity which included growth in transaction and time deposits referred to earlier, an increase in the amount of adjustable loans repricing in twelve months or less, and extending fixed borrowings.

We recognize that all asset/liability models have some inherent shortcomings. Asset/liability models require certain assumptions to be made, such as prepayment rates on interest-earning assets and repricing impact on non-maturity deposits, which may differ from actual experience. These business assumptions are based upon our experience, business plans, economic and market trends and available industry data. While management believes that its methodology for developing such assumptions to be reasonable, there can be no assurance that modeled results will be achieved.

Furthermore, the metrics are based upon the balance sheet structure as of the valuation date and do not reflect the planned growth or management actions that could be taken.

RISK MANAGEMENT

As a financial institution, we take on a certain amount of risk in every business decision, transaction and activity. Our Board of Directors and senior management have identified seven major categories of risk: credit risk, market risk, liquidity risk, reputational risk, operational risk, legal and compliance risk and strategic risk. In its oversight role of our risk management function, the Board of Directors focuses on the strategies, analyses and conclusions of management relating to identifying, understanding and managing risks so as to optimize total stockholder value, while balancing prudent business and safety and soundness considerations.

The Board of Directors adopted a risk appetite statement that defines acceptable risk levels or risk limits under which the company seeks to operate in order to maximize returns, while managing risk. As such, the board monitors a host of risk metrics from both business and operational units, as well as by risk category, to provide insight into how the company's performance aligns with our risk appetite. The risk appetite dashboard is reviewed periodically by the Board of Directors and senior management to ensure performance alignment with our risk appetite, and where appropriate, makes adjustments to applicable business strategies and tactics where risks approach our desired risk tolerance limits.

We support our risk management process through a governance structure involving our Board of Directors and senior management. The joint Risk Committee of our Board of Directors and the FNBPA Board of Directors helps ensure that business decisions are executed within appropriate risk tolerances. The Risk Committee has oversight responsibilities with respect to the following:

- identification, measurement, assessment and monitoring of enterprise-wide risk;
- development of appropriate and meaningful risk metrics to use in connection with the oversight of our businesses and strategies;
- review and assessment of our policies and practices to manage our 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 our Board of Directors and the Risk Management Council, which is the senior management level committee responsible for risk management. Risk appetite is an integral element of our business and capital planning processes through our Board Risk Committee and Risk Management Council. We use our risk appetite processes to promote appropriate alignment of risk, capital and performance tactics, while also considering risk capacity and appetite constraints from both financial and non-financial risks. Our top-down risk appetite process serves as a limit for undue risk-taking for bottom-up planning from our various business functions. Our Board Risk Committee, in collaboration with our Risk Management Council, approves our risk appetite on an annual basis, or more frequently, as needed to reflect changes in the risk environment, with the goal of ensuring that our risk appetite remains consistent with our strategic plans and business operations, regulatory environment and our shareholders' expectations. Reports relating to our risk appetite and strategic plans, and our ongoing monitoring thereof, are regularly presented to our various management level risk oversight and planning committees and periodically reported up through our Board Risk Committee.

As noted above, we have 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 FNB, evaluating and approving appropriate remediation efforts to address identified operational risks and providing periodic reports concerning operational risks to the Risk Management Council. The Risk Management Council reports on a regular basis to the Risk Committee of our Board of Directors regarding our enterprise-wide risk profile and other significant risk management issues. Our Chief Risk Officer is responsible for the design and implementation of our enterprise-wide risk management strategy and framework and through the Compliance Department and the Information and Cyber Security Department, both of which report to the Chief Risk Officer, ensures the coordinated and consistent implementation of risk management initiatives and strategies on a day-to-day basis. Our Compliance Department is responsible for developing policies and procedures and monitoring compliance with applicable laws and regulations. Our Information and Cyber Security Department is responsible for maintaining a risk assessment of our information and cyber security risks and ensuring appropriate controls are in place to manage and control such risks, including designing appropriate testing plans to ensure the integrity of information and cyber security controls. Further, our audit function performs an independent assessment of our internal controls environment and plays an integral role in testing the operation of the internal controls systems and reporting findings to management and our Audit Committee. Both the Risk Committee and Audit Committee of our Board of Directors regularly report on risk-related matters to the full Board of Directors. In addition, both the Risk Committee of our Board of Directors and our Risk Management Council regularly assess our enterprise-wide risk profile and provide guidance on actions needed to address key and emerging risk issues.

The Board of Directors believes that our enterprise-wide risk management process is effective and enables the Board of Directors to:

- assess the quality of the information we receive;
- understand the businesses, investments and financial, accounting, legal, regulatory and strategic considerations, and the risks that we face;
- oversee and assess how senior management evaluates risk; and
- assess appropriately the quality of our enterprise-wide risk management process.

RECONCILIATIONS OF NON-GAAP FINANCIAL MEASURES AND KEY PERFORMANCE INDICATORS TO GAAP

Reconciliations of non-GAAP operating measures and key performance indicators discussed in this Report to the most directly comparable GAAP financial measures are included in the following tables.

TABLE 32

Operating Net Income Available to Common Stockholders

Year Ended December 31	**2017**	**2016**	**2015**	**2014**	**2013**
(dollars in thousands)					
Net income available to common stockholders	$ 191,163	$ 162,850	$ 151,608	$ 135,698	$ 117,804
Merger-related expense	56,513	37,439	3,033	9,611	8,210
Tax benefit of merger-related expense	(18,846)	(12,550)	(949)	(1,714)	(2,873)
Merger-related net securities gains	(2,609)	—	—	—	—
Tax expense of merger-related net securities gains	913	—	—	—	—
Reduction in valuation of deferred tax assets	54,042	—	—	—	—
Operating net income available to common stockholders (non-GAAP)	$ 281,176	$ 187,739	$ 153,692	$ 143,595	$ 123,141

The table above shows how operating net income available to common stockholders (non-GAAP) is derived from amounts reported in our financial statements. We believe this measurement helps investors understand the effect of acquisition activity and recent tax reform in reported results. We use operating net income available to common stockholders to better understand business performance and the underlying trends produced by core business activities. We believe merger-related expenses are not organic costs to run our operations and facilities. These charges represent expenses to satisfy contractual obligations of an acquired entity without any useful benefit to us and to convert and consolidate the entity's records onto our platforms. These costs are specific to each individual transaction, and may vary significantly based on the size and complexity of the transaction.

TABLE 33

Operating Earnings per Diluted Common Share

Year Ended December 31	2017	2016	2015	2014	2013
Net income per diluted common share	$ 0.63	$ 0.78	$ 0.86	$ 0.80	$ 0.80
Merger-related expense	0.19	0.18	0.02	0.06	0.05
Tax benefit of merger-related expense	(0.06)	(0.06)	(0.01)	(0.01)	(0.01)
Merger-related net securities gains	(0.01)	—	—	—	—
Tax expense of merger-related net securities gains	—	—	—	—	—
Reduction in valuation of deferred tax assets	0.18	—	—	—	—
Operating earnings per diluted common share (non-GAAP)	$ 0.93	$ 0.90	$ 0.87	$ 0.85	$ 0.84

TABLE 34

Return on Average Tangible Common Equity

Year Ended December 31 (dollars in thousands)	2017	2016	2015
Net income available to common stockholders	$ 191,163	$ 162,850	$ 151,608
Amortization of intangibles, net of tax	11,386	7,287	5,398
Tangible net income available to common stockholders (non-GAAP)	$ 202,549	$ 170,137	$ 157,006
Average total stockholders' equity	$ 4,073,700	$ 2,499,976	$ 2,072,170
Less: Average preferred stockholders' equity	(106,882)	(106,882)	(106,882)
Less: Average intangibles (1)	(2,108,102)	(1,059,856)	(869,347)
Average tangible common equity	$ 1,858,716	$ 1,333,238	$ 1,095,941
Return on average tangible common equity (non-GAAP)	10.90%	12.76%	14.33%

(1) Excludes loan servicing rights.

TABLE 35

Return on Average Tangible Assets

Year Ended December 31 (dollars in thousands)	2017	2016	2015
Net income	$ 199,204	$ 170,891	$ 159,649
Amortization of intangibles, net of tax	11,386	7,287	5,398
Tangible net income (non-GAAP)	$ 210,590	$ 178,178	$ 165,047
Average total assets	$ 29,131,109	$ 20,677,717	$ 16,606,147
Less: Average intangibles (1)	(2,108,102)	(1,059,856)	(869,347)
Average tangible assets (non-GAAP)	$ 27,023,007	$ 19,617,861	$ 15,736,800
Return on average tangible assets (non-GAAP)	0.78%	0.91%	1.05%

(1) Excludes loan servicing rights.

TABLE 36

Tangible Book Value per Common Share

December 31	**2017**	**2016**	**2015**
(in thousands, except per share data)			
Total stockholders' equity	$ 4,409,194	$ 2,571,617	$ 2,096,182
Less: Preferred stockholders' equity	(106,882)	(106,882)	(106,882)
Less: Intangibles (1)	(2,341,263)	(1,085,935)	(869,809)
Tangible common equity (non-GAAP)	$ 1,961,049	$ 1,378,800	$ 1,119,491
Ending common shares outstanding	323,465,140	211,059,547	175,441,670
Tangible book value per common share (non-GAAP)	$ 6.06	$ 6.53	$ 6.38

(1) Excludes loan servicing rights.

TABLE 37

Tangible equity to tangible assets (period-end)

December 31	**2017**	**2016**	**2015**
(dollars in thousands)			
Total stockholders' equity	$ 4,409,194	$ 2,571,617	$ 2,096,182
Less: Intangibles(1)	(2,341,263)	(1,085,935)	(869,809)
Tangible equity (non-GAAP)	$ 2,067,931	$ 1,485,682	$ 1,226,373
Total assets	$ 31,417,635	$ 21,844,817	$ 17,557,662
Less: Intangibles(1)	(2,341,263)	(1,085,935)	(869,809)
Tangible assets (non-GAAP)	$ 29,076,372	$ 20,758,882	$ 16,687,853
Tangible equity / tangible assets (period-end) (non-GAAP)	7.11%	7.16%	7.35%

(1) Excludes loan servicing rights.

TABLE 38

Tangible common equity / tangible assets (period-end)

December 31	**2017**	**2016**	**2015**
(dollars in thousands)			
Total stockholders' equity	$ 4,409,194	$ 2,571,617	$ 2,096,182
Less: Preferred stockholders' equity	(106,882)	(106,882)	(106,882)
Less: Intangibles (1)	(2,341,263)	(1,085,935)	(869,809)
Tangible common equity (non-GAAP)	$ 1,961,049	$ 1,378,800	$ 1,119,491
Total assets	$ 31,417,635	$ 21,844,817	$ 17,557,662
Less: Intangibles(1)	(2,341,263)	(1,085,935)	(869,809)
Tangible assets (non-GAAP)	$ 29,076,372	$ 20,758,882	$ 16,687,853
Tangible common equity / tangible assets (period-end) (non-GAAP)	6.74%	6.64%	6.71%

(1) Excludes loan servicing rights.

TABLE 39

Efficiency Ratio

Year Ended December 31 (dollars in thousands)	2017	2016	2015
Non-interest expense	$ 681,541	$ 511,133	$ 390,549
Less: Amortization of intangibles	(17,517)	(11,210)	(8,305)
Less: OREO expense	(4,438)	(5,153)	(4,637)
Less: Merger-related expense	(56,513)	(37,439)	(3,033)
Less: Impairment charge on other assets	—	(2,585)	—
Adjusted non-interest expense	$ 603,073	$ 454,746	$ 374,574
Net interest income	$ 846,434	$ 611,512	$ 498,222
Taxable equivalent adjustment	18,766	11,248	7,635
Non-interest income	252,449	201,761	162,410
Less: Net securities gains	(5,916)	(712)	(822)
Less: Gain on redemption of TPS	—	(2,422)	—
Adjusted net interest income (FTE) + non-interest income	$ 1,111,733	$ 821,387	$ 667,445
Efficiency ratio (FTE) (non-GAAP)	54.25%	55.36%	56.12%

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information called for by this item is provided in the Market Risk section of “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” which is included in Item 7 of this Report, and is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Management on F.N.B. Corporation's Internal Control Over Financial Reporting

February 28, 2018

F.N.B. Corporation's (FNB) internal control over financial reporting is a process effected by the board of directors, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with U.S. generally accepted accounting principles. An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and the board of directors; and (3) provide reasonable assurance regarding prevention, or timely detection of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2017 based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control – Integrated Framework* (2013 framework). Based on that assessment, management concluded that, as of December 31, 2017, our internal control over financial reporting is effective based on the criteria established in *Internal Control – Integrated Framework* (2013 framework). Ernst & Young LLP, independent registered public accounting firm, has issued an attestation report on our internal control over financial reporting.

F.N.B. Corporation

/s/ Vincent J. Delie, Jr.

By: Vincent J. Delie, Jr.
Chairman, President and Chief Executive Officer

/s/ Vincent J. Calabrese, Jr.

By: Vincent J. Calabrese, Jr.
Chief Financial Officer

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders February 28, 2018
F.N.B. Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of F.N.B. Corporation and subsidiaries (the Company) as of December 31, 2017 and 2016, the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2017, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 28, 2018 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 1993.

Pittsburgh, Pennsylvania
February 28, 2018

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
F.N.B. Corporation

February 28, 2018

Opinion on Internal Control over Financial Reporting

We have audited F.N.B. Corporation's internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, F.N.B. Corporation (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2017 and 2016, the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2017, and the related notes and our report dated February 28, 2018 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying *Report of Management on F.N.B. Corporation's Internal Control Over Financial Reporting*. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

Pittsburgh, Pennsylvania
February 28, 2018

F.N.B. CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
Dollars in thousands, except share and per share data

	December 31	
	2017	**2016**
Assets		
Cash and due from banks	**$ 408,718**	$ 303,526
Interest-bearing deposits with banks	**70,725**	67,881
Cash and Cash Equivalents	**479,443**	371,407
Securities available for sale	**2,764,562**	2,231,987
Securities held to maturity (fair value of **$3,218,379** and $2,294,777)	**3,242,268**	2,337,342
Loans held for sale (includes **$56,458** and $0 measured at fair value) [(1)]	**92,891**	11,908
Loans and leases, net of unearned income of **$50,680** and $52,723	**20,998,766**	14,896,943
Allowance for credit losses	**(175,380)**	(158,059)
Net Loans and Leases	**20,823,386**	14,738,884
Premises and equipment, net	**336,540**	243,956
Goodwill	**2,249,188**	1,032,129
Core deposit and other intangible assets, net	**92,075**	53,806
Bank owned life insurance	**526,818**	330,152
Other assets	**810,464**	493,246
Total Assets	**$ 31,417,635**	$ 21,844,817
Liabilities		
Deposits:		
Non-interest-bearing demand	**$ 5,720,030**	$ 4,205,337
Interest-bearing demand	**9,571,038**	6,931,381
Savings	**2,488,178**	2,352,434
Certificates and other time deposits	**4,620,479**	2,576,495
Total Deposits	**22,399,725**	16,065,647
Short-term borrowings	**3,678,337**	2,503,010
Long-term borrowings	**668,173**	539,494
Other liabilities	**262,206**	165,049
Total Liabilities	**27,008,441**	19,273,200
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 - $0.01 par value		
Authorized – 500,000,000 shares		
Issued – **325,095,055** and 212,378,494 shares	**3,253**	2,125
Additional paid-in capital	**4,033,567**	2,234,366
Retained earnings	**367,658**	304,397
Accumulated other comprehensive loss	**(83,052)**	(61,369)
Treasury stock **– 1,629,915** and 1,318,947 shares at cost	**(19,114)**	(14,784)
Total Stockholders' Equity	**4,409,194**	2,571,617
Total Liabilities and Stockholders' Equity	**$ 31,417,635**	$ 21,844,817

[(1)] Amount represents loans for which we have elected the fair value option. See Note 24.

See accompanying Notes to Consolidated Financial Statements

F.N.B. CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
Dollars in thousands, except per share data

	Year Ended December 31		
	2017	**2016**	**2015**
Interest Income			
Loans and leases, including fees	**$ 861,867**	$ 597,621	$ 482,086
Securities:			
Taxable	**97,728**	71,853	58,148
Tax-exempt	**19,741**	9,011	6,405
Dividends	**88**	34	39
Other	**902**	444	117
Total Interest Income	**980,326**	678,963	546,795
Interest Expense			
Deposits	**71,582**	41,239	31,207
Short-term borrowings	**43,969**	12,183	7,075
Long-term borrowings	**18,341**	14,029	10,291
Total Interest Expense	**133,892**	67,451	48,573
Net Interest Income	**846,434**	611,512	498,222
Provision for credit losses	**61,073**	55,752	40,441
Net Interest Income After Provision for Credit Losses	**785,361**	555,760	457,781
Non-Interest Income			
Service charges	**124,310**	97,524	69,877
Trust services	**23,121**	21,173	20,934
Insurance commissions and fees	**19,063**	18,328	16,270
Securities commissions and fees	**15,286**	13,468	13,642
Capital markets income	**16,603**	15,471	10,246
Mortgage banking operations	**19,977**	12,106	8,619
Bank owned life insurance	**11,693**	10,249	8,135
Net securities gains	**5,916**	712	822
Other	**16,480**	12,730	13,865
Total Non-Interest Income	**252,449**	201,761	162,410
Non-Interest Expense			
Salaries and employee benefits	**326,893**	239,798	202,068
Net occupancy	**53,787**	40,086	33,670
Equipment	**49,361**	38,046	31,869
Amortization of intangibles	**17,517**	11,210	8,305
Outside services	**56,113**	43,737	34,698
FDIC insurance	**32,902**	19,203	12,888
Supplies	**8,326**	10,834	8,064
Bank shares and franchise taxes	**10,256**	8,940	8,139
Telephone	**10,218**	7,159	6,234
Marketing	**11,505**	10,141	8,396
Other real estate owned	**4,438**	5,153	4,637
Merger-related	**56,513**	37,439	3,033
Other	**43,712**	39,387	28,548
Total Non-Interest Expense	**681,541**	511,133	390,549
Income Before Income Taxes	**356,269**	246,388	229,642
Income taxes	**157,065**	75,497	69,993
Net Income	**199,204**	170,891	159,649
Preferred stock dividends	**8,041**	8,041	8,041
Net Income Available to Common Stockholders	**$ 191,163**	$ 162,850	$ 151,608
Earnings per Common Share			
Basic	**$ 0.63**	$ 0.79	$ 0.87
Diluted	**$ 0.63**	$ 0.78	$ 0.86
Cash Dividends per Common Share	**$ 0.48**	$ 0.48	$ 0.48

See accompanying Notes to Consolidated Financial Statements

F.N.B. CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Dollars in thousands

	Year Ended December 31		
	2017	**2016**	**2015**
Net income	**$ 199,204**	$ 170,891	$ 159,649
Other comprehensive income (loss):			
Securities available for sale:			
Unrealized gains arising during the period, net of tax benefit of **$3,224,** $7,477 and $1,561	**(5,744)**	(13,886)	(2,899)
Reclassification adjustment for gains included in net income, net of tax expense of **$230,** $249 and $288	**(411)**	(463)	(534)
Derivative instruments:			
Unrealized (losses) gains arising during the period, net of tax (benefit) expense of **$(426),** $2,739 and $1,887	**(759)**	5,086	3,504
Reclassification adjustment for gains included in net income, net of tax expense of **$26,** $685 and $1,035	**(46)**	(1,272)	(1,921)
Pension and postretirement benefit obligations:			
Unrealized (losses) gains arising during the period, net of tax (benefit) expense of **$(1),** $161 and $(1,766)	**(7)**	299	(3,280)
Other comprehensive income (loss)	**(6,967)**	(10,236)	(5,130)
Comprehensive income	**$ 192,237**	$ 160,655	$ 154,519

See accompanying Notes to Consolidated Financial Statements

F.N.B. CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Dollars in thousands, except per share data

	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance at January 1, 2015	$ 106,882	$ 1,754	$ 1,798,984	$ 176,120	$ (46,003)	$ (16,281)	$ 2,021,456
Comprehensive income				159,649	(5,130)		154,519
Dividends declared:							
Preferred stock				(8,041)			(8,041)
Common stock: $0.48/share				(84,511)			(84,511)
Issuance of common stock		12	4,737			3,521	8,270
Restricted stock compensation			4,461				4,461
Tax benefit of stock-based compensation			28				28
Balance at December 31, 2015	106,882	1,766	1,808,210	243,217	(51,133)	(12,760)	2,096,182
Comprehensive income				170,891	(10,236)		160,655
Dividends declared:							
Preferred stock				(8,041)			(8,041)
Common stock: $0.48/share				(101,670)			(101,670)
Issuance of common stock		19	13,411			(2,024)	11,406
Issuance of common stock – acquisitions		340	403,866				404,206
Restricted stock compensation			7,066				7,066
Tax benefit of stock-based compensation			1,813				1,813
Balance at December 31, 2016	106,882	2,125	2,234,366	304,397	(61,369)	(14,784)	2,571,617
Comprehensive income				**199,204**	**(6,967)**		**192,237**
Dividends declared:							
Preferred stock				**(8,041)**			**(8,041)**
Common stock: $0.48/share				**(142,618)**			**(142,618)**
Issuance of common stock		**12**	**7,298**			**(4,330)**	**2,980**
Issuance of common stock – acquisitions		**1,116**	**1,782,308**				**1,783,424**
Assumption of warrant due to acquisition			**1,394**				**1,394**
Restricted stock compensation			**8,201**				**8,201**
Reclassification due to tax reform				**14,716**	**(14,716)**		**—**
Balance at December 31, 2017	**$ 106,882**	**$ 3,253**	**$ 4,033,567**	**$ 367,658**	**$ (83,052)**	**$ (19,114)**	**$ 4,409,194**

See accompanying Notes to Consolidated Financial Statements

F.N.B. CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Dollars in thousands

	Year Ended December 31		
	2017	**2016**	**2015**
Operating Activities			
Net income	**$ 199,204**	$ 170,891	$ 159,649
Adjustments to reconcile net income to net cash flows provided by operating activities:			
Depreciation, amortization and accretion	**88,797**	60,503	43,949
Provision for credit losses	**61,073**	55,752	40,441
Deferred tax expense	**128,983**	15,250	550
Net securities gains	**(5,916)**	(712)	(822)
Tax benefit of stock-based compensation	**(822)**	(1,813)	(28)
Loans originated for sale	**(1,097,869)**	(713,087)	(445,558)
Loans sold	**1,046,762**	716,705	455,623
Net gain on sale of loans	**(17,223)**	(10,746)	(8,666)
Net change in:			
Interest receivable	**(18,143)**	(5,214)	(4,688)
Interest payable	**1,978**	(150)	760
Bank owned life insurance	**(11,200)**	(5,373)	(6,397)
Other, net	**(96,718)**	10,702	(11,333)
Net cash flows provided by operating activities	**278,906**	292,708	223,480
Investing Activities			
Net change in loans and leases	**(1,100,481)**	(816,093)	(985,999)
Securities available for sale:			
Purchases	**(1,141,620)**	(1,066,361)	(421,901)
Sales	**786,762**	615,199	33,499
Maturities	**569,949**	543,923	284,483
Securities held to maturity:			
Purchases	**(1,185,859)**	(1,063,273)	(465,597)
Sales	**57,050**	—	—
Maturities	**394,823**	357,111	277,967
Purchase of bank owned life insurance	**(50,124)**	(16,587)	(72,688)
Withdrawal/surrender of bank owned life insurance	**—**	—	72,664
Increase in premises and equipment	**(56,874)**	(59,327)	(9,723)
Net cash received in business combinations	**196,964**	245,762	144,629
Net cash flows used in investing activities	**(1,529,410)**	(1,259,646)	(1,142,666)
Financing Activities			
Net change in:			
Demand (non-interest-bearing and interest-bearing) and savings accounts	**405,777**	933,793	1,259,765
Time deposits	**757,021**	(119,734)	(166,283)
Short-term borrowings	**379,139**	251,713	7,238
Proceeds from issuance of long-term borrowings	**155,399**	46,357	134,953
Repayment of long-term borrowings	**(199,318)**	(173,477)	(34,968)
Net proceeds from issuance of common stock	**11,181**	18,472	12,731
Tax benefit of stock-based compensation	**—**	1,813	28
Cash dividends paid:			
Preferred stock	**(8,041)**	(8,041)	(8,041)
Common stock	**(142,618)**	(101,670)	(84,511)
Net cash flows provided by financing activities	**1,358,540**	849,226	1,120,912
Net Increase (Decrease) in Cash and Cash Equivalents	**108,036**	(117,712)	201,726
Cash and cash equivalents at beginning of year	**371,407**	489,119	287,393
Cash and Cash Equivalents at End of Year	**$ 479,443**	$ 371,407	$ 489,119

See accompanying Notes to Consolidated Financial Statements

NATURE OF OPERATIONS

F.N.B. Corporation (FNB), headquartered in Pittsburgh, Pennsylvania, is a diversified financial services company operating in eight states. We hold a significant retail deposit market share in metropolitan markets including: Pittsburgh, Pennsylvania; Baltimore, Maryland; Cleveland, Ohio; and Charlotte, Raleigh, Durham and the Piedmont Triad (Winston-Salem, Greensboro and High Point) in North Carolina. As of December 31, 2017, we had 417 banking offices throughout Pennsylvania, Ohio, Maryland, West Virginia, North Carolina and South Carolina. We provide a full range of commercial banking, consumer banking, and wealth management solutions through our subsidiary network which is led by our largest affiliate, First National Bank of Pennsylvania (FNBPA). Commercial banking solutions include corporate banking, small business banking, investment real estate financing, 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. We also operate Regency Finance Company (Regency), which had 77 consumer finance offices in Pennsylvania, Ohio, Kentucky and Tennessee as of December 31, 2017.

The terms "FNB," "the Corporation," "we," "us" and "our" throughout this Report mean F.N.B. Corporation and its subsidiaries, when appropriate.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Our accompanying consolidated financial statements and these notes to the financial statements include subsidiaries in which we have a controlling financial interest. We own and operate FNBPA, First National Trust Company, First National Investment Services Company, LLC, F.N.B. Investment Advisors, Inc., First National Insurance Agency, LLC (FNIA), Regency, Bank Capital Services, LLC, and F.N.B. Capital Corporation, LLC, and include 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 our 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. Such reclassifications had no impact on our net income and stockholders' equity. Events occurring subsequent to the date of the December 31, 2017 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).

Use of Estimates

Our accounting and reporting policies conform with GAAP. The preparation of financial statements in conformity with GAAP requires us 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, accounting for acquired loans, fair value of financial instruments, goodwill and other intangible assets, litigation and income taxes and deferred tax assets.

Business Combinations

Business combinations are accounted for by applying the acquisition method. 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 income from the date of acquisition.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, cash items in transit and amounts due from the Federal Reserve Bank (FRB) and other depository institutions (including interest-bearing deposits).

Securities

Investment securities, which consist of debt securities and certain equity securities, comprise a significant portion of our consolidated balance sheets. Such securities can be classified as trading, held to maturity or available for sale. As of December 31, 2017 and 2016, we did not hold any trading securities.

Securities held to maturity are comprised of debt securities, for which management has the positive intent and ability to hold until their maturity. Such securities are carried at cost, adjusted for related amortization of premiums and accretion of discounts through interest income from securities, and subject to evaluation for other-than-temporary impairment (OTTI).

Securities that are not classified as trading or held to maturity are classified as available for sale. Our available for sale securities portfolio is comprised of debt securities and marketable equity securities. Such securities are carried at fair value with net unrealized gains and losses deemed to be temporary and OTTI attributable to non-credit factors reported separately as a component of other comprehensive income, net of tax.

We evaluate our securities in a loss position for OTTI on a quarterly basis at the individual security level based on our intent to sell.

If we intend to sell the debt security or it is more likely than not we will be required to sell the security before recovery of its amortized cost basis, OTTI must be recognized in earnings equal to the entire difference between the investments' amortized cost basis and its fair value. If we do not intend to sell the debt security and it is not more likely than not that we will be required to sell the security before recovery of its amortized cost basis, OTTI must be separated into the amount representing credit loss and the amount related to all other market factors. The amount related to credit loss will be recognized in earnings. The amount related to other market factors will be recognized in other comprehensive income, net of applicable taxes.

We perform our OTTI evaluation process in a consistent and systematic manner and include an evaluation of all available evidence. This process considers factors such as length of time and anticipated recovery period of the impairment, recent events specific to the issuer and recent experience regarding principal and interest payments.

Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase are accounted for as collateralized financing transactions and are recorded at the amounts at which the securities were sold plus accrued interest. Securities, generally U.S. government and federal agency securities, pledged as collateral under these financing arrangements cannot be sold or repledged by the secured party. The fair value of collateral either received from or provided to a third party is continually monitored and additional collateral is obtained or is requested to be returned to us as deemed appropriate.

Derivative Instruments and Hedging Activities

From time to time, we may enter into derivative transactions principally to protect against the risk of adverse price or interest rate movements on the value of certain assets and liabilities and on future cash flows. All derivative instruments are carried at fair value on the balance sheet as either an asset or liability. Accounting for the changes in fair value of a derivative is dependent upon whether or not it has been designated in a formal, qualifying hedging relationship. For derivatives in qualifying hedging relationships, we formally document all relationships between hedging instruments and hedged items, as well as our risk management objective and strategy for undertaking each hedge transaction.

Changes in fair value of a derivative instrument that has been designated and qualifies as a cash flow hedge are recorded in accumulated other comprehensive income (AOCI), net of tax. Amounts are reclassified from AOCI to the consolidated statements of income in the period or periods in which the hedged transaction affects earnings.

At the hedge's inception and at least quarterly thereafter, a formal assessment is performed to determine whether changes in the fair values or cash flows of the derivative instruments have been highly effective in offsetting changes in fair values or cash flows of the hedged items and whether they are expected to be highly effective in the future. If it is determined a derivative instrument has not been or will not continue to be highly effective as a hedge, hedge accounting is discontinued. Derivative gains and losses under cash flow hedges not effective in hedging the change in fair value or expected cash flows of the hedged item are recognized immediately in the consolidated statements of income.

In addition, we enter 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. We then enter into positions with a derivative counterparty in order to offset our exposure on the fixed components of the customer agreements. 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. We seek to minimize counterparty credit risk by entering into transactions with only high-quality institutions. These arrangements meet the definition of derivatives, but are not designated as qualifying hedging relationships. The interest rate swap agreement with the loan customer and with the counterparty are reported at fair value in other assets and other liabilities on the consolidated balance sheets with any resulting gain or loss recorded in current period earnings as other income.

Loans Held for Sale and Loan Commitments

Certain of our residential mortgage loans are originated or purchased for sale in the secondary mortgage loan market. Effective January 1, 2017, we made an automatic election to account for all future originated or purchased residential mortgage loans held for sale under the fair value option (FVO). The FVO election is intended to better reflect the underlying economics and better facilitate the economic hedging of the loans. The FVO is applied on an instrument by instrument basis and is an irrevocable election. Additionally, with the election of the FVO, fees and costs associated with the origination and acquisition of residential mortgage loans held for sale are expensed as incurred, rather than deferred. Changes in fair value under the FVO are recorded in mortgage banking operations non-interest income on the consolidated statements of income. Fair value is determined on the basis of rates obtained in the respective secondary market for the type of loan held for sale. Prior to the FVO election, loans were generally sold at a premium or discount from the carrying amount of the loan which represented the lower of cost or fair value. Gain or loss on the sale of loans is recorded in mortgage banking operations non-interest income. Interest income on loans held for sale is recorded in interest income.

We routinely issue interest rate lock commitments for residential mortgage loans that we intend to sell. These interest rate lock commitments are considered derivatives. We also enter into loan sale commitments to sell these loans when funded to mitigate the risk that the market value of residential mortgage loans may decline between the time the rate commitment is issued to the customer and the time we sell the loan. These loan sale commitments are also derivatives. Both types of derivatives are recorded at fair value on the consolidated balance sheets with changes in fair value recorded in mortgage banking operations non-interest income.

We also originate loans guaranteed by the Small Business Administration (SBA) for the purchase of businesses, business startups, business expansion, equipment, and working capital. All SBA loans are underwritten and documented as prescribed by the SBA. Starting in the first quarter of 2017, the guaranteed portion of SBA loans originated with the intention to sell on the secondary market are classified as held for sale and are carried at the lower of cost or fair value. At the time of the sale, we allocate the carrying value of the entire loan between the guaranteed portion sold and the unguaranteed portion retained based on their relative fair value which results in a discount recorded on the retained portion of the loan. The guaranteed portion is typically sold at a premium and the gain is recognized in other income for any net premium received in excess of the relative fair value of the portion of the loan transferred. The net carrying value of the retained portion of the loans is included in the appropriate loan classification for disclosure purposes, primarily commercial real estate or commercial and industrial.

Loans (Excluding Acquired Loans)

Loans we intend to hold for the foreseeable future or until maturity or payoff are reported at their outstanding principal balances, net of any deferred origination fees or costs. Interest income on loans is computed over the term of the loans using the effective interest method. Loan origination fees and certain direct costs incurred to extend credit are deferred and amortized over the term of the loan or loan commitment period as an adjustment to the related loan yield.

Non-performing Loans

Interest is not accrued on loans where collectability is uncertain. We discontinue interest accruals on loans generally when principal or interest is due and has remained unpaid for a certain number of days 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. Past due status is based on the contractual terms of the loan.

When a loan is placed on non-accrual status, all unpaid interest is reversed against interest income and the amortization of deferred fees and costs is suspended. Payments subsequently received are generally applied to either principal or interest or both, depending on management’s evaluation of collectability. A loan is returned to accrual status when principal and interest are no longer past due and collectability is probable. This generally requires a sustained period of timely principal and interest payments.

Loans are generally written off when deemed uncollectible or when they reach a predetermined number of days past due depending upon loan product, terms, and other factors. Recoveries of amounts previously charged off are credited to the allowance for credit losses.

We consider a loan impaired when, based on current information and events, it is probable that we will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. The impairment loss is measured by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral, less estimated selling costs, if the loan is collateral dependent. Acquired impaired loans are not classified as non-performing assets as the loans are considered to be performing.

Restructured loans are those in which concessions of terms have been made as a result of deterioration in a borrower's financial condition. In general, the modification or restructuring of a debt constitutes a troubled debt restructuring (TDR) if we for economic or legal reasons related to the borrower's financial difficulties grant a concession to the borrower that we would not otherwise consider under current market conditions. Debt restructurings or loan modifications for a borrower occur in the normal course of business and do not necessarily constitute TDRs. To designate a loan as a TDR, the presence of both borrower financial distress and a concession of terms must exist. Additionally, a loan designated as a TDR does not necessarily result in the automatic placement of the loan on non-accrual status. When the full collection of principal and interest is reasonably assured on a loan designated as a TDR and the borrower does not otherwise meet the criteria for non-accrual status, we will continue to accrue interest on the loan.

A restructured acquired loan that is accounted for as a component of a pool in accordance is not considered a TDR.

Allowance for Credit Losses

The allowance for credit losses is established as losses are estimated to have occurred through a provision charged to earnings. Loan 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 $500,000 are generally determined based on collateral values or the present value of estimated cash flows. All other impaired loans are evaluated in the aggregate based on loan segment loss given default. Changes in the allowance for credit losses related to impaired loans 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 appropriate to absorb probable losses associated with specifically identified loans, as well as estimated probable credit losses inherent in the remainder of the loan portfolio. The appropriateness of the allowance for credit losses is based on management's evaluation of potential loan losses in the loan 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 loan portfolio, the estimated value of underlying collateral and residuals and changes in the composition of the loan 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, estimated losses on pools of homogeneous loans based on transition matrices with predefined loss emergence periods and consideration of qualitative factors, all of which are susceptible to significant change.

Acquired Loans

Acquired loans (impaired and non-impaired) are initially recorded at their acquisition-date fair values. Fair values are based on a discounted cash flow methodology that involves assumptions and judgments as to credit risk, default rates, loss severity, collateral values, discount rates, payment speeds, prepayment risk, and liquidity risk.

The carryover of allowance for credit losses related to acquired loans is prohibited as any credit losses in the loans are included in the determination of the fair value of the loans at the acquisition date. The allowance for credit losses on acquired loans reflects only those losses incurred after acquisition and represents the present value of cash flows expected at acquisition that is no longer expected to be collected.

At acquisition, we consider the following factors as indicators that an acquired loan has evidence of deterioration in credit quality and is therefore impaired and in the scope of ASC 310-30:

- loans that were 90 days or more past due;

- loans that had an internal risk rating of substandard or worse. Substandard is consistent with regulatory definitions and is defined as having a well-defined weakness that jeopardizes liquidation of the loan;
- loans that were classified as non-accrual by the acquired bank at the time of acquisition; or
- loans that had been previously modified in a TDR.

Any acquired loans that were not individually in the scope of ASC 310-30 because they didn't meet the criteria above were pooled into groups of similar loans based on various factors including borrower type, loan purpose, and collateral type. For these pools, we used certain loan information, including outstanding principal balance, estimated expected losses, weighted average maturity, weighted average margin, and weighted average interest rate along with estimated prepayment rates, probability of default and loss given default to estimate the expected cash flow for each loan pool. We believe analogizing to ASC 310-30 is the more appropriate option to follow in accounting for discount accretion on non-impaired acquired loans other than revolving loans and therefore account for such loans in accordance with ASC 310-30. ASC 310-30 guidance does not apply to revolving loans. Consequently, discount accretion on revolving loans acquired is accounted for using the ASC 310-20 approach.

The excess of cash flows expected to be collected at acquisition over recorded fair value is referred to as the accretable yield. The accretable yield is recognized into income over the remaining life of the loan, or pool of loans, using an effective yield method, if the timing and/or amount of cash flows expected to be collected can be reasonably estimated (the accretion model). If the timing and/or amount of cash flows expected to be collected cannot be reasonably estimated, the cost recovery method of income recognition must be used. The difference between the loan's total scheduled principal and interest payments over all cash flows expected at acquisition is referred to as the non-accretable difference. The non-accretable difference represents contractually required principal and interest payments which we do not expect to collect.

Over the life of the acquired loan, we continue to estimate cash flows expected to be collected. Decreases in expected cash flows, other than from prepayments or rate adjustments, are recognized as impairments through a charge to the provision for credit losses resulting in an increase in the allowance for credit losses. Subsequent improvements in cash flows result in first, reversal of existing valuation allowances recognized subsequent to acquisition, if any, and next, an increase in the amount of accretable yield to be subsequently recognized on a prospective basis over the loan's remaining life.

Acquired loans that met the criteria for non-accrual of interest prior to acquisition are considered performing upon acquisition, regardless of whether the customer is contractually delinquent, if we can reasonably estimate the timing and amount of expected cash flows on such loans. Accordingly, we do not consider acquired contractually delinquent loans to be non-accrual or non-performing and continue to recognize interest income on these loans using the accretion model.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the asset's estimated useful life. Leasehold improvements are expensed over the lesser of the asset's estimated useful life or the term of the lease including renewal periods when reasonably assured. Useful lives are dependent upon the nature and condition of the asset and range from 3 to 40 years. Maintenance and repairs are charged to expense as incurred, while major improvements are capitalized and amortized to expense over the identified useful life.

Premises and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

Cloud Computing Arrangements

Beginning in 2016, for new or materially modified contracts, we 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 use software that should be accounted for separately as internal-use software. If a contract includes the purchase or license to use 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.

Other Real Estate Owned

Other real estate owned (OREO) is comprised principally of commercial and residential real estate properties obtained in partial or total satisfaction of loan obligations. OREO acquired in settlement of indebtedness is included in other assets initially at the lower of estimated fair value of the asset less estimated selling costs or the carrying amount of the loan. Changes to the value subsequent to transfer are recorded in non-interest expense along with direct operating expenses. Gains or losses not previously recognized resulting from sales of OREO are recognized in non-interest expense on the date of sale.

Goodwill and Other Intangible Assets

Goodwill represents the excess of the cost of an acquisition over the fair value of the net assets acquired. Other intangible assets represent purchased assets that lack physical substance but can be distinguished from goodwill because of contractual or other legal rights. Intangible assets that have finite lives, such as core deposit intangibles, customer relationship intangibles and renewal lists, are amortized over their estimated useful lives and subject to periodic impairment testing. Core deposit intangibles are primarily amortized over ten years using accelerated methods. Customer renewal lists are amortized over their estimated useful lives which range from eight to thirteen years.

Goodwill and other intangibles are subject to impairment testing at the reporting unit level, which must be conducted at least annually. We perform impairment testing during the fourth quarter of each year, or more frequently if impairment indicators exist. We also continue to monitor other intangibles for impairment and to evaluate carrying amounts, as necessary.

Determining the fair value of a reporting unit under the goodwill impairment test is judgmental and often involves the use of significant estimates and assumptions. Similarly, estimates and assumptions are used in determining the fair value of other intangible assets. Estimates of fair value are primarily determined using discounted cash flows, market comparisons and recent transactions. These approaches use significant estimates and assumptions including projected future cash flows, discount rates reflecting the market rate of return, projected growth rates and determination and evaluation of appropriate market comparables. However, future events could cause us to conclude that goodwill or other intangibles have become impaired, which would result in recording an impairment loss. Any resulting impairment loss could have a material adverse impact on our financial condition and results of operations.

Loan Servicing Rights

We have two primary classes of servicing rights, residential mortgage loan servicing and SBA-guaranteed loan servicing. We recognize the right to service residential mortgage loans and SBA-guaranteed loans for others as an asset whether we purchase the servicing rights or as a result from a sale of loans that we originate when the servicing is contractually separated from the underlying loan and retained by us.

We initially record servicing rights at fair value in other assets, net on the consolidated balance sheet. Subsequently, servicing rights are measured at the lower of cost or fair value. Servicing rights are amortized in proportion to, and over the period of, estimated net servicing income in mortgage banking operations income for residential mortgage loans and non-interest income for SBA-guaranteed loans. The amount and timing of estimated future net cash flows are updated based on actual results and updated projections.

Mortgage servicing rights (MSRs) are separated into pools based on common risk characteristics of the underlying loans and evaluated for impairment at least quarterly. SBA-guaranteed servicing rights are evaluated for impairment at least quarterly on an aggregate basis. Impairment, if any, is recognized when carrying value exceeds the fair value as determined by calculating the present value of expected net future cash flows. If impairment exists at the pool level for residential mortgage loans or on an aggregate basis for SBA-guaranteed loans, the servicing right is written down through a valuation allowance and is charged against mortgage banking operations income or non-interest income, respectively.

Bank-Owned Life Insurance (BOLI)

We have purchased life insurance policies on certain current and former directors, officers and employees for which the Corporation is the owner and beneficiary. These policies are recorded in the consolidated balance sheet at their cash surrender value, or the amount that could be realized by surrendering the policies. Tax-exempt income from death benefits and changes in the net cash surrender value are recorded in bank owned life insurance income.

Low Income Housing Tax Credit Partnerships

We invest in various affordable housing projects that qualify for low income housing tax credits (LIHTCs). The net investments are recorded in other assets on the consolidated balance sheets. These investments generate a return through the realization of federal tax credits. We use the proportional amortization method to account for a majority of our investments in these entities. LIHTCs that do not meet the requirements of the proportional amortization method are recognized using the equity method.

Our net investment in LIHTCs was $20.9 million and $14.0 million at December 31, 2017 and 2016, respectively. Our unfunded commitments in LIHTCs were $67.2 million and $9.8 million at December 31, 2017 and 2016, respectively.

Income Taxes

We file a consolidated federal income tax return. The provision for federal and state income taxes is based on income reported on the consolidated financial statements, rather than the amounts reported on the respective income tax returns. Deferred tax assets and liabilities are computed using tax rates expected to apply to taxable income in the years in which those assets and liabilities are expected to be realized. The effect on deferred tax assets and liabilities resulting from a change in tax rates is recognized as income or expense in the period that the change in tax rates is enacted. Beginning in the fourth quarter of 2017, we made an accounting policy election to reclassify the stranded tax effects that relate to a change in the federal tax rate from AOCI to retained earnings in accordance with newly adopted accounting guidance. We believe this change in accounting policy reduces the cost and complexity of accounting for stranded tax effects due to a change in federal tax rates.

We make certain estimates and judgments in determining income tax expense for financial statement purposes. These estimates and judgments are applied in the calculation of certain tax credits and in the calculation of the deferred income tax expense or benefit associated with certain deferred tax assets and liabilities. Significant changes to these estimates may result in an increase or decrease to our tax provision in a subsequent period. We recognize interest and/or penalties related to income tax matters in income tax expense.

We assess the likelihood that we will be able to recover our deferred tax assets. If recovery is not likely, we will increase our provision for income taxes by recording a valuation allowance against the deferred tax assets that are unlikely to be recovered. We believe that we will ultimately recover the deferred tax assets recorded on our balance sheet. However, should there be a change in our ability to recover our deferred tax assets, the effect of this change would be recorded through the provision for income taxes in the period during which such change occurs.

We periodically review the tax positions we take on our tax return and apply a more likely than not recognition threshold for all tax positions that are uncertain. The amount recognized in the financial statements is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the more likely than not test, no tax benefit is recorded.

Marketing Costs

Marketing costs are generally expensed as incurred.

Per Share Amounts

Earnings per common share is computed using net income available to common stockholders, which is net income adjusted for preferred stock dividends.

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 net income available to common stockholders and the weighted average number of shares of common stock outstanding are made only when such adjustments dilute earnings per common share.

Beginning in 2017, the assumed proceeds from applying the treasury stock method when computing diluted earnings per share excludes the amount of excess tax benefits that would have been recognized in accumulated paid-in capital in accordance with newly adopted accounting guidance.

Retirement Plans

FNB sponsors retirement plans for our employees. The calculation of the obligations and related expenses under these plans requires use of actuarial valuation methods and assumptions. The plans utilize assumptions and methods including reflecting trust assets at their fair value for the qualified pension plans and recognizing the overfunded and underfunded status of the plans on our consolidated balance sheets. Gains and losses, prior service costs and credits are recognized in AOCI, net of tax, until they are amortized, or immediately upon curtailment.

Stock-Based Compensation

Our stock based compensation awards 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.

We are required to estimate the fair value of stock-based awards on the date of grant. The value of the award is recognized as expense in our 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 our plans contain performance targets that affect vesting and can be achieved after the requisite service period and are accounted for as performance conditions. Performance targets are not reflected in the estimation of the award's grant date fair value. Compensation cost for awards with non-market based performance targets is recognized in the period in which it becomes probable that the performance condition will be achieved. Compensation cost for awards with market based performance targets is recognized based on the award's grant date fair value.

Prior to 2017, because stock-based compensation expense was based on awards that are ultimately expected to vest, stock-based compensation expense was reduced to account for estimated forfeitures. Beginning in 2017, we elected to change our accounting policy to account for forfeitures as they occur. The estimate for forfeitures prior to this election was immaterial to our consolidated financial statements. We believe this change in accounting policy reduces the cost and complexity of accounting for stock-based compensation and is preferable to estimating forfeitures at the time of grant.

NOTE 2. NEW ACCOUNTING STANDARDS

The following paragraphs summarize accounting pronouncements issued by the Financial Accounting Standards Board (FASB) that we recently adopted or will be adopting in the future.

Reporting Comprehensive Income

Accounting Standards Update (ASU or Update) 2018-02, *Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*, allows for the reclassification from other comprehensive income to retained earnings for stranded tax effects resulting from the enacted tax bill H.R.1, commonly referred to as the Tax Cuts and Jobs Act (the TCJA). The Update also allows an accounting policy election to reclassify other stranded tax effects that relate to the TCJA but not directly related to the change in federal tax rate. This Update is effective in the first quarter of 2019. Early adoption is permitted for reporting periods for which financial statements have not yet been issued. We adopted this Update in the fourth quarter of 2017 by retrospective application. Upon adoption, the Corporation made a policy election to reclassify stranded tax effects of approximately $14.7 million from AOCI to retained earnings using the specific identification method.

Stock-Based Compensation

ASU 2017-09, *Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting*, provides guidance about which changes to the terms and conditions of a share-based payment award requires the application of modification accounting. The Update is effective in the first quarter of 2018. Early adoption is permitted. This Update was adopted in the third quarter of 2017 by prospective application to awards modified on or after the adoption date. This Update did not have a material effect on our consolidated financial statements.

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 was adopted in the first quarter of 2017 by an application method determined by the type of transaction impacted by the adoption. This Update did not have a material effect on our consolidated financial statements.

Securities

ASU 2017-08, *Receivables-Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities* which shortens the amortization period for the premium on certain purchased callable securities to the earliest call date. The accounting for purchased callable debt securities held at a discount does not change. The Update is effective in the first quarter of 2019. Early adoption is permitted. The Update is to be applied using a modified retrospective transition method and is not expected to have a material effect on our consolidated financial statements.

Retirement Benefits

ASU 2017-07, *Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost,* requires that an employer disaggregate the service cost component from the other components of net benefit cost. The amendments also provide explicit guidance on how to present the service cost component and the other components of net benefit cost in the income statement and allows only the service cost component of net benefit cost to be eligible for capitalization. The Update is effective the first quarter of 2018. Early adoption is permitted. The Update is to be applied using a retrospective transition method to adopt the requirement for separate presentation in the income statement of service costs and other components and a prospective transition method to adopt the requirement to limit the capitalization of benefit costs to the service cost component. This Update is not expected to have a material effect on our consolidated financial statements.

Goodwill

ASU 2017-04, *Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, eliminates the requirement of Step 2 in the current guidance to calculate the implied fair value of goodwill to measure a goodwill impairment charge. Instead, entities will record an impairment charge based on the excess of a reporting unit's carrying amount over its fair value in Step 1 of the current guidance. The Update is effective the first quarter of 2020. Early adoption is permitted for annual or interim goodwill impairment tests with a measurement date after January 1, 2017. We adopted this Update in the first quarter of 2017 and it did not have a material effect on our consolidated financial statements.

Business Combinations

ASU 2017-01, *Business Combinations (Topic 850): Clarifying the Definition of a Business*, clarifies the definition of a business with the objective of providing guidance to assist in the evaluation of whether transactions should be accounted for as acquisitions (disposals) of assets or businesses. The Update is effective for the first quarter of 2018. Early adoption is permitted for transactions that occurred before the issuance date or effective date of the Update if the transactions were not reported in financial statements that have been issued or made available for issuance. We adopted this Update in the first quarter of 2017. This Update is applied prospectively and did not have a material effect on our consolidated financial statements.

Statement of Cash Flows

ASU 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. This Update will be applied retrospectively to all periods presented. Early adoption is permitted. This Update is not expected to have a material effect on our consolidated financial statements.

Credit Losses

ASU 2016-13*, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, replaces the current incurred loss impairment methodology with a methodology that reflects current expected credit losses (commonly referred to as "CECL") 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. CECL requires loss estimates for the remaining life of the financial asset at the time the asset is originated or acquired, considering historical experience, current conditions and reasonable and supportable forecasts. 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 under a cumulative-effect adjustment to retained earnings. Early adoption is permitted for fiscal years beginning after December 15, 2018. The CECL model is a significant change from existing GAAP and may result in a material change to the Corporation's accounting for financial instruments. We are reviewing our business processes, information systems and controls to support recognition and disclosures under this Update. This review includes an assessment of our existing credit models and the financial statement disclosure requirements. The impact of this Update will be dependent on the portfolio composition, credit quality and economic conditions at the time of adoption.

Revenue Recognition

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.

We will adopt ASU 2014-09 in the first quarter of 2018 under the modified retrospective method where the cumulative effect is recognized at the date of initial application. Based on our evaluation under the current guidance, we estimate that substantially all of our interest income and non-interest income will not be impacted by the adoption of this ASU because either the revenue from those contracts with customers is covered by other guidance in U.S. GAAP or the revenue recognition outcomes anticipated with the adoption of this ASU will likely be similar to our current revenue recognition practices. In addition, we reviewed, and where necessary, enhanced our business processes, systems and controls to support recognition and disclosures under the new standard. The adoption of this Update is not expected to have a material effect on our 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 was adopted in the first quarter of 2017 by prospective application. This Update did not have a material effect on our consolidated financial statements.

Derivative and Hedging Activities

ASU 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*, improves the financial reporting of hedging to better align with the entity's risk management activities. In addition, this Update makes certain targeted improvements to simplify the application of the current hedge accounting guidance. The Update is effective in the first quarter of 2019 by modified retrospective method. The presentation and disclosure guidance are applied prospectively. Early adoption is permitted. We are currently assessing the potential impact to our consolidated financial statements.

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 was adopted in the first quarter of 2017 by modified retrospective application. This Update did not have a material effect on our 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 was adopted in the first quarter of 2017 by prospective application. This Update did not have a material effect on our 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 adoption is permitted. This Update is not expected to have a material effect on our 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 adoption is permitted. We are currently assessing the potential impact to our 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 adoption 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 our consolidated financial statements.

NOTE 3. MERGERS AND ACQUISITIONS

Yadkin Financial Corporation

On March 11, 2017, we completed our acquisition of Yadkin Financial Corporation (YDKN), a bank holding company based in Raleigh, North Carolina. YDKN's banking affiliate, Yadkin Bank, was also merged into FNBPA on March 11, 2017. YDKN's results of operations have been included in our consolidated statements of income since that date. The acquisition enabled us to enter several North Carolina markets, including Raleigh, Charlotte and the Piedmont Triad, which is comprised of Winston-Salem, Greensboro and High Point. We also completed the core systems conversion activities during the first quarter.

On the acquisition date, the fair values of YDKN included $6.8 billion in assets, of which there was $5.1 billion in loans and $5.2 billion in deposits. The acquisition was valued at $1.8 billion based on the acquisition-date FNB common stock closing price of $15.97 and resulted in FNB issuing 111,619,622 shares of common stock in exchange for 51,677,565 shares of YDKN common stock. Under the terms of the merger agreement, shareholders of YDKN received 2.16 shares of FNB common stock for each share of YDKN common stock and cash in lieu of fractional shares. YDKN's fully vested and outstanding stock options were converted into options to purchase and receive FNB common stock. In conjunction with the acquisition, we assumed a warrant that was issued by YDKN to the U.S. Department of the Treasury (UST) under the Capital Purchase Program (CPP). Based on the exchange ratio, this warrant, which expires in 2019, was converted into a warrant to purchase up to 207,320 shares of FNB common stock with an exercise price of $9.63.

The acquisition of YDKN constituted a business combination and has been accounted for using the acquisition method of accounting, and accordingly, assets acquired, liabilities assumed and consideration exchanged were recorded at fair value on the acquisition date. The determination of fair values required management to make certain estimates about discount rates, future expected cash flows, market conditions, and other future events that are highly subjective in nature and may require adjustments, which can be updated for up to a year following the acquisition. As of December 31, 2017, we believe that all fair values and related adjustments to goodwill have been recorded with the exception of acquired premises and equipment which were recorded at provisional amounts.

The following table presents the provisional estimate and fair value amounts recorded for certain acquired items:

(in thousands)

Acquired Asset or Liability	Balance Sheet Line Item	Provisional Estimate	Fair Value	Increase (Decrease)
Loans and leases	Loans and leases, net	$ 5,116,497	$ 5,114,355	$ (2,142)
Premises and equipment	Premises and equipment, net	95,208	70,031	(25,177)
Deferred taxes	Other assets	94,307	125,100	30,793
Other liabilities	Other liabilities	70,761	68,264	(2,497)

These adjustments to fair value did not result in any significant impact on the consolidated income statement for 2017. Based on the purchase price allocation, we recorded $1.2 billion in goodwill and $55.7 million in core deposit intangibles as a result of the acquisition. The core deposit intangible asset is being amortized over the estimated useful life of approximately ten years utilizing an accelerated method. Goodwill is not amortized, but is periodically evaluated for impairment. None of the goodwill is deductible for income tax purposes.

The following pro forma financial information for the periods presented reflects our estimated consolidated pro forma results of operations as if the YDKN acquisition occurred on January 1, 2016, unadjusted for potential cost savings and other business synergies we expect to receive as a result of the acquisition:

(dollars in thousands, except per share data)	FNB	YDKN	Pro Forma Adjustments	Pro Forma Combined
Twelve Months Ended December 31, 2017				
Revenue (net interest income and non-interest income)	**$ 1,077,984**	**$ 74,574**	**$ 3,419**	**$ 1,155,977**
Net income	**227,478**	**22,435**	**(1,165)**	**248,748**
Net income available to common stockholders	**219,437**	**22,435**	**(1,165)**	**240,707**
Earnings per common share – basic	**0.92**	**0.78**	**—**	**0.80**
Earnings per common share – diluted	**0.91**	**0.77**	**—**	**0.79**
Twelve Months Ended December 31, 2016				
Revenue	$ 813,273	$ 293,655	$ (5,290)	$ 1,101,638
Net income	170,891	55,168	(7,862)	218,197
Net income available to common stockholders	162,850	55,168	(7,862)	210,156
Earnings per common share – basic	0.79	1.15	—	0.67
Earnings per common share – diluted	0.78	1.14	—	0.67

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

In connection with the YDKN acquisition, we incurred expenses related to systems conversions and other costs of integrating and conforming acquired operations with and into FNB. These merger-related expenses, that were expensed as incurred, amounted to $56.2 million for the year ended December 31, 2017. Contract terminations and severance costs comprised 30.9% and 24.3%, respectively, 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. We also incurred issuance costs of $0.6 million which were charged to additional paid-in capital.

Branch Purchase – Fifth Third Bank

On April 22, 2016, we completed our 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 $312.4 million, including $198.9 million in cash, $95.4 million in loans and $14.1 million in fixed and other assets. We also assumed $302.5 million in deposits, for which we paid a deposit premium of 1.97%, as part of the transaction. The assets and liabilities relating to these purchased branches were recorded on our balance sheet at their fair values as of April 22, 2016, and the related results of operations for these branches have been included in our consolidated income statement since that date. We recorded $14.1 million in goodwill and $4.1 million in core deposit intangibles as a result of the purchase transaction. The goodwill for this transaction is deductible for income tax purposes.

Metro Bancorp, Inc.

On February 13, 2016, we completed our acquisition of Metro Bancorp, Inc. (METR), a bank holding company based in Harrisburg, Pennsylvania. The acquisition enhanced our distribution and scale across Central Pennsylvania, strengthened our position as the largest Pennsylvania-based regional bank and allowed us to leverage the significant infrastructure investments made in connection with the expansion of our product offerings and risk management systems. On the acquisition date, the fair values of METR included $2.8 billion in assets, of which there was $1.9 billion in loans and $2.3 billion in deposits.

The acquisition was valued at $404.2 million and resulted in FNB issuing 34,041,181 shares of common stock in exchange for 14,345,319 shares of METR common stock. We also acquired the fully vested outstanding stock options of METR. The assets and liabilities of METR were recorded on our consolidated balance sheet at their fair values as of the acquisition date, and METR's results of operations have been included in our consolidated income statement since that date. METR's banking affiliate, Metro Bank, was merged into FNBPA on February 13, 2016. Based on the purchase price allocation, we recorded $185.1 million in goodwill and $24.2 million in core deposit intangibles as a result of the acquisition. None of the goodwill is deductible for income tax purposes as the acquisition is accounted for as a tax-free exchange for tax purposes.

In connection with the METR acquisition, we incurred expenses related to systems conversions and other costs of integrating and conforming acquired operations with and into FNB. These merger-related charges, that were expensed as incurred, amounted to $0.4 million and $31.0 million for the years ended December 31, 2017 and 2016. Severance costs comprised 39.9% 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. We 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, we completed our 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. We also assumed $154.6 million in deposits associated with these branches. We paid a deposit premium of 1.96% and acquired an immaterial amount of loans as part of the transaction. Our operating results for 2015 include the impact of branch activity subsequent to the September 18, 2015 closing date. We recorded $1.5 million in goodwill and $3.0 million in core deposit intangibles as a result of the purchase transaction. The goodwill for this transaction is deductible for income tax purposes.

Insurance Brokerage Purchases

On June 22 and July 18, 2015, we, through our wholly-owned subsidiary, FNIA, acquired certain insurance-related assets from Pittsburgh-area insurance brokerage firms. Under the combined purchase agreements, we paid $3.4 million in cash and recorded goodwill of $1.8 million, other intangibles of $1.4 million and miscellaneous other assets of $0.2 million in connection with these acquisitions.

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)	YDKN	Fifth Third Branches	METR	BofA Branches
Fair value of consideration paid	$ 1,784,783	$ —	$ 404,242	$ —
Fair value of identifiable assets acquired:				
Cash and cash equivalents	196,964	198,872	46,890	148,159
Securities	940,272	—	722,980	—
Loans	5,114,355	95,354	1,862,447	842
Core deposit and other intangible assets	69,555	4,129	24,163	3,000
Fixed and other assets	461,293	14,069	127,185	1,133
Total identifiable assets acquired	6,782,439	312,424	2,783,665	153,134
Fair value of liabilities assumed:				
Deposits	5,176,915	302,529	2,328,238	154,619
Borrowings	969,385	—	227,539	—
Other liabilities	68,264	24,041	8,700	—
Total liabilities assumed	6,214,564	326,570	2,564,477	154,619
Fair value of net identifiable assets acquired	567,875	(14,146)	219,188	(1,485)
Goodwill recognized (1)	$ 1,216,908	$ 14,146	$ 185,054	$ 1,485

(1) All of the goodwill for these transactions has been recorded in the Community Banking segment.

NOTE 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 (AFS):				
December 31, 2017				
U.S. Treasury	**$ —**	**$ —**	**$ —**	**$ —**
U.S. government-sponsored entities	**347,767**	**52**	**(3,877)**	**343,942**
Residential mortgage-backed securities:				
Agency mortgage-backed securities	**1,615,168**	**1,225**	**(17,519)**	**1,598,874**
Agency collateralized mortgage obligations	**813,034**	**—**	**(18,077)**	**794,957**
Non-agency collateralized mortgage obligations	**1**	**—**	**—**	**1**
Commercial mortgage-backed securities	**—**	**—**	**—**	**—**
States of the U.S. and political subdivisions	**21,151**	**6**	**(64)**	**21,093**
Other debt securities	**4,913**	**—**	**(243)**	**4,670**
Total debt securities	**2,802,034**	**1,283**	**(39,780)**	**2,763,537**
Equity securities	**587**	**438**	**—**	**1,025**
Total securities available for sale	**$ 2,802,621**	**$ 1,721**	**$ (39,780)**	**$ 2,764,562**
December 31, 2016				
U.S. Treasury	$ 29,874	$ 79	$ —	$ 29,953
U.S. government-sponsored entities	367,604	864	(3,370)	365,098
Residential mortgage-backed securities:				
Agency mortgage-backed securities	1,267,535	2,257	(16,994)	1,252,798
Agency collateralized mortgage obligations	546,659	419	(11,104)	535,974
Non-agency collateralized mortgage obligations	891	6	—	897
Commercial mortgage-backed securities	1,292	—	(1)	1,291
States of the U.S. and political subdivisions	36,065	86	(302)	35,849
Other debt securities	9,828	94	(435)	9,487
Total debt securities	2,259,748	3,805	(32,206)	2,231,347
Equity securities	273	367	—	640
Total securities available for sale	$ 2,260,021	$ 4,172	$ (32,206)	$ 2,231,987

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<u>**Securities Held to Maturity (HTM):**</u>				
December 31, 2017				
U.S. Treasury	**$ 500**	**$ 134**	**$ —**	**$ 634**
U.S. government-sponsored entities	**247,310**	**93**	**(4,388)**	**243,015**
Residential mortgage-backed securities:				
Agency mortgage-backed securities	**1,219,802**	**3,475**	**(9,058)**	**1,214,219**
Agency collateralized mortgage obligations	**777,146**	**32**	**(20,095)**	**757,083**
Non-agency collateralized mortgage obligations	**—**	**—**	**—**	**—**
Commercial mortgage-backed securities	**80,786**	**414**	**(575)**	**80,625**
States of the U.S. and political subdivisions	**916,724**	**13,209**	**(7,130)**	**922,803**
Total securities held to maturity	**$ 3,242,268**	**$ 17,357**	**$ (41,246)**	**$ 3,218,379**
December 31, 2016				
U.S. Treasury	$ 500	$ 137	$ —	$ 637
U.S. government-sponsored entities	272,645	348	(4,475)	268,518
Residential mortgage-backed securities:				
Agency mortgage-backed securities	852,215	5,654	(8,645)	849,224
Agency collateralized mortgage obligations	743,148	447	(17,801)	725,794
Non-agency collateralized mortgage obligations	1,689	3	(6)	1,686
Commercial mortgage-backed securities	49,797	181	(226)	49,752
States of the U.S. and political subdivisions	417,348	1,456	(19,638)	399,166
Total securities held to maturity	$ 2,337,342	$ 8,226	$ (50,791)	$ 2,294,777

During 2017, we received proceeds of $786.8 million from sales of AFS securities and realized a net gain of $3.7 million (gross gains of $4.7 million and gross losses of $1.0 million). We also received proceeds of $57.1 million from sales of HTM securities with a net carrying value of $54.9 million and realized a net gain of $2.2 million (gross gains of $2.2 million and gross losses of $4,000). The HTM securities that were sold represented amortizing securities that had already returned more than 85% of their principal outstanding at the time we acquired the securities and could be sold without tainting the remaining HTM portfolio.

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

Year Ended December 31 (in thousands)	**2017**	**2016**	**2015**
Gross gains	**$ 6,866**	$ 713	$ 831
Gross losses	**(950)**	(1)	(9)
Net gains	**$ 5,916**	$ 712	$ 822

As of December 31, 2017, the amortized cost and fair value of securities, by contractual maturities, were as follows:

(in thousands)	Available for Sale Amortized Cost	Available for Sale Fair Value	Held to Maturity Amortized Cost	Held to Maturity Fair Value
Due in one year or less	$ 81,819	$ 81,594	$ 30,438	$ 30,254
Due from one to five years	278,153	274,516	225,054	220,921
Due from five to ten years	10,892	10,795	81,650	82,672
Due after ten years	2,967	2,800	827,392	832,605
	373,831	369,705	1,164,534	1,166,452
Residential mortgage-backed securities:				
Agency mortgage-backed securities	1,615,168	1,598,874	1,219,802	1,214,219
Agency collateralized mortgage obligations	813,034	794,957	777,146	757,083
Non-agency collateralized mortgage obligations	1	1	—	—
Commercial mortgage-backed securities	—	—	80,786	80,625
Equity securities	587	1,025	—	—
Total securities	$ 2,802,621	$ 2,764,562	$ 3,242,268	$ 3,218,379

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 residential mortgage-backed securities based on the payment patterns of the underlying collateral.

Following is information relating to securities pledged:

December 31 (dollars in thousands)	2017	2016
Securities pledged (carrying value):		
To secure public deposits, trust deposits and for other purposes as required by law	**$ 3,491,634**	$ 2,779,335
As collateral for short-term borrowings	**263,756**	322,038
Securities pledged as a percent of total securities	**62.5%**	67.9%

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

	Less than 12 Months			12 Months or More			Total		
(dollars in thousands)	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses
Securities Available for Sale:									
December 31, 2017									
U.S. government-sponsored entities	**7**	**$ 106,809**	**$ (363)**	**10**	**$ 201,485**	**$ (3,514)**	**17**	**$ 308,294**	**$ (3,877)**
Residential mortgage-backed securities:									
Agency mortgage-backed securities	**43**	**976,738**	**(7,723)**	**28**	**473,625**	**(9,796)**	**71**	**1,450,363**	**(17,519)**
Agency collateralized mortgage obligations	**14**	**409,005**	**(6,231)**	**33**	**335,452**	**(11,846)**	**47**	**744,457**	**(18,077)**
Non-agency collateralized mortgage obligations	—	—	—	—	—	—	—	—	—
Commercial mortgage-backed securities	—	—	—	—	—	—	—	—	—
States of the U.S. and political subdivisions	**7**	**11,254**	**(55)**	**1**	**879**	**(9)**	**8**	**12,133**	**(64)**
Other debt securities	—	—	—	**3**	**4,670**	**(243)**	**3**	**4,670**	**(243)**
Equity securities	—	—	—	—	—	—	—	—	—
Total temporarily impaired securities AFS	**71**	**$ 1,503,806**	**$ (14,372)**	**75**	**$1,016,111**	**$ (25,408)**	**146**	**$2,519,917**	**$ (39,780)**
December 31, 2016									
U.S. government-sponsored entities	11	$ 211,636	$ (3,370)	—	$ —	$ —	11	$ 211,636	$ (3,370)
Residential mortgage-backed securities:									
Agency mortgage-backed securities	55	1,056,731	(16,994)	—	—	—	55	1,056,731	(16,994)
Agency collateralized mortgage obligations	26	346,662	(7,261)	9	89,040	(3,843)	35	435,702	(11,104)
Commercial mortgage-backed securities	1	1,291	(1)	—	—	—	1	1,291	(1)
States of the U.S. and political subdivisions	20	28,631	(302)	—	—	—	20	28,631	(302)
Other debt securities	—	—	—	3	4,470	(435)	3	4,470	(435)
Total temporarily impaired securities AFS	113	$ 1,644,951	$ (27,928)	12	$ 93,510	$ (4,278)	125	$1,738,461	$ (32,206)

(dollars in thousands)	Less than 12 Months #	Less than 12 Months Fair Value	Less than 12 Months Unrealized Losses	12 Months or More #	12 Months or More Fair Value	12 Months or More Unrealized Losses	Total #	Total Fair Value	Total Unrealized Losses
Securities Held to Maturity:									
December 31, 2017									
U.S. government-sponsored entities	**4**	**$ 54,790**	**$ (239)**	**10**	**$ 185,851**	**$ (4,149)**	**14**	**$ 240,641**	**$ (4,388)**
Residential mortgage-backed securities:									
Agency mortgage-backed securities	**36**	**648,485**	**(4,855)**	**11**	**183,989**	**(4,203)**	**47**	**832,474**	**(9,058)**
Agency collateralized mortgage obligations	**14**	**275,290**	**(1,701)**	**35**	**473,257**	**(18,394)**	**49**	**748,547**	**(20,095)**
Non-agency collateralized mortgage obligations	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Commercial mortgage-backed securities	**3**	**26,399**	**(123)**	**2**	**19,443**	**(452)**	**5**	**45,842**	**(575)**
States of the U.S. and political subdivisions	**16**	**56,739**	**(933)**	**37**	**121,536**	**(6,197)**	**53**	**178,275**	**(7,130)**
Total temporarily impaired securities HTM	**73**	**$ 1,061,703**	**$ (7,851)**	**95**	**$ 984,076**	**$ (33,395)**	**168**	**$2,045,779**	**$ (41,246)**
December 31, 2016									
U.S. government-sponsored entities	10	$ 185,525	$ (4,475)	—	$ —	$ —	10	$ 185,525	$ (4,475)
Residential mortgage-backed securities:									
Agency mortgage-backed securities	36	551,404	(8,645)	—	—	—	36	551,404	(8,645)
Agency collateralized mortgage obligations	29	516,237	(13,710)	12	112,690	(4,091)	41	628,927	(17,801)
Non-agency collateralized mortgage obligations	3	1,128	(6)	—	—	—	3	1,128	(6)
Commercial mortgage-backed securities	1	12,317	(10)	1	8,267	(216)	2	20,584	(226)
States of the U.S. and political subdivisions	94	247,301	(19,638)	—	—	—	94	247,301	(19,638)
Total temporarily impaired securities HTM	173	$ 1,513,912	$ (46,484)	13	$ 120,957	$ (4,307)	186	$1,634,869	$ (50,791)

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

Other-Than-Temporary Impairment

We evaluate our investment securities portfolio for OTTI on a quarterly basis. Impairment is assessed at the individual security level. We consider 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 Year Ended December 31, 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	(27)	(27)
Ending balance	$ —	$ —

We did not recognize any OTTI losses on securities for the years ended December 31, 2017, 2016 and 2015.

States of the U.S. and Political Subdivisions

Our municipal bond portfolio with a carrying amount of $937.8 million as of December 31, 2017 is highly rated with an average entity-specific rating of AA and 99% of the portfolio rated A or better. All of the securities in the municipal portfolio are general obligation bonds. Geographically, municipal bonds support our primary footprint as 65% of the securities are from municipalities located throughout Pennsylvania, Ohio, Maryland, North Carolina and South Carolina. The average holding size of the securities in the municipal bond portfolio is $3.0 million. In addition to the strong stand-alone ratings, 62% of the municipalities have some formal credit enhancement insurance that strengthens the creditworthiness of their issue. Management reviews the credit profile of each issuer on a quarterly basis.

NOTE 5. FEDERAL HOME LOAN BANK STOCK

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

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

At December 31, 2017 and 2016, our FHLB stock totaled $160.5 million and $85.0 million, respectively, and is included in other assets on the consolidated balance sheets. The increase in FHLB stock is a result of the YDKN acquisition. We account for the stock in accordance with ASC 325, which requires the investment to be carried at cost and evaluated for impairment based on the ultimate recoverability of the par value. Due to the regular quarterly dividends in 2016 and 2017, we believe our holdings in FHLB stock are ultimately recoverable at par value and, therefore, determined that the stock was not other-than-temporarily impaired. In addition, we have ample liquidity and do not require redemption of our FHLB stock in the foreseeable future.

NOTE 6. LOANS AND LEASES

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

(in thousands)	Originated Loans and Leases	Acquired Loans	Total Loans and Leases
December 31, 2017			
Commercial real estate	**$ 5,174,783**	**$ 3,567,081**	**$ 8,741,864**
Commercial and industrial	**3,495,247**	**675,420**	**4,170,667**
Commercial leases	**266,720**	**—**	**266,720**
Other	**17,063**	**—**	**17,063**
Total commercial loans and leases	**8,953,813**	**4,242,501**	**13,196,314**
Direct installment	**1,755,713**	**149,822**	**1,905,535**
Residential mortgages	**2,036,226**	**666,465**	**2,702,691**
Indirect installment	**1,448,268**	**165**	**1,448,433**
Consumer lines of credit	**1,151,470**	**594,323**	**1,745,793**
Total consumer loans	**6,391,677**	**1,410,775**	**7,802,452**
Total loans and leases, net of unearned income	**$ 15,345,490**	**$ 5,653,276**	**$ 20,998,766**
December 31, 2016			
Commercial real estate	$ 4,095,817	$ 1,339,345	$ 5,435,162
Commercial and industrial	2,711,886	330,895	3,042,781
Commercial leases	196,636	—	196,636
Other	35,878	—	35,878
Total commercial loans and leases	7,040,217	1,670,240	8,710,457
Direct installment	1,765,257	79,142	1,844,399
Residential mortgages	1,446,776	397,798	1,844,574
Indirect installment	1,196,110	203	1,196,313
Consumer lines of credit	1,099,627	201,573	1,301,200
Total consumer loans	5,507,770	678,716	6,186,486
Total loans and leases, net of unearned income	$ 12,547,987	$ 2,348,956	$ 14,896,943

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 businesses that are not secured by real estate;
- Commercial leases consist of leases for new or used equipment;
- Other is comprised primarily of credit cards and mezzanine loans;
- 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 1-4 family properties;
- Indirect installment is comprised of loans originated by approved third parties and underwritten by us, primarily automobile loans; and
- 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.

The loans and leases portfolio consists principally of loans to individuals and small- and medium-sized businesses within our primary market areas of Pennsylvania, eastern Ohio, Maryland, North Carolina, South Carolina 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:

December 31 (dollars in thousands)	**2017**	2016
Regency consumer finance loans	**$ 174,916**	$ 184,687
Percent of total loans and leases	**0.8%**	1.2%

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

December 31 (dollars in thousands)	**2017**	2016
Commercial construction, acquisition and development loans	**$ 1,170,175**	$ 597,617
Percent of total loans and leases	**5.6%**	4.0%
Commercial real estate:		
Percent owner-occupied	**35.3%**	36.2%
Percent non-owner-occupied	**64.7%**	63.8%

We have extended credit to certain directors and executive officers and their related interests. These related-party loans were made in the ordinary course of business under normal credit terms and do not involve more than a normal risk of collection. Following is a summary of the activity for these loans to related parties during 2017:

(in thousands)	
Balance at beginning of period	$ 21,569
New loans	1,171
Repayments	(3,447)
Other	518
Balance at end of period	$ 19,811

Other represents the net change in loan balances resulting from changes in related parties during 2017.

Acquired Loans

All acquired loans were initially recorded at fair value at the acquisition date. Refer to the Acquired Loans section in Note 1, "Summary of Significant Accounting Policies," for a discussion of ASC 310-20 and ASC 310-30 loans. The outstanding balance and the carrying amount of acquired loans included in the consolidated balance sheets are as follows:

December 31 (in thousands)	**2017**	2016
Accounted for under ASC 310-30:		
Outstanding balance	**$ 5,176,015**	$ 2,346,687
Carrying amount	**4,834,256**	2,015,904
Accounted for under ASC 310-20:		
Outstanding balance	**835,130**	342,015
Carrying amount	**812,322**	325,784
Total acquired loans:		
Outstanding balance	**6,011,145**	2,688,702
Carrying amount	**5,646,578**	2,341,688

The outstanding balance is the undiscounted sum of all amounts owed under the loan, including amounts deemed principal, interest, fees, penalties and other, whether or not currently due and whether or not any such amounts have been written or charged-off.

The carrying amount of purchased credit impaired loans included in the table above totaled $1.9 million at December 31, 2017 and $2.8 million at December 31, 2016, representing 0.03% and 0.12% 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.

Year Ended December 31 (in thousands)	**2017**	2016
Balance at beginning of period	**$ 467,070**	$ 256,120
Acquisitions	**444,715**	308,312
Reduction due to unexpected early payoffs	**(127,949)**	(86,046)
Reclass from non-accretable difference	**155,840**	92,823
Disposals/transfers	**(3,559)**	(409)
Other	**(658)**	—
Accretion	**(226,978)**	(103,730)
Balance at end of period	**$ 708,481**	$ 467,070

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 impairment through a charge to the provision for credit losses and credit to the allowance for credit losses.

During 2017, there was an overall improvement in cash flow expectations which resulted in a net reclassification of $155.8 million from the non-accretable difference to accretable yield. This reclassification was $92.8 million for 2016. The reclassification from the non-accretable difference to the accretable yield results in prospective yield adjustments on the loan pools.

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 YDKN in 2017 based on the fair value as described in Note 3.

(in thousands)	**Acquired Impaired Loans**	**Acquired Performing Loans**	**Total**
Contractually required cash flows at acquisition	$ 46,053	$ 5,085,712	$ 5,131,765
Non-accretable difference (expected losses and foregone interest)	(23,924)	(406,173)	(430,097)
Cash flows expected to be collected at acquisition	22,129	4,679,539	4,701,668
Accretable yield	(3,266)	(441,449)	(444,715)
Fair value of acquired loans at acquisition	$ 18,863	$ 4,238,090	$ 4,256,953

In addition, loans purchased in the YDKN acquisition that were not subject to ASC 310-30 had the following balances at the date of acquisition: fair value of $778.4 million; unpaid principal balance of $791.3 million; and contractual cash flows not expected to be collected of $122.9 million.

Credit Quality

Management monitors the credit quality of our loan portfolio using several performance measures to do so based on payment activity and borrower performance.

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. We place originated loans on non-accrual status and discontinue interest accruals on originated loans generally when principal or interest is due and has remained unpaid for a certain number of days, or when the full amount of principal and interest is due and has remained unpaid for a certain number of days, 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, though we may place a loan on non-accrual prior to these past due thresholds as warranted. When a loan is placed on non-accrual status, all unpaid accrued 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 we have granted a concession on the interest rate or the original repayment terms due to the borrower's financial distress.

Following is a summary of non-performing assets:

December 31 (dollars in thousands)	**2017**	**2016**
Non-accrual loans	**$ 74,635**	$ 65,479
Troubled debt restructurings	**23,481**	20,428
Total non-performing loans	**98,116**	85,907
Other real estate owned (OREO)	**40,606**	32,490
Total non-performing assets	**$ 138,722**	$ 118,397
Asset quality ratios:		
Non-performing loans / total loans and leases	**0.47%**	0.58%
Non-performing loans + OREO / total loans and leases + OREO	**0.66%**	0.79%
Non-performing assets / total assets	**0.44%**	0.54%

The carrying value of residential other real estate owned (OREO) held as a result of obtaining physical possession upon completion of a foreclosure or through completion of a deed in lieu of foreclosure amounted to $3.6 million at December 31, 2017. The recorded investment of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are in process at December 31, 2017 and December 31, 2016 totaled $15.2 million and $12.0 million, respectively.

The following tables provide an analysis of the aging of loans by class segregated by loans and leases originated and loans acquired:

(in thousands)	30-89 Days Past Due	≥ 90 Days Past Due and Still Accruing	Non-Accrual	Total Past Due	Current	Total Loans and Leases
Originated Loans and Leases						
December 31, 2017						
Commercial real estate	**$ 8,273**	**$ 1**	**$ 24,773**	**$ 33,047**	**$ 5,141,736**	**$ 5,174,783**
Commercial and industrial	**8,948**	**3**	**17,077**	**26,028**	**3,469,219**	**3,495,247**
Commercial leases	**1,382**	**41**	**1,574**	**2,997**	**263,723**	**266,720**
Other	**83**	**153**	**1,000**	**1,236**	**15,827**	**17,063**
Total commercial loans and leases	**18,686**	**198**	**44,424**	**63,308**	**8,890,505**	**8,953,813**
Direct installment	**13,192**	**4,466**	**8,896**	**26,554**	**1,729,159**	**1,755,713**
Residential mortgages	**14,096**	**2,832**	**5,771**	**22,699**	**2,013,527**	**2,036,226**
Indirect installment	**10,313**	**611**	**2,240**	**13,164**	**1,435,104**	**1,448,268**
Consumer lines of credit	**5,859**	**1,014**	**2,313**	**9,186**	**1,142,284**	**1,151,470**
Total consumer loans	**43,460**	**8,923**	**19,220**	**71,603**	**6,320,074**	**6,391,677**
Total originated loans and leases	**$ 62,146**	**$ 9,121**	**$ 63,644**	**$ 134,911**	**$15,210,579**	**$15,345,490**
December 31, 2016						
Commercial real estate	$ 8,452	$ 1	$ 20,114	$ 28,567	$ 4,067,250	$ 4,095,817
Commercial and industrial	16,019	3	24,141	40,163	2,671,723	2,711,886
Commercial leases	973	1	3,429	4,403	192,233	196,636
Other	398	83	1,000	1,481	34,397	35,878
Total commercial loans and leases	25,842	88	48,684	74,614	6,965,603	7,040,217
Direct installment	10,573	4,386	6,484	21,443	1,743,814	1,765,257
Residential mortgages	10,594	3,014	3,316	16,924	1,429,852	1,446,776
Indirect installment	9,312	513	1,983	11,808	1,184,302	1,196,110
Consumer lines of credit	3,529	1,112	1,616	6,257	1,093,370	1,099,627
Total consumer loans	34,008	9,025	13,399	56,432	5,451,338	5,507,770
Total originated loans and leases	$ 59,850	$ 9,113	$ 62,083	$ 131,046	$12,416,941	$12,547,987

(in thousands)	30-89 Days Past Due	≥ 90 Days Past Due and Still Accruing	Non-Accrual	Total Past Due (1)(2)	Current	(Discount)/ Premium	Total Loans
Acquired Loans							
December 31, 2017							
Commercial real estate	**$ 34,928**	**$ 63,092**	**$ 3,975**	**$ 101,995**	**$3,657,152**	**$ (192,066)**	**$ 3,567,081**
Commercial and industrial	**3,187**	**6,452**	**5,663**	**15,302**	**698,265**	**(38,147)**	**675,420**
Total commercial loans	**38,115**	**69,544**	**9,638**	**117,297**	**4,355,417**	**(230,213)**	**4,242,501**
Direct installment	**5,267**	**2,013**	**—**	**7,280**	**141,386**	**1,156**	**149,822**
Residential mortgages	**17,191**	**15,139**	**—**	**32,330**	**675,499**	**(41,364)**	**666,465**
Indirect installment	**—**	**1**	**—**	**1**	**10**	**154**	**165**
Consumer lines of credit	**6,353**	**3,253**	**1,353**	**10,959**	**596,298**	**(12,934)**	**594,323**
Total consumer loans	**28,811**	**20,406**	**1,353**	**50,570**	**1,413,193**	**(52,988)**	**1,410,775**
Total acquired loans	**$ 66,926**	**$ 89,950**	**$ 10,991**	**$ 167,867**	**$5,768,610**	**$ (283,201)**	**$ 5,653,276**
December 31, 2016							
Commercial real estate	$ 9,501	$ 23,890	$ 949	$ 34,340	$1,384,752	$ (79,747)	$ 1,339,345
Commercial and industrial	1,789	2,942	2,111	6,842	353,494	(29,441)	330,895
Total commercial loans	11,290	26,832	3,060	41,182	1,738,246	(109,188)	1,670,240
Direct installment	2,317	1,344	—	3,661	73,479	2,002	79,142
Residential mortgages	8,428	10,816	—	19,244	416,561	(38,007)	397,798
Indirect installment	19	4	—	23	96	84	203
Consumer lines of credit	2,156	1,528	336	4,020	201,958	(4,405)	201,573
Total consumer loans	12,920	13,692	336	26,948	692,094	(40,326)	678,716
Total acquired loans	$ 24,210	$ 40,524	$ 3,396	$ 68,130	$2,430,340	$ (149,514)	$ 2,348,956

(1) Past due information for acquired loans is based on the contractual balance outstanding at December 31, 2017 and 2016.

(2) Acquired loans are considered performing upon acquisition, regardless of whether the customer is contractually delinquent, if we can reasonably estimate the timing and amount of expected cash flows on such loans. In these instances, we do not consider acquired contractually delinquent loans to be non-accrual or non-performing and continue 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, we determine we are no longer able to reasonably estimate the timing and amount of expected cash flows on such loans. We do not recognize interest income on acquired loans considered non-accrual or non-performing.

We utilize the following categories to monitor credit quality within our commercial loan and lease portfolio:

Rating Category	Definition
Pass	in general, the condition of the borrower and the performance of the loan 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 of the borrower has significantly deteriorated and the performance of the loan 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. Our internal credit risk grading system is based on past experiences with similarly graded loans and leases and conforms with regulatory categories. In general, loan and lease risk ratings within each category are reviewed on an ongoing basis according to our 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 our 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					
December 31, 2017					
Commercial real estate	**$ 4,922,872**	**$ 152,744**	**$ 98,728**	**$ 439**	**$ 5,174,783**
Commercial and industrial	**3,266,966**	**132,975**	**92,091**	**3,215**	**3,495,247**
Commercial leases	**260,235**	**4,425**	**2,060**	**—**	**266,720**
Other	**15,866**	**43**	**1,154**	**—**	**17,063**
Total originated commercial loans and leases	**$ 8,465,939**	**$ 290,187**	**$ 194,033**	**$ 3,654**	**$ 8,953,813**
December 31, 2016					
Commercial real estate	$ 3,895,764	$ 130,452	$ 69,588	$ 13	$ 4,095,817
Commercial and industrial	2,475,955	104,652	128,089	3,190	2,711,886
Commercial leases	188,662	3,789	4,185	—	196,636
Other	34,531	264	1,083	—	35,878
Total originated commercial loans and leases	$ 6,594,912	$ 239,157	$ 202,945	$ 3,203	$ 7,040,217
Acquired Loans					
December 31, 2017					
Commercial real estate	**$ 3,102,788**	**$ 250,987**	**$ 213,089**	**$ 217**	**$ 3,567,081**
Commercial and industrial	**603,611**	**26,059**	**45,661**	**89**	**675,420**
Total acquired commercial loans	**$ 3,706,399**	**$ 277,046**	**$ 258,750**	**$ 306**	**$ 4,242,501**
December 31, 2016					
Commercial real estate	$ 1,144,676	$ 85,894	$ 108,128	$ 647	$ 1,339,345
Commercial and industrial	274,819	20,593	34,967	516	330,895
Total acquired commercial loans	$ 1,419,495	$ 106,487	$ 143,095	$ 1,163	$ 1,670,240

Credit quality information for acquired loans is based on the contractual balance outstanding at December 31, 2017 and 2016.

We use 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.

Following is a table showing consumer loans by payment status:

(in thousands)	Consumer Loan Credit Quality by Payment Status		
	Performing	Non-Performing	Total
Originated loans			
December 31, 2017			
Direct installment	**$ 1,739,060**	**$ 16,653**	**$ 1,755,713**
Residential mortgages	**2,019,816**	**16,410**	**2,036,226**
Indirect installment	**1,445,833**	**2,435**	**1,448,268**
Consumer lines of credit	**1,147,576**	**3,894**	**1,151,470**
Total originated consumer loans	**$ 6,352,285**	**$ 39,392**	**$ 6,391,677**
December 31, 2016			
Direct installment	$ 1,750,305	$ 14,952	$ 1,765,257
Residential mortgages	1,433,409	13,367	1,446,776
Indirect installment	1,193,930	2,180	1,196,110
Consumer lines of credit	1,096,642	2,985	1,099,627
Total originated consumer loans	$ 5,474,286	$ 33,484	$ 5,507,770
Acquired loans			
December 31, 2017			
Direct installment	**$ 149,751**	**$ 71**	**$ 149,822**
Residential mortgages	**666,465**	**—**	**666,465**
Indirect installment	**165**	**—**	**165**
Consumer lines of credit	**592,384**	**1,939**	**594,323**
Total acquired consumer loans	**$ 1,408,765**	**$ 2,010**	**$ 1,410,775**
December 31, 2016			
Direct installment	$ 79,142	$ —	$ 79,142
Residential mortgages	397,798	—	397,798
Indirect installment	203	—	203
Consumer lines of credit	201,061	512	201,573
Total acquired consumer loans	$ 678,204	$ 512	$ 678,716

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, we do 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 and lease 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 our existing method of income recognition for loans and leases, interest income on impaired loans, except those classified as non-accrual, is recognized using the accrual method. Impaired loans, or portions thereof, are charged off when deemed uncollectible.

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

(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 Year Ended December 31, 2017						
Commercial real estate	**$ 27,718**	**$ 21,748**	**$ 2,906**	**$ 24,654**	**$ 439**	**$ 24,413**
Commercial and industrial	**29,307**	**11,595**	**4,457**	**16,052**	**3,215**	**23,907**
Commercial leases	**1,574**	**1,574**	**—**	**1,574**	**—**	**1,386**
Other	**—**	**—**	**—**	**—**	**—**	**—**
Total commercial loans and leases	**58,599**	**34,917**	**7,363**	**42,280**	**3,654**	**49,706**
Direct installment	**19,375**	**16,653**	**—**	**16,653**	**—**	**16,852**
Residential mortgages	**17,754**	**16,410**	**—**	**16,410**	**—**	**15,984**
Indirect installment	**5,709**	**2,435**	**—**	**2,435**	**—**	**2,279**
Consumer lines of credit	**5,039**	**3,894**	**—**	**3,894**	**—**	**3,815**
Total consumer loans	**47,877**	**39,392**	**—**	**39,392**	**—**	**38,930**
Total	**$ 106,476**	**$ 74,309**	**$ 7,363**	**$ 81,672**	**$ 3,654**	**$ 88,636**
At or for the Year Ended December 31, 2016						
Commercial real estate	$ 23,771	$ 19,699	$ 464	$ 20,163	$ 13	$ 19,217
Commercial and industrial	25,719	14,781	8,996	23,777	3,190	29,730
Commercial leases	3,429	3,429	—	3,429	—	3,394
Other	1,000	1,000	—	1,000	—	1,000
Total commercial loans and leases	53,919	38,909	9,460	48,369	3,203	53,341
Direct installment	16,440	14,952	—	14,952	—	14,997
Residential mortgages	14,090	13,367	—	13,367	—	13,200
Indirect installment	5,172	2,180	—	2,180	—	2,037
Consumer lines of credit	3,858	2,985	—	2,985	—	2,813
Total consumer loans	39,560	33,484	—	33,484	—	33,047
Total	$ 93,479	$ 72,393	$ 9,460	$ 81,853	$ 3,203	$ 86,388

Interest income continued to accrue on certain impaired loans and totaled approximately $6.1 million, $4.6 million and $4.1 million during 2017, 2016 and 2015, respectively. The above tables do not reflect the additional allowance for credit losses relating to acquired loans. Following is a summary of the allowance for credit losses required for acquired loans due to changes in credit quality subsequent to the acquisition date:

December 31 (in thousands)	**2017**	**2016**
Commercial real estate	**$ 4,976**	$ 4,538
Commercial and industrial	**(415)**	500
Total commercial loans	**4,561**	5,038
Direct installment	**1,553**	1,005
Residential mortgages	**484**	632
Indirect installment	**177**	221
Consumer lines of credit	**(77)**	372
Total consumer loans	**2,137**	2,230
Total allowance on acquired loans	**$ 6,698**	$ 7,268

Troubled Debt Restructurings

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

Following is a summary of the composition of total TDRs:

(in thousands)	Originated	Acquired	Total
December 31, 2017			
Accruing:			
Performing	**$ 19,538**	**$ 266**	**$ 19,804**
Non-performing	**20,173**	**3,308**	**23,481**
Non-accrual	**10,472**	**234**	**10,706**
Total TDRs	**$ 50,183**	**$ 3,808**	**$ 53,991**
December 31, 2016			
Accruing:			
Performing	$ 17,105	$ 365	$ 17,470
Non-performing	20,252	176	20,428
Non-accrual	9,035	—	9,035
Total TDRs	$ 46,392	$ 541	$ 46,933

TDRs that are accruing and performing include loans that met the criteria for non-accrual of interest prior to restructuring for which we can reasonably estimate the timing and amount of the expected cash flows on such loans and for which we expect to fully collect the new carrying value of the loans. During 2017, we returned to performing status $3.9 million in restructured residential mortgage loans that have consistently met their modified obligations for more than six months. TDRs that are accruing and non-performing are comprised of consumer loans that have not demonstrated a consistent repayment pattern on the modified terms for more than nine months, however it is expected that we 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. Our 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 is presented in the following table:

December 31	2017	2016
(in thousands)		
Specific reserves for commercial TDRs	**$ 95**	$ 291
Pooled reserves for individual commercial loans under $500	**469**	276

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. Our allowance for credit losses included pooled reserves for these classes of loans of $4.0 million and $3.7 million at December 31, 2017 and 2016, respectively. Upon default of an individual loan, our charge-off policy is followed accordingly for that class of loan.

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

Year Ended December 31	**2017**			**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	**3**	**$ 1,608**	**$ 1,683**	4	$ 778	$ 737
Commercial and industrial	**3**	**3,568**	**3,091**	3	1,727	1,504
Total commercial loans	**6**	**5,176**	**4,774**	7	2,505	2,241
Direct installment	**641**	**5,107**	**4,500**	527	6,090	5,566
Residential mortgages	**43**	**2,251**	**2,095**	45	2,155	2,081
Indirect installment	**18**	**48**	**43**	19	51	51
Consumer lines of credit	**64**	**1,372**	**1,158**	81	1,419	1,283
Total consumer loans	**766**	**8,778**	**7,796**	672	9,715	8,981
Total	**772**	**$ 13,954**	**$ 12,570**	679	$ 12,220	$ 11,222

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.

Year Ended December 31	**2017**		**2016**	
(dollars in thousands)	**Number of Contracts**	**Recorded Investment**	**Number of Contracts**	**Recorded Investment**
Commercial real estate	**1**	**$ 463**	—	$ —
Commercial and industrial	**—**	**—**	—	—
Total commercial loans	**1**	**463**	—	—
Direct installment	**131**	**358**	90	313
Residential mortgages	**6**	**314**	7	285
Indirect installment	**17**	**28**	18	35
Consumer lines of credit	**5**	**170**	3	394
Total consumer loans	**159**	**870**	118	1,027
Total	**160**	**$ 1,333**	118	$ 1,027

NOTE 7. ALLOWANCE FOR CREDIT LOSSES

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

(in thousands)	Balance at Beginning of Year	Charge-Offs	Recoveries	Net Charge-Offs	Provision for Credit Losses	Balance at End of Year
Year Ended December 31, 2017						
Commercial real estate	**$ 46,635**	**$ (2,178)**	**$ 2,311**	**$ 133**	**$ 3,513**	**$ 50,281**
Commercial and industrial	**47,991**	**(26,188)**	**1,275**	**(24,913)**	**28,885**	**51,963**
Commercial leases	**3,280**	**(1,017)**	**6**	**(1,011)**	**3,377**	**5,646**
Other	**1,392**	**(4,099)**	**1,255**	**(2,844)**	**3,295**	**1,843**
Total commercial loans and leases	**99,298**	**(33,482)**	**4,847**	**(28,635)**	**39,070**	**109,733**
Direct installment	**21,391**	**(12,401)**	**2,015**	**(10,386)**	**9,931**	**20,936**
Residential mortgages	**10,082**	**(595)**	**184**	**(411)**	**5,836**	**15,507**
Indirect installment	**10,564**	**(9,201)**	**3,708**	**(5,493)**	**6,896**	**11,967**
Consumer lines of credit	**9,456**	**(2,204)**	**461**	**(1,743)**	**2,826**	**10,539**
Total consumer loans	**51,493**	**(24,401)**	**6,368**	**(18,033)**	**25,489**	**58,949**
Total allowance on originated loans	**150,791**	**(57,883)**	**11,215**	**(46,668)**	**64,559**	**168,682**
Purchased credit-impaired loans	**572**	**(469)**	**36**	**(433)**	**496**	**635**
Other acquired loans	**6,696**	**(1,233)**	**4,582**	**3,349**	**(3,982)**	**6,063**
Total allowance on acquired loans	**7,268**	**(1,702)**	**4,618**	**2,916**	**(3,486)**	**6,698**
Total allowance	**$ 158,059**	**$ (59,585)**	**$ 15,833**	**$ (43,752)**	**$ 61,073**	**$ 175,380**
Year Ended December 31, 2016						
Commercial real estate	$ 41,741	$ (6,657)	$ 3,669	$ (2,988)	$ 7,882	$ 46,635
Commercial and industrial	41,023	(19,584)	2,508	(17,076)	24,044	47,991
Commercial leases	2,541	(962)	66	(896)	1,635	3,280
Other	1,013	(2,729)	131	(2,598)	2,977	1,392
Total commercial loans and leases	86,318	(29,932)	6,374	(23,558)	36,538	99,298
Direct installment	21,587	(10,153)	1,822	(8,331)	8,135	21,391
Residential mortgages	7,909	(441)	74	(367)	2,540	10,082
Indirect installment	9,889	(7,855)	2,015	(5,840)	6,515	10,564
Consumer lines of credit	9,582	(2,085)	265	(1,820)	1,694	9,456
Total consumer loans	48,967	(20,534)	4,176	(16,358)	18,884	51,493
Total allowance on originated loans	135,285	(50,466)	10,550	(39,916)	55,422	150,791
Purchased credit-impaired loans	834	(399)	42	(357)	95	572
Other acquired loans	5,893	(649)	1,217	568	235	6,696
Total allowance on acquired loans	6,727	(1,048)	1,259	211	330	7,268
Total allowance	$ 142,012	$ (51,514)	$ 11,809	$ (39,705)	$ 55,752	$ 158,059
Year Ended December 31, 2015						
Commercial real estate	$ 37,588	$ (4,443)	$ 1,117	$ (3,326)	$ 7,479	$ 41,741
Commercial and industrial	32,645	(3,562)	1,773	(1,789)	10,167	41,023
Commercial leases	2,398	(544)	101	(443)	586	2,541
Other	759	(1,691)	55	(1,636)	1,890	1,013
Total commercial loans and leases	73,390	(10,240)	3,046	(7,194)	20,122	86,318
Direct installment	20,538	(10,844)	1,527	(9,317)	10,366	21,587
Residential mortgages	8,024	(1,010)	85	(925)	810	7,909
Indirect installment	7,504	(6,427)	1,190	(5,237)	7,622	9,889
Consumer lines of credit	8,496	(1,653)	175	(1,478)	2,564	9,582
Total consumer loans	44,562	(19,934)	2,977	(16,957)	21,362	48,967
Total allowance on originated loans	117,952	(30,174)	6,023	(24,151)	41,484	135,285
Purchased credit-impaired loans	660	(64)	19	(45)	219	834
Other acquired loans	7,314	(830)	671	(159)	(1,262)	5,893
Total allowance on acquired loans	7,974	(894)	690	(204)	(1,043)	6,727
Total allowance	$ 125,926	$ (31,068)	$ 6,713	$ (24,355)	$ 40,441	$ 142,012

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

(in thousands)	Originated Allowance: Individually Evaluated for Impairment	Originated Allowance: Collectively Evaluated for Impairment	Originated Loans and Leases Outstanding: Loans and Leases	Originated Loans and Leases Outstanding: Individually Evaluated for Impairment	Originated Loans and Leases Outstanding: Collectively Evaluated for Impairment
December 31, 2017					
Commercial real estate	**$ 439**	**$ 49,842**	**$ 5,174,783**	**$ 11,114**	**$ 5,163,669**
Commercial and industrial	**3,215**	**48,748**	**3,495,247**	**9,872**	**3,485,375**
Commercial leases	**—**	**5,646**	**266,720**	**—**	**266,720**
Other	**—**	**1,843**	**17,063**	**—**	**17,063**
Total commercial loans and leases	**3,654**	**106,079**	**8,953,813**	**20,986**	**8,932,827**
Direct installment	**—**	**20,936**	**1,755,713**	**—**	**1,755,713**
Residential mortgages	**—**	**15,507**	**2,036,226**	**—**	**2,036,226**
Indirect installment	**—**	**11,967**	**1,448,268**	**—**	**1,448,268**
Consumer lines of credit	**—**	**10,539**	**1,151,470**	**—**	**1,151,470**
Total consumer loans	**—**	**58,949**	**6,391,677**	**—**	**6,391,677**
Total	**$ 3,654**	**$ 165,028**	**$ 15,345,490**	**$ 20,986**	**$ 15,324,504**
December 31, 2016					
Commercial real estate	$ 13	$ 46,622	$ 4,095,817	$ 12,973	$ 4,082,844
Commercial and industrial	3,190	44,801	2,711,886	21,746	2,690,140
Commercial leases	—	3,280	196,636	—	196,636
Other	—	1,392	35,878	—	35,878
Total commercial loans and leases	3,203	96,095	7,040,217	34,719	7,005,498
Direct installment	—	21,391	1,765,257	—	1,765,257
Residential mortgages	—	10,082	1,446,776	—	1,446,776
Indirect installment	—	10,564	1,196,110	—	1,196,110
Consumer lines of credit	—	9,456	1,099,627	—	1,099,627
Total consumer loans	—	51,493	5,507,770	—	5,507,770
Total	$ 3,203	$ 147,588	$ 12,547,987	$ 34,719	$ 12,513,268

The above table excludes acquired loans that were pooled into groups of loans for evaluating impairment.

NOTE 8. LOAN SERVICING

Mortgage Loan Servicing

We retain the servicing rights on certain mortgage loans sold. The unpaid principal balance of mortgage loans serviced for others, as of December 31, 2017 and 2016, is listed below:

December 31 (in thousands)	**2017**	**2016**
Mortgage loans sold with servicing retained	**$ 3,256,548**	$ 1,800,002

The following table summarizes activity relating to mortgage loans sold with servicing retained:

Year Ended December 31	2017	2016	2015
(in thousands)			
Mortgage loans sold with servicing retained	**$ 1,769,129**	$ 672,536	$ 431,617
Pretax gains resulting from above loan sales (1)	**21,683**	12,519	10,681
Mortgage servicing fees (1)	**7,509**	3,803	3,056

(1) Recorded in mortgage banking operations.

Following is a summary of the MSR activity:

Year Ended December 31	2017	2016	2015
(in thousands)			
Balance at beginning of period	**$ 13,521**	$ 8,921	$ 6,859
Fair value of MSRs acquired	**8,553**	—	—
Additions	**10,830**	7,148	3,370
Payoffs and curtailments	**(1,491)**	(780)	(694)
Amortization	**(2,360)**	(1,768)	(614)
Balance at end of period	**$ 29,053**	$ 13,521	$ 8,921
Fair value, beginning of period	**$ 17,546**	$ 11,503	$ 8,684
Fair value, end of period	**32,419**	17,546	11,503

We did not have a valuation allowance for MSRs for any of the periods presented in the table above.

The fair value of MSRs is highly sensitive to changes in assumptions and is determined by estimating the present value of the asset's future cash flows utilizing market-based prepayment rates, discount rates and other assumptions validated through comparison to trade information, industry surveys and with the use of independent third party appraisals. Changes in prepayment speed assumptions have the most significant impact on the fair value of MSRs. Generally, as interest rates decline, mortgage loan prepayments accelerate due to increased refinance activity, which results in a decrease in the fair value of the MSR. Measurement of fair value is limited to the conditions existing and the assumptions utilized as of a particular point in time, and those assumptions may not be appropriate if they are applied at a different time.

Following is a summary of the sensitivity of the fair value of MSRs to changes in key assumptions:

December 31	2017	2016
(dollars in thousands)		
Weighted average life (months)	**80.4**	79.0
Constant prepayment rate (annualized)	**9.9%**	9.9%
Discount rate	**9.9%**	9.8%
Effect on fair value due to change in interest rates:		
+0.25%	**$ 1,737**	$ 692
+0.50%	**3,220**	1,288
-0.25%	**(1,937)**	(789)
-0.50%	**(4,007)**	(1,680)

The sensitivity calculations above are hypothetical and should not be considered to be predictive of future performance. Changes in fair value based on adverse changes in assumptions generally cannot be extrapolated because the relationship of the changes in assumptions to fair value may not be linear. Also, in this table, the effects of an adverse variation in a particular assumption on the fair value of the MSRs is calculated without changing any other assumptions, while in reality, changes in one factor may result in changing another, which may magnify or contract the effect of the change.

SBA-Guaranteed Loan Servicing

Beginning in March 2017, as a result of the YDKN acquisition, we retain the servicing rights on SBA-guaranteed loans sold to investors. The standard sale structure under the SBA Secondary Participation Guaranty Agreement provides for us to retain a portion of the cash flow from the interest payment received on the loan, which is commonly known as a servicing spread. The unpaid principal balance of SBA-guaranteed loans serviced for investors, as of December 31, 2017, was as follows:

December 31	**2017**
(in thousands)	
SBA loans sold to investors with servicing retained	**$ 305,977**

The following table summarizes activity relating to SBA loans sold with servicing retained:

Year Ended December 31	**2017**
(in thousands)	
SBA loans sold with servicing retained	**$ 53,938**
Pretax gains resulting from above loan sales [1]	**2,247**
SBA servicing fees [1]	**2,195**

(1) Recorded in non-interest income.

Following is a summary of the activity in SBA servicing assets:

Year Ended December 31	**2017**
(in thousands)	
Balance at beginning of period	**$ —**
Fair value of servicing rights acquired	**5,399**
Additions	**959**
Impairment (charge) / recovery	**(281)**
Amortization	**(1,019)**
Balance at end of period	**$ 5,058**
Fair value, beginning of period	**$ —**
Fair value, end of period	**5,058**

Following is a summary of key assumptions and the sensitivity of the SBA loan servicing rights to changes in these assumptions:

December 31	**2017**				
		Decline in fair value due to			
(dollars in thousands)	**Actual**	**10% adverse change**	**20% adverse change**	**1% adverse change**	**2% adverse change**
Weighted-average life (months)	**63.5**				
Constant prepayment rate	**9.29%**	**$ (145)**	**$ (284)**	**$ —**	**$ —**
Discount rate	**14.87**	**—**	**—**	**(147)**	**(286)**

The fair value of the SBA servicing assets is compared to the amortized basis when certain triggering events occur. If the amortized basis exceeds the fair value, the asset is considered impaired and is written down to fair value through a valuation allowance on the asset and a charge against SBA income. We had a $0.3 million valuation allowance for SBA servicing assets as of December 31, 2017.

NOTE 9. PREMISES AND EQUIPMENT

Following is a summary of premises and equipment:

December 31	2017	2016
(in thousands)		
Land	**$ 67,424**	$ 45,640
Premises	**239,807**	186,784
Equipment	**212,587**	174,325
	519,818	406,749
Accumulated depreciation	**(183,278)**	(162,793)
Total premises and equipment, net	**$ 336,540**	$ 243,956

Depreciation expense for premises and equipment is presented in the following table:

December 31	2017	2016	2015
(in thousands)			
Depreciation expense for premises and equipment	**$ 34,322**	$ 23,355	$ 20,009

We have operating leases extending to 2046 for certain land, office locations and equipment, many of which have renewal options. Leases that expire are generally expected to be replaced by other leases. Lease costs are expensed in accordance with ASC 840, *Leases*, taking into account escalation clauses. Rental expense is presented in the following table:

December 31	2017	2016	2015
(in thousands)			
Rental expense	**$ 29,148**	$ 21,015	$ 16,193

Following is a summary of future minimum lease payments for years following December 31, 2017:

(in thousands)	
2018	$ 26,949
2019	22,995
2020	18,587
2021	15,358
2022	11,855
Later years	49,342
Total minimum rental commitment under leases	$ 145,086

NOTE 10. GOODWILL AND OTHER INTANGIBLE ASSETS

The following table shows a rollforward of goodwill by line of business:

(in thousands)	Community Banking	Wealth Manage-ment	Insurance	Consumer Finance	Total
Balance at January 1, 2016	$ 812,399	$ 8,020	$ 10,858	$ 1,809	$ 833,086
Goodwill (deductions) additions	199,200	—	(157)	—	199,043
Balance at December 31, 2016	1,011,599	8,020	10,701	1,809	1,032,129
Goodwill (deductions) additions	**1,216,908**	**151**	**—**	**—**	**1,217,059**
Balance at December 31, 2017	**$ 2,228,507**	**$ 8,171**	**$ 10,701**	**$ 1,809**	**$ 2,249,188**

We recorded goodwill during 2016 and 2017 as a result of the purchase accounting adjustments relating to the various acquisitions described in Note 3, "Mergers and Acquisitions."

The following table shows a summary of core deposit intangibles and customer renewal lists:

(in thousands)	Core Deposit Intangibles	Customer Renewal Lists	Total
December 31, 2017			
Gross carrying amount	**$ 195,582**	**$ 12,442**	**$ 208,024**
Accumulated amortization	**(106,938)**	**(9,011)**	**(115,949)**
Net carrying amount	**$ 88,644**	**$ 3,431**	**$ 92,075**
December 31, 2016			
Gross carrying amount	$ 139,886	$ 12,352	$ 152,238
Accumulated amortization	(89,888)	(8,544)	(98,432)
Net carrying amount	$ 49,998	$ 3,808	$ 53,806

Core deposit intangibles are being amortized primarily over 10 years using accelerated methods. Customer renewal lists are being amortized over their estimated useful lives, which range from eight to thirteen years.

The following table summarizes amortization expense recognized:

December 31 (in thousands)	2017	2016	2015
Amortization expense	**$ 17,517**	$ 11,210	$ 8,305

Following is a summary of the expected amortization expense on finite-lived intangible assets, assuming no new additions, for each of the five years following December 31, 2017:

(in thousands)	
2018	$ 15,633
2019	13,532
2020	12,503
2021	11,339
2022	9,637
Total	$ 62,644

Goodwill and other intangible assets are tested annually for impairment, and more frequently if events or changes in circumstances indicate the carrying value may not be recoverable. We completed this test in 2017 and 2016 and determined that our intangible assets are not impaired.

NOTE 11. DEPOSITS

Following is a summary of deposits:

December 31 (in thousands)	2017	2016
Non-interest-bearing demand	**$ 5,720,030**	$ 4,205,337
Interest-bearing demand	**9,571,038**	6,931,381
Savings	**2,488,178**	2,352,434
Certificates and other time deposits:		
Less than $100,000	**2,461,014**	1,680,068
$100,000 through $250,000	**1,326,562**	642,509
Greater than $250,000	**832,903**	253,918
Total deposits	**$ 22,399,725**	$ 16,065,647

Following is a summary of the scheduled maturities of certificates and other time deposits for the years following December 31, 2017:

(in thousands)	
2018	$ 2,778,467
2019	1,026,222
2020	351,431
2021	194,678
2022	118,891
Later years	150,790
Total	$ 4,620,479

NOTE 12. SHORT-TERM BORROWINGS

Following is a summary of short-term borrowings:

December 31 (in thousands)	2017	2016
Securities sold under repurchase agreements	**$ 256,017**	$ 313,062
Federal Home Loan Bank advances	**2,285,000**	1,025,000
Federal funds purchased	**1,000,000**	1,037,000
Subordinated notes	**137,320**	127,948
Total short-term borrowings	**$ 3,678,337**	$ 2,503,010

Borrowings with original maturities of one year or less are classified as short-term. Securities sold under repurchase agreements are 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.

The following represents weighted average interest rates on short-term borrowings:

December 31	2017	2016	2015
Year-to-date average	**1.16%**	0.61%	0.42%
Period-end	**1.44%**	0.69%	0.48%

NOTE 13. LONG-TERM BORROWINGS

Following is a summary of long-term borrowings:

December 31 (in thousands)	2017	2016
Federal Home Loan Bank advances	**$ 310,061**	$ 305,110
Subordinated notes	**87,614**	87,147
Junior subordinated debt	**110,347**	48,600
Other subordinated debt	**160,151**	98,637
Total long-term borrowings	**$ 668,173**	$ 539,494

Scheduled annual maturities for the long-term borrowings for the years following December 31, 2017 are as follows:

(in thousands)	
2018	$ 69,684
2019	151,558
2020	105,610
2021	52,189
2022	6,072
Later years	283,060
Total	$ 668,173

Federal Home Loan Bank advances

Our banking affiliate has available credit with the FHLB of $7.9 billion of which $2.6 billion was utilized as of December 31, 2017. 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 1.11% to 4.19% for the year ended December 31, 2017 and 0.95% to 4.19% for the year ended December 31, 2016.

Subordinated notes

Subordinated notes are unsecured and subordinated to our other indebtedness. The subordinated notes mature in various amounts periodically through the year 2027. At December 31, 2017, all of the subordinated notes are redeemable by the holders prior to maturity at a discount equal to three to 12 months of interest, depending on the term of the note. We may require the holder to give 30 days prior written notice. No sinking fund is required and none has been established to retire the notes. The weighted average interest rate on the subordinated notes are presented in the following table:

December 31	2017	2016	2015
Subordinated notes weighted average interest rate	**2.85%**	2.71%	2.73%

Junior subordinated debt

The junior subordinated debt is comprised of the debt securities issued by FNB in relation to our six unconsolidated subsidiary trusts (collectively, the Trusts), which are unconsolidated variable interest entities. One hundred percent of the common equity of each Trust is owned by FNB. The Trusts were formed for the purpose of issuing FNB-obligated mandatorily redeemable capital securities, or trust preferred securities (TPS) to third-party investors. The proceeds from the sale of TPS and the issuance of common equity by the Trusts were invested in junior subordinated debt securities issued by FNB, which are the sole assets of each Trust. Since third-party investors are the primary beneficiaries, the Trusts are not consolidated in our financial statements. The Trusts pay dividends on the TPS at the same rate as the distributions paid by us on the junior subordinated debt held by the Trusts. F.N.B. Statutory Trust II was formed by us, and the other five statutory trusts were assumed through acquisitions. The acquired statutory trusts were adjusted to fair value in conjunction with the various acquisitions. During 2016, we redeemed $10.0 million of the TPS issued by Omega Financial Capital Trust I.

We record the distributions on the junior subordinated debt issued to the Trusts as interest expense. The TPS are subject to mandatory redemption, in whole or in part, upon repayment of the junior subordinated debt. The TPS are eligible for redemption, at any time, at our discretion. Under capital guidelines, effective January 1, 2016, the junior subordinated debt, net of our investments in the Trusts, is included in tier 2 capital. We have 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 December 31, 2017:

(dollars in thousands)	Trust Preferred Securities	Common Securities	Junior Subordinated Debt	Stated Maturity Date	Interest Rate	Rate Reset Factor
F.N.B. Statutory Trust II	$ 21,500	$ 665	$ 22,165	6/15/2036	3.24%	LIBOR + 165 basis points (bps)
Omega Financial Capital Trust I	26,000	1,114	26,473	10/18/2034	3.54%	LIBOR + 219 bps
Yadkin Valley Statutory Trust I	25,000	774	20,863	12/15/2037	2.91%	LIBOR + 132 bps
FNB Financial Services Capital Trust I	25,000	774	21,804	9/30/2035	2.80%	LIBOR + 146 bps
American Community Capital Trust II	10,000	310	10,448	12/15/2033	4.14%	LIBOR + 280 bps
Crescent Financial Capital Trust I	8,000	248	8,594	10/7/2033	4.46%	LIBOR + 310 bps
Total	$ 115,500	$ 3,885	$ 110,347			

Other subordinated debt

Subordinated Debt Due 2025. In an October 2015 debt offering, we issued $100.0 million aggregate principal amount of 4.875% subordinated notes due in October 2025. The net proceeds of the debt offering after deducting underwriting discounts and commissions and offering costs were $98.4 million, and as of December 31, 2017, the carrying value was $98.8 million. These subordinated notes are eligible for treatment as tier 2 capital for regulatory capital purposes.

Subordinated Debt Due 2024. In conjunction with the YDKN acquisition, we assumed $15.5 million aggregate principal amount of 7.25% subordinated notes due in March 2024. These subordinated notes, which are eligible for treatment as tier 2 capital for regulatory capital purposes, were adjusted to fair value at the time of acquisition, and as of December 31, 2017, the carrying value was $16.8 million.

Subordinated Debt Due 2023. In conjunction with the YDKN acquisition, we assumed $38.1 million aggregate principal amount of 7.625% subordinated notes due in August 2023. These subordinated notes, which are eligible for treatment as tier 2 capital for regulatory capital purposes, were adjusted to fair value at the time of acquisition, and as of December 31, 2017, the carrying value was $44.5 million.

Additionally, on May 1, 2017, we repaid $7.5 million in other subordinated debt that we acquired from YDKN.

NOTE 14. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

We are exposed to certain risks arising from both our business operations and economic conditions. We principally manage our exposures to a wide variety of business and operational risks through management of our core business activities. We manage economic risks, including interest rate risk, primarily by managing the amount, source, and duration of our 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. We also use derivative instruments to facilitate transactions on behalf of our customers.

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

The following table presents notional amounts and gross fair values of our derivative assets and derivative liabilities which are not offset in the balance sheet.

December 31	**2017**			**2016**		
	Notional	**Fair Value**		**Notional**	**Fair Value**	
(in thousands)	**Amount**	**Asset**	**Liability**	**Amount**	**Asset**	**Liability**
Gross Derivatives						
Subject to master netting arrangements:						
Interest rate contracts – designated	**$ 705,000**	**$ 228**	**$ 1,982**	$ 450,000	$ 9,256	$ 1,171
Interest rate swaps – not designated	**2,245,442**	**1,169**	**11,599**	1,689,157	12,720	34,046
Equity contracts – not designated	**1,180**	**51**	**—**	1,180	61	—
Total subject to master netting arrangements	**2,951,622**	**1,448**	**13,581**	2,140,337	22,037	35,217
Not subject to master netting arrangements:						
Interest rate swaps – not designated	**2,245,442**	**27,233**	**15,303**	1,689,157	32,170	11,866
Interest rate lock commitments – not designated	**88,107**	**1,594**	**5**	—	—	—
Forward delivery commitments – not designated	**106,572**	**233**	**148**	—	—	—
Credit risk contracts – not designated	**235,196**	**39**	**109**	174,538	13	123
Equity contracts – not designated	**1,180**	**—**	**51**	1,180	—	61
Total not subject to master netting arrangements	**2,676,497**	**29,099**	**15,616**	1,864,875	32,183	12,050
Total	**$ 5,628,119**	**$ 30,547**	**$ 29,197**	$ 4,005,212	$ 54,220	$ 47,267

On January 3, 2017, the Chicago Mercantile Exchange (CME) enacted a rule change which in effect results in the legal characterization of variation margin payments for certain derivative contracts as settlement of the derivatives mark-to-market exposure and not collateral. This rule change became effective for us in the first quarter of 2017. Accordingly, we have changed our reporting of certain derivatives to record variation margin on trades cleared through CME as settled where we had previously recorded cash collateral. The daily settlement of the derivative exposure does not change or reset the contractual terms of the instrument.

Derivatives Designated as Hedging Instruments under GAAP

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

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

December 31	**2017**	**2016**
(in thousands)		
Notional amount	**$ 705,000**	$ 450,000
Fair value included in other assets	**228**	9,256
Fair value included in other liabilities	**1,982**	1,171

The following table shows amounts reclassified from accumulated other comprehensive income (AOCI):

December 31	**2017**		**2016**	
(in thousands)	**Total**	**Net of Tax**	**Total**	**Net of Tax**
Reclassified from AOCI to interest income	**$ 1,446**	**$ 940**	$ 2,659	$ 1,728
Reclassified from AOCI to interest expense	**1,374**	**893**	703	457

As of December 31, 2017, the maximum length of time over which forecasted interest cash flows are hedged is six years. In the twelve months that follow December 31, 2017, we expect to reclassify from the amount currently reported in AOCI net derivative gains of $1.4 million ($0.9 million net of tax), in association with interest on the hedged loans and FHLB advances. This amount could differ from amounts actually recognized due to changes in interest rates, hedge de-designations, and the addition of other hedges subsequent to December 31, 2017.

There were no components of derivative gains or losses excluded from the assessment of hedge effectiveness related to these cash flow hedges. For the years ended December 31, 2017 and 2016, there was no hedge ineffectiveness. Also, during the years ended December 31, 2017 and 2016, 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. We enter 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.

We enter into positions with a derivative counterparty in order to offset our exposure on the fixed components of the customer interest rate swap agreements. We seek 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 our counterparty.

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

December 31	**2017**	**2016**
(in thousands)		
Notional amount	**$ 4,490,884**	$ 3,378,314
Fair value included in other assets	**28,402**	44,890
Fair value included in other liabilities	**26,902**	45,912

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

Interest Rate Lock Commitments. Interest rate lock commitments (IRLCs) represent an agreement to extend credit to a mortgage loan borrower, or an agreement to purchase a loan from a third-party originator, whereby the interest rate on the loan is set prior to funding. We are bound to fund the loan at a specified rate, regardless of whether interest rates have changed between the commitment date and the loan funding date, subject to the loan approval process. The borrower is not obligated to perform under the commitment. As such, outstanding IRLCs subject us to interest rate risk and related price risk during the period from the commitment to the borrower through the loan funding date, or commitment expiration. The IRLCs generally range between 30 to 90 days. The IRLCs are reported at fair value in other assets and other liabilities on the consolidated balance sheets with any resulting gain or loss recorded in current period earnings as mortgage banking operations income.

Forward Delivery Commitments. Forward delivery commitments on mortgage-backed securities are used to manage the interest rate and price risk of our IRLCs and mortgage loan held for sale inventory by fixing the forward sale price that will be realized upon sale of the mortgage loans into the secondary market. Historical commitment-to-closing ratios are considered to estimate the quantity of mortgage loans that will fund within the terms of the IRLCs. The forward delivery contracts are reported at fair value in other assets and other liabilities on the consolidated balance sheets with any resulting gain or loss recorded in current period earnings as mortgage banking operations income.

Credit Risk Contracts. We purchase and sell 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. We will make/receive payments under these agreements if a customer defaults on our obligation to perform under certain derivative swap contracts.

Risk participation agreements sold with notional amounts totaling $154.2 million as of December 31, 2017 have remaining terms ranging from six months to nine years. Under these agreements, our maximum exposure assuming a customer defaults on their obligation to perform under certain derivative swap contracts with third parties would be $108,000 and $123,000 at December 31, 2017 and 2016. The fair values of risk participation agreements purchased and sold were $39,000 and $(108,000), respectively, at December 31, 2017 and $13,000 and $(123,000), respectively at December 31, 2016.

Counterparty Credit Risk

We are party to master netting arrangements with most of our swap derivative counterparties. Collateral, usually marketable securities and/or cash, is exchanged between FNB and our counterparties, and is generally subject to thresholds and transfer minimums. For swap transactions that require central clearing, we post cash to our clearing agency. Collateral positions are valued daily, and adjustments to amounts received and pledged by us 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 we had breached our agreements with our derivative counterparties we would be required to settle our obligations under the agreements at the termination value and would be required to pay an additional $0.9 million and $1.1 million as of December 31, 2017 and 2016, respectively, in excess of amounts previously posted as collateral with the respective counterparty.

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

(in thousands)	Net Amount Presented in the Balance Sheet	Amount Not Offset in the Balance Sheet: Financial Instruments	Amount Not Offset in the Balance Sheet: Cash Collateral	Net Amount
December 31, 2017				
Derivative Assets				
Interest rate contracts:				
Designated	**$ 228**	**$ 228**	**$ —**	**$ —**
Not designated	**1,169**	**1,169**	**—**	**—**
Equity contracts – not designated	**51**	**51**	**—**	**—**
Total	**$ 1,448**	**$ 1,448**	**$ —**	**$ —**
Derivative Liabilities				
Interest rate contracts:				
Designated	**$ 1,982**	**$ 1,982**	**$ —**	**$ —**
Not designated	**11,599**	**10,940**	**—**	**659**
Total	**$ 13,581**	**$ 12,922**	**$ —**	**$ 659**
December 31, 2016				
Derivative Assets				
Interest rate contracts:				
Designated	$ 9,256	$ 843	$ 8,413	$ —
Not designated	12,720	474	12,132	114
Equity contracts – not designated	61	61	—	—
Total	$ 22,037	$ 1,378	$ 20,545	$ 114
Derivative Liabilities				
Interest rate contracts:				
Designated	$ 1,171	$ 1,171	$ —	$ —
Not designated	34,046	15,490	17,651	905
Total	$ 35,217	$ 16,661	$ 17,651	$ 905

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

(in thousands)	Income Statement Location	Year Ended December 31, 2017	Year Ended December 31, 2016
Interest Rate Contracts	Interest income – loans and leases	**$ 1,446**	$ 2,659
Interest Rate Contracts	Interest expense – short-term borrowings	**1,374**	703
Interest Rate Swaps	Other income	**(592)**	(529)
Credit Risk Contracts	Other income	**40**	16

NOTE 15. COMMITMENTS, CREDIT RISK AND CONTINGENCIES

We have commitments to extend credit and standby letters of credit that involve certain elements of credit risk in excess of the amount stated in the consolidated balance sheets. Our 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 commitments to extend credit 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:

December 31	**2017**	**2016**
(in thousands)		
Commitments to extend credit	**$ 6,957,822**	$ 4,486,164
Standby letters of credit	**132,904**	117,732

At December 31, 2017, funding of 76.8% of the commitments to extend credit was dependent on the financial condition of the customer. We have the ability to withdraw such commitments at our 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 us that may require payment at a future date. The credit risk involved in issuing letters of credit is actively monitored through review of the historical performance of our portfolios.

In addition to the above commitments, subordinated notes issued by FNB Financial Services, LP, a wholly-owned finance subsidiary, are fully and unconditionally guaranteed by FNB. These subordinated notes are included in the summaries of short-term borrowings and long-term borrowings in Notes 12 and 13.

Other Legal Proceedings

In the ordinary course of business, we are routinely named as defendants in, or made parties to, pending and potential legal actions. Also, as regulated entities, we are subject to governmental and regulatory examinations, information-gathering requests, and may be subject to investigations and proceedings (both formal and informal). Such threatened claims, litigation, investigations, regulatory and administrative proceedings typically entail matters that are considered incidental to the normal conduct of business. Claims for significant monetary damages may be asserted in many of these types of legal actions, while claims for disgorgement, restitution, penalties and/or other remedial actions or sanctions may be sought in regulatory matters. In these instances, if we determine that we have meritorious defenses, we will engage in an aggressive defense. However, if management determines, in consultation with counsel, that settlement of a matter is in the best interest of our Company and our shareholders, we may do so. It is inherently difficult to predict the eventual outcomes of such matters given their complexity and the particular facts and circumstances at issue in each of these matters. However, on the basis of current knowledge and understanding, and advice of counsel, we do not believe that judgments, sanctions, settlements or orders, if any, that may arise from these matters (either individually or in the aggregate, after giving effect to applicable reserves and insurance coverage) will have a material adverse effect on our financial position or liquidity, although they could have a material effect on net income in a given period.

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

NOTE 16. STOCK INCENTIVE PLANS

Restricted Stock

We issue restricted stock awards, consisting of both restricted stock and restricted stock units, to key employees under our Incentive Compensation Plan (Plan). We issue time-based awards and performance-based awards under this Plan, 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 our common stock on the grant date. The fair value of the performance-based awards is based on a Monte-Carlo Simulation valuation of our common stock as of the grant date. The assumptions used for this valuation include stock price volatility, risk-free interest rate and dividend yield.

We issued 251,379 and 277,174 performance-based restricted stock units in 2017 and 2016, respectively. For performance-based restricted stock awards granted, the recipients will earn shares, totaling between 0% and 175% of the number of units issued, based on our total stockholder return relative to a specified peer group of financial institutions over the three-year period. These market-based restricted stock units are included in the table below as if the recipients earned shares equal to 100% of the units issued.

The following table details our issuance of restricted stock awards and the aggregate weighted average grant date fair values under these plans for the years indicated. As of December 31, 2017, we had available up to 2,642,020 shares of common stock to issue under this Plan.

(dollars in thousands)	2017	2016	2015
Restricted stock awards	**713,998**	574,125	664,337
Weighted average grant date fair values	**$ 10,474**	$ 7,383	$ 8,802

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.

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

	2017		2016		2015	
	Awards	Weighted Average Grant Price per Share	Awards	Weighted Average Grant Price per Share	Awards	Weighted Average Grant Price per Share
Unvested awards outstanding at beginning of year	**1,836,363**	**$ 12.97**	1,548,444	$ 12.85	1,354,093	$ 11.86
Granted	**713,998**	**14.67**	574,125	12.86	664,337	13.25
Net adjustment due to performance	**(64,861)**	**13.85**	72,070	11.79	13,115	19.74
Vested	**(542,580)**	**12.71**	(384,704)	12.11	(484,010)	10.70
Forfeited/expired	**(31,018)**	**14.03**	(31,394)	13.02	(41,130)	13.24
Dividend reinvestment	**63,960**	**13.80**	57,822	13.08	42,039	11.86
Unvested awards outstanding at end of year	**1,975,862**	**13.64**	1,836,363	12.97	1,548,444	12.85

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

Year Ended December 31	**2017**	**2016**	**2015**
(in thousands)			
Stock-based compensation expense	**$ 8,201**	$ 7,066	$ 4,461
Tax benefit related to stock-based compensation expense	**2,870**	2,473	1,561
Fair value of awards vested	**8,106**	4,587	6,070

As of December 31, 2017, there was $12.1 million of unrecognized compensation cost related to unvested restricted stock awards including $0.7 million that is subject to accelerated vesting under the Plan's immediate vesting upon retirement provision for awards granted prior to the adoption of ASC 718, *Compensation - Stock Compensation*. The components of the restricted stock awards as of December 31, 2017 are as follows:

(dollars in thousands)	**Service-Based Awards**	**Performance-Based Awards**	**Total**
Unvested restricted stock awards	1,062,902	912,960	1,975,862
Unrecognized compensation expense	$ 7,037	$ 5,062	$ 12,099
Intrinsic value	$ 14,689	$ 12,617	$ 27,306
Weighted average remaining life (in years)	1.93	1.72	1.83

Stock Options

All outstanding stock options were assumed from acquisitions and are fully vested. Upon consummation of our acquisitions, all outstanding stock options issued by the acquired companies were converted into equivalent FNB stock options. We issue shares of treasury stock or authorized but unissued shares to satisfy stock options exercised.

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

	2017	**Weighted Average Exercise Price per Share**	**2016**	**Weighted Average Exercise Price per Share**	**2015**	**Weighted Average Exercise Price per Share**
Options outstanding at beginning of year	**892,532**	**$ 8.95**	435,340	$ 8.86	568,834	$ 8.86
Assumed from acquisitions	**207,645**	**8.92**	1,707,036	7.83	—	—
Exercised	**(255,503)**	**10.21**	(1,128,075)	7.18	(93,822)	5.94
Forfeited/expired	**(122,024)**	**12.12**	(121,769)	9.33	(39,672)	15.66
Options outstanding and exercisable at end of year	**722,650**	**7.96**	892,532	8.95	435,340	8.86

The following table summarizes information about stock options outstanding at December 31, 2017:

Range of Exercise Prices	**Options Outstanding and Exercisable**	**Weighted Average Remaining Contractual Years**	**Weighted Average Exercise Price**
$3.45 - $5.18	162,224	3.07	$ 4.87
$5.19 - $7.78	118,707	3.31	6.84
$7.79 - $11.68	432,260	3.80	9.33
$11.69 - $14.53	9,459	0.69	12.48
	722,650		

The intrinsic value of outstanding and exercisable stock options at December 31, 2017 was $4.4 million. The aggregate intrinsic value represents the amount by which the fair value of underlying stock exceeds the "in-the-money" option exercise price.

The following table summarizes certain information relating to stock options exercised:

Year Ended December 31		**2017**		**2016**		**2015**
(in thousands)						
Proceeds from stock options exercised	**$**	**2,340**	$	7,816	$	557
Tax benefit recognized from stock options exercised		**385**		1,862		130
Intrinsic value of stock options exercised		**1,001**		6,577		693

Warrants

In conjunction with our participation in the UST's CPP, we issued to the UST a warrant to purchase up to 1,302,083 shares of our 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 we 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 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 our common stock at an exercise price of $3.57 per share. Subsequent adjustments related to actual dividends paid by us have increased the share amount of these warrants to 402,287, with a resulting lower exercise price of $3.04 per share as of December 31, 2017. The warrant, which was recorded at its fair value on April 6, 2013, was sold at auction by the UST and expires in 2019.

In conjunction with the YDKN acquisition on March 11, 2017, the warrant issued by YDKN to the UST under the CPP has been converted into a warrant to purchase up to 207,320 shares of our common stock at an exercise price of $9.63 per share. Subsequent adjustments related to actual dividends paid by us have increased the share amount of these warrants to 210,135, with a resulting lower exercise price of $9.50 per share as of December 31, 2017. The warrant, which was recorded at its fair value on March 11, 2017, was sold at auction by the UST and expires in 2019.

NOTE 17. RETIREMENT PLANS

We sponsor 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. Our 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.

We also sponsor 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 benefit under the BRP is a monthly benefit equal to the participant's aggregate target benefit percentage multiplied by the participant's highest average monthly cash compensation, including bonuses, during five consecutive calendar years within the last ten calendar years of employment before 2009. This monthly benefit is reduced by the monthly benefit the participant receives from the Social Security Administration, the RIP, the ERISA Excess Retirement Plan and the annuity equivalent of the automatic contributions paid to participants under 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.

The following tables provide information relating to the accumulated benefit obligation, change in benefit obligation, change in plan assets, the plans' funded status and the amount included in the consolidated balance sheets for the qualified and non-qualified plans described above (collectively, the Plans):

December 31 (in thousands)	**2017**	2016
Accumulated benefit obligation	**$ 181,412**	$ 152,586
Projected benefit obligation at beginning of year	**$ 152,916**	$ 151,015
Acquisition	**29,613**	—
Service cost	**(13)**	(15)
Interest cost	**6,846**	6,129
Actuarial loss	**9,061**	3,723
Benefits paid	**(9,728)**	(7,936)
Settlement	**(7,158)**	—
Projected benefit obligation at end of year	**$ 181,537**	$ 152,916
Fair value of plan assets at beginning of year	**$ 136,958**	$ 132,762
Acquisition	**24,961**	—
Actual return on plan assets	**17,327**	10,787
Corporation contribution	**1,345**	1,345
Benefits paid	**(9,728)**	(7,936)
Settlement	**(7,158)**	—
Fair value of plan assets at end of year	**$ 163,705**	$ 136,958
Funded status of plans	**$ (17,832)**	$ (15,958)

The unrecognized actuarial loss, prior service cost and net transition obligation are required to be recognized into earnings over the average remaining participant life due to the freezing of the RIP, which may, on a net basis reduce future earnings.

Actuarial assumptions used in the determination of the projected benefit obligation in the Plans are as follows:

Assumptions at December 31	**2017**	**2016**
Weighted average discount rate	**3.53%**	3.96%
Rates of average increase in compensation levels	**3.50**	3.50

The discount rate assumption at December 31, 2017 and 2016 was determined using a yield-curve based approach. A yield curve was produced for a universe containing the majority of U.S.-issued Aa-graded corporate bonds, all of which were non-callable (or callable with make-whole provisions), and after excluding the 10% of the bonds with the highest and lowest yields. The discount rate was developed as the level equivalent rate that would produce the same present value as that using spot rates aligned with the projected benefit payments.

The net periodic pension cost and other comprehensive income for the Plans included the following components:

Year Ended December 31	2017	2016	2015
(in thousands)			
Service cost	**$ (13)**	$ (15)	$ (14)
Interest cost	**6,846**	6,129	5,897
Expected return on plan assets	**(11,121)**	(9,413)	(9,964)
Transition amount amortization	**—**	—	—
Prior service credit amortization	**7**	7	7
Actuarial loss amortization	**2,461**	2,383	2,112
Net periodic pension income	**(1,820)**	(909)	(1,962)
Settlement charge	**168**	—	—
Total pension income	**(1,652)**	(909)	(1,962)
Other changes in plan assets and benefit obligations recognized in other comprehensive income:			
Current year actuarial loss	**2,855**	2,349	6,914
Amortization of actuarial loss	**(2,461)**	(2,383)	(2,112)
Amortization of prior service credit	**(7)**	(7)	(7)
Amortization of transition asset	**—**	—	—
Total amount recognized in other comprehensive income	**387**	(41)	4,795
Total amount recognized in net periodic benefit cost and other comprehensive income	**$ (1,265)**	$ (950)	$ 2,833

The plans have an actuarial measurement date of December 31. Actuarial assumptions used in the determination of the net periodic pension cost in the Plans are as follows:

Assumptions for the Year Ended December 31	2017	2016	2015
Weighted average discount rate	**3.96%**	4.19%	3.85%
Rates of increase in compensation levels	**3.50**	3.50	3.50
Expected long-term rate of return on assets	**7.25**	7.25	7.25

The expected long-term rate of return on plan assets has been established by considering historical and anticipated expected returns on the asset classes invested in by the pension trust and the allocation strategy currently in place among those classes.

The change in plan assets reflects benefits paid from the qualified pension plans of $8.4 million and $6.6 million for 2017 and 2016, respectively. The employer did not make any contributions to the qualified pension plans during 2017 or 2016. For the non-qualified pension plans, the change in plan assets reflects benefits paid from and contributions made to the plans in the same amount. This amount represents the actual benefit payments paid from general assets of $1.3 million for 2017 and $1.3 million for 2016.

As of December 31, 2017 and 2016, the projected benefit obligation, accumulated benefit obligation and fair value of plan assets for the qualified and non-qualified pension plans were as follows:

(in thousands)	Qualified Pension Plans		Non-Qualified Pension Plans	
December 31	2017	2016	2017	2016
Projected benefit obligation	**$ 161,632**	$ 132,902	**$ 19,905**	$ 20,014
Accumulated benefit obligation	**161,632**	132,902	**19,780**	19,684
Fair value of plan assets	**163,705**	136,958	**—**	—

The impact of changes in the discount rate and expected long-term rate of return on plan assets would have had the following effects on 2017 pension expense:

(in thousands)	Estimated Effect on Pension Expense
0.5% decrease in the discount rate	$ (97)
0.5% decrease in the expected long-term rate of return on plan assets	767

The following table provides information regarding estimated future cash flows relating to the Plans at December 31, 2017 (in thousands):

Expected employer contributions:	2018	$ 1,424
Expected benefit payments:	2018	9,474
	2019	9,957
	2020	10,227
	2021	10,390
	2022	10,501
	2023 – 2027	53,902

The qualified pension plan contributions are deposited into a trust and the qualified benefit payments are made from trust assets. For the non-qualified plans, the contributions and the benefit payments are the same and reflect expected benefit amounts, which we pay from general assets.

Our 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, we match 100% of the first six percent that the employee defers. Additionally, we may provide a performance-based company contribution of up to three percent if we exceed annual financial goals. Our contribution expense is presented in the following table:

Year Ended December 31	**2017**	**2016**	**2015**
(in thousands)			
401(k) contribution expense	**$ 12,286**	$ 9,069	$ 8,055

We also sponsor 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.

Pension Plan Investment Policy and Strategy

Our investment strategy for the RIP is to diversify plan assets between a wide mix of equity and debt securities in an effort to allow the plan the opportunity to meet the plan's expected long-term rate of return requirements while minimizing short-term volatility. In this regard, the plan has targeted allocations within the equity securities category for domestic large cap, domestic mid cap, domestic small cap, real estate investment trusts, emerging market and international securities. Within the debt securities category, the plan has targeted allocation levels for U.S. Treasury, U.S. agency, domestic investment-grade bonds, high-yield bonds, inflation-protected securities and international bonds.

The following table presents asset allocations for our pension plans as of December 31, 2017 and 2016, and the target allocation for 2018, by asset category:

	Target Allocation	Percentage of Plan Assets	
December 31	**2018**	**2017**	**2016**
Asset Category			
Equity securities	45 - 65	64%	61%
Debt securities	30 - 50	33	35
Cash equivalents	0 - 10	3	4

At December 31, 2017 and 2016, equity securities included 575,128 shares of our common stock, representing 4.9% and 6.7% of total plan assets at December 31, 2017 and 2016, respectively. Dividends received on our common stock held by the Plan were $276,000 for both 2017 and 2016.

The fair values of our pension plan assets by asset category are as follows:

(in thousands)	Level 1	Level 2	Level 3	Total
December 31, 2017				
Asset Class				
Cash	$ **5,613**	$ **—**	$ **—**	$ **5,613**
Equity securities:				
F.N.B. Corporation	**7,948**	**—**	**—**	**7,948**
Other large-cap U.S. financial services companies	**4,269**	**—**	**—**	**4,269**
Other large-cap U.S. companies	**45,583**	**—**	**—**	**45,583**
International companies	**576**	**—**	**—**	**576**
Other equity	**726**	**—**	**—**	**726**
Mutual fund equity investments:				
U.S. equity index funds:				
U.S. large-cap equity index funds	**3,489**	**—**	**—**	**3,489**
U.S. small-cap equity index funds	**3,983**	**—**	**—**	**3,983**
U.S. mid-cap equity index funds	**4,836**	**—**	**—**	**4,836**
Non-U.S. equities growth fund	**13,965**	**—**	**—**	**13,965**
U.S. equity funds:				
U.S. mid-cap	**9,413**	**—**	**—**	**9,413**
U.S. small-cap	**3,165**	**—**	**—**	**3,165**
Other	**5,681**	**—**	**—**	**5,681**
Fixed income securities:				
U.S. Treasury bonds	**—**	**121**	**—**	**121**
U.S. government agencies	**—**	**37,671**	**—**	**37,671**
Corporate bonds	**—**	**5,532**	**—**	**5,532**
Fixed income mutual funds:				
U.S. investment-grade fixed income securities	**11,134**	**—**	**—**	**11,134**
Non-U.S. fixed income securities	**—**	**—**	**—**	**—**
Total	$ **120,381**	$ **43,324**	$ **—**	$ **163,705**

(in thousands)	Level 1	Level 2	Level 3	Total
December 31, 2016				
Asset Class				
Cash	$ 5,125	$ —	$ —	$ 5,125
Equity securities:				
F.N.B. Corporation	9,219	—	—	9,219
Other large-cap U.S. financial services companies	2,999	—	—	2,999
Other large-cap U.S. companies	36,570	—	—	36,570
International companies	718	—	—	718
Other equity	596	—	—	596
Mutual fund equity investments:				
U.S. equity index funds:				
U.S. large-cap equity index funds	559	—	—	559
U.S. small-cap equity index funds	3,035	—	—	3,035
U.S. mid-cap equity index funds	3,795	—	—	3,795
Non-U.S. equities growth fund	9,555	—	—	9,555
U.S. equity funds:				
U.S. mid-cap	7,615	—	—	7,615
U.S. small-cap	3,173	—	—	3,173
Other	5,928	—	—	5,928
Fixed income securities:				
U.S. government agencies	—	36,891	—	36,891
Fixed income mutual funds:				
U.S. investment-grade fixed income securities	10,766	—	—	10,766
Non-U.S. fixed income securities	414	—	—	414
Total	$ 100,067	$ 36,891	$ —	$ 136,958

The classifications for Level 1, Level 2 and Level 3 are discussed in Note 24, “Fair Value Measurements.”

NOTE 18. INCOME TAXES

The TCJA includes several changes to existing U.S. tax laws that impact us, most notably a reduction of the U.S. corporate income tax rate from 35% to 21%, which became effective January 1, 2018. We recognized the initial income tax effects of the TCJA in our 2017 financial statements in accordance with Staff Accounting Bulletin No. 118, which provides SEC staff guidance for the application of ASC 740, Income Taxes, in the reporting period in which the TCJA was signed into law. As such, our financial results reflect the income tax effects of the TCJA for which the accounting under ASC 740 is complete, as well as for provisional amounts for those specific income tax effects under ASC 740 that are incomplete, but a reasonable estimate could be determined. We did not identify any items for which the income tax effects of the TCJA have not been completed and a reasonable estimate could not be determined as of December 31, 2017.

As of December 31, 2017, we recorded provisional charges related to the remeasurement of the deferred tax assets and liabilities due to the reduction in the corporate tax rate. Examples of unavailable or unanalyzed information for which we have provisional estimates include deferred taxes related to depreciation (including lease financing), partnership earnings, and realized built-in losses from a prior acquisition. These estimates are subject to change as additional data is gathered, as interpretations and guidance are received, and as the final analyses are completed. The measurement period ends when we have analyzed the information necessary to finalize our accounting, but cannot extend beyond one year.

The effects of changes in tax rates on deferred tax balances are applicable even in situations in which the related income tax effects of such items were originally recognized in other comprehensive income. This results in stranded tax effects for items that were recorded in AOCI rather than in income from continuing operations. In the fourth quarter of 2017, we elected to change our accounting policy to reclassify the income tax effects related to the TCJA of approximately $14.7 million from AOCI to retained earnings. This change in accounting policy results in the appropriate tax rate being recognized in AOCI for debt and equity investments, certain derivative transactions, and pension and other post-retirement benefit plans.

Income Tax Expense

Federal and state income tax expense consist of the following:

Year Ended December 31	2017	2016	2015
(in thousands)			
Current income taxes:			
Federal taxes	**$ 26,336**	$ 57,894	$ 69,572
State taxes	**1,746**	2,329	989
Total current income taxes	**28,082**	60,223	70,561
Deferred income taxes:			
Federal taxes	**128,204**	14,983	63
State taxes	**779**	291	(631)
Total deferred income taxes	**128,983**	15,274	(568)
Total income taxes	**$ 157,065**	$ 75,497	$ 69,993

The following table provides a reconciliation between the statutory tax rate and the actual effective tax rate:

Year Ended December 31	2017	2016	2015
Statutory tax rate	**35.0%**	35.0%	35.0%
State taxes, net of federal benefit	**0.5**	0.7	0.8
Valuation allowance reversal	**—**	—	(0.8)
Tax-exempt interest	**(3.3)**	(2.9)	(2.2)
Cash surrender value on BOLI	**(1.1)**	(1.5)	(1.3)
Tax credits	**(2.6)**	(0.9)	(1.1)
Affordable housing cost amortization, net of tax benefits	**0.2**	—	—
Tax Cuts and Jobs Act revaluation of net deferred tax assets	**15.2**	—	—
Other items	**0.2**	0.2	0.1
Actual effective tax rate	**44.1%**	30.6%	30.5%

The effective tax rate for 2017 was 44.1%, as compared to 30.6% in 2016. The higher rate is largely due to $54.0 million of income tax expense recorded from the revaluation of net deferred tax assets in connection the TCJA, partially offset by increased tax credit activity in 2017. The effective tax rates for 2016 and 2015 were lower than the statutory tax rate due to tax benefits resulting from tax-exempt income on investments, loans, tax credits and income from bank-owned life insurance (BOLI).

Income tax expense related to gains on the sale of securities is presented in the following table:

Year Ended December 31	2017	2016	2015
(in thousands)			
Income tax expense related to gains on sale of securities	**$ 2,071**	$ 249	$ 288

Deferred Income Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and tax purposes. Deferred tax assets and liabilities are measured based on the enacted tax rates that will apply in the years in which the temporary differences are expected to be recovered or paid. As such, during December 2017, we remeasured our deferred tax assets and liabilities as a result of the passage of the TCJA. The primary impact of this remeasurement was a reduction in deferred tax assets and liabilities in connection with the reduction of the U.S. corporate income tax rate from 35% to 21%.

The following table presents the tax effects of significant temporary differences that give rise to federal and state deferred tax assets and liabilities:

December 31	**2017**	2016
(in thousands)		
Deferred tax assets:		
Allowance for credit losses	**$ 38,933**	$ 56,090
Discounts on acquired loans	**64,341**	48,978
Net operating loss/tax credit carryforwards	**47,376**	17,753
Deferred compensation	**8,534**	12,236
Securities impairments	**1,092**	—
Pension and other defined benefit plans	**6,768**	7,713
Net unrealized securities losses	**7,238**	6,972
Other	**7,787**	11,264
Total	**182,069**	161,006
Valuation allowance	**(26,620)**	(18,945)
Total deferred tax assets	**155,449**	142,061
Deferred tax liabilities:		
Loan costs	**(7,211)**	(2,222)
Depreciation	**(12,263)**	(12,392)
Prepaid expenses	**(3,669)**	(682)
Amortizable intangibles	**(18,422)**	(18,506)
Lease financing	**(10,035)**	(5,538)
Debt discharge income deferral	**(474)**	(1,361)
Originated mortgage servicing rights	**(6,178)**	(748)
Net unrealized securities gains	**—**	(86)
Other	**(1,647)**	(1,253)
Total deferred tax liabilities	**(59,899)**	(42,788)
Net deferred tax assets	**$ 95,550**	$ 99,273

We establish a valuation allowance when it is more likely than not that we will not be able to realize the benefit of the deferred tax assets or when future deductibility is uncertain. Periodically, the valuation allowance is reviewed and adjusted based on management's assessment of realizable deferred tax assets. As of December 31, 2017, the valuation allowance primarily relates to unused federal and state net operating loss carryforwards expiring from 2018 to 2037. We anticipate that neither the state net operating loss carryforwards nor the other net deferred tax assets at certain of our subsidiaries will be utilized and, as such, has recorded a valuation allowance against the deferred tax assets related to these carryforwards.

As of December 31, 2017, we had approximately $65.5 million of federal net operating loss and built-in loss carryforwards, $5.2 million of federal tax credit carryforwards, and $21.5 million of state net operating loss carryforwards to which we succeeded as a result of the YDKN acquisition. The utilization of these tax attributes is subject to annual limitations under Section 382 of the Internal Revenue Code, or a similar state-level statute, which will cause the utilization of these attributes to be deferred over a number of years, not to exceed beyond 2036. We have determined that we will likely have sufficient taxable income in the years during which these tax attributes are available to be utilized and, consequently, have determined that no valuation allowance against the recorded deferred tax asset is warranted.

Unrecognized Tax Benefits

A reconciliation of the beginning and ending amount of unrecognized tax benefits (excluding interest and the federal income tax benefit of unrecognized state tax benefits) is as follows:

Year Ended December 31	**2017**	**2016**
(in thousands)		
Balance at beginning of year	**$ 542**	$ 455
Additions based on tax positions related to current year	**186**	163
Additions based on tax positions of prior year	**—**	—
Reductions for tax positions of prior years	**(5)**	—
Reductions due to expiration of statute of limitations	**(73)**	(76)
Balance at end of year	**$ 650**	$ 542

As of December 31, 2017 and 2016, we have approximately $0.7 million and $0.5 million, respectively, of unrecognized tax benefits, excluding interest and the federal tax benefit of unrecognized state tax benefits. Also, as of December 31, 2017 and 2016, additional unrecognized tax benefits relating to accrued interest, net of the related federal tax benefit, amounted to $25,000 and $19,000, respectively. As of December 31, 2017, $0.5 million of these tax benefits would affect the effective tax rate if recognized. We recognize potential accrued interest and penalties related to unrecognized tax benefits in income tax expense. To the extent interest is not assessed with respect to uncertain tax positions, amounts accrued will be reduced and reflected as a reduction of the overall income tax provision.

We file numerous income tax returns in the U.S. federal jurisdiction and in several state jurisdictions. We are no longer subject to U.S. federal income tax examinations for years prior to 2014. With limited exception, we are no longer subject to state income tax examinations for years prior to 2014. We anticipate that a reduction in the unrecognized tax benefit of up to $81 thousand may occur in the next twelve months from the expiration of statutes of limitations which would result in a reduction in income taxes.

NOTE 19. OTHER COMPREHENSIVE INCOME

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

(in thousands)	**Unrealized Net Gains (Losses) on Securities Available for Sale**	**Unrealized Net Gains (Losses) on Derivative Instruments**	**Unrecognized Pension and Postretirement Obligations**	**Total**
Year Ended December 31, 2017				
Balance at beginning of period	$ (18,222)	$ 5,254	$ (48,401)	$ (61,369)
Other comprehensive income (loss) before reclassifications	(5,744)	(759)	(7)	(6,510)
Amounts reclassified from AOCI	(411)	(46)	—	(457)
Amounts reclassified from AOCI due to tax reform	(5,249)	958	(10,425)	(14,716)
Net current period other comprehensive income (loss)	(11,404)	153	(10,432)	(21,683)
Balance at end of period	$ (29,626)	$ 5,407	$ (58,833)	$ (83,052)

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

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 income.

NOTE 20. EARNINGS PER COMMON SHARE

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

Year Ended December 31	2017	2016	2015
(dollars in thousands, except per share data)			
Net income	**$ 199,204**	$ 170,891	$ 159,649
Less: Preferred stock dividends	**8,041**	8,041	8,041
Net income available to common stockholders	**$ 191,163**	$ 162,850	$ 151,608
Basic weighted average common shares outstanding	**302,195,295**	206,244,498	174,971,785
Net effect of dilutive stock options, warrants and restricted stock	**1,662,681**	1,524,111	1,367,168
Diluted weighted average common shares outstanding	**303,857,976**	207,768,609	176,338,953
Earnings per common share:			
Basic	**$ 0.63**	$ 0.79	$ 0.87
Diluted	**$ 0.63**	$ 0.78	$ 0.86

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

Year Ended December 31	2017	2016	2015
Average shares excluded from the diluted earnings per common share calculation	**910**	9,980	18,167

NOTE 21. REGULATORY MATTERS

FNB and FNBPA are subject to various regulatory capital requirements administered by the federal banking agencies. Quantitative measures established by regulators to ensure capital adequacy require FNB 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 could lead to initiation of certain mandatory, and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on our consolidated financial statements, dividends and future merger and acquisition activity. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, FNB 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. FNB's and FNBPA's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

As of December 31, 2017, the most recent notification from the federal banking agencies categorized FNB and FNBPA as "well-capitalized" under the regulatory framework for prompt corrective action. There are no conditions or events since the notification which management believes have changed this categorization.

Following are the capital ratios for FNB and FNBPA:

(dollars in thousands)	Actual		Well-Capitalized Requirements		Minimum Capital Requirements	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2017						
F.N.B. Corporation:						
Total capital	**$ 2,666,272**	**11.4%**	**$ 2,340,362**	**10.0%**	**$ 2,164,835**	**9.3%**
Tier 1 capital	**2,184,571**	**9.3**	**1,872,290**	**8.0**	**1,696,763**	**7.3**
Common equity tier 1	**2,077,689**	**8.9**	**1,521,235**	**6.5**	**1,345,708**	**5.8**
Leverage	**2,184,571**	**7.6**	**1,440,797**	**5.0**	**1,152,638**	**4.0**
Risk-weighted assets	**23,403,622**					
FNBPA:						
Total capital	**2,504,191**	**10.7**	**2,332,593**	**10.0**	**2,157,649**	**9.3**
Tier 1 capital	**2,332,892**	**10.0**	**1,866,075**	**8.0**	**1,691,130**	**7.3**
Common equity tier 1	**2,252,892**	**9.7**	**1,516,186**	**6.5**	**1,341,241**	**5.8**
Leverage	**2,332,892**	**8.1**	**1,432,604**	**5.0**	**1,146,084**	**4.0**
Risk-weighted assets	**23,325,934**					
As of December 31, 2016						
F.N.B. Corporation:						
Total capital	$ 1,917,386	12.0%	$ 1,597,951	10.0%	$ 1,378,232	8.6%
Tier 1 capital	1,582,251	9.9	1,278,360	8.0	1,058,642	6.6
Common equity tier 1	1,475,369	9.2	1,038,668	6.5	818,950	5.1
Leverage	1,582,251	7.7	1,027,831	5.0	822,265	4.0
Risk-weighted assets	15,979,505					
FNBPA:						
Total capital	1,768,561	11.1	1,588,989	10.0	1,370,503	8.6
Tier 1 capital	1,614,167	10.2	1,271,191	8.0	1,052,705	6.6
Common equity tier 1	1,534,167	9.7	1,032,843	6.5	814,357	5.1
Leverage	1,614,167	7.9	1,019,034	5.0	815,227	4.0
Risk-weighted assets	15,889,893					

In accordance with Basel III standards, the implementation of capital requirements is transitional and phases-in from January 1, 2015 through January 1, 2019. The minimum capital requirements for each period above are based on the requirements that were in effect at that time. Our management believes that FNB and FNBPA will continue to meet all "well-capitalized" requirements after Basel III is completely phased-in.

FNBPA was required to maintain aggregate cash reserves with the FRB amounting to $39.6 million at December 31, 2017. We also maintain deposits for various services such as check clearing. Certain limitations exist under applicable law and regulations by regulatory agencies regarding dividend distributions to a parent by our subsidiaries. As of December 31, 2017, our subsidiaries had $206.8 million of retained earnings available for distribution to us without prior regulatory approval.

Under current FRB regulations, FNBPA is limited in the amount it may lend to non-bank affiliates, including FNB. Such loans must be secured by specified collateral. In addition, any such loans to a non-bank affiliate may not exceed 10% of FNBPA's capital and surplus and the aggregate of loans to all such affiliates may not exceed 20% of FNBPA's capital and surplus. The maximum amount that may be borrowed by FNB affiliates under these provisions was $474.8 million at December 31, 2017.

NOTE 22. CASH FLOW INFORMATION

Following is a summary of supplemental cash flow information:

Year Ended December 31 (in thousands)	2017	2016	2015
Interest paid on deposits and other borrowings	**$ 129,024**	$ 67,296	$ 47,805
Income taxes paid	**52,500**	60,000	61,500
Transfers of loans to other real estate owned	**34,841**	14,592	9,628
Financing of other real estate owned sold	**19**	441	372

Supplemental non-cash information relating to our acquisitions is included in Note 3, "Mergers and Acquisitions."

NOTE 23. BUSINESS SEGMENTS

We operate 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, business credit, capital markets and lease financing. Consumer banking products and services include deposit products, mortgage lending, consumer lending and a complete suite of mobile and online banking services.
- The Wealth Management segment provides a broad range of personal and corporate fiduciary services including the administration of decedent and trust estates. In addition, it offers various alternative products, including securities brokerage and investment advisory services, mutual funds and annuities.
- The Insurance segment includes a full-service insurance agency offering all lines of commercial and personal insurance through major carriers. The Insurance segment also includes a reinsurer.
- The Consumer Finance segment primarily makes installment loans to individuals and purchases installment sales finance contracts from retail merchants. The Consumer Finance segment activity is funded through the sale of subordinated notes, which are issued by a wholly-owned subsidiary and guaranteed by us.

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

(in thousands)	Community Banking	Wealth Manage-ment	Insurance	Consumer Finance	Parent and Other	Consolidated
At or for the Year Ended December 31, 2017						
Interest income	**$ 943,661**	**$ —**	**$ 81**	**$ 40,187**	**$ (3,603)**	**$ 980,326**
Interest expense	**117,951**	**—**	**—**	**3,676**	**12,265**	**133,892**
Net interest income	**825,710**	**—**	**81**	**36,511**	**(15,868)**	**846,434**
Provision for credit losses	**52,780**	**—**	**—**	**8,293**	**—**	**61,073**
Non-interest income	**197,517**	**39,256**	**15,671**	**3,256**	**(3,251)**	**252,449**
Non-interest expense (1)	**596,813**	**30,563**	**14,507**	**21,502**	**639**	**664,024**
Amortization of intangibles	**17,050**	**254**	**213**	**—**	**—**	**17,517**
Income tax expense (benefit)	**152,778**	**2,679**	**(256)**	**5,283**	**(3,419)**	**157,065**
Net income (loss)	**203,806**	**5,760**	**1,288**	**4,689**	**(16,339)**	**199,204**
Total assets	**31,155,973**	**24,218**	**21,062**	**181,260**	**35,122**	**31,417,635**
Total intangibles	**2,317,151**	**10,176**	**12,127**	**1,809**	**—**	**2,341,263**
At or for the Year Ended December 31, 2016						
Interest income	$ 640,895	$ —	$ 84	$ 40,922	$ (2,938)	$ 678,963
Interest expense	56,182	—	—	3,759	7,510	67,451
Net interest income	584,713	—	84	37,163	(10,448)	611,512
Provision for credit losses	49,046	—	—	6,706	—	55,752
Non-interest income	149,408	35,283	14,750	3,002	(682)	201,761
Non-interest expense (1)	437,031	27,201	12,965	21,662	1,064	499,923
Amortization of intangibles	10,526	259	425	—	—	11,210
Income tax expense (benefit)	72,619	2,845	532	4,488	(4,987)	75,497
Net income (loss)	164,899	4,978	912	7,309	(7,207)	170,891
Total assets	21,629,374	19,619	22,053	193,349	(19,578)	21,844,817
Total intangibles	1,061,597	10,189	12,340	1,809	—	1,085,935
At or for the Year Ended December 31, 2015						
Interest income	$ 509,585	$ —	$ 89	$ 39,868	$ (2,747)	$ 546,795
Interest expense	41,227	—	—	3,518	3,828	48,573
Net interest income	468,358	—	89	36,350	(6,575)	498,222
Provision for credit losses	33,045	—	—	7,396	—	40,441
Non-interest income	114,377	35,246	13,052	2,926	(3,191)	162,410
Non-interest expense (1)	320,912	27,264	13,891	20,189	(12)	382,244
Amortization of intangibles	7,544	273	488	—	—	8,305
Income tax expense (benefit)	66,979	2,803	(412)	4,709	(4,086)	69,993
Net income (loss)	154,255	4,906	(826)	6,982	(5,668)	159,649
Total assets	17,349,459	20,753	22,207	195,048	(29,805)	17,557,662
Total intangibles	844,630	10,447	12,923	1,809	—	869,809

(1) Excludes amortization of intangibles, which is presented separately.

NOTE 24. FAIR VALUE MEASUREMENTS

We use 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, we 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, we use 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 FNB. Unobservable inputs reflect our 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.

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 we use for financial instruments recorded at fair value on either a recurring or non-recurring basis:

Securities Available For Sale

Securities available for sale consist of both debt and equity securities. These securities are recorded at fair value on a recurring basis. At December 31, 2017, 100.0% of these securities used valuation methodologies involving market-based or market-derived information, collectively Level 1 and Level 2 measurements, to measure fair value.

We closely monitor 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.

We use 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. We validate 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

We determine 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.

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

Although we have determined that the majority of the inputs used to value our derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with our derivatives and IRLCs utilize Level 3 inputs. Credit valuation estimates of current credit spreads are used to evaluate the likelihood of our default and the default of our counterparties. However, as of December 31, 2017 and 2016, we have assessed the significance of the impact of the credit valuation adjustments on the overall valuation of our non-IRLC derivative positions and have determined that the credit valuation adjustments are not significant to the overall valuation of our derivatives. As a result, we have determined that our derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy. The fair value of IRLCs is based upon the estimated fair value of the underlying mortgage loan, including the expected cash flows related to the MSRs and the estimated percentage of IRLCs that will result in a closed mortgage loan, and classified as Level 3.

Loans Held For Sale

Beginning in 2017, residential mortgage loans held for sale are carried at fair value under the FVO. Prior to 2017, residential mortgage loans held for sale were carried at the lower of cost or fair value accounting, under which, periodically, it may have been necessary to record non-recurring fair value adjustments. Fair value for residential mortgage loans held for sale, when recorded, is based on independent quoted market prices and is classified as Level 2.

SBA loans held for sale are carried under lower of cost or fair value accounting, for which, periodically, it may be necessary to record non-recurring fair value adjustments. Fair value for SBA loans held for sale, when recorded, is based on independent quoted market prices and is classified as Level 2.

Impaired Loans

We reserve for commercial loan relationships greater than or equal to $500,000 that we consider impaired as defined in ASC 310 at the time we identify 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.

We determine 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 their 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. We 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, we classify 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.

We review and evaluate impaired loans no less frequently than quarterly for additional impairment based on the same factors identified above.

Other Real Estate Owned

OREO is comprised principally of commercial and residential real estate properties obtained in partial or total satisfaction of loan obligations. 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.

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

(in thousands)	Level 1	Level 2	Level 3	Total
December 31, 2017				
Assets Measured at Fair Value				
Debt securities available for sale				
U.S. Treasury	$ —	$ —	$ —	$ —
U.S. government-sponsored entities	—	343,942	—	343,942
Residential mortgage-backed securities				
Agency mortgage-backed securities	—	1,598,874	—	1,598,874
Agency collateralized mortgage obligations	—	794,957	—	794,957
Non-agency collateralized mortgage obligations	—	1	—	1
Commercial mortgage-backed securities	—	—	—	—
States of the U.S. and political subdivisions	—	21,093	—	21,093
Other debt securities	—	4,670	—	4,670
Total debt securities available for sale	—	2,763,537	—	2,763,537
Equity securities available for sale				
Fixed income mutual fund	161	—	—	161
Financial services industry	—	864	—	864
Insurance services industry	—	—	—	—
Total equity securities available for sale	161	864	—	1,025
Total securities available for sale	161	2,764,401	—	2,764,562
Loans held for sale	—	56,458	—	56,458
Derivative financial instruments				
Trading	—	28,453	—	28,453
Not for trading	—	500	1,594	2,094
Total derivative financial instruments	—	28,953	1,594	30,547
Total assets measured at fair value on a recurring basis	$ 161	$ 2,849,812	$ 1,594	$ 2,851,567
Liabilities Measured at Fair Value				
Derivative financial instruments				
Trading	$ —	$ 26,953	$ —	$ 26,953
Not for trading	—	2,239	5	2,244
Total derivative financial instruments	—	29,192	5	29,197
Total liabilities measured at fair value on a recurring basis	$ —	$ 29,192	$ 5	$ 29,197

(in thousands)	Level 1	Level 2	Level 3	Total
December 31, 2016				
Assets Measured at Fair Value				
Debt securities available for sale				
U.S. Treasury	$ —	$ 29,953	$ —	$ 29,953
U.S. government-sponsored entities	—	365,098	—	365,098
Residential mortgage-backed securities				
Agency mortgage-backed securities	—	1,252,798	—	1,252,798
Agency collateralized mortgage obligations	—	535,974	—	535,974
Non-agency collateralized mortgage obligations	—	3	894	897
Commercial mortgage-backed securities	—	1,291	—	1,291
States of the U.S. and political subdivisions	—	35,849	—	35,849
Other debt securities	—	9,487	—	9,487
Total debt securities available for sale	—	2,230,453	894	2,231,347
Equity securities available for sale				
Financial services industry	—	—	492	492
Insurance services industry	148	—	—	148
Total equity securities available for sale	148	—	492	640
Total securities available for sale	148	2,230,453	1,386	2,231,987
Derivative financial instruments				
Trading	—	44,951	—	44,951
Not for trading	—	9,269	—	9,269
Total derivative financial instruments	—	54,220	—	54,220
Total assets measured at fair value on a recurring basis	$ 148	$ 2,284,673	$ 1,386	$ 2,286,207
Liabilities Measured at Fair Value				
Derivative financial instruments				
Trading	$ —	$ 45,973	$ —	$ 45,973
Not for trading	—	1,294	—	1,294
Total derivative financial instruments	—	47,267	—	47,267
Total liabilities measured at fair value on a recurring basis	$ —	$ 47,267	$ —	$ 47,267

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

(in thousands)	Other Debt Securities	Equity Securities	Residential Non-Agency Collateralized Mortgage Obligations	Interest Rate Lock Commitments	Total
Year Ended December 31, 2017					
Balance at beginning of period	**$ —**	**$ 492**	**$ 894**	**$ —**	**$ 1,386**
Total gains (losses) – realized/unrealized:					
Included in earnings	**—**	**—**	**4**	**—**	**4**
Included in other comprehensive income	**—**	**86**	**(6)**	**—**	**80**
Accretion included in earnings	**(1)**	**—**	**1**	**—**	**—**
Purchases, issuances, sales and settlements:					
Purchases	**12,048**	**—**	**—**	**1,594**	**13,642**
Issuances	**—**	**—**	**—**	**—**	**—**
Sales/redemptions	**(12,047)**	**—**	**(874)**	**—**	**(12,921)**
Settlements	**—**	**—**	**(19)**	**(4,569)**	**(4,588)**
Transfers from Level 3	**—**	**(578)**	**—**	**—**	**(578)**
Transfers into Level 3	**—**	**—**	**—**	**4,569**	**4,569**
Balance at end of period	**$ —**	**$ —**	**$ —**	**$ 1,594**	**$ 1,594**
Year Ended December 31, 2016					
Balance at beginning of period	$ —	$ 439	$ 1,184	$ —	$ 1,623
Total gains (losses) – realized/unrealized:					
Included in earnings	—	—	—	—	—
Included in other comprehensive income	—	53	(7)	—	46
Accretion included in earnings	—	—	6	—	6
Purchases, issuances, sales and settlements:					
Purchases	—	—	—	—	—
Issuances	—	—	—	—	—
Sales/redemptions	—	—	—	—	—
Settlements	—	—	(289)	—	(289)
Transfers from Level 3	—	—	—	—	—
Transfers into Level 3	—	—	—	—	—
Balance at end of period	$ —	$ 492	$ 894	$ —	$ 1,386

We review 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" discussion within this footnote for information relating to determining Level 3 fair values. During 2017, we acquired $12.0 million in other debt securities from YDKN that are measured at Level 3. These securities were sold during the second quarter of 2017. During 2017, we transferred equity securities totaling $0.6 million from Level 3 to Level 2, as a result of increased trading activity relating to these securities. There were no transfers of assets or liabilities between the hierarchy levels during 2016.

For the years ended December 31, 2017 and 2016, 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 gains (losses) included in earnings are in the net securities gains (losses) line item in the consolidated statements of income.

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

(in thousands)	Level 1	Level 2	Level 3	Total
December 31, 2017				
Impaired loans	**$ —**	**$ 2,813**	**$ 1,297**	**$ 4,110**
Other real estate owned	**—**	**10,513**	**10,823**	**21,336**
Loans held for sale - SBA	**—**	**—**	**36,432**	**36,432**
Other assets - SBA servicing asset	**—**	**—**	**5,058**	**5,058**
December 31, 2016				
Impaired loans	$ —	$ 500	$ 5,883	$ 6,383
Other real estate owned	—	11,017	3,181	14,198

Substantially all of the fair value amounts in the table above were estimated at a date during the twelve months ended December 31, 2017 and 2016. 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 2017 had a carrying amount of $7.3 million and an allocated allowance for credit losses of $3.6 million. The allocated allowance is based on fair value of $4.1 million less estimated costs to sell of $0.4 million. The allowance for credit losses includes a provision applicable to the current period fair value measurements of $3.7 million, which was included in the provision for credit losses for 2017.

OREO with a carrying amount of $23.3 million was written down to $18.7 million (fair value of $21.3 million less estimated costs to sell of $2.6 million), resulting in a loss of $4.6 million, which was included in earnings for 2017.

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.

Loan Servicing Rights. For both MSRs and SBA-servicing rights, both classified as Level 3 assets, fair value is determined using a discounted cash flow valuation method. These models use significant unobservable inputs including discount rates, prepayment rates and cost to service which have greater subjectivity due to the lack of observable market transactions.

Derivative Assets and Liabilities. See the "Derivative Financial Instruments" discussion included within this footnote.

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

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 us 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.

The fair values of our financial instruments are as follows:

			Fair Value Measurements		
(in thousands)	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
December 31, 2017					
Financial Assets					
Cash and cash equivalents	**$ 479,443**	**$ 479,443**	**$ 479,443**	**$ —**	**$ —**
Securities available for sale	**2,764,562**	**2,764,562**	**161**	**2,764,401**	**—**
Securities held to maturity	**3,242,268**	**3,218,379**	**—**	**3,218,379**	**—**
Net loans and leases, including loans held for sale	**20,916,277**	**20,661,196**	**—**	**56,458**	**20,604,738**
Loan servicing rights	**34,111**	**37,758**	**—**	**—**	**37,758**
Derivative assets	**30,547**	**30,547**	**—**	**28,953**	**1,594**
Accrued interest receivable	**94,254**	**94,254**	**94,254**	**—**	**—**
Financial Liabilities					
Deposits	**22,399,725**	**22,359,182**	**17,779,246**	**4,579,936**	**—**
Short-term borrowings	**3,678,337**	**3,678,723**	**3,678,723**	**—**	**—**
Long-term borrowings	**668,173**	**675,489**	**—**	**—**	**675,489**
Derivative liabilities	**29,197**	**29,197**	**—**	**29,192**	**5**
Accrued interest payable	**12,480**	**12,480**	**12,480**	**—**	**—**
December 31, 2016					
Financial Assets					
Cash and cash equivalents	$ 371,407	$ 371,407	$ 371,407	$ —	$ —
Securities available for sale	2,231,987	2,231,987	148	2,230,453	1,386
Securities held to maturity	2,337,342	2,294,777	—	2,293,091	1,686
Net loans and leases, including loans held for sale	14,750,792	14,464,274	—	—	14,464,274
Loan servicing rights	13,521	17,546	—	—	17,546
Derivative assets	54,220	54,220	—	54,220	—
Accrued interest receivable	58,712	58,712	58,712	—	—
Financial Liabilities					
Deposits	16,065,647	16,045,323	13,489,152	2,556,171	—
Short-term borrowings	2,503,010	2,503,277	2,503,277	—	—
Long-term borrowings	539,494	536,088	—	—	536,088
Derivative liabilities	47,267	47,267	—	47,267	—
Accrued interest payable	7,612	7,612	7,612	—	—

NOTE 25. PARENT COMPANY FINANCIAL STATEMENTS

The following is condensed financial information of F.N.B. Corporation (parent company only). In this information, the parent company's investments in subsidiaries are stated at cost plus equity in undistributed earnings of subsidiaries since acquisition. This information should be read in conjunction with the consolidated financial statements.

Balance Sheets (in thousands) **December 31**	**2017**	**2016**
Assets		
Cash and cash equivalents	**$ 165,698**	$ 164,276
Securities available for sale	**864**	492
Other assets	**22,344**	17,405
Investment in bank subsidiary	**4,553,703**	2,598,520
Investments in and advances to non-bank subsidiaries	**294,236**	269,998
Total Assets	**$ 5,036,845**	$ 3,050,691
Liabilities		
Other liabilities	**$ 33,000**	$ 26,063
Advances from affiliates	**306,096**	295,897
Long-term borrowings	**279,536**	147,916
Subordinated notes:		
Short-term	**7,993**	8,172
Long-term	**1,026**	1,026
Total Liabilities	**627,651**	479,074
Stockholders' Equity	**4,409,194**	2,571,617
Total Liabilities and Stockholders' Equity	**$ 5,036,845**	$ 3,050,691

Statements of Income (in thousands) **Year Ended December 31**	**2017**	**2016**	**2015**
Income			
Dividend income from subsidiaries:			
Bank	**$ 149,000**	$ 108,954	$ 87,580
Non-bank	**9,210**	8,525	7,863
	158,210	117,479	95,443
Interest income	**5,323**	5,041	4,845
Other income	**100**	2,799	1,053
Total Income	**163,633**	125,319	101,341
Expenses			
Interest expense	**17,977**	13,609	9,526
Other expenses	**10,320**	10,377	8,993
Total Expenses	**28,297**	23,986	18,519
Income Before Taxes and Equity in Undistributed Income of Subsidiaries	**135,336**	101,333	82,822
Income tax benefit	**2,737**	6,352	5,088
	138,073	107,685	87,910
Equity in undistributed income (loss) of subsidiaries:			
Bank	**60,567**	60,924	71,581
Non-bank	**564**	2,282	158
Net Income	**$ 199,204**	$ 170,891	$ 159,649

Statements of Cash Flows (in thousands)

Year Ended December 31	**2017**	**2016**	**2015**
Operating Activities			
Net income	**$ 199,204**	$ 170,891	$ 159,649
Adjustments to reconcile net income to net cash flows from operating activities:			
Undistributed earnings from subsidiaries	**(61,131)**	(63,206)	(71,739)
Other, net	**5,441**	(2,530)	680
Net cash flows provided by operating activities	**143,514**	105,155	88,590
Investing Activities			
Proceeds from sale of securities available for sale	**—**	815	—
Net (increase) decrease in advances to subsidiaries	**(9,838)**	(6,263)	3,285
Payment for further investment in subsidiaries	**(4,841)**	(71,050)	(9,060)
Net cash received in business combinations	**3,173**	1,089	—
Net cash flows (used in) provided by investing activities	**(11,506)**	(75,409)	(5,775)
Financing Activities			
Net decrease in advance from affiliate	**10,018**	6,356	(2,797)
Net decrease in short-term borrowings	**(179)**	(44)	(135)
Decrease in long-term debt	**(1,510)**	(10,291)	(650)
Increase in long-term debt	**563**	381	98,794
Net proceeds from issuance of common stock	**11,181**	18,472	12,731
Tax benefit of stock-based compensation	**—**	1,813	28
Cash dividends paid:			
Preferred stock	**(8,041)**	(8,041)	(8,041)
Common stock	**(142,618)**	(101,670)	(84,511)
Net cash flows (used in) provided by financing activities	**(130,586)**	(93,024)	15,419
Net (Decrease) Increase in Cash and Cash Equivalents	**1,422**	(63,278)	98,234
Cash and cash equivalents at beginning of year	**164,276**	227,554	129,320
Cash and Cash Equivalents at End of Year	**$ 165,698**	$ 164,276	$ 227,554
Cash paid during the year for:			
Interest	**$ 15,807**	$ 13,620	$ 8,309

NOTE 26. QUARTERLY EARNINGS SUMMARY (UNAUDITED)

Dollars in thousands, except per share data

Quarter Ended 2017	**Dec. 31**	**Sept. 30**	**June 30**	**Mar. 31**
Total interest income	**$ 271,085**	**$ 263,514**	**$ 251,034**	**$ 194,693**
Total interest expense	**41,049**	**38,283**	**32,619**	**21,941**
Net interest income	**230,036**	**225,231**	**218,415**	**172,752**
Provision for credit losses	**16,699**	**16,768**	**16,756**	**10,850**
Net securities gains	**21**	**2,777**	**493**	**2,625**
Other non-interest income	**65,083**	**63,374**	**65,585**	**52,491**
Total non-interest expense	**166,529**	**163,743**	**163,714**	**187,555**
Net income	**24,126**	**77,693**	**74,406**	**22,979**
Net income available to common stockholders	**22,115**	**75,683**	**72,396**	**20,969**
Per Common Share				
Basic earnings per share	**$ 0.07**	**$ 0.23**	**$ 0.22**	**$ 0.09**
Diluted earnings per share	**0.07**	**0.23**	**0.22**	**0.09**
Cash dividends declared	**0.12**	**0.12**	**0.12**	**0.12**

Quarter Ended 2016	**Dec. 31**	**Sept. 30**	**June 30**	**Mar. 31**
Total interest income	$ 177,168	$ 175,110	$ 170,931	$ 155,754
Total interest expense	17,885	17,604	16,562	15,400
Net interest income	159,283	157,506	154,369	140,354
Provision for credit losses	12,705	14,639	16,640	11,768
Net securities gains	116	299	226	71
Other non-interest income	50,950	52,941	51,185	45,973
Total non-interest expense	123,806	121,050	129,629	136,648
Net income	51,291	52,168	41,300	26,132
Net income available to common stockholders	49,280	50,158	39,290	24,122
Per Common Share				
Basic earnings per share	$ 0.23	$ 0.24	$ 0.19	$ 0.12
Diluted earnings per share	0.23	0.24	0.19	0.12
Cash dividends declared	0.12	0.12	0.12	0.12

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

NONE.

ITEM 9A. CONTROLS AND PROCEDURES

DISCLOSURE CONTROLS AND PROCEDURES. We maintain disclosure controls and procedures designed to ensure that the information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Securities Exchange Act of 1934 is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. FNB's management, with the participation of our CEO and CFO, evaluated the effectiveness of FNB's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this Report. Based upon such evaluation, our CEO and CFO have concluded that, as of the end of such period, FNB's disclosure controls and procedures were effective.

INTERNAL CONTROL OVER FINANCIAL REPORTING. Information required by this item is set forth in "Management's Report on F.N.B. Corporation's Internal Control Over Financial Reporting – Reporting at a Bank Holding Company Level" and "Report of Independent Registered Public Accounting Firm."

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING. There have not been any changes in our internal control over financial reporting (as such term is defined in Rules 13a – 15(f) and 15d –15(f) under the Securities Exchange Act of 1934) during the quarter ended December 31, 2017 to which this report relates that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

NONE.

PART III

ITEM 10. DIRECTORS, EXECUTIVES OFFICERS AND CORPORATE GOVERNANCE

Information relating to this item is provided in our definitive proxy statement to be filed with the SEC in connection with our annual meeting of stockholders to be held May 16, 2018. Such information is incorporated herein by reference. Certain information regarding executive officers is included under the caption "Executive Officers of the Registrant" after Part I, Item 4, of this Report.

ITEM 11. EXECUTIVE COMPENSATION

Information relating to this item is provided in FNB's definitive proxy statement to be filed with the SEC in connection with our annual meeting of stockholders to be held May 16, 2018. Such information is incorporated herein by reference. Neither the Report of the Compensation Committee nor the Report of the Audit Committee shall be deemed filed with the SEC, but shall be deemed furnished to the SEC in this Report, and will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Exchange Act of 1934, except to the extent that FNB specifically incorporates it by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

With the exception of the equity compensation plan information provided below, the information relating to this item is provided in our definitive proxy statement to be filed with the SEC in connection with our annual meeting of stockholders to be held May 16, 2018. Such information is incorporated herein by reference.

The following table provides information related to equity compensation plans as of December 31, 2017:

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Stock Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Stock Options, Warrants and Rights	Number of Securities Remaining for Future Issuance Under Equity Compensation Plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	1,975,862 (1)	n/a	2,642,020 (2)
Equity compensation plans not approved by security holders	722,650 (3)	$ 7.96	n/a

(1) Restricted common stock awards subject to forfeiture. The shares of restricted stock vest over periods ranging from three to five years from the award date.

(2) Represents shares of common stock registered with the SEC which are eligible for issuance pursuant to stock option or restricted stock awards granted under various plans.

(3) Represents the securities to be issued upon exercise of stock options that we assumed in various acquisitions. We do not intend to grant any new awards under these plans.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information relating to this item is provided in our definitive proxy statement to be filed with the SEC in connection with our annual meeting of stockholders to be held May 16, 2018. Such information is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Information relating to this item is provided in our definitive proxy statement to be filed with the SEC in connection with our annual meeting of stockholders to be held May 16, 2018. Such information is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) FINANCIAL STATEMENTS

The consolidated financial statements of F.N.B. Corporation and subsidiaries required in response to this item are incorporated by reference to Item 8 of this Report.

(b) EXHIBITS

The following exhibits are filed or incorporated by reference as part of this report:

Exhibit Number	Description
2.1.	Plan of Conversion of F.N.B. Corporation (incorporated by reference to Exhibit 2.1. to FNB's Current Report on Form 8-K filed on August 30, 2016).
2.2.	Agreement and Plan of Merger, dated as of June 13, 2013, between F.N.B. Corporation and BCSB Bancorp, Inc. (Incorporated by reference to Exhibit 2.1. of FNB's Current Report on Form 8-K filed on June 19, 2013).
2.3.	Agreement and Plan of Merger, dated as of April 7, 2014, between F.N.B. Corporation and OBA Financial Services, Inc. (Incorporated by reference to Exhibit 2.1. of FNB's Current Report on Form 8-K filed on April 10, 2014).
2.4.	Purchase and Assumption Agreement, dated as of May 27, 2015, between Bank of America, National Association and First National Bank of Pennsylvania (Incorporated by reference to Exhibit 2.1. of FNB's Current Report on Form 8-K filed on May 27, 2015).
2.5.	Agreement and Plan of Merger, dated as of August 4, 2015, between F.N.B. Corporation and Metro Bancorp, Inc. (Incorporated by reference to Exhibit 2.1. of FNB's Current Report on Form 8-K filed on August 7, 2015).
2.6.	Agreement and Plan of Merger, dated as of July 20, 2016, between F.N.B. Corporation and Yadkin Financial Corporation (Incorporated by reference to Exhibit 2.1. of FNB's Current Report on Form 8-K filed on July 21, 2016).
3.1.	Articles of Incorporation of F.N.B. Corporation, effective as of August 30, 2016 (Incorporated by reference to Exhibit 3.1. of FNB's Current Report on Form 8-K filed on August 30, 2016).
3.2.	By-laws of F.N.B. Corporation, effective as of August 30, 2016 (Incorporated by reference to Exhibit 3.2. to FNB's Current Report on Form 8-K filed on August 30, 2016).
4.1.	Warrant to purchase up to 1,302,083 shares of Common Stock, issued to the United States Department of the Treasury. (Incorporated by reference to Exhibit 4.2. of FNB's Current Report on Form 8-K filed on January 14, 2009).
4.2.	Warrant to purchase up to 342,564 shares of Common Stock, issued to the United States Department of the Treasury (Incorporated by reference to Exhibit 4.1. of FNB's Current Report on Form 8-K filed on April 8, 2013).
4.3.	Warrant to purchase up to 207,320 shares of common stock, dated May 4, 2017 (Incorporated by reference to Exhibit 4.1 of FNB's Form 10-Q for the quarter ended March 31, 2017, filed on May 8, 2017).
4.4.	Deposit Agreement, dated as of November 1, 2013, by and between F.N.B. Corporation and Computershare Limited (successor in interest to Registrar and Transfer Company), as Depositary (incorporated by reference to Exhibit 4.1. of FNB's Current Report on Form 8-K filed on November 1, 2013).
4.5.	Specimen Stock Certificate for Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series E (incorporated by reference to Exhibit 4.5. of FNB's Amendment No. 1 to Form 8-A filed on August 30, 2016).
4.6.	Form of Depositary Receipt (included as Exhibit A to Exhibit 4.4. above).

Exhibit Number	Description
4.7.	Assignment and Assumption Agreement between and among FNB, Computershare Trust Company, N.A., as successor-in-interest to Registrar and Transfer Company, and The Bank of New York Mellon, dated May 10, 2017 (Incorporated by reference to Exhibit 4.1 of FNB'S Current Report on Form 8-K filed on May 15, 2017).
4.8.	Amendment to Deposit Agreement made on May 10, 2017 between FNB and The Bank of New York Mellon (Incorporated by reference to Exhibit 4.2 of FNB's Current Report on Form 8-K filed on May 15, 2017).
4.9.	There are no instruments with respect to long-term debt of FNB and its subsidiaries that involve securities authorized under the instrument in an amount exceeding 10 percent of the total assets of FNB and its subsidiaries on a consolidated basis. FNB agrees to provide the SEC with a copy of instruments defining the rights of holders of long-term debt of FNB and its subsidiaries upon request.
10.1. (P)	Form of Deferred Compensation Agreement by and between First National Bank of Pennsylvania and four of our executive officers. (Incorporated by reference to Exhibit 10.3. of FNB's Annual Report on Form 10-K for the fiscal year ended December 31, 1993 (File No. 000-08144)). *
10.2.	Form of Restricted Stock Unit Agreement for Named Executive Officers (pursuant to 2007 Incentive Compensation Plan). (Incorporated by reference to Exhibit 10.1. of FNB's Current Report on Form 8-K filed on March 27, 2012). *
10.3.	Amendment to Deferred Compensation Agreement of Stephen J. Gurgovits. (Incorporated by reference to Exhibit 10.2. of FNB's Current Report on Form 8-K filed on December 22, 2008). *
10.4. (P)	Basic Retirement Plan (formerly the Supplemental Executive Retirement Plan) of F.N.B. Corporation effective January 1, 1992. (Incorporated by reference to Exhibit 10.9. of FNB's Annual Report on Form 10-K for the fiscal year ended December 31, 1993 (File No. 000-08144)). *
10.5.	Form of Amendment to Employment Agreements of Vincent Calabrese, Jr. and Gary Guerrieri. (Incorporated by reference to Exhibit 10.1. of FNB's Current Report on Form 8-K filed on December 22, 2008). *
10.6.	F.N.B. Corporation 2007 Incentive Compensation Plan. (Incorporated by reference to Exhibit A of FNB's 2015 Proxy Statement filed on April 1, 2015). *
10.7.	First Amendment to F.N.B. Corporation 2007 Incentive Compensation Plan. (Incorporated by reference to Exhibit 10.7. of FNB's Annual Report on Form 10-K for the fiscal year ended December 31, 2016). *
10.8.	Restricted Stock Agreement. (Incorporated by reference to Exhibit 10.1. of FNB's Current Report on Form 8-K filed on July 19, 2007). *
10.9.	Performance Restricted Stock Award Agreement. (Incorporated by reference to Exhibit 10.2. of FNB's Current Report on Form 8-K filed on July 19, 2007). *
10.10.	Form of Indemnification Agreement for directors. (Incorporated by reference to Exhibit 10.1. of FNB's Current Report on Form 8-K filed on September 23, 2008). *
10.11.	Form of Indemnification Agreement for officers. (Incorporated by reference to Exhibit 10.2. of FNB's Current Report on Form 8-K filed on September 23, 2008). *
10.12.	Employment Agreement between F.N.B. Corporation, First National Bank of Pennsylvania and Vincent J. Delie, Jr. (Incorporated by reference to Exhibit 10.1. of FNB's Current Report on Form 8-K filed on December 21, 2010). *
10.13.	Tax Indemnification Agreement between F.N.B. Corporation and Robert J. McCarthy, Jr. (Incorporated by reference to Exhibit 10.1. of FNB's Current Report on Form 8-K filed on January 4, 2012).
10.14.	Employment Agreement between F.N.B. Corporation and Vincent J. Calabrese. (Incorporated by reference to Exhibit 10.1. of FNB's Current Report on Form 8-K filed on February 26, 2013). *
10.15.	Form of Restricted Stock Unit Award for Vincent J. Delie, Jr. and Vincent J. Calabrese, Jr. (Incorporated by reference to Exhibit 10.1. of FNB's Current Report on Form 8-K filed on December 22, 2015). *
11.	Computation of Per Share Earnings **
12.	Ratio of Earnings to Fixed Charges. (filed herewith).
14.	Code of Ethics. (Incorporated by reference to Exhibit 99.3. of FNB's Annual Report on Form 10-K for the fiscal year ended December 31, 2009). *

Exhibit Number	Description
21.	Subsidiaries of the Registrant. (filed herewith).
23.	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm. (filed herewith).
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 Annual Report on Form 10-K for the period ended December 31, 2017, formatted in XBRL: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Stockholders' Equity, (v) the Consolidated Statements of Cash Flows and (vi) the Notes to Consolidated Financial Statements. (filed herewith).

* Management contracts and compensatory plans or arrangements required to be filed as exhibits pursuant to Item 15(a)(3) of this Report.

** This information is provided in Note 20, "Earnings Per Share" in the Notes to Consolidated Financial Statements, which is included in Item 8 in this Report.

(c) SCHEDULES

No financial statement schedules are being filed because of the absence of conditions under which they are required or because the required information is included in the Consolidated Financial Statements and related notes thereto.

ITEM 16. FORM 10-K SUMMARY

Not Applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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

By /s/ Vincent J. Delie, Jr.

Vincent J. Delie, Jr.

Chairman, President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ Vincent J. Delie, Jr. Vincent J. Delie, Jr.	Chairman, President and Chief Executive Officer (Principal Executive Officer)	February 28, 2018
/s/ Vincent J. Calabrese, Jr. Vincent J. Calabrese, Jr.	Chief Financial Officer (Principal Financial Officer)	February 28, 2018
/s/ James L. Dutey James L. Dutey	Corporate Controller and Senior Vice President (Principal Accounting Officer)	February 28, 2018
/s/ Pamela A. Bena Pamela A. Bena	Director	February 28, 2018
/s/ William B. Campbell William B. Campbell	Director	February 28, 2018
/s/ James D. Chiafullo James D. Chiafullo	Director	February 28, 2018
/s/ Mary Jo Dively Mary Jo Dively	Director	February 28, 2018
/s/ Stephen J. Gurgovits Stephen J. Gurgovits	Director	February 28, 2018
/s/ Robert A. Hormell Robert A. Hormell	Director	February 28, 2018
/s/ David J. Malone David J. Malone	Director	February 28, 2018
/s/ D. Stephen Martz D. Stephen Martz	Director	February 28, 2018
/s/ Robert J. McCarthy, Jr. Robert J. McCarthy, Jr.	Director	February 28, 2018

/s/ Frank C. Mencini Frank C. Mencini	Director	February 28, 2018
/s/ David L. Motley David L. Motley	Director	February 28, 2018
/s/ Heidi A. Nicholas Heidi A. Nicholas	Director	February 28, 2018
/s/ John S. Stanik John S. Stanik	Director	February 28, 2018
/s/ William J. Strimbu William J. Strimbu	Director	February 28, 2018

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Corporate Leadership

Vincent J. Delie, Jr.
Chairman, President & CEO

Vincent J. Calabrese, Jr.
Chief Financial Officer

Gary L. Guerrieri
Chief Credit Officer

Robert M. Moorehead
Chief Wholesale Officer

Barry C. Robinson
Chief Consumer Officer

James G. Orie
Corporate Secretary
Chief Legal Officer

Thomas M. Whitesel
Chief Risk Officer

Christine E. Tvaroch
Chief Audit Executive

Jennifer M. Reel
Director of Corporate
Communications

F.N.B. Corporation

Corporate Headquarters

F.N.B. Corporation
One North Shore Center
12 Federal Street
Pittsburgh, Pennsylvania 15212
Telephone: (888) 981-6000
Website: www.fnbcorporation.com

Transfer Agent and Registrar

Broadridge Corporate Issuer
Solutions, Inc.
51 Mercedes Way
Edgewood, New Jersey 11717
Telephone: (844) 877-8750

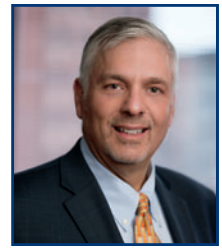
Stock Listing

The Corporation's common
stock is traded on the
New York Stock Exchange under
the ticker symbol "FNB."

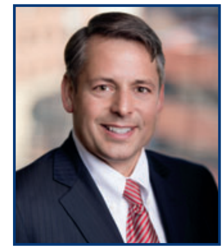
F.N.B. Corporation and First National Bank Boards of Directors

Pamela A. Bena
Vice President of Finance
Heeter Printing

William B. Campbell
Lead Director
Retired Businessman



James D. Chiafullo
Attorney
Cohen & Grigsby, PC

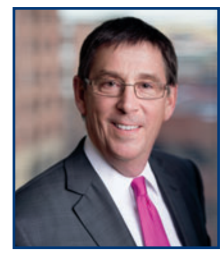


Vincent J. Delie, Jr.
Chairman, President & CEO
F.N.B. Corporation

Mary Jo Dively
Vice President and
General Counsel
Carnegie Mellon University

Stephen J. Gurgovits
Retired CEO
F.N.B. Corporation

Robert A. Hormell
Retired Public Policy and
Government Advisor

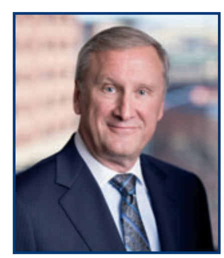


David J. Malone
President and CEO
Gateway Financial
Group, Inc.

Frank C. Mencini
President
Mencini Healthcare
Assoc., LLC

David L. Motley
Senior Managing
Director, Headwaters SC
Life Sciences Practice

Heidi A. Nicholas
Principal
Nicholas Enterprises



John S. Stanik
CEO
Ampco – Pittsburgh
Corporation

William J. Strimbu
President
Nick Strimbu, Inc.

F.N.B. Corporation