MATHEWS DENNIS
Form 4
January 17, 2006

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

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

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

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

OMB APPROVAL
OMB Number: 3235-0287
Expires: January 31, 2005
Estimated average burden hours per response... 0.5

(Print or Type Responses)

1. Name and Address of Reporting Person *
MATHEWS DENNIS
(Last) (First) (Middle)
25025 INTERSTATE 45 NORTH, SUITE 600
(Street)
THE WOODLANDS, TX 77380
(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
TETRA TECHNOLOGIES INC [TTI]

3. Date of Earliest Transaction (Month/Day/Year)
01/13/2006

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

5. Relationship of Reporting Person(s) to Issuer
(Check all applicable)
_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Senior Vice President

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

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

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	01/13/2006		S		8,300	D	$ 37.5	21,682	D	
Common Stock	01/13/2006		S		200	D	$ 37.55	21,482	D	
Common Stock								3,771	I	by 401(k) Plan

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

Persons who respond to the collection of information contained in this form are not required to respond unless the form

SEC 1474 (9-02)

displays a currently valid OMB control number.

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

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
MATHEWS DENNIS 25025 INTERSTATE 45 NORTH SUITE 600 THE WOODLANDS, TX 77380			Senior Vice President	

Signatures

Eileen M. Price, AIF for Dennis R. Mathews	01/17/2006
**Signature of Reporting Person	Date

Explanation of Responses:

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

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

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. -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 MD&A.

53

Table of Contents

Non-Interest Income

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 $120.4 million for 2017 increased $23.6 million, or 24.4%, from $96.8 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 $10.5 million, or 26.9%, 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.

Dividends on non-marketable equity securities of $9.2 million for 2017 increased $5.1 million from $4.1 million for 2016, as we have more shares of FHLB stock resulting from the YDKN acquisition.

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 HTM securities which were sold to improve operational efficiencies. The HTM 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 HTM portfolio.

Other non-interest income was $11.1 million and $9.3 million for 2017 and 2016, respectively. 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

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

54

Explanation of Responses:

Table of Contents

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.

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.

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.

Other non-interest expense was $78.2 million and $72.7 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. We also incurred $3.1 million more in telephone expense and $1.4 million more in marketing expense, as we recognized additional costs associated with recent acquisitions. 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. Partially offsetting these increases to expense, supplies expense decreased $2.5 million, 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. Also, we recorded $0.7 million less in OREO expense, primarily due to lower property write-downs that were taken in 2017 as compared to the level of write-downs taken in 2016. During 2016, we incurred a $2.6 million impairment charge on acquired other assets relating to low-income housing projects.

Income Taxes

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 DTAs 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 DTAs, combined with increases in merger expenses and in the level of renewable energy, historic and LIHTCs recognized in 2017.

Table of Contents

FINANCIAL CONDITION

The following table presents our condensed Consolidated Balance Sheets:

TABLE 12

	December 31		$	%
(dollars in millions)	2018	2017	Change	Change
Assets				
Cash and cash equivalents	$488	$479	$9	1.9 %
Securities	6,595	6,007	588	9.8
Loans held for sale	22	93	(71)	(76.3)
Loans and leases, net	21,973	20,824	1,149	5.5
Goodwill and other intangibles	2,334	2,341	(7)	(0.3)
Other assets	1,690	1,674	16	1.0
Total Assets	$33,102	$31,418	$1,684	5.4 %
Liabilities and Stockholders’ Equity				
Deposits	$23,455	$22,400	$1,055	4.7 %
Borrowings	4,756	4,347	409	9.4
Other liabilities	283	262	21	8.0
Total liabilities	28,494	27,009	1,485	5.5
Stockholders’ equity	4,608	4,409	199	4.5
Total Liabilities and Stockholders’ Equity	$33,102	$31,418	$1,684	5.4 %

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 in seven states and the District of Columbia. Our market coverage spans several major metropolitan areas including: Pittsburgh, Pennsylvania; Baltimore, Maryland; Cleveland, Ohio; and Charlotte, Raleigh, Durham and the Piedmont Triad (Winston-Salem, Greensboro and High Point) in North Carolina.

Following is a summary of loans and leases:

TABLE 13

December 31	2018	2017	2016	2015	2014
(in millions)					
Commercial real estate	$8,786	$8,742	$5,435	$4,109	$3,816
Commercial and industrial	4,556	4,170	3,043	2,602	2,318
Commercial leases	373	267	197	204	178
Other	46	17	36	39	41
Total commercial loans and leases	13,761	13,196	8,711	6,954	6,353
Direct installment	1,764	1,906	1,844	1,706	1,645
Residential mortgages	3,113	2,703	1,845	1,396	1,263
Indirect installment	1,933	1,448	1,196	997	875
Consumer lines of credit	1,582	1,746	1,301	1,137	1,111
Total consumer loans	8,392	7,803	6,186	5,236	4,894
Total loans and leases	$22,153	$20,999	$14,897	$12,190	$11,247

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.

Explanation of Responses:

Table of Contents

- 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 and consumer lines of credit that are either unsecured or secured by collateral other than home equity.

Additional information relating to originated loans and loans acquired in a business combination 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 $1.2 billion, or 5.5%, to $22.2 billion at December 31, 2018, compared to $21.0 billion at December 31, 2017, led by strong commercial loan activity and continued growth in the equipment finance and asset-based lending businesses. Additionally, we experienced strong growth in our residential mortgage and indirect installment portfolios.

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.

As of December 31, 2018, 35.1% of the commercial real estate loans were owner-occupied, while the remaining 64.9% were non-owner-occupied, compared to 35.3% and 64.7%, respectively, as of December 31, 2017. As of both December 31, 2018 and 2017, we had commercial construction loans of $1.2 billion, representing 5.2% and 5.6% of total loans and leases, respectively. Additionally, as of December 31, 2018 and 2017, we had residential construction loans of $273.4 million and $248.3 million, representing 1.2% and 1.1% of total loans and leases, respectively.

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, 2018 and 2017, 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 as of December 31, 2018:

TABLE 14

(in millions)	Within 1 Year	1-5 Years	Over 5 Years	Total
Commercial loans and leases	$1,666	$6,037	$6,058	$13,761
Residential mortgages	10	41	3,062	3,113
Total	$1,676	$6,078	$9,120	$16,874
Interest rates for loans with maturities over one year:				
Fixed		$2,416	$2,896	$5,312
Floating		3,662	6,224	9,886

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 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

57

Explanation of Responses:

Table of Contents

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.

During 2018, non-performing assets decreased $3.2 million. This reflects an increase of $4.5 million in non-accrual loans and decreases of $2.2 million in TDRs and $5.6 million in OREO. The increase in non-accrual loans is attributable to the migration of a few commercial loans, partially offset by the commercial note sale that occurred during the second quarter of 2018. The decrease in TDRs is related to the sale of Regency, which resulted in a decrease of $2.7 million in TDRs. The decrease in OREO was primarily attributable to the sale of two commercial properties totaling $2.4 million during 2018.

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 and $8.1 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 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.

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

TABLE 15

December 31	2018	2017	2016	2015	2014
(in millions)					
Commercial real estate	$23	$ 31	$ 21	$ 26	$ 26
Commercial and industrial	37	23	26	15	9
Commercial leases	2	2	4	1	1
Other	1	1	1	—	—
Total commercial loans and leases	63	57	52	42	36
Direct installment	14	17	15	14	16
Residential mortgages	14	16	13	13	14
Indirect installment	2	2	2	1	1
Consumer lines of credit	7	6	4	2	2
Total consumer loans	37	41	34	30	33
Total non-performing loans and leases	$100	$ 98	$ 86	$ 72	$ 69

Following is a summary of non-performing assets:

TABLE 16

December 31	2018	2017	2016	2015	2014
(dollars in millions)					
Non-accrual loans	$79	$75	$66	$50	$45
Troubled debt restructurings	21	23	20	22	24
Total non-performing loans	100	98	86	72	69
Other real estate owned	35	41	32	39	41
Total non-performing assets	$135	$139	$118	$111	$110
Non-performing loans / total loans and leases	0.45 %	0.47 %	0.58 %	0.59 %	0.61 %
Non-performing loans + OREO / total loans and leases + OREO	0.61 %	0.66 %	0.79 %	0.91 %	0.97 %
Non-performing assets / total assets	0.41 %	0.44 %	0.54 %	0.63 %	0.68 %

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,

Table of Contents

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 six 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.

Table of Contents

Following is a summary of performing, non-performing and non-accrual originated TDRs, by class:
TABLE 17

(in millions)	Performing	Non-Performing	Non-Accrual	Total
December 31, 2018				
Commercial real estate	$ —	$ —	$ 2	$ 2
Commercial and industrial	—	1	—	1
Total commercial loans	—	1	2	3
Direct installment	11	6	4	21
Residential mortgages	5	8	3	16
Consumer lines of credit	2	2	—	4
Total consumer loans	18	16	7	41
Total	$ 18	$ 17	$ 9	$ 44
December 31, 2017				
Commercial real estate	$ —	$ —	$ 4	$ 4
Commercial and industrial	3	—	—	3
Total commercial loans	3	—	4	7
Direct installment	11	8	3	22
Residential mortgages	4	11	2	17
Consumer lines of credit	2	1	1	4
Total consumer loans	17	20	6	43
Total	$ 20	$ 20	$ 10	$ 50
December 31, 2016				
Commercial real estate	$ —	$ —	$ 4	$ 4
Commercial and industrial	—	—	2	2
Total commercial loans	—	—	6	6
Direct installment	10	9	2	21
Residential mortgages	5	10	1	16
Consumer lines of credit	2	1	—	3
Total consumer loans	17	20	3	40
Total	$ 17	$ 20	$ 9	$ 46
December 31, 2015				
Commercial real estate	$ —	$ 2	$ 6	$ 8
Commercial and industrial	—	—	1	1
Total commercial loans	—	2	7	9
Direct installment	8	9	1	18
Residential mortgages	5	10	1	16
Consumer lines of credit	2	1	—	3
Total consumer loans	15	20	2	37
Total	$ 15	$ 22	$ 9	$ 46
December 31, 2014				
Commercial real estate	$ —	$ 2	$ 6	$ 8
Commercial and industrial	1	1	—	2
Total commercial loans	1	3	6	10
Direct installment	5	9	1	15
Residential mortgages	3	11	1	15
Consumer lines of credit	—	1	—	1
Total consumer loans	8	21	2	31
Total	$ 9	$ 24	$ 8	$ 41

60

Table of Contents

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

TABLE 18

December 31 (dollars in millions)	2018	2017	2016	2015	2014
Loans and leases 90 days or more past due:					
Originated loans and leases	$5	$9	$9	$7	$9
Loans acquired in a business combination	53	90	41	30	38
Total loans and leases 90 days or more past due	$58	$99	$50	$37	$47
As a percentage of total loans and leases	0.26%	0.47%	0.33%	0.30%	0.42%

The increase in loans and leases 90 days or more past due and accruing in 2017 was primarily the result of the YDKN acquisition. Loans acquired in a business combination 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 loans acquired in a business combination 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 19

December 31 (in millions)	2018	2017	2016	2015	2014
Gross interest income:					
Per contractual terms	$ 15	$ 23	$ 12	$ 7	$ 7
Recorded during the year	1	1	1	1	1

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.

Table of Contents

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

TABLE 20

Year Ended December 31 (dollars in millions)	2018	2017	2016	2015	2014
Balance at beginning of period	$175	$158	$142	$126	$111
Charge-offs:					
Commercial real estate	(7)	(2)	(7)	(4)	(7)
Commercial and industrial	(20)	(27)	(19)	(3)	(4)
Commercial leases	(3)	(1)	(1)	(1)	—
Other	(4)	(4)	(3)	(2)	(1)
Commercial loans and leases	(34)	(34)	(30)	(10)	(12)
Direct installment	(17)	(12)	(10)	(11)	(10)
Residential mortgages	—	—	—	(1)	(1)
Indirect installment	(9)	(10)	(8)	(6)	(3)
Consumer lines of credit	(3)	(2)	(2)	(2)	(1)
Consumer loans	(29)	(24)	(20)	(20)	(15)
Purchased impaired loans	—	(1)	—	—	(3)
Other loans acquired in a business combination	(7)	(1)	(1)	(1)	(1)
Total charge-offs	(70)	(60)	(51)	(31)	(31)
Recoveries:					
Commercial real estate	3	2	4	1	2
Commercial and industrial	2	2	2	2	2
Other	—	1	—	—	—
Commercial loans and leases	5	5	6	3	4
Direct installment	2	2	2	2	1
Indirect installment	4	4	2	1	1
Consumer lines of credit	—	—	—	—	—
Consumer loans	6	6	4	3	2
Other loans acquired in a business combination	3	5	1	1	1
Total recoveries	14	16	11	7	7
Net charge-offs	(56)	(44)	(40)	(24)	(24)
Provision for credit losses	61	61	56	40	39
Balance at end of period	$180	$175	$158	$142	$126
Net loan charge-offs/average loans	0.26 %	0.22 %	0.28 %	0.21 %	0.23 %
Allowance for credit losses/total loans and leases	0.81 %	0.84 %	1.06 %	1.16 %	1.12 %
Allowance for credit losses/non-performing loans	180.37 %	178.75 %	183.99 %	197.44 %	183.69 %

The allowance for credit losses at December 31, 2018 increased $4.3 million or 2.4% from December 31, 2017, in response to growth in originated loans and leases and a small increase in originated criticized commercial loans. The provision for credit losses during 2018 was $61.2 million, which covered net charge-offs and supported organic loan growth. The amount of provision expense that resulted from the small increase in originated criticized commercial loans was offset by a provision benefit received through a decline in the overall delinquency and non-performing loan level in 2018. Net charge-offs were $56.0 million, or 0.26% of average loans, compared to $43.8 million, or 0.22% of average loans, in 2017, with the increase primarily due to $13.4 million, or 6 basis points, relating to the sale of a small portfolio of non-performing loans in the second quarter of 2018 and the sale of Regency in the third quarter of 2018.

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

62

Explanation of Responses:

Table of Contents

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 and 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.

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 21

December 31	2018		2017		2016		2015		2014	
(dollars in millions)	Allowance	% of Loans	Allowance	% of Loans	Allowance	% of Loans	Allowance	% of Loans	Allowance	% of Loans
Commercial real estate	$55	28 %	$50	25 %	$47	28 %	$42	29 %	$37	27 %
Commercial and industrial	49	19	52	17	48	18	41	21	33	19
Commercial leases	8	2	5	1	3	1	2	1	2	2
Other	2	—	2	—	1	—	1	—	1	—
Commercial loans and leases	114	49	109	43	99	47	86	51	73	48
Direct installment	14	7	21	8	21	12	22	14	21	14
Residential mortgages	20	12	16	10	10	10	8	9	8	7
Indirect installment	15	9	12	7	11	8	10	8	8	8
Consumer lines of credit	10	5	10	5	10	7	9	8	8	9
Consumer loans	59	33	59	30	52	37	49	39	45	38
Total originated loans	173	82	168	73	151	84	135	90	118	86
Purchased credit- impaired loans	1	—	1	—	1	—	1	—	1	—
Other loans acquired in a business combination	6	18	6	27	6	16	6	10	7	14
Total	$180	100%	$175	100%	$158	100%	$142	100%	$126	100%

During 2018, the allowance for credit losses allocated to commercial real estate, commercial and industrial, commercial leases, residential mortgages and indirect installment loans all increased to support organic loan growth. The allowance for credit losses allocated to direct installment loans decreased as a result of the sale of Regency. The allowance for credit losses allocated to other loans acquired in a business combination decreased due to improved credit quality.

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, that adversely impacted certain borrowers operating in this area. The allowance for credit losses allocated to residential mortgages increased during 2016 largely due to organic growth within that portfolio.

Table of Contents

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 allocated 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 loans acquired in a business combination decreased during the year as a result of favorable quarterly cash flow re-estimation results and problem credit resolution, with the PVF Capital Corp., ANNB, and Comm Bancorp, Inc. 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 loans acquired in a business combination 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.

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 HTM and carried at amortized cost. All other securities are categorized as securities AFS 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 AFS 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 HTM 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, 2018, debt securities classified as AFS and HTM each totaled $3.3 billion. During 2018, debt securities AFS increased by $576.9 million and debt securities HTM increased by $11.7 million from December 31, 2017. As of December 31, 2018 and 2017, we did not hold any trading securities.

Table of Contents

The following table indicates the respective maturities and weighted-average yields of debt securities as of December 31, 2018:

TABLE 22

(dollars in millions)	Amount	Weighted Average Yield	
Obligations of U.S. Treasury:			
Maturing after ten years	$ 1	5.25	%
Obligations of U.S. government agencies:			
Maturing after one year but within five years	2	3.60	
Maturing after five years but within ten years	60	3.11	
Maturing after ten years	127	2.79	
Obligations of U.S. government-sponsored entities:			
Maturing within one year	131	1.65	
Maturing after one year but within five years	397	1.73	
States of the U.S. and political subdivisions:			
Maturing within one year	5	2.34	
Maturing after one year but within five years	22	2.47	
Maturing after five years but within ten years	121	3.44	
Maturing after ten years	953	3.67	
Other debt securities:			
Maturing after five years but within ten years	2	3.38	
Residential mortgage-backed securities:			
Agency mortgage-backed securities	2,465	2.22	
Agency collateralized mortgage obligations	1,955	2.54	
Commercial mortgage-backed securities	354	3.38	
Total	$ 6,595	2.58	

The weighted average yields for tax-exempt debt securities are computed on an FTE basis using the federal statutory tax rate of 21.0%. The weighted average yields for debt securities AFS are based on amortized cost.

65

Table of Contents

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

TABLE 23

December 31	2018	2017	2016
(in millions)			
Securities Available for Sale:			
U.S. Treasury	$—	$—	$30
U.S. government agencies	188	—	—
U.S. government-sponsored entities	317	348	368
Residential mortgage-backed securities:			
Agency mortgage-backed securities	1,465	1,615	1,267
Agency collateralized mortgage obligations	1,179	813	547
Non-agency collateralized mortgage obligations	—	—	1
Commercial mortgage-backed securities	229	—	1
States of the U.S. and political subdivisions	21	21	36
Other debt securities	2	5	10
Total debt securities	3,401	2,802	2,260
Equity securities	—	1	—
Total securities available for sale	$3,401	$2,803	$2,260
Debt Securities Held to Maturity:			
U.S. Treasury	$1	$1	$1
U.S. government agencies	2	—	—
U.S. government-sponsored entities	215	247	272
Residential mortgage-backed securities:			
Agency mortgage-backed securities	1,036	1,220	852
Agency collateralized mortgage obligations	794	777	743
Non-agency collateralized mortgage obligations	—	—	2
Commercial mortgage-backed securities	126	80	50
States of the U.S. and political subdivisions	1,080	917	417
Total debt securities held to maturity	$3,254	$3,242	$2,337

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 24

December 31	2018	2017	$ Change	% Change
(in millions)				
Non-interest-bearing demand	$6,000	$5,720	$280	4.9 %
Interest-bearing demand	9,660	9,571	89	0.9
Savings	2,526	2,488	38	1.5
Certificates and other time deposits	5,269	4,621	648	14.0
Total deposits	$23,455	$22,400	$1,055	4.7 %

Table of Contents

Total deposits increased during 2018, primarily as a result of growth in non-interest-bearing demand balances and certificates and other time deposits. The growth reflects heightened deposit-gathering efforts during 2018 focused on attracting new customer relationships through targeted promotional interest rates on 13-month, 19-month and 25-month certificates of deposit, combined with deepening relationships with existing customers through internal lead generation efforts. Relationship-based transaction deposits, which are comprised of demand (non-interest-bearing and interest-bearing) and savings accounts (including money market savings), also increased over this period. Generating growth in relationship-based transaction deposits remains a key focus for us and will help us manage to lower levels of short-term borrowings.

Following is a summary of time deposits of $100,000 or more by remaining maturity at December 31, 2018:

TABLE 25

(in millions)	Certificates of Deposit	Other Time Deposits	Total
Three months or less	$ 293	$ 12	$305
Three to six months	334	17	351
Six to twelve months	725	32	757
Over twelve months	886	154	1,040
Total	$ 2,238	$ 215	$2,453

Short-Term Borrowings

Borrowings with original maturities of one year or less are classified as short-term. 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 $4.1 billion at December 31, 2018 from $3.7 billion at December 31, 2017, primarily due to an increase of $0.5 billion in federal funds purchased.

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

TABLE 26

At or for the Year Ended December 31 (dollars in millions)	2018	2017	2016
FHLB Advances (Short-term)			
Balance at year-end	$2,230	$2,285	$1,025
Maximum month-end balance	2,800	2,780	1,075
Average balance during year	1,932	1,868	491
Weighted average interest rates:			
At year-end	2.64 %	1.53 %	0.73 %
During the year	2.14 %	1.20 %	0.59 %
Federal Funds Purchased			
Balance at year-end	$1,535	$1,000	$1,037
Maximum month-end balance	1,830	1,607	1,238
Average balance during year	1,585	1,460	1,045
Weighted average interest rates:			
At year-end	2.51 %	1.38 %	0.62 %
During the year	1.93 %	1.10 %	0.49 %

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.

Explanation of Responses:

Table of Contents

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 Consolidated 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 common stock of 111,619,622 shares on March 11, 2017 and 34,041,181 shares 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. Subsequent to year-end 2018, we completed an offering of $120.0 million aggregate principal amount of 4.950% fixed-to-floating subordinated notes due in 2029 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 approximately $118.3 million. We intend to use the net proceeds from the sale of the subordinated notes for general corporate purposes, which may include investments at the holding company level, providing capital to support the growth of FNBPA and our business, repurchases of our common shares, repayment of recurring obligations and refinancing of outstanding indebtedness and the payment of the cash consideration components of future acquisitions.

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, 2018:

TABLE 27

(in millions)	Within 1 Year	1-3 Years	3-5 Years	After 5 Years	Total
Deposits without a stated maturity	$18,186	$—	$—	$—	$18,186
Certificates and other time deposits	3,255	1,531	352	131	5,269
Operating leases	25	39	23	49	136
Long-term debt	158	172	10	287	627
Total	$21,624	$1,742	$385	$467	$24,218

68

Table of Contents

The following table sets forth the amounts and expected maturities of commitments to extend credit and standby letters of credit as of December 31, 2018:

TABLE 28

(in millions)	Within 1 Year	1-3 Years	3-5 Years	After 5 Years	Total
Commitments to extend credit	$4,864	$1,384	$613	$517	$7,378
Standby letters of credit	122	4	—	—	126
Total	$4,986	$1,388	$613	$517	$7,504

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 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 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 daily 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 if 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, through one of our subsidiaries, we regularly issue subordinated notes, which are guaranteed by FNB. Cash on hand at the parent has been managed by various strategies over the last few years. One significant management strategy resulted in the sale of 100 percent of the issued and outstanding capital stock of Regency to Mariner Finance, LLC in exchange for cash consideration of $142 million. This transaction closed on August 31, 2018 and was the primary driver of the parent’s cash position increasing by $88.7 million from $165.7 million at December 31, 2017 to $254.4 million at December 31, 2018. This transaction accomplished several strategic objectives, including offering additional liquidity. Other potential strategies that management employs include strong earnings, increasing earnings retention rate and capital actions.

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 LCR and 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 sale of Regency and the YDKN acquisition.

69

Table of Contents

The LCR and MCH ratios are presented in the following table:
TABLE 29

December 31	2018	2017	Internal Limit
Liquidity coverage ratio	2.1 times	1.8 times	> 1 time
Months of cash on hand	14.4 months	10.2 months	> 12 months

The sale of Regency has resulted in MCH and LCR ratios that are in compliance with our Policy. The MCH ratio had fallen below our internal limit due to the YDKN acquisition in March 2017, as YDKN did not manage to a similar ratio and held only a minimal amount of cash on hand at their holding company.
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 focused on attracting new customer relationships and deepening relationships with existing customers, in part through internal lead generation efforts leveraging data analytics capabilities. Total deposits were $23.5 billion at December 31, 2018, an increase of $1.1 billion, or 4.7%, from December 31, 2017. Total non-interest-bearing demand deposit accounts grew by $280.0 million, or 4.9%, total interest-bearing demand deposit accounts grew by $89.0 million, or 0.9%, savings accounts grew by $37.5 million, or 1.5%, and time deposits grew by $648.5 million, or 14.0%.
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 that 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 30

December 31 (dollars in millions)	2018	2017
Unused wholesale credit availability	$9,659	$8,189
Unused wholesale credit availability as a % of FNBPA assets	29.2 %	26.3 %
Salable unpledged government and agency securities	$2,424	$2,232
Salable unpledged government and agency securities as a % of FNBPA assets	7.3 %	7.2 %

Another metric for measuring liquidity risk is the liquidity gap analysis. The following liquidity gap analysis as of December 31, 2018 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 twelve-month cumulative gap to total assets ratio was (7.1)% and (5.8)% as of December 31, 2018 and 2017, respectively. Management calculates this ratio at least quarterly and it is reviewed monthly by ALCO.

Table of Contents

TABLE 31

(dollars in millions)	Within 1 Month	2-3 Months	4-6 Months	7-12 Months	Total 1 Year
Assets					
Loans	$473	$890	$1,307	$2,365	$5,035
Investments	109	179	233	522	1,043
	582	1,069	1,540	2,887	6,078
Liabilities					
Non-maturity deposits	178	356	534	1,067	2,135
Time deposits	579	606	702	1,369	3,256
Borrowings	2,853	131	25	42	3,051
	3,610	1,093	1,261	2,478	8,442
Period Gap (Assets - Liabilities)	$(3,028)	$(24)	$279	$409	$(2,364)
Cumulative Gap	$(3,028)	$(3,052)	$(2,773)	$(2,364)	
Cumulative Gap to Total Assets	(9.1)%	(9.2)%	(8.4)%	(7.1)%	

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, 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.

71

Table of Contents

The following repricing gap analysis as of December 31, 2018 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 32

(dollars in millions)	Within 1 Month	2-3 Months	4-6 Months	7-12 Months	Total 1 Year
Assets					
Loans	$9,872	$741	$856	$1,530	$12,999
Investments	117	189	400	513	1,219
	9,989	930	1,256	2,043	14,218
Liabilities					
Non-maturity deposits	6,365	—	—	—	6,365
Time deposits	668	606	700	1,365	3,339
Borrowings	3,269	1,057	10	12	4,348
	10,302	1,663	710	1,377	14,052
Off-balance sheet	(100)	855	—	—	755
Period Gap (assets - liabilities + off-balance sheet)	$(413)	$122	$546	$666	$921
Cumulative Gap	$(413)	$(291)	$255	$921	
Cumulative Gap to Assets	(1.4)%	(1.0)%	0.9%	3.2%	

The twelve-month cumulative repricing gap to total assets was 3.2% and 3.0% as of December 31, 2018 and 2017, 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 slight change in the cumulative repricing gap at December 31, 2018 compared to December 31, 2017, is primarily related to growth and changes in the mix of loans, deposits and borrowings. The growth in the certificates of deposit portfolio was offset with the increased repricing of adjustable loans, the increased cash flow of the indirect portfolio, the funding of long-term FHLB advances and the use of interest rate swaps.

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, 2018. Using a static Balance Sheet structure, the measures do not reflect all of management's potential counteractions.

Table of Contents

The following table presents an analysis of the potential sensitivity of our net interest income and EVE to changes in interest rates using rate shocks:
TABLE 33

December 31,	2018	2017	ALCO Limits
Net interest income change (12 months):			
+ 300 basis points	3.5 %	3.0 %	n/a
+ 200 basis points	2.5 %	2.3 %	(5.0)%
+ 100 basis points	1.4 %	1.3 %	(5.0)%
– 100 basis points	(3.1)%	(3.9)%	(5.0)%
Economic value of equity:			
+ 300 basis points	(8.0)%	(5.9)%	(25.0)%
+ 200 basis points	(5.2)%	(3.7)%	(15.0)%
+ 100 basis points	(2.0)%	(1.2)%	(10.0)%
– 100 basis points	(1.0)%	(2.6)%	(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 2.7% and 2.0% at December 31, 2018 and 2017, 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 57.4% and 56.6% of total loans as of December 31, 2018 and 2017, respectively. As of December 31, 2018, 78.5% of these loans, or 45.0% of total loans, are tied to the Prime or one-month LIBOR rates. The investment portfolio is used, in part, to manage our interest rate risk position. 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, 2018, the commercial swaps totaled $2.7 billion of notional principal, with $814.6 million in notional swap principal originated during 2018. 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 2018. A number of management actions and market occurrences resulted in the slight decrease in the asset sensitivity of our interest rate risk position during the period. The increase was primarily due to management's actions with the timing of funding loan and investment growth, as well as successful efforts to extend maturities in certificate of deposit activity and continued strong commercial loan interest rate swap activity.
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 is 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.

73

Explanation of Responses:

Table of Contents

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 and limits under which we seek to operate in order to optimize returns. As such, the board monitors a series of KRIs, or Key Risk Indicators, for various business lines, operational units, and risk categories, providing insight into how our performance aligns with our stated risk appetite. These results are reviewed periodically by the Board of Directors and senior management to ensure adherence to our risk appetite statement, and where appropriate, adjustments are made to applicable business strategies and tactics where risks are approaching stated tolerances or for emerging risks.

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 through the Compliance Department and the Information and Cyber Security Department, both of which report to the Chief Risk Officer, and ensures the coordinated and consistent implementation of risk management initiatives and strategies on a day-to-day basis. Our Compliance Department, which reports to the Chief Risk Officer, 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, through the use of the National Institute of Standards and Technology framework for improving critical infrastructure by measuring and evaluating the effectiveness 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

Table of Contents

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 34
Operating Net Income Available to Common Stockholders

Year Ended December 31 (in thousands)	2018	2017	2016	2015	2014
Net income available to common stockholders	$364,817	$191,163	$162,850	$151,608	$135,698
Merger-related expense	—	56,513	37,439	3,033	9,611
Tax benefit of merger-related expense	—	(18,846)	(12,550)	(949)	(1,714)
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	—	—	—
Discretionary 401(k) contribution	874	—	—	—	—
Tax benefit of discretionary 401(k) contribution	(184)	—	—	—	—
Gain on sale of subsidiary	(5,135)	—	—	—	—
Tax expense of gain on sale of subsidiary	1,078	—	—	—	—
Branch consolidation costs	6,616	—	—	—	—
Tax benefit of branch consolidation costs	(1,389)	—	—	—	—
Operating net income available to common stockholders (non-GAAP)	$366,677	$281,176	$187,739	$153,692	$143,595

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 charges such as merger expenses, branch consolidation costs and special one-time employee 401(k) contributions related to tax reform are not organic costs to run our operations and facilities. The merger expenses and branch consolidation charges principally represent expenses to satisfy contractual obligations of the acquired entity or closed branch without any useful ongoing benefit to us. These costs are specific to each individual transaction and may vary significantly based on the size and complexity of the transaction. Similarly, gains derived from the sale of a business are not organic to our operations.

Table of Contents

TABLE 35

Operating Earnings per Diluted Common Share

Year Ended December 31	2018	2017	2016	2015	2014
Net income per diluted common share	$1.12	$0.63	$0.78	$0.86	$0.80
Merger-related expense	—	0.19	0.18	0.02	0.06
Tax benefit of merger-related expense	—	(0.06)	(0.06)	(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	—	—	—
Discretionary 401(k) contribution	—	—	—	—	—
Tax benefit of discretionary 401(k) contribution	—	—	—	—	—
Gain on sale of subsidiary	(0.01)	—	—	—	—
Tax expense of gain on sale of subsidiary	0.01	—	—	—	—
Branch consolidation costs	0.02	—	—	—	—
Tax benefit of branch consolidation costs	(0.01)	—	—	—	—
Operating earnings per diluted common share (non-GAAP)	$1.13	$0.93	$0.90	$0.87	$0.85

TABLE 36

Return on Average Tangible Common Equity

Year Ended December 31	2018	2017	2016
(dollars in thousands)			
Net income available to common stockholders	$364,817	$191,163	$162,850
Amortization of intangibles, net of tax	12,365	11,386	7,287
Tangible net income available to common stockholders (non-GAAP)	$377,182	$202,549	$170,137
Average total stockholders’ equity	$4,490,833	$4,073,700	$2,499,976
Less: Average preferred stockholders’ equity	(106,882)	(106,882)	(106,882)
Less: Average intangibles [(1)]	(2,334,727)	(2,108,102)	(1,059,856)
Average tangible common equity (non-GAAP)	$2,049,224	$1,858,716	$1,333,238
Return on average tangible common equity (non-GAAP)	18.41 %	10.90 %	12.76 %

(1) Excludes loan servicing rights.

76

Table of Contents

TABLE 37

Return on Average Tangible Assets

Year Ended December 31	2018	2017	2016
(dollars in thousands)			
Net income	$372,858	$199,204	$170,891
Amortization of intangibles, net of tax	12,365	11,386	7,287
Tangible net income (non-GAAP)	$385,223	$210,590	$178,178
Average total assets	$32,138,497	$29,131,109	$20,677,717
Less: Average intangibles [(1)]	(2,334,727)	(2,108,102)	(1,059,856)
Average tangible assets (non-GAAP)	$29,803,770	$27,023,007	$19,617,861
Return on average tangible assets (non-GAAP)	1.29%	0.78%	0.91%

(1) Excludes loan servicing rights.

TABLE 38

Tangible Book Value per Common Share

December 31	2018	2017	2016
(in thousands, except per share data)			
Total stockholders’ equity	$4,608,285	$4,409,194	$2,571,617
Less: Preferred stockholders’ equity	(106,882)	(106,882)	(106,882)
Less: Intangibles [(1)]	(2,333,375)	(2,341,263)	(1,085,935)
Tangible common equity (non-GAAP)	$2,168,028	$1,961,049	$1,378,800
Ending common shares outstanding	324,314,529	323,465,140	211,059,547
Tangible book value per common share (non-GAAP)	$6.68	$6.06	$6.53

(1) Excludes loan servicing rights.

TABLE 39

Tangible equity to tangible assets (period-end)

December 31	2018	2017	2016
(dollars in thousands)			
Total stockholders' equity	$4,608,285	$4,409,194	$2,571,617
Less: Intangibles[(1)]	(2,333,375)	(2,341,263)	(1,085,935)
Tangible equity (non-GAAP)	$2,274,910	$2,067,931	$1,485,682
Total assets	$33,101,840	$31,417,635	$21,844,817
Less: Intangibles[(1)]	(2,333,375)	(2,341,263)	(1,085,935)
Tangible assets (non-GAAP)	$30,768,465	$29,076,372	$20,758,882
Tangible equity / tangible assets (period-end) (non-GAAP)	7.39%	7.11%	7.16%

(1) Excludes loan servicing rights.

77

Table of Contents

TABLE 40
Tangible common equity / tangible assets (period-end)

December 31	2018	2017	2016
(dollars in thousands)			
Total stockholders' equity	$4,608,285	$4,409,194	$2,571,617
Less: Preferred stockholders' equity	(106,882)	(106,882)	(106,882)
Less: Intangibles [1]	(2,333,375)	(2,341,263)	(1,085,935)
Tangible common equity (non-GAAP)	$2,168,028	$1,961,049	$1,378,800
Total assets	$33,101,840	$31,417,635	$21,844,817
Less: Intangibles[1]	(2,333,375)	(2,341,263)	(1,085,935)
Tangible assets (non-GAAP)	$30,768,465	$29,076,372	$20,758,882
Tangible common equity / tangible assets (period-end) (non-GAAP)	7.05 %	6.74 %	6.64 %

(1) Excludes loan servicing rights.

TABLE 41
Efficiency Ratio

Year Ended December 31	2018	2017	2016
(dollars in thousands)			
Non-interest expense	$694,532	$681,541	$511,133
Less: Amortization of intangibles	(15,652)	(17,517)	(11,210)
Less: OREO expense	(6,359)	(4,438)	(5,153)
Less: Merger-related expense	—	(56,513)	(37,439)
Less: Impairment charge on other assets	—	—	(2,585)
Less: Discretionary 401(k) contribution	(874)	—	—
Less: Branch consolidation costs	(2,939)	—	—
Adjusted non-interest expense	$668,708	$603,073	$454,746
Net interest income	$932,489	$846,434	$611,512
Taxable equivalent adjustment	13,270	18,766	11,248
Non-interest income	275,651	252,449	201,761
Less: Net securities gains	(34)	(5,916)	(712)
Less: Gain on redemption of TPS	—	—	(2,422)
Less: Gain on sale of subsidiary	(5,135)	—	—
Less: Branch consolidation costs	3,677	—	—
Adjusted net interest income (FTE) + non-interest income	$1,219,918	$1,111,733	$821,387
Efficiency ratio (FTE) (non-GAAP)	54.82 %	54.25 %	55.36 %

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.

Table of Contents

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

February 26, 2019

F.N.B. Corporation's 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, 2018 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, 2018, 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

Table of Contents

Report of Independent Registered Public Accounting Firm
The Board of Directors and Stockholders
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, 2018 and 2017, 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, 2018, 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, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, 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, 2018, 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 26, 2019 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 26, 2019

Table of Contents

Report of Independent Registered Public Accounting Firm
The Board of Directors and Stockholders
F.N.B. Corporation
Opinion on Internal Control over Financial Reporting
We have audited F.N.B. Corporation's internal control over financial reporting as of December 31, 2018, 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, 2018, 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, 2018 and 2017, 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, 2018 and the related notes and our report dated February 26, 2019 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 26, 2019

81

Explanation of Responses:

Table of Contents

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

	December 31	
	2018	2017
Assets		
Cash and due from banks	$451	$408
Interest-bearing deposits with banks	37	71
Cash and Cash Equivalents	488	479
Securities available for sale	3,341	2,765
Debt securities held to maturity (fair value of $3,155 and $3,218)	3,254	3,242
Loans held for sale (includes $14 and $56 measured at fair value) (1)	22	93
Loans and leases, net of unearned income of $3 and $51	22,153	20,999
Allowance for credit losses	(180)	(175)
Net Loans and Leases	21,973	20,824
Premises and equipment, net	330	337
Goodwill	2,255	2,249
Core deposit and other intangible assets, net	79	92
Bank owned life insurance	537	527
Other assets	823	810
Total Assets	$33,102	$31,418
Liabilities		
Deposits:		
Non-interest-bearing demand	$6,000	$5,720
Interest-bearing demand	9,660	9,571
Savings	2,526	2,488
Certificates and other time deposits	5,269	4,621
Total Deposits	23,455	22,400
Short-term borrowings	4,129	3,679
Long-term borrowings	627	668
Other liabilities	283	262
Total Liabilities	28,494	27,009
Stockholders’ Equity		
Preferred stock - $0.01 par value; liquidation preference of $1,000 per share		
Authorized – 20,000,000 shares		
Issued – 110,877 shares	107	107
Common stock - $0.01 par value		
Authorized – 500,000,000 shares		
Issued – 326,120,832 and 325,095,055 shares	3	3
Additional paid-in capital	4,049	4,033
Retained earnings	576	368
Accumulated other comprehensive loss	(106)	(83)
Treasury stock – 1,806,303 and 1,629,915 shares at cost	(21)	(19)
Total Stockholders’ Equity	4,608	4,409
Total Liabilities and Stockholders’ Equity	$33,102	$31,418

(1) Amount represents loans for which we have elected the fair value option. See Note 24.
See accompanying Notes to Consolidated Financial Statements

82

Explanation of Responses:

Table of Contents

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

	Year Ended December 31		
	2018	2017	2016
Interest Income			
Loans and leases, including fees	$1,022	$862	$598
Securities:			
Taxable	119	97	72
Tax-exempt	28	20	9
Other	1	1	—
Total Interest Income	1,170	980	679
Interest Expense			
Deposits	142	72	41
Short-term borrowings	75	44	12
Long-term borrowings	21	18	14
Total Interest Expense	238	134	67
Net Interest Income	932	846	612
Provision for credit losses	61	61	56
Net Interest Income After Provision for Credit Losses	871	785	556
Non-Interest Income			
Service charges	126	120	97
Trust services	26	23	21
Insurance commissions and fees	18	19	18
Securities commissions and fees	18	15	13
Capital markets income	21	17	16
Mortgage banking operations	22	20	12
Dividends on non-marketable equity securities	16	9	4
Bank owned life insurance	13	12	10
Net securities gains	—	6	1
Other	16	11	9
Total Non-Interest Income	276	252	201
Non-Interest Expense			
Salaries and employee benefits	370	327	240
Net occupancy	60	54	40
Equipment	55	49	38
Amortization of intangibles	16	18	11
Outside services	66	56	44
FDIC insurance	33	33	19
Bank shares and franchise taxes	12	10	9
Merger-related	—	57	37
Other	83	77	73
Total Non-Interest Expense	695	681	511
Income Before Income Taxes	452	356	246
Income taxes	79	157	75
Net Income	373	199	171
Preferred stock dividends	8	8	8
Net Income Available to Common Stockholders	$365	$191	$163

Earnings per Common Share			
Basic	$1.13	$0.63	$0.79
Diluted	$1.12	$0.63	$0.78
Cash Dividends per Common Share	$0.48	$0.48	$0.48

See accompanying Notes to Consolidated Financial Statements

83

Explanation of Responses:

Table of Contents

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

	Year Ended December 31		
	2018	2017	2016
Net income	$373	$199	$171
Other comprehensive income (loss):			
Securities available for sale:			
Unrealized (losses) gains arising during the period, net of tax (benefit) expense of $5, $3 and $7	(17)	(6)	(14)
Reclassification adjustment for gains included in net income, net of tax expense of $0, $0 and $0	—	—	—
Derivative instruments:			
Unrealized gains (losses) arising during the period, net of tax expense (benefit) of $(1), $0 and $3	(2)	(1)	5
Reclassification adjustment for (gains) losses included in net income, net of tax expense (benefit) of $0, $0 and $1	(2)	—	(1)
Pension and postretirement benefit obligations:			
Unrealized gains (losses) arising during the period, net of tax expense (benefit) of $1, $0 and $0	(2)	—	—
Other Comprehensive (Loss) Income	(23)	(7)	(10)
Comprehensive Income	$350	$192	$161

See accompanying Notes to Consolidated Financial Statements

Table of Contents

F.N.B. CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Dollars in millions, 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, 2016	$ 107	$ 2	$ 1,808	$ 243	$ (51)	$ (13)	$2,096
Comprehensive income (loss)				171	(10)		161
Dividends declared:							
Preferred stock				(8)			(8)
Common stock: $0.48/share				(102)			(102)
Issuance of common stock		—	14			(2)	12
Issuance of common stock – acquisitions		—	404				404
Restricted stock compensation			7				7
Tax benefit of stock-based compensation			2				2
Balance at December 31, 2016	107	2	2,235	304	(61)	(15)	2,572
Comprehensive income (loss)				199	(7)		192
Dividends declared:							
Preferred stock				(8)			(8)
Common stock: $0.48/share				(142)			(142)
Issuance of common stock		—	7			(4)	3
Issuance of common stock – acquisitions		1	1,782				1,783
Assumption of warrant due to acquisition			1				1
Restricted stock compensation			8				8
Reclassification due to tax reform				15	(15)		—
Balance at December 31, 2017	107	3	4,033	368	(83)	(19)	4,409
Comprehensive income (loss)				373	(23)		350
Dividends declared:							
Preferred stock				(8)			(8)
Common stock: $0.48/share				(157)			(157)
Issuance of common stock		—	6			(2)	4
Restricted stock compensation			10				10
Balance at December 31, 2018	$ 107	$ 3	$ 4,049	$ 576	$ (106)	$ (21)	$4,608

See accompanying Notes to Consolidated Financial Statements

85

Table of Contents

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

	Year Ended December 31					
	2018		2017		2016	
Operating Activities						
Net income	$ 373		$ 199		$ 171	
Adjustments to reconcile net income to net cash flows provided by operating activities:						
Depreciation, amortization and accretion	109		89		61	
Provision for credit losses	61		61		56	
Deferred tax expense	33		129		15	
Net securities gains	—		(6	)	(1	)
Tax benefit of stock-based compensation	—		(1	)	(2	)
Loans originated for sale	(1,117	)	(1,098	)	(713	)
Loans sold	1,210		1,047		717	
Net gain on sale of loans	(22	)	(17	)	(11	)
Net change in:						
Interest receivable	(6	)	(18	)	(5	)
Interest payable	7		2		—	
Bank owned life insurance	(10	)	(11	)	(5	)
Other, net	(27	)	(97	)	10	
Net cash flows provided by operating activities	611		279		293	
Investing Activities						
Net change in loans and leases	(1,394	)	(1,100	)	(816	)
Securities available for sale:						
Purchases	(1,200	)	(1,142	)	(1,066	)
Sales	—		787		615	
Maturities	592		570		544	
Debt securities held to maturity:						
Purchases	(387	)	(1,186	)	(1,063	)
Sales	—		57		—	
Maturities	370		395		357	
Purchase of bank owned life insurance	—		(50	)	(17	)
Increase in premises and equipment	(35	)	(57	)	(60	)
Net cash received in business combinations and divestitures	134		197		246	
	(1,920	)	(1,529	)	(1,260	)

Net cash flows used in investing activities			
Financing Activities			
Net change in:			
Demand (non-interest-bearing and interest-bearing) and savings accounts	406	406	934
Time deposits	653	757	(120)
Short-term borrowings	450	379	252
Proceeds from issuance of long-term borrowings	37	155	46
Repayment of long-term borrowings	(77)	(199)	(173)
Net proceeds from issuance of common stock	14	11	18
Tax benefit of stock-based compensation	—	—	2
Cash dividends paid:			
Preferred stock	(8)	(8)	(8)
Common stock	(157)	(143)	(102)
Net cash flows provided by financing activities	1,318	1,358	849
Net Increase (Decrease) in Cash and Cash Equivalents	9	108	(118)
Cash and cash equivalents at beginning of year	479	371	489
Cash and Cash Equivalents at End of Year	$ 488	$ 479	$ 371

See accompanying Notes to Consolidated Financial Statements

86

Table of Contents

F.N.B. CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The terms “FNB,” “the Corporation,” “we,” “us” and “our” throughout this Report mean F.N.B. Corporation and our consolidated subsidiaries, unless the context indicates that we refer only to the parent company, F.N.B. Corporation. When we refer to "FNBPA" in this Report, we mean our only bank subsidiary, First National Bank of Pennsylvania, and its subsidiaries.

NATURE OF OPERATIONS

F.N.B. Corporation, headquartered in Pittsburgh, Pennsylvania, is a diversified financial services company operating in seven states and the District of Columbia. Our market coverage spans several major metropolitan areas 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, 2018, we had 396 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, FNBPA, founded in 1864. 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.

NOTE 1.   SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Our accompanying Consolidated Financial Statements and these Notes to Consolidated Financial Statements include subsidiaries in which we have a controlling financial interest. We own and operate FNBPA, FNTC, First National Investment Services Company, LLC, FNBIA, FNIA, 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.

Companies in which we hold more than a 50% voting equity interest, or a controlling financial interest, or are a variable interest entity (VIE) in which we have the power to direct the activities of an entity that most significantly impact the entity’s economic performance and has an obligation to absorb losses or the right to receive benefits from the VIE which could potentially be significant to the VIE are consolidated. VIEs in which we do not hold the power to direct the activities of the entity that most significantly impact the entity’s economic performance or does not have an obligation to absorb losses or the right to receive benefits from the VIE which could potentially be significant to the VIE are not consolidated. Investments in companies that are not consolidated are accounted for using the equity method when we have the ability to exert significant influence. Investments in private investment partnerships that are accounted for under the equity method or the cost method are included in other assets and our proportional interest in the equity investments’ earnings are included in other non-interest income. Investment interests accounted for under the cost and equity methods are periodically evaluated for impairment.

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 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 December 31, 2018 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.

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 to Consolidated Financial Statements. 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 loans acquired in a business combination, fair value of financial instruments, goodwill and other intangible assets, litigation, income taxes and deferred tax assets.

87

Table of Contents

Revenue from Contracts with Customers

We earn certain revenues from contracts with customers. These revenues are recognized when control of the promised services is transferred to the customers in an amount that reflects the consideration we expect to be entitled to in an exchange for those services.

In determining the appropriate revenue recognition for our contracts with customers, we consider whether the contract has commercial substance and is approved by both parties with identifiable contractual rights, payment terms, and the collectability of consideration is probable. Generally, we satisfy our performance obligations upon the completion of services at the amount to which we have the right to invoice or charge under contracts with an original expected duration of one year or less. We apply this guidance on a portfolio basis to contracts with similar characteristics and for which we believe the results would not differ materially from applying this guidance to individual contracts.

Our services provided under contracts with customers are transferred at the point in time when the services are rendered. Generally, we do not defer incremental direct costs to obtain contracts with customers that would be amortized in one year or less under the practical expedient. These costs are recognized as expense, primarily salary and benefit expense, in the period incurred.

Deposit Services. We recognize revenue on deposit services based on published fees for services provided. Demand and savings deposit customers have the right to cancel their depository arrangements and withdraw their deposited funds at any time without prior notice. When services involve deposited funds that can be retrieved by customers without penalties, we consider the service contract term to be day-to-day, where each day represents the renewal of the contract. The contract does not extend beyond the services performed and revenue is recognized at the end of the contract term (daily) as the performance obligation is satisfied.

No deposit services fees exist for long-term deposit products beyond early withdrawal penalties, which are earned on these products at the time of early termination.

Revenue from deposit services fees are reduced where we have a history of waived or reduced fees by customer request or due to a customer service issue, by historical experience, or another acceptable method in the same period as the related revenues. Revenues from deposit services are reported in the Consolidated Statements of Income as service charges and in the Community Banking segment as non-interest income.

Wealth Management Services. Wealth advisory and trust services are provided on a month-to-month basis and invoiced as services are rendered. Fees are based on a fixed amount or a scale based on the level of services provided or assets under management. The customer has the right to terminate their services agreement at any time. We determine the value of services performed based on the fee schedule in effect at the time the services are performed. Revenues from wealth advisory and trust services are reported in the Consolidated Statements of Income as trust services and securities commissions and fees, and in the Wealth segment as non-interest income.

Insurance Services. Insurance services include full-service insurance brokerage services offering numerous lines of commercial and personal insurance through major carriers to businesses and individuals within our geographic markets. We recognize revenue on insurance contracts in effect based on contractually specified commission payments on premiums that are paid by the customer to the insurance carrier. Contracts are cancellable at any time and we have no performance obligation to the customers beyond the time the insurance is placed into effect. Revenues from insurance services are reported in the Consolidated Statements of Income as insurance commissions and fees, and in the Insurance segment as non-interest income.

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 and other depository institutions (including interest-bearing deposits).

Explanation of Responses:

Table of Contents

Debt Securities

Debt securities comprise a significant portion of our Consolidated Balance Sheets. Such securities can be classified as trading, HTM or AFS. As of December 31, 2018 and 2017, we did not hold any trading debt securities.

Debt securities HTM are the securities that 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 OTTI.

Debt securities that are not classified as trading or HTM are classified as AFS. 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 debt 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 Consolidated Balance Sheets 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, 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

89

Table of Contents

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 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 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. The guaranteed portion of SBA loans originated with the intention to sell on the secondary market is classified as held for sale and 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 commercial loan classification for disclosure purposes.

Loans (Excluding Loans Acquired in a Business Combination)

Loans we intend to hold for the foreseeable future or until maturity or payoff are reported at their outstanding principal balances, net of any unearned income, deferred origination fees or costs, or premium or discounts on purchased loans. Interest income on loans is computed over the term of the loans using the effective interest method. Loan origination fees or costs and premiums or discounts 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.

90

Table of Contents

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. Purchased credit 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 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 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 $1.0 million 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 and lookback periods, and consideration of qualitative factors, all of which are susceptible to significant change.

Loans Acquired in a Business Combination

Loans acquired in a business combination (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 loans acquired in a business combination 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 loans acquired in a business combination 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;

91

Table of Contents

- 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 loans acquired in a business combination 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 loans acquired in a business combination 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.

Loans acquired in a business combination 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 contractually delinquent purchased credit impaired 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

We 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.

In the third quarter of 2018, we early adopted, on a prospective basis, ASU 2018-15 (See Note 2) which allows for implementation costs for activities performed in cloud computing arrangements that are a service contract to be

accounted for under the internal-use software guidance which allows for certain implementation costs to be capitalized depending on the nature of the costs and the project stage. Prior to the adoption of ASU 2018-15 all implementation costs for cloud computing arrangements that were a service contract were expensed as incurred.

92

Table of Contents

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 income 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 originated or purchased 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, on the Consolidated Balance Sheets. 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 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 other non-interest income, respectively.

Bank Owned Life Insurance

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 Sheets 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.

93

Explanation of Responses:

Table of Contents

Low Income Housing Tax Credit Partnerships

We invest in various affordable housing projects that qualify for 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 $43.7 million and $20.9 million at December 31, 2018 and December 31, 2017, respectively. Our unfunded commitments in LIHTCs were $57.0 million and $67.2 million at December 31, 2018 and December 31, 2017, 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. DTAs and DTLs 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 DTAs and DTLs 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 DTAs. If recovery is not likely, we will increase our provision for income taxes by recording a valuation allowance against the DTAs that are unlikely to be recovered. We believe that we will ultimately recover the DTAs recorded on our Consolidated Balance Sheets. However, should there be a change in our ability to recover our DTAs, 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 Consolidated 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.

Explanation of Responses:

Table of Contents

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 require the measurement and recognition of compensation expense, based on estimated fair values, for all stock-based awards, including stock options and restricted stock units, made to employees and stock awards made to directors. Generally, these restricted stock unit awards to employees vest over a three-year service period and the stock awards made to directors vest immediately.

We are required to estimate the fair value of stock-based awards on the date of grant. For time-based awards, the value of the award is recognized as expense in our Consolidated Statements of Income over the shorter of requisite service periods or the period through the date that the employee first becomes eligible to retire.

Prior to 2018, we granted performance-based restricted stock unit awards that had market-based performance conditions. Compensation cost for awards with market-based performance targets is recognized based on the award's grant date fair value.

Beginning in 2018, we granted multiple-condition performance-based restricted stock unit awards. These awards were accounted for by considering the market condition in the grant date fair value and recognizing compensation expense over the service period based on the grant date fair value and the probability that the non-market based performance condition will be met.

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 table summarizes accounting pronouncements issued by the FASB that we recently adopted or will be adopting in the future.

TABLE 2.1

Standard	Description	Required Date of Adoption	Financial Statements Impact
Cloud Computing Arrangement ASU 2018-15, Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract	This Update aligns the requirements for capitalizing implementation costs of a hosting arrangement that is a service contract with that of internal-use software.	January 1, 2020 Early adoption is permitted.	We early adopted this Update in the third quarter of 2018 by a prospective application method. The adoption of this Update did not have a material effect on our Consolidated Financial Statements.

Table of Contents

Standard	Description	Required Date of Adoption	Financial Statements Impact
Derivative and Hedging Activities			
ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities	This Update improves the financial reporting of hedging to better align with a company's risk management activities. In addition, this Update makes certain targeted improvements to simplify the application of the current hedge accounting guidance.	January 1, 2019 Early adoption is permitted.	This Update is to be applied using a modified retrospective method. The presentation and disclosure guidance are applied prospectively. The adoption of this Update is not expected to 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	This Update 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.	January 1, 2019 Early adoption is permitted.	This Update is to be applied using a modified retrospective transition method. The adoption of this Update 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	This Update 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 Consolidated Statements of Income and allows only the service cost component of net benefit cost to be eligible for capitalization.	January 1, 2018	We adopted this Update in the first quarter of 2018 by a retrospective transition method. The adoption of this Update 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)	This Update adds or clarifies guidance on eight cash flow issues.	January 1, 2018	We adopted this Update in the first quarter of 2018 by retrospective application. The adoption of this Update did not have a material effect on our Consolidated Financial Statements.

Table of Contents

Standard	Description	Required Date of Adoption	Financial Statements Impact
Credit Losses			
ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ASU 2018-19, Codification Improvements to Topic 326, Financial Instruments - Credit Losses	These Updates replace 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, HTM 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 AFS debt security impairment model and eliminate the current accounting for purchased credit impaired loans and debt securities.	January 1, 2020 Early adoption is permitted for fiscal years beginning after December 15, 2018	These Updates are to be applied using a cumulative-effect adjustment to retained earnings. The CECL model is a significant change from existing GAAP and may result in a material change to our accounting for financial instruments and regulatory capital. We have created a cross-functional steering committee to govern implementation. We are in the process of implementing a new modeling platform and integrating other auxiliary models to support a calculation of expected credit losses under CECL. We have made preliminary decisions on segmentation and are finalizing other inputs necessary to execute parallel runs beginning in the second quarter of 2019 to ensure we are ready to calculate, review and report on our CECL allowance for credit losses for the first quarter of 2020. The impact of this Update will be dependent on the portfolio composition, credit quality and forecasts of economic conditions at the time of adoption.
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)	This Update requires entities that sell prepaid stored-value products redeemable for goods, services or cash at third-party merchants to recognize breakage.	January 1, 2018	We adopted this Update in the first quarter of 2018. The adoption of this Update did not have a material effect on our Consolidated Financial Statements.
Leases			
ASU 2016-02, Leases (Topic 842) ASU 2018-10, Codification Improvements to Topic 842, Leases	These Updates require lessees to put most leases on the Consolidated Balance Sheets but recognize expenses in the Consolidated Statements of Income similar to current accounting. In addition, the Update changes the guidance for	January 1, 2019 Early adoption is permitted.	These Updates are to be applied using a modified retrospective application including a number of optional practical expedients. The adoption of these Updates will result in the recording of approximately $120 million in net right-of-use assets and corresponding lease liabilities of

ASU 2018-11, Leases (Topic 842), Targeted Improvements ASU 2018-20, Leases (Topic 842), Narrow-Scope Improvements for Lessors	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.		approximately $130 million for operating leases on our Consolidated Balance Sheets with no impact on our consolidated net income.

97

Table of Contents

Standard	Description	Required Date of Adoption	Financial Statements Impact
Financial Instruments – Recognition and Measurement			
ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities	This Update amends the presentation and accounting for certain financial instruments, including liabilities measured at fair value under the FVO, and equity investments. The guidance also updates fair value presentation and disclosure requirements for financial instruments measured at amortized cost.	January 1, 2018	We adopted this Update in the first quarter of 2018 by a cumulative-effect adjustment. The adoption of this Update did not have a material effect on our Consolidated Financial Statements. During the first quarter of 2018, we transferred marketable equity securities totaling $1.1 million from securities AFS to other assets.
Revenue Recognition			
ASU 2014-09, Revenue from Contracts with Customers (Topic 606)	This Update, as amended, 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.	January 1, 2018	We adopted these Updates in the first quarter of 2018 under the modified retrospective method. The adoption of this Update did not 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 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 southeastern 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 of 2017.

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 our 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 UST under the 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 estimated fair value on the acquisition date. The determination of estimated 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. Any adjustments to fair values and related adjustments to goodwill were recorded within the 12-month period. Based on the purchase price allocation, we recorded $1.2 billion in goodwill and $70.0 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.

Table of Contents

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. 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 Consolidated 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 Statements of Income 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 METR, a bank holding company based in Harrisburg, Pennsylvania. The acquisition enhanced our distribution and scale across Central Pennsylvania 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 Statements of Income 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.

Table of Contents

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:
TABLE 3.1

(in millions)	YDKN	Fifth Third Branches	METR
Fair value of consideration paid	$1,785	$ —	$ 404
Fair value of identifiable assets acquired:			
Cash and cash equivalents	197	199	47
Securities	940	—	723
Loans	5,114	95	1,863
Core deposit and other intangible assets	70	4	24
Fixed and other assets	459	14	127
Total identifiable assets acquired	6,780	312	2,784
Fair value of liabilities assumed:			
Deposits	5,177	302	2,328
Borrowings	969	—	228
Other liabilities	68	24	9
Total liabilities assumed	6,214	326	2,565
Fair value of net identifiable assets acquired	566	(14)	219
Goodwill recognized [(1)]	$1,219	$ 14	$ 185

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

100

Table of Contents

NOTE 4. SECURITIES

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

TABLE 4.1

(in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale:				
December 31, 2018				
U.S. government agencies	$ 188	$ —	$ (1)	$187
U.S. government-sponsored entities	317	—	(4)	313
Residential mortgage-backed securities:				
Agency mortgage-backed securities	1,465	—	(36)	1,429
Agency collateralized mortgage obligations	1,179	5	(23)	1,161
Commercial mortgage-backed securities	229	—	(1)	228
States of the U.S. and political subdivisions	21	—	—	21
Other debt securities	2	—	—	2
Total debt securities available for sale	$ 3,401	$ 5	$ (65)	$3,341
December 31, 2017				
U.S. government-sponsored entities	$ 348	$ —	$ (4)	$344
Residential mortgage-backed securities:				
Agency mortgage-backed securities	1,615	1	(17)	1,599
Agency collateralized mortgage obligations	813	—	(18)	795
States of the U.S. and political subdivisions	21	—	—	21
Other debt securities	5	—	—	5
Total debt securities available for sale	2,802	1	(39)	2,764
Equity securities	1	—	—	1
Total securities available for sale	$ 2,803	$ 1	$ (39)	$2,765

101

Table of Contents

(in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt Securities Held to Maturity:				
December 31, 2018				
U.S. Treasury	$ 1	$ —	$ —	$1
U.S. government agencies	2	—	—	2
U.S. government-sponsored entities	215	—	(4)	211
Residential mortgage-backed securities:				
Agency mortgage-backed securities	1,036	—	(26)	1,010
Agency collateralized mortgage obligations	794	1	(24)	771
Commercial mortgage-backed securities	126	1	(1)	126
States of the U.S. and political subdivisions	1,080	3	(49)	1,034
Total debt securities held to maturity	$ 3,254	$ 5	$ (104)	$3,155
December 31, 2017				
U.S. Treasury	$ 1	$ —	$ —	$1
U.S. government-sponsored entities	247	—	(4)	243
Residential mortgage-backed securities:				
Agency mortgage-backed securities	1,220	3	(9)	1,214
Agency collateralized mortgage obligations	777	—	(20)	757
Commercial mortgage-backed securities	80	1	(1)	80
States of the U.S. and political subdivisions	917	13	(7)	923
Total debt securities held to maturity	$ 3,242	$ 17	$ (41)	$3,218

During 2017, we received proceeds of $786.8 million from sales of AFS debt 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 debt 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 $4,000 immaterial gross losses). The HTM debt 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. We did not have any sales during 2018.

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

TABLE 4.2

Year Ended December 31	2018	2017	2016
(in millions)			
Gross gains	$ —	$ 7	$ 1
Gross losses	—	(1)	—
Net gains	$ —	$ 6	$ 1

102

Table of Contents

As of December 31, 2018, the amortized cost and fair value of debt securities, by contractual maturities, were as follows:

TABLE 4.3

(in millions)	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$95	$94	$42	$41
Due after one year but within five years	239	236	185	181
Due after five years but within ten years	68	68	116	116
Due after ten years	126	125	955	910
	528	523	1,298	1,248
Residential mortgage-backed securities:				
Agency mortgage-backed securities	1,465	1,429	1,036	1,010
Agency collateralized mortgage obligations	1,179	1,161	794	771
Commercial mortgage-backed securities	229	228	126	126
Total debt securities	$3,401	$3,341	$3,254	$3,155

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:

TABLE 4.4

December 31 (dollars in millions)	2018	2017
Securities pledged (carrying value):		
To secure public deposits, trust deposits and for other purposes as required by law	$3,874	$3,492
As collateral for short-term borrowings	279	264
Securities pledged as a percent of total securities	63.0 %	62.5 %

103

Table of Contents

Following are summaries of the fair values and unrealized losses of temporarily impaired debt securities, segregated by length of impairment. The unrealized losses reported below are generally due to the higher interest rate environment.

TABLE 4.5

	Less than 12 Months			12 Months or More			Total		
(dollars in millions)	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses
Debt Securities Available for Sale:									
December 31, 2018									
U.S. government agencies	20	$145	$ (1)	—	$—	$ —	20	$145	$ (1)
U.S. government-sponsored entities	1	36	—	11	227	(4)	12	263	(4)
Residential mortgage-backed securities:									
Agency mortgage-backed securities	16	259	(4)	71	1,159	(32)	87	1,418	(36)
Agency collateralized mortgage obligations	2	82	(1)	47	590	(22)	49	672	(23)
Non-agency collateralized mortgage obligations	1	—	—	—	—	—	1	—	—
Commercial mortgage-backed securities	4	155	(1)	—	—	—	4	155	(1)
States of the U.S. and political subdivisions	2	2	—	6	10	—	8	12	—
Other debt securities	—	—	—	1	2	—	1	2	—
Total temporarily impaired debt securities AFS	46	$679	$ (7)	136	$1,988	$ (58)	182	$2,667	$ (65)
December 31, 2017									
U.S. government-sponsored entities	7	$107	$ —	10	$201	$ (4)	17	$308	$ (4)
Residential mortgage-backed securities:									
Agency mortgage-backed securities	43	977	(8)	28	473	(10)	71	1,450	(18)
Agency collateralized mortgage obligations	14	409	(6)	33	336	(12)	47	745	(18)
States of the U.S. and political subdivisions	7	11	—	1	1	—	8	12	—
Other debt securities	—	—	—	3	5	—	3	5	—
Total temporarily impaired debt securities AFS	71	$1,504	$ (14)	75	$1,016	$ (26)	146	$2,520	$ (40)

Table of Contents

(dollars in millions)	Less than 12 Months #	Fair Value	Unrealized Losses	12 Months or More #	Fair Value	Unrealized Losses	Total #	Fair Value	Unrealized Losses
Debt Securities Held to Maturity:									
December 31, 2018									
U.S. government-sponsored entities	—	$—	$ —	12	$211	$ (4)	12	$211	$ (4)
Residential mortgage-backed securities:									
Agency mortgage-backed securities	43	294	(4)	47	694	(22)	90	988	(26)
Agency collateralized mortgage obligations	3	42	—	49	611	(24)	52	653	(24)
Commercial mortgage-backed securities	5	26	—	4	43	(1)	9	69	(1)
States of the U.S. and political subdivisions	159	590	(27)	51	161	(22)	210	751	(49)
Total temporarily impaired debt securities HTM	210	$952	$ (31)	163	$1,720	$ (73)	373	$2,672	$ (104)
December 31, 2017									
U.S. government-sponsored entities	4	$55	$—	10	$186	$(4)	14	$241	$(4)
Residential mortgage-backed securities:									
Agency mortgage-backed securities	36	648	(5)	11	184	(4)	47	832	(9)
Agency collateralized mortgage obligations	14	276	(2)	35	473	(18)	49	749	(20)
Commercial mortgage-backed securities	3	26	—	2	20	(1)	5	46	(1)
States of the U.S. and political subdivisions	16	57	(1)	37	121	(6)	53	178	(7)
Total temporarily impaired debt securities HTM	73	$1,062	$(8)	95	$984	$(33)	168	$2,046	$(41)

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. We did not recognize any OTTI losses on securities for the years ended December 31, 2018, 2017 and 2016.

States of the U.S. and Political Subdivisions

Our municipal bond portfolio with a carrying amount of $1.1 billion as of December 31, 2018 is highly rated with an average rating of AA and 100% of the portfolio rated A or better, while 99% have stand-alone ratings of 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 $3.1 million. In addition to the strong stand-alone ratings, 63% 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.

Table of Contents

NOTE 5. OTHER SECURITIES

Following is a summary of non-marketable equity securities:

TABLE 5.1

December 31 (in millions)	2018	2017
Federal Home Loan Bank stock	$209	$160
Federal Reserve Bank stock	122	122
Other non-marketable equity securities	1	1
Total non-marketable equity securities	$332	$283

We are a member of the FHLB of Pittsburgh and the FRB of Cleveland. Both institutions require members to purchase and hold a specified minimum level of stock based upon their membership, level of borrowings, collateral balances or participation in other programs. The FHLB and FRB stock is restricted in that they can only be sold back to the respective institutions. These non-marketable equity securities are included in other assets on the Consolidated Balance Sheets. The investments are carried at cost and evaluated for impairment periodically based on the ultimate recoverability of the par value. We determined there was no impairment at December 31, 2018 and 2017.

Table of Contents

NOTE 6. LOANS AND LEASES

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

TABLE 6.1

(in millions)	Originated Loans and Leases	Loans Acquired in a Business Combination	Total Loans and Leases
December 31, 2018			
Commercial real estate	$ 6,171	$ 2,615	$ 8,786
Commercial and industrial	4,140	416	4,556
Commercial leases	373	—	373
Other	46	—	46
Total commercial loans and leases	10,730	3,031	13,761
Direct installment	1,668	96	1,764
Residential mortgages	2,612	501	3,113
Indirect installment	1,933	—	1,933
Consumer lines of credit	1,119	463	1,582
Total consumer loans	7,332	1,060	8,392
Total loans and leases, net of unearned income	$ 18,062	$ 4,091	$ 22,153
December 31, 2017			
Commercial real estate	$ 5,175	$ 3,567	$ 8,742
Commercial and industrial	3,495	675	4,170
Commercial leases	267	—	267
Other	17	—	17
Total commercial loans and leases	8,954	4,242	13,196
Direct installment	1,756	150	1,906
Residential mortgages	2,036	667	2,703
Indirect installment	1,448	—	1,448
Consumer lines of credit	1,152	594	1,746
Total consumer loans	6,392	1,411	7,803
Total loans and leases, net of unearned income	$ 15,346	$ 5,653	$ 20,999

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 and consumer lines of credit that are either unsecured or secured by collateral other than home equity.

Table of Contents

The loans and leases portfolio consists principally of loans to individuals and small- and medium-sized businesses within our primary market in seven states and the District of Columbia. Our market coverage spans several major metropolitan areas including: Pittsburgh, Pennsylvania; Baltimore, Maryland; Cleveland, Ohio; and Charlotte, Raleigh, Durham and the Piedmont Triad (Winston-Salem, Greensboro and High Point) in North Carolina.
The following table shows certain information relating to commercial real estate loans:

TABLE 6.2

December 31 (dollars in millions)	2018	2017
Commercial construction, acquisition and development loans	$1,152	$1,170
Percent of total loans and leases	5.2 %	5.6 %
Commercial real estate:		
Percent owner-occupied	35.1 %	35.3 %
Percent non-owner-occupied	64.9 %	64.7 %

As of December 31, 2018 and 2017, we had residential construction loans of $273.4 million and $248.3 million, representing 1.2% and 1.1% of total loans and leases, respectively.
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 2018:

TABLE 6.3

(in millions)	
Balance at beginning of period	$20
New loans	1
Repayments	(4)
Other	(1)
Balance at end of period	$16

Other represents the net change in loan balances resulting from changes in related parties during 2018.

Explanation of Responses:

Table of Contents

Loans Acquired in a Business Combination

All loans acquired in a business combination were initially recorded at fair value at the acquisition date. Refer to the Loans Acquired in a Business Combination 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 loans acquired in a business combination included in the Consolidated Balance Sheets are as follows:

TABLE 6.4

December 31 (in millions)	2018	2017
Accounted for under ASC 310-30:		
Outstanding balance	$3,768	$5,176
Carrying amount	3,570	4,834
Accounted for under ASC 310-20:		
Outstanding balance	602	835
Carrying amount	513	813
Total loans acquired in a business combination:		
Outstanding balance	4,370	6,011
Carrying amount	4,083	5,647

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 $1.7 million at December 31, 2018 and $1.9 million at December 31, 2017, representing 0.04% and 0.03%, respectively, of the carrying amount of total loans acquired in a business combination as of each date.

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

TABLE 6.5

Year Ended December 31 (in millions)	2018	2017
Balance at beginning of period	$708	$467
Acquisitions	—	445
Reduction due to unexpected early payoffs	(146)	(128)
Reclass from non-accretable difference	267	156
Disposals/transfers	(1)	(4)
Other	(1)	(1)
Accretion	(222)	(227)
Balance at end of period	$605	$708

Cash flows expected to be collected on loans acquired in business combinations 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.

Table of Contents

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, since the timing and/or amount of cash flows expected to be collected can be reasonably estimated (the accretion model). 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.
During 2018, there was an overall improvement in cash flow expectations which resulted in a net reclassification of $266.5 million from the non-accretable difference to accretable yield primarily driven by overall improvement in the primary credit quality indicators of the majority of the acquired loan pools as well as increases to variable/adjustable interest rates throughout the year. This reclassification was $155.8 million for 2017. The reclassification from the non-accretable difference to the accretable yield results in prospective yield adjustments on the loan pools and was also positively impacted by the sale of $56.5 million of acquired residential mortgage loans in the second quarter of 2018.

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 TDRs. Past due loans are reviewed on a monthly basis to identify loans for non-accrual status. We place loans on non-accrual status and discontinue interest accruals on 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 and leases 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 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. The majority of 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:
TABLE 6.6

December 31	2018	2017
(dollars in millions)		
Non-accrual loans	$79	$75
Troubled debt restructurings	21	23
Total non-performing loans	100	98
Other real estate owned	35	41
Total non-performing assets	$135	$139
Asset quality ratios:		
Non-performing loans / total loans and leases	0.45 %	0.47 %
Non-performing loans + OREO / total loans and leases + OREO	0.61 %	0.66 %
Non-performing assets / total assets	0.41 %	0.44 %

The carrying value of residential other real estate owned 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 $6.3 million at December 31, 2018 and $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, 2018 and December 31, 2017 totaled $8.9 million and $15.2 million, respectively.

Explanation of Responses:

Table of Contents

The following tables provide an analysis of the aging of loans by class segregated by loans and leases originated and loans acquired:
TABLE 6.7

(in millions)	30-89 Days Past Due	≥ 90 Days Past Due and Still Accruing	Non-Accrual	Total Past Due (1)	Current	Total Loans and Leases
Originated Loans and Leases						
December 31, 2018						
Commercial real estate	$ 7	$ —	$ 17	$ 24	$6,147	$6,171
Commercial and industrial	5	—	19	24	4,116	4,140
Commercial leases	1	—	2	3	370	373
Other	—	—	1	1	45	46
Total commercial loans and leases	13	—	39	52	10,678	10,730
Direct installment	8	—	8	16	1,652	1,668
Residential mortgages	16	3	6	25	2,587	2,612
Indirect installment	11	1	2	14	1,919	1,933
Consumer lines of credit	5	1	3	9	1,110	1,119
Total consumer loans	40	5	19	64	7,268	7,332
Total originated loans and leases	$ 53	$ 5	$ 58	$ 116	$17,946	$18,062
December 31, 2017						
Commercial real estate	$ 9	$ —	$ 25	$ 34	$5,141	$5,175
Commercial and industrial	9	—	17	26	3,469	3,495
Commercial leases	1	—	2	3	264	267
Other	—	—	1	1	16	17
Total commercial loans and leases	19	—	45	64	8,890	8,954
Direct installment	13	5	9	27	1,729	1,756
Residential mortgages	14	3	5	22	2,014	2,036
Indirect installment	10	1	2	13	1,435	1,448
Consumer lines of credit	6	1	2	9	1,143	1,152
Total consumer loans	43	10	18	71	6,321	6,392
Total originated loans and leases	$ 62	$ 10	$ 63	$ 135	$15,211	$15,346

(in millions)	30-89 Days Past Due	≥ 90 Days Past Due and Still Accruing	Non-Accrual	Total Past Due (2) (3) (4)	Current	(Discount)/ Premium	Total Loans
Loans Acquired in a Business Combination							
December 31, 2018							
Commercial real estate	$ 19	$ 38	$ 3	$60	$2,723	$ (168)	$2,615
Commercial and industrial	3	4	17	24	420	(28)	416
Total commercial loans	22	42	20	84	3,143	(196)	3,031
Direct installment	3	2	—	5	91	—	96
Residential mortgages	13	6	—	19	498	(16)	501
Consumer lines of credit	8	3	1	12	461	(10)	463
Total consumer loans	24	11	1	36	1,050	(26)	1,060
Total loans acquired in a business combination	$ 46	$ 53	$ 21	$120	$4,193	$ (222)	$4,091
December 31, 2017							
Commercial real estate	$ 35	$ 63	$ 4	$102	$3,657	$ (192)	$3,567
Commercial and industrial	3	7	6	16	698	(39)	675
Total commercial loans	38	70	10	118	4,355	(231)	4,242
Direct installment	5	2	—	7	142	1	150
Residential mortgages	17	15	—	32	676	(41)	667
Consumer lines of credit	7	3	1	11	596	(13)	594
Total consumer loans	29	20	1	50	1,414	(53)	1,411
Total loans acquired in a business combination	$ 67	$ 90	$ 11	$168	$5,769	$ (284)	$5,653

(1) Approximately $14.7 million of originated past-due or non-accrual loans were sold during the second quarter of 2018.

(2) Past due information for loans acquired in a business combination is based on the contractual balance outstanding at December 31, 2018 and 2017.

(3) Loans acquired in a business combination 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. Loans acquired in a business combination 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 loans acquired in a business combination considered non-accrual or non-performing.

(4) Approximately $28.5 million of acquired past-due or non-accrual loans were sold during the second quarter of 2018.

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

TABLE 6.8

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

112

Table of Contents

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:
TABLE 6.9

	Commercial Loan and Lease Credit Quality Categories				
(in millions)	Pass	Special Mention	Substandard	Doubtful	Total
Originated Loans and Leases					
December 31, 2018					
Commercial real estate	$5,883	$ 163	$ 125	$ —	$6,171
Commercial and industrial	3,879	180	81	—	4,140
Commercial leases	366	1	6	—	373
Other	45	—	1	—	46
Total originated commercial loans and leases	$10,173	$ 344	$ 213	$ —	$10,730
December 31, 2017					
Commercial real estate	$4,923	$ 152	$ 99	$ 1	$5,175
Commercial and industrial	3,267	133	92	3	3,495
Commercial leases	260	5	2	—	267
Other	16	—	1	—	17
Total originated commercial loans and leases	$8,466	$ 290	$ 194	$ 4	$8,954
Loans Acquired in a Business Combination					
December 31, 2018					
Commercial real estate	$2,256	$ 168	$ 191	$ —	$2,615
Commercial and industrial	355	18	43	—	416
Total commercial loans acquired in a business combination	$2,611	$ 186	$ 234	$ —	$3,031
December 31, 2017					
Commercial real estate	$3,103	$ 251	$ 213	$ —	$3,567
Commercial and industrial	604	26	45	—	675
Total commercial loans acquired in a business combination	$3,707	$ 277	$ 258	$ —	$4,242

Credit quality information for loans acquired in a business combination is based on the contractual balance outstanding at December 31, 2018 and 2017.
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.

Table of Contents

Following is a table showing consumer loans by payment status:

TABLE 6.10

	Consumer Loan Credit Quality by Payment Status		
(in millions)	Performing	Non-Performing	Total
Originated Loans			
December 31, 2018			
Direct installment	$ 1,654	$ 14	$ 1,668
Residential mortgages	2,598	14	2,612
Indirect installment	1,931	2	1,933
Consumer lines of credit	1,114	5	1,119
Total originated consumer loans	$ 7,297	$ 35	$ 7,332
December 31, 2017			
Direct installment	$ 1,739	$ 17	$ 1,756
Residential mortgages	2,020	16	2,036
Indirect installment	1,446	2	1,448
Consumer lines of credit	1,148	4	1,152
Total originated consumer loans	$ 6,353	$ 39	$ 6,392
Loans Acquired in a Business Combination			
December 31, 2018			
Direct installment	$ 96	$ —	$ 96
Residential mortgages	501	—	501
Indirect installment	—	—	—
Consumer lines of credit	462	1	463
Total consumer loans acquired in a business combination	$ 1,059	$ 1	$ 1,060
December 31, 2017			
Direct installment	$ 150	$ —	$ 150
Residential mortgages	667	—	667
Consumer lines of credit	592	2	594
Total consumer loans acquired in a business combination	$ 1,409	$ 2	$ 1,411

Loans 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 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.). Effective July 1, 2018, we changed our threshold for measuring impairment on a collective basis. Impairment is evaluated in the aggregate for newly impaired commercial loan relationships less than $1.0 million based on loan segment loss given default. Impairment is evaluated in the aggregate for consumer installment loans, residential mortgages, consumer lines of credit and commercial loan relationships less than $1.0 million based on loan segment loss given default. For commercial loan relationships greater than or equal to $1.0 million, 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 sale of the collateral. Consistent with our existing method of income recognition for loans, 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.

Table of Contents

Following is a summary of information pertaining to loans and leases considered to be impaired, by class of loan and lease:
TABLE 6.11

(in millions)	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, 2018						
Commercial real estate	$ 20	$ 16	$ 1	$ 17	$ —	$ 18
Commercial and industrial	46	20	13	33	4	32
Commercial leases	2	2	—	2	—	4
Other	—	—	—	—	—	—
Total commercial loans and leases	68	38	14	52	4	54
Direct installment	17	14	—	14	—	14
Residential mortgages	16	14	—	14	—	15
Indirect installment	5	2	—	2	—	2
Consumer lines of credit	7	5	—	5	—	5
Total consumer loans	45	35	—	35	—	36
Total	$ 113	$ 73	$ 14	$ 87	$ 4	$ 90
At or for the Year Ended December 31, 2017						
Commercial real estate	$ 27	$ 22	$ 3	$ 25	$ 1	$ 25
Commercial and industrial	29	11	4	15	3	24
Commercial leases	2	2	—	2	—	1
Total commercial loans and leases	58	35	7	42	4	50
Direct installment	19	17	—	17	—	17
Residential mortgages	18	16	—	16	—	16
Indirect installment	6	2	—	2	—	2
Consumer lines of credit	5	4	—	4	—	4
Total consumer loans	48	39	—	39	—	39
Total	$ 106	$ 74	$ 7	$ 81	$ 4	$ 89

Table of Contents

Interest income continued to accrue on certain impaired loans and totaled approximately $5.9 million, $6.1 million and $4.6 million during 2018, 2017 and 2016, respectively. The above tables include one loan acquired in a business combination with a specific reserve at December 31, 2018.

Following is a summary of the allowance for credit losses required for loans acquired in a business combination due to changes in credit quality subsequent to the acquisition date:

TABLE 6.12

December 31 (in millions)	2018	2017
Commercial real estate	$ 2	$ 5
Commercial and industrial	4	—
Total commercial loans	6	5
Direct installment	1	2
Total consumer loans	1	2
Total allowance on loans acquired in a business combination	$ 7	$ 7

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:

TABLE 6.13

(in millions)	Originated	Acquired	Total
December 31, 2018			
Accruing:			
Performing	$ 18	$ —	$ 18
Non-performing	17	4	21
Non-accrual	9	—	9
Total TDRs	$ 44	$ 4	$ 48
December 31, 2017			
Accruing:			
Performing	$ 20	$ —	$ 20
Non-performing	20	3	23
Non-accrual	10	—	10
Total TDRs	$ 50	$ 3	$ 53

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 2018, we returned to performing status $4.0 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 six 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.

Table of Contents

Excluding purchased credit impaired loans, commercial loans over $1.0 million 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 individually impaired loans under $1.0 million based on loan segment loss given default. Our allowance for loan losses includes specific reserves for commercial TDRs of less than $0.5 million at December 31, 2018 and 2017, respectively, and pooled reserves for individual loans of $0.5 million for those same respective periods, based on loan segment loss given default. Upon default, the amount of the recorded investment in the TDR in excess of the fair value of the collateral, less estimated selling costs, is generally considered a confirmed loss and is charged-off against the allowance for credit losses.

All other classes of loans 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 at December 31, 2018 and 2017, respectively. Upon default of an individual loan, our charge-off policy is followed for that class of loan.
Following is a summary of TDR loans, by class:
TABLE 6.14

Year Ended December 31	2018			2017		
(dollars in millions)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial real estate	4	$ 1	$ 1	3	$ 2	$ 2
Commercial and industrial	10	—	—	3	3	3
Total commercial loans	14	1	1	6	5	5
Direct installment	80	4	4	641	5	5
Residential mortgages	15	1	1	43	3	2
Indirect installment	—	—	—	18	—	—
Consumer lines of credit	26	1	1	64	1	1
Total consumer loans	121	6	6	766	9	8
Total	135	$ 7	$ 7	772	$ 14	$ 13

The items in the above tables have been adjusted for loans that have been paid off and/or sold.

117

Table of Contents

Following is a summary of originated TDRs, by class, for which there was a payment default, excluding loans that have been paid off and/or sold. Default occurs when a loan is 90 days or more past due and is within 12 months of restructuring.

TABLE 6.15

Year Ended December 31	2018		2017	
(dollars in millions)	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
Commercial real estate	3	$ 1	1	$ —
Commercial and industrial	1	—	—	—
Total commercial loans	4	1	1	—
Direct installment	7	1	131	1
Residential mortgages	4	—	6	—
Indirect installment	—	—	17	—
Consumer lines of credit	3	—	5	—
Total consumer loans	14	1	159	1
Total	18	$ 2	160	$ 1

NOTE 7. ALLOWANCE FOR CREDIT LOSSES

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

TABLE 7.1

(in millions)	Balance at Beginning of Year	Charge-Offs	Recoveries	Net Charge-Offs	Provision for Credit Losses	Balance at End of Year
Year Ended December 31, 2018						
Commercial real estate	$ 50	$ (7)	$ 3	$ (4)	$ 9	$ 55
Commercial and industrial	52	(20)	2	(18)	15	49
Commercial leases	5	(3)	—	(3)	6	8
Other	2	(4)	—	(4)	4	2
Total commercial loans and leases	109	(34)	5	(29)	34	114
Direct installment	21	(17)	2	(15)	8	14
Residential mortgages	16	—	—	—	4	20
Indirect installment	12	(9)	4	(5)	8	15
Consumer lines of credit	10	(3)	—	(3)	3	10
Total consumer loans	59	(29)	6	(23)	23	59
Total allowance on originated loans	168	(63)	11	(52)	57	173
Purchased credit-impaired loans	1	—	—	—	—	1
Other loans acquired in a business combination	6	(7)	3	(4)	4	6
Total allowance on loans acquired in a business combination	7	(7)	3	(4)	4	7
Total allowance for credit losses	$ 175	$ (70)	$ 14	$ (56)	$ 61	$ 180

Table of Contents

(in millions)	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	$ 47	$ (2)	$ 2	$ —	$ 3	$ 50
Commercial and industrial	48	(27)	2	(25)	29	52
Commercial leases	3	(1)	—	(1)	3	5
Other	1	(4)	1	(3)	4	2
Total commercial loans and leases	99	(34)	5	(29)	39	109
Direct installment	21	(12)	2	(10)	10	21
Residential mortgages	10	—	—	—	6	16
Indirect installment	11	(10)	4	(6)	7	12
Consumer lines of credit	10	(2)	—	(2)	2	10
Total consumer loans	52	(24)	6	(18)	25	59
Total allowance on originated loans	151	(58)	11	(47)	64	168
Purchased credit-impaired loans	1	(1)	—	(1)	1	1
Other loans acquired in a business combination	6	(1)	5	4	(4)	6
Total allowance on loans acquired in a business combination	7	(2)	5	3	(3)	7
Total allowance for credit losses	$ 158	$ (60)	$ 16	$ (44)	$ 61	$ 175
Year Ended December 31, 2016						
Commercial real estate	$ 42	$ (7)	$ 4	$ (3)	$ 8	$ 47
Commercial and industrial	41	(19)	2	(17)	24	48
Commercial leases	2	(1)	—	(1)	2	3
Other	1	(3)	—	(3)	3	1
Total commercial loans and leases	86	(30)	6	(24)	37	99
Direct installment	21	(10)	2	(8)	8	21
Residential mortgages	8	—	—	—	2	10
Indirect installment	10	(8)	2	(6)	7	11
Consumer lines of credit	10	(2)	—	(2)	2	10
Total consumer loans	49	(20)	4	(16)	19	52
Total allowance on originated loans	135	(50)	10	(40)	56	151
Purchased credit-impaired loans	1	—	—	—	—	1
Other loans acquired in a business combination	6	(1)	1	—	—	6
Total allowance on loans acquired in a business combination	7	(1)	1	—	—	7
Total allowance for credit losses	$ 142	$ (51)	$ 11	$ (40)	$ 56	$ 158

Table of Contents

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

TABLE 7.2

(in millions)	Allowance		Loans and Leases Outstanding		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Loans and Leases	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
December 31, 2018					
Commercial real estate	$ —	$ 55	$6,171	$ 7	$ 6,164
Commercial and industrial	4	49	4,140	11	4,129
Commercial leases	—	9	373	—	373
Other	—	2	46	—	46
Total commercial loans and leases	4	115	10,730	18	10,712
Direct installment	—	14	1,668	—	1,668
Residential mortgages	—	19	2,612	—	2,612
Indirect installment	—	15	1,933	—	1,933
Consumer lines of credit	—	10	1,119	—	1,119
Total consumer loans	—	58	7,332	—	7,332
Total	$ 4	$ 173	$18,062	$ 18	$ 18,044
December 31, 2017					
Commercial real estate	$ 1	$ 50	$5,175	$ 11	$ 5,164
Commercial and industrial	3	49	3,495	10	3,485
Commercial leases	—	5	267	—	267
Other	—	2	17	—	17
Total commercial loans and leases	4	106	8,954	21	8,933
Direct installment	—	21	1,756	—	1,756
Residential mortgages	—	16	2,036	—	2,036
Indirect installment	—	12	1,448	—	1,448
Consumer lines of credit	—	10	1,152	—	1,152
Total consumer loans	—	59	6,392	—	6,392
Total	$ 4	$ 165	$15,346	$ 21	$ 15,325

The above table excludes loans acquired in a business combination 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, 2018 and 2017, is listed below:

TABLE 8.1

December 31	2018	2017
(in millions)		
Mortgage loans sold with servicing retained	$3,968	$3,257

Table of Contents

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

TABLE 8.2

Year Ended December 31 (in millions)	2018	2017	2016
Mortgage loans sold with servicing retained	$1,060	$1,769	$673
Pretax gains resulting from above loan sales [(1)]	19	22	13
Mortgage servicing fees [(1)]	9	8	4

(1) Recorded in mortgage banking operations on the Consolidated Statements of Income.

Following is a summary of the MSR activity:

TABLE 8.3

Year Ended December 31 (in millions)	2018	2017	2016
Balance at beginning of period	$29	$14	$9
Fair value of MSRs acquired	—	8	—
Additions	13	11	7
Payoffs and curtailments	(2)	(2)	(1)
Impairment charge	(1)	—	—
Amortization	(2)	(2)	(1)
Balance at end of period	$37	$29	$14
Fair value, beginning of period	$32	$18	$12
Fair value, end of period	41	32	18

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 valuations. 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 and as interest rates increase, mortgage loan prepayments decline, which results in an increase 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.

Table of Contents

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

TABLE 8.4

December 31 (dollars in millions)	2018	2017
Weighted average life (months)	82.2	80.4
Constant prepayment rate (annualized)	10.1%	9.9%
Discount rate	9.7%	9.9%
Effect on fair value due to change in interest rates:		
+0.25%	$3	$2
+0.50%	5	3
-0.25%	(3)	(2)
-0.50%	(6)	(4)

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. We had a $0.5 million valuation allowance for MSRs as of December 31, 2018.

SBA-Guaranteed Loan Servicing

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, 2018 and December 31, 2017, was as follows:

TABLE 8.5

December 31 (in millions)	2018	2017
SBA loans sold to investors with servicing retained	$283	$306

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

TABLE 8.6

Year Ended December 31 (in millions)	2018	2017
SBA loans sold with servicing retained	$ 41	$ 54
Pretax gains resulting from above loan sales (1)	4	2
SBA servicing fees (1)	3	2

(1) Recorded in non-interest income.

122

Table of Contents

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

TABLE 8.7

Year Ended December 31	2018	2017
(in millions)		
Balance at beginning of period	$ 5	$ —
Fair value of servicing rights acquired	—	5
Additions	1	1
Payoffs, curtailments and amortization	(1)	(1)
Impairment (charge) / recovery	(1)	—
Balance at end of period	$ 4	$ 5
Fair value, beginning of period	$ 5	$ —
Fair value, end of period	4	5

Following is a summary of key assumptions and the sensitivity of the SBA servicing rights to changes in these assumptions. The declines in fair values were immaterial in the scenarios presented.

TABLE 8.8

December 31	2018					2017				
		Decline in fair value due to					Decline in fair value due to			
(dollars in millions)	Actual	10% adverse change	20% adverse change	1% adverse change	2% adverse change	Actual	10% adverse change	20% adverse change	1% adverse change	2% adverse change
Weighted-average life (months)	52.2					63.5				
Constant prepayment rate	12.5 %	$ —	$ —	$ —	$ —	9.3 %	$ —	$ —	$ —	$ —
Discount rate	19.4	—	—	—	—	14.9	—	—	—	—

The fair value of the SBA servicing rights is compared to the amortized basis. 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 $0.8 million valuation allowance for SBA servicing rights as of December 31, 2018.

NOTE 9. PREMISES AND EQUIPMENT

Following is a summary of premises and equipment:

TABLE 9.1

December 31	2018	2017
(in millions)		
Land	$ 64	$ 67
Premises	238	240
Equipment	236	213
	538	520
Accumulated depreciation	(208)	(183)
Total premises and equipment, net	$ 330	$ 337

Table of Contents

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

TABLE 9.2

December 31 (in millions)	2018	2017	2016
Depreciation expense for premises and equipment	$ 39	$ 34	$ 23

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:

TABLE 9.3

December 31 (in millions)	2018	2017	2016
Rental expense	$ 33	$ 29	$ 21

Following is a summary of future minimum lease payments for years following December 31, 2018:

TABLE 9.4

(in millions)	
2019	$25
2020	21
2021	18
2022	13
2023	10
Later years	49
Total minimum rental commitment under leases	$136

NOTE 10. GOODWILL AND OTHER INTANGIBLE ASSETS

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

TABLE 10.1

(in millions)	Community Banking	Wealth Manage-ment	Insurance	Consumer Finance	Total
Balance at January 1, 2017	$ 1,011	$ 8	$ 11	$ 2	$1,032
Goodwill (deductions) additions	1,217	—	—	—	1,217
Balance at December 31, 2017	2,228	8	11	2	2,249
Goodwill (deductions) additions	3	—	5	(2)	6
Balance at December 31, 2018	$ 2,231	$ 8	$ 16	$ —	$2,255

We recorded goodwill in the Community Banking segment during 2017 and 2018 as a result of the purchase accounting adjustments relating to the various acquisitions described in Note 3, “Mergers and Acquisitions.” The addition of goodwill for the Insurance segment in 2018 was the result of the FNIA acquisition of a Maryland-based insurance agency on December 17, 2018. The deduction of goodwill for the Consumer Finance segment in 2018 was the result of the sale of Regency to Mariner Finance, LLC on August 31, 2018, as part of our strategy to enhance the overall positioning of our consumer banking operations.

124

Table of Contents

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

TABLE 10.2

(in millions)	Core Deposit Intangibles	Customer Renewal Lists	Total
December 31, 2018			
Gross carrying amount	$ 196	$ 15	$211
Accumulated amortization	(122)	(10)	(132)
Net carrying amount	$ 74	$ 5	$79
December 31, 2017			
Gross carrying amount	$ 196	$ 12	$208
Accumulated amortization	(107)	(9)	(116)
Net carrying amount	$ 89	$ 3	$92

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:

TABLE 10.3

December 31 (in millions)	2018	2017	2016
Amortization expense	$ 16	$ 18	$ 11

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, 2018:

TABLE 10.4

(in millions)	
2019	$14
2020	13
2021	11
2022	10
2023	9
Total	$57

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 2018 and 2017 and determined that our intangible assets are not impaired.

Table of Contents

NOTE 11. DEPOSITS

Following is a summary of deposits:

TABLE 11.1

December 31 (in millions)	2018	2017
Non-interest-bearing demand	$6,000	$5,720
Interest-bearing demand	9,660	9,571
Savings	2,526	2,488
Certificates and other time deposits:		
Less than $100,000	2,816	2,461
$100,000 through $250,000	1,478	1,327
Greater than $250,000	975	833
Total certificates and other time deposits	5,269	4,621
Total deposits	$23,455	$22,400

Following is a summary of the scheduled maturities of certificates and other time deposits for the years following December 31, 2018:

TABLE 11.2

(in millions)	
2019	$3,255
2020	1,309
2021	222
2022	143
2023	209
Later years	131
Total	$5,269

NOTE 12. SHORT-TERM BORROWINGS

Following is a summary of short-term borrowings:

TABLE 12.1

December 31 (in millions)	2018	2017
Securities sold under repurchase agreements	$251	$256
Federal Home Loan Bank advances	2,230	2,285
Federal funds purchased	1,535	1,000
Subordinated notes	113	138
Total short-term borrowings	$4,129	$3,679

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. Of the total short-term FHLB advances, 57.2% and 75.7% had overnight maturities as of December 31, 2018 and December 31, 2017, respectively.

Table of Contents

The following represents weighted average interest rates on short-term borrowings:

TABLE 12.2

December 31	2018	2017	2016
Year-to-date average	1.89%	1.16%	0.61%
Period-end	2.49%	1.44%	0.69%

NOTE 13. LONG-TERM BORROWINGS

Following is a summary of long-term borrowings:

TABLE 13.1

December 31 (in millions)	2018	2017
Federal Home Loan Bank advances	$270	$310
Subordinated notes	87	88
Junior subordinated debt	111	110
Other subordinated debt	159	160
Total long-term borrowings	$627	$668

Scheduled annual maturities for the long-term borrowings for the years following December 31, 2018 are as follows:

TABLE 13.2

(in millions)	
2019	$158
2020	116
2021	56
2022	8
2023	40
Later years	249
Total	$627

Federal Home Loan Bank advances

Our banking affiliate has available credit with the FHLB of $7.4 billion, of which $2.5 billion was utilized as of December 31, 2018. These advances are secured by loans collateralized by residential mortgages, home equity lines of credit, 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 1.39% to 4.19% for the year ended December 31, 2018 and 1.11% to 4.19% for the year ended December 31, 2017.

Table of Contents

Subordinated notes

Subordinated notes are unsecured and subordinated to our other indebtedness. The subordinated notes mature in various amounts periodically through the year 2028. At December 31, 2018, 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:

TABLE 13.3

December 31	2018	2017	2016
Subordinated notes weighted average interest rate	3.08%	2.85%	2.71%

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 and are included on the Consolidated Balance Sheets in long-term borrowings. 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 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.

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, 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, 2018:

TABLE 13.4

(dollars in millions)	Trust Preferred Securities	Common Securities	Junior Subordinated Debt	Stated Maturity Date	Interest Rate	Rate Reset Factor
F.N.B. Statutory Trust II	$ 22	$ 1	$ 22	6/15/2036	4.44 %	LIBOR + 165 basis points (bps)
Omega Financial Capital Trust I	26	1	27	10/18/2034	4.63 %	LIBOR + 219 bps
Yadkin Valley Statutory Trust I	25	1	21	12/15/2037	4.11 %	LIBOR + 132 bps
FNB Financial Services Capital Trust I	25	1	22	9/30/2035	4.26 %	LIBOR + 146 bps
American Community Capital Trust II	10	—	10	12/15/2033	5.19 %	LIBOR + 280 bps
Crescent Financial Capital Trust I	8	—	9	10/7/2033	5.54 %	LIBOR + 310 bps
Total	$ 116	$ 4	$ 111			

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, 2018, the carrying value was $98.9 million. These subordinated notes are eligible for treatment as tier 2 capital for regulatory capital purposes.

Explanation of Responses:

Table of Contents

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, 2018, the carrying value was $16.6 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, 2018, the carrying value was $43.4 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 Consolidated Balance Sheets.

TABLE 14.1

December 31	2018			2017		
	Notional	Fair Value		Notional	Fair Value	
(in millions)	Amount	Asset	Liability	Amount	Asset	Liability
Gross Derivatives						
Subject to master netting arrangements:						
Interest rate contracts – designated	$1,155	$—	$ 3	$705	$—	$ 2
Interest rate swaps – not designated	2,740	2	10	2,246	1	12
Equity contracts – not designated	1	—	—	1	—	—
Total subject to master netting arrangements	3,896	2	13	2,952	1	14
Not subject to master netting arrangements:						
Interest rate swaps – not designated	2,740	40	26	2,245	28	15
Interest rate lock commitments – not designated	47	1	—	88	2	—
Forward delivery commitments – not designated	55	—	—	107	—	—
Credit risk contracts – not designated	203	—	—	235	—	—
Equity contracts – not designated	1	—	—	1	—	—
Total not subject to master netting arrangements	3,046	41	26	2,676	30	15
Total	$6,942	$43	$ 39	$5,628	$31	$ 29

Table of Contents

Certain derivative exchanges have 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. Accordingly, we have changed our reporting of certain derivatives to record variation margin on trades cleared through exchanges that have adopted the rule change 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 certain 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. Any ineffective portion of the gain or loss is reported in earnings immediately.

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

TABLE 14.2

December 31	2018	2017
(in millions)		
Notional amount	$1,155	$705
Fair value included in other assets	—	—
Fair value included in other liabilities	3	2

The following table shows amounts reclassified from accumulated other comprehensive income:

TABLE 14.3

December 31	2018		2017	
(in millions)	Total	Net of Tax	Total	Net of Tax
Reclassified from AOCI to interest income	$—	$ —	$1	$ 1
Reclassified from AOCI to interest expense	(3)	(2)	1	1

As of December 31, 2018, the maximum length of time over which forecasted interest cash flows are hedged is six years. In the twelve months that follow December 31, 2018, we expect to reclassify from the amount currently reported in AOCI net derivative gains of $3.4 million ($2.7 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, 2018.

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, 2018 and 2017, there was no hedge ineffectiveness. Also, during the years ended December 31, 2018 and 2017, 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.

Table of Contents

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.
Following is a summary of key data related to interest rate swaps:
TABLE 14.4

December 31 (in millions)	2018	2017
Notional amount	$5,480	$4,491
Fair value included in other assets	42	29
Fair value included in other liabilities	36	27

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 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 270 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 their obligation to perform under certain derivative swap contracts.
Risk participation agreements sold with notional amounts totaling $140.6 million as of December 31, 2018 have remaining terms ranging from nine months to ten 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 $0.1 million at both December 31, 2018 and 2017. The fair values of risk participation agreements purchased and sold were $0.05 million and $(0.11) million, respectively, at December 31, 2018 and $0.04 million and $(0.1) million, respectively at December 31, 2017.
Counterparty Credit Risk
We are party to master netting arrangements with most of our swap derivative dealer 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 settled or 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

131

Explanation of Responses:

would be required to pay an additional $0.7 million and $0.9 million as of December 31, 2018 and 2017, 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 Consolidated Balance Sheets to the net amounts that would result in the event of offset:

TABLE 14.5

		Amount Not Offset in the Consolidated Balance Sheets		
(in millions)	Net Amount Presented in the Consolidated Balance Sheets	Financial Instruments	Cash Collateral	Net Amount
December 31, 2018				
Derivative Assets				
Interest rate contracts:				
Not designated	$ 2	$ 2	$ —	$ —
Total	$ 2	$ 2	$ —	$ —
Derivative Liabilities				
Interest rate contracts:				
Designated	$3	$3	$—	$—
Not designated	10	9	—	1
Total	$13	$12	$—	$1
December 31, 2017				
Derivative Assets				
Interest rate contracts:				
Not designated	$1	$1	$—	$—
Total	$1	$1	$—	$—
Derivative Liabilities				
Interest rate contracts:				
Designated	$2	$2	$—	$—
Not designated	12	11	—	1
Total	$14	$13	$—	$1

The following table presents the effect of certain derivative financial instruments on the Consolidated Statements of Income:

TABLE 14.6

		Year Ended December 31,	
(in millions)	Consolidated Statements of Income Location	2018	2017
Interest Rate Contracts	Interest income – loans and leases	$ —	$ 1
Interest Rate Contracts	Interest expense – short-term borrowings	(2)	1
Interest Rate Swaps	Other income	1	(1)
Credit Risk Contracts	Other income	—	—

Table of Contents

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:

TABLE 15.1

December 31 (in millions)	2018	2017
Commitments to extend credit	$7,378	$6,958
Standby letters of credit	126	133

At December 31, 2018, funding of 77.6% 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

133

Table of Contents

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 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 283,037 and 251,379 performance-based restricted stock units in 2018 and 2017, respectively. As of December 31, 2018, we had available up to 2,332,770 shares of common stock to issue under this Plan.

The following table details our issuance of restricted stock units and the aggregate weighted average grant date fair values under these plans for the years indicated.

TABLE 16.1

(dollars in millions)	2018	2017	2016
Restricted stock units	962,799	713,998	574,125
Weighted average grant date fair values	$ 13	$ 10	$ 7

The unvested restricted stock unit 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 units during the periods indicated:

TABLE 16.2

	2018		2017		2016	
	Units	Weighted Average Grant Price per Share	Units	Weighted Average Grant Price per Share	Units	Weighted Average Grant Price per Share
Unvested units outstanding at beginning of year	1,975,862	$ 13.64	1,836,363	$ 12.97	1,548,444	$ 12.85
Granted	962,799	13.21	713,998	14.67	574,125	12.86
Net adjustment due to performance	—	—	(64,861)	13.85	72,070	11.79
Vested	(258,031)	13.19	(542,580)	12.71	(384,704)	12.11
Forfeited/expired	(214,743)	13.39	(31,018)	14.03	(31,394)	13.02
Dividend reinvestment	90,287	12.61	63,960	13.80	57,822	13.08
Unvested units outstanding at end of year	2,556,174	13.51	1,975,862	13.64	1,836,363	12.97

Table of Contents

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

TABLE 16.3

Year Ended December 31 (in millions)	2018	2017	2016
Stock-based compensation expense	$ 10	$ 8	$ 7
Tax benefit related to stock-based compensation expense	2	3	2
Fair value of units vested	3	8	5

As of December 31, 2018, there was $13.6 million of unrecognized compensation cost related to unvested restricted stock units including $0.8 million that is subject to accelerated vesting under the Plan's immediate vesting upon retirement. The components of the restricted stock units as of December 31, 2018 are as follows:

TABLE 16.4

(dollars in millions)	Service-Based Units	Performance-Based Units	Total
Unvested restricted stock units	1,470,720	1,085,454	2,556,174
Unrecognized compensation expense	$ 9	$ 5	$ 14
Intrinsic value	$ 14	$ 11	$ 25
Weighted average remaining life (in years)	1.90	1.83	1.87

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:

TABLE 16.5

	2018	Weighted Average Exercise Price per Share	2017	Weighted Average Exercise Price per Share	2016	Weighted Average Exercise Price per Share
Options outstanding at beginning of year	722,650	$ 7.96	892,532	$ 8.95	435,340	$ 8.86
Assumed from acquisitions	—	—	207,645	8.92	1,707,036	7.83
Exercised	(253,899)	7.77	(255,503)	10.21	(1,128,075)	7.18
Forfeited/expired	(10,397)	11.98	(122,024)	12.12	(121,769)	9.33
Options outstanding and exercisable at end of year	458,354	7.99	722,650	7.96	892,532	8.95

135

Table of Contents

The following table summarizes information about stock options outstanding at December 31, 2018:
TABLE 16.6

Range of Exercise Prices	Options Outstanding and Exercisable	Weighted Average Remaining Contractual Years	Weighted Average Exercise Price
$3.45 - $5.18	81,219	2.14	$ 4.80
$5.19 - $7.78	66,055	3.22	6.85
$7.79 - $11.37	311,080	3.41	9.07
	458,354		

The intrinsic value of outstanding and exercisable stock options at December 31, 2018 was $0.9 million. The aggregate intrinsic value represents the amount by which the fair value of underlying stock exceeds the option exercise price.
The following table summarizes certain information relating to stock options exercised:
TABLE 16.7

Year Ended December 31	2018	2017	2016
(in millions)			
Proceeds from stock options exercised	$ 2	$ 2	$ 8
Tax benefit recognized from stock options exercised	—	—	2
Intrinsic value of stock options exercised	1	1	7

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 expired in January 2019 without being exercised, was sold at auction by the UST and had 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 405,489, with a resulting lower exercise price of $3.02 per share as of March 31, 2018, prior to being exercised in May 2018.
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 213,986, with a resulting lower exercise price of $9.33 per share as of December 31, 2018. 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 has been frozen. The RIP covered employees who satisfied minimum age and length of service requirements. Although not required, during 2018, we made a $4.0 million contribution to the RIP.
We also sponsor two supplemental non-qualified retirement plans that have been frozen. 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

Table of Contents

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 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):

TABLE 17.1

December 31	2018			2017		
	Qualified	Non-Qualified	Total	Qualified	Non-Qualified	Total
(in millions)						
Accumulated benefit obligation	$145	$ 18	$163	$161	$ 20	$181
Projected benefit obligation at beginning of year	$162	$ 20	$182	$133	$ 20	$153
Acquisition	—	—	—	30	—	30
Interest cost	6	—	6	6	1	7
Actuarial loss	(12)	(1)	(13)	9	—	9
Benefits paid	(11)	(1)	(12)	(9)	(1)	(10)
Settlement	—	—	—	(7)	—	(7)
Projected benefit obligation at end of year	$145	$ 18	$163	$162	$ 20	$182
Fair value of plan assets at beginning of year	$164	$ —	$164	$137	$ —	$137
Acquisition	—	—	—	25	—	25
Actual return on plan assets	(7)	—	(7)	18	—	18
Corporation contribution	4	1	5	—	1	1
Benefits paid	(11)	(1)	(12)	(9)	(1)	(10)
Settlement	—	—	—	(7)	—	(7)
Fair value of plan assets at end of year	$150	$ —	$150	$164	$ —	$164
Funded status of plans	$5	$ (18)	$(13)	$2	$ (20)	$(18)

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:

TABLE 17.2

Assumptions at December 31	2018	2017
Weighted average discount rate	4.18%	3.53%
Rates of average increase in compensation levels	3.50	3.50

The discount rate assumption at December 31, 2018 and 2017 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.

Table of Contents

The net periodic pension cost and other comprehensive income for the Plans included the following components:

TABLE 17.3

Year Ended December 31	2018	2017	2016
(in millions)			
Interest cost	$ 6	$ 7	$ 6
Expected return on plan assets	(11)	(11)	(9)
Actuarial loss amortization	2	2	2
Total pension income	(3)	(2)	(1)
Other changes in plan assets and benefit obligations recognized in other comprehensive income:			
Current year actuarial loss	6	3	2
Amortization of actuarial loss	(2)	(2)	(2)
Total amount recognized in other comprehensive income	4	1	—
Total amount recognized in net periodic benefit cost and other comprehensive income	$ 1	$ (1)	$ (1)

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:

TABLE 17.4

Assumptions for the Year Ended December 31	2018	2017	2016
Weighted average discount rate	4.19 %	3.96 %	4.19 %
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 $10.1 million and $8.4 million for 2018 and 2017, respectively. As stated above, we made a $4.0 million contribution to the RIP during 2018. We did not make any contributions to the qualified pension plans during 2017. 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 $1.4 million for 2018 and $1.3 million for 2017.

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 2018 pension expense:

TABLE 17.5

(in millions)	Estimated Effect on Pension Expense
0.5% decrease in the discount rate	$ —
0.5% decrease in the expected long-term rate of return on plan assets	1

138

Table of Contents

The following table provides information regarding estimated future cash flows relating to the Plans at December 31, 2018:

TABLE 17.6

(in millions)		
Expected employer contributions:	2019	$1
Expected benefit payments:	2019	10
	2020	10
	2021	10
	2022	10
	2023	11
	2024 – 2028	53

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 6% that the employee defers. During the second quarter of 2018, we made a one-time discretionary contribution of $0.9 million to the vast majority of our employees following the tax reform that was enacted in December 2017. Additionally, we may provide a performance-based company contribution of up to 3% if we exceed annual financial goals. Our contribution expense is presented in the following table:

TABLE 17.7

Year Ended December 31	2018	2017	2016
(in millions)			
401(k) contribution expense	$ 15	$ 12	$ 9

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 securities within the equity and debt markets to allow the account the opportunity to meet the 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.

Table of Contents

The following table presents asset allocations for our pension plans as of December 31, 2018 and 2017, and the target allocation for 2019, by asset category:

TABLE 17.8

	Target Allocation	Percentage of Plan Assets	
December 31	2019	2018	2017
Asset Category			
Equity securities	45 - 65	55 %	64 %
Debt securities	30 - 50	41	33
Cash equivalents	0 - 10	4	3

At December 31, 2018 and 2017, equity securities included 585,000 and 575,128 shares, respectively, of our common stock, representing 4.0% and 4.9% of total plan assets at December 31, 2018 and 2017, respectively. Dividends received on our common stock held by the Plan were $0.3 million for both 2018 and 2017.

The fair values of our pension plan assets by asset category are as follows:

TABLE 17.9

(in millions)	Level 1	Level 2	Level 3	Total
December 31, 2018				
Asset Class				
Cash	$ 6	$ —	$ —	$ 6
Equity securities:				
F.N.B. Corporation	6	—	—	6
Other large-cap U.S. financial services companies	3	—	—	3
Other large-cap U.S. companies	43	—	—	43
International companies	1	—	—	1
Mutual fund equity investments:				
U.S. equity index funds:				
U.S. small-cap equity index funds	3	—	—	3
U.S. mid-cap equity index funds	4	—	—	4
Non-U.S. equities growth fund	6	—	—	6
U.S. equity funds:				
U.S. mid-cap	9	—	—	9
U.S. small-cap	3	—	—	3
Other	4	—	—	4
Fixed income securities:				
U.S. government agencies	—	49	—	49
Corporate bonds	—	2	—	2
Fixed income mutual funds:				
U.S. investment-grade fixed income securities	11	—	—	11
Total	$ 99	$ 51	$ —	$ 150

140

Table of Contents

(in millions)	Level 1	Level 2	Level 3	Total
December 31, 2017				
Asset Class				
Cash	$ 6	$ —	$ —	$6
Equity securities:				
F.N.B. Corporation	8	—	—	8
Other large-cap U.S. financial services companies	4	—	—	4
Other large-cap U.S. companies	46	—	—	46
International companies	1	—	—	1
Other equity	1	—	—	1
Mutual fund equity investments:				
U.S. equity index funds:				
U.S. large-cap equity index funds	3	—	—	3
U.S. small-cap equity index funds	4	—	—	4
U.S. mid-cap equity index funds	5	—	—	5
Non-U.S. equities growth fund	14	—	—	14
U.S. equity funds:				
U.S. mid-cap	9	—	—	9
U.S. small-cap	3	—	—	3
Other	6	—	—	6
Fixed income securities:				
U.S. government agencies	—	37	—	37
Corporate bonds	—	6	—	6
Fixed income mutual funds:				
U.S. investment-grade fixed income securities	11	—	—	11
Total	$ 121	$ 43	$ —	$164

The classifications for Level 1, Level 2 and Level 3 are discussed in Note 24, “Fair Value Measurements.”

NOTE 18. INCOME TAXES

The TCJA included 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 Consolidated Financial Statements in accordance with SAB 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. We recorded a provisional amount of $54.0 million at December 31, 2017 related to the remeasurement of deferred tax balances. Upon final analysis of available information and refinement of our calculations during 2018, we decreased our provisional amount by $1.9 million which is included as a component of income tax expense from continuing operations. We consider the TCJA remeasurement of our deferred taxes to be complete.

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.

141

Explanation of Responses:

Table of Contents

Income Tax Expense

Federal and state income tax expense consist of the following:

TABLE 18.1

Year Ended December 31	2018	2017	2016
(in millions)			
Current income taxes:			
Federal taxes	$ 41	$ 26	$ 58
State taxes	6	2	2
Total current income taxes	47	28	60
Deferred income taxes:			
Federal taxes	32	128	15
State taxes	—	1	—
Total deferred income taxes	32	129	15
Total income taxes	$ 79	$ 157	$ 75

The following table provides a reconciliation between the statutory tax rate and the actual effective tax rate:

TABLE 18.2

Year Ended December 31	2018	2017	2016
Statutory federal tax rate	21.0 %	35.0 %	35.0 %
State taxes, net of federal benefit	1.1	0.5	0.7
Tax-exempt interest	(2.1)	(3.3)	(2.9)
Cash surrender value on BOLI	(0.5)	(1.1)	(1.5)
Tax credits	(2.8)	(2.6)	(0.9)
Affordable housing cost amortization, net of tax benefits	0.7	0.2	—
Tax Cuts and Jobs Act revaluation of net deferred tax assets	(0.4)	15.2	—
Other items	0.6	0.2	0.2
Actual effective tax rate	17.6 %	44.1 %	30.6 %

The effective tax rate for 2018 was 17.6%, as compared to 44.1% in 2017. The effective tax rate of 17.6% in 2018 was lower than the 21% TCJA statutory federal tax rate due to tax-exempt income on investments and loans, tax credits and income from BOLI. The effective tax rate for 2017 was significantly higher at 44.1% than the 35% pre-TCJA statutory federal tax rate largely due to $54.0 million of income tax expense recorded from the revaluation of net DTAs in connection with the TCJA in 2017.

Income tax expense related to gains on the sale of securities is presented in the following table:

TABLE 18.3

Year Ended December 31	2018	2017	2016
(in millions)			
Income tax expense related to gains on sale of securities	$ —	$ 2	$ —

142

Table of Contents

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. DTAs and DTLs 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 DTAs and DTLs as a result of the passage of the TCJA. The primary impact of this remeasurement was a reduction in DTAs and DTLs 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 DTAs and DTLs:
TABLE 18.4

December 31	2018	2017
(in millions)		
Deferred tax assets:		
Allowance for credit losses	$40	$39
Discounts on loans acquired in a business combination	51	64
Net operating loss/tax credit carryforwards	43	47
Deferred compensation	10	9
Securities impairments	1	1
Pension and other defined benefit plans	5	7
Net unrealized securities losses	12	7
Other	9	8
Total	171	182
Valuation allowance	(26)	(27)
Total deferred tax assets	145	155
Deferred tax liabilities:		
Loan costs	(14)	(7)
Depreciation	(17)	(12)
Prepaid expenses	(1)	(4)
Amortizable intangibles	(16)	(18)
Lease financing	(18)	(10)
Mortgage servicing rights	(8)	(6)
Other	(4)	(2)
Total deferred tax liabilities	(78)	(59)
Net deferred tax assets	$67	$96

We establish a valuation allowance when it is more likely than not that we will not be able to realize the benefit of the DTAs or when future deductibility is uncertain. Periodically, the valuation allowance is reviewed and adjusted based on management’s assessment of realizable DTAs. As of December 31, 2018, the valuation allowance primarily relates to unused federal and state net operating loss carryforwards expiring from 2019 to 2038. We anticipate that neither the state net operating loss carryforwards nor the other net DTAs at certain of our subsidiaries will be utilized and, as such, have recorded a valuation allowance against the DTAs related to these items.
As of December 31, 2018, we had approximately $45.0 million of federal net operating loss and built-in loss carryforwards, $3.0 million of federal tax credit carryforwards, and $10.3 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 DTA is warranted.

143

Explanation of Responses:

Table of Contents

Uncertain Tax Positions

We account for uncertainties in income taxes in accordance with ASC 740, Income Taxes. At December 31, 2018 and 2017, we have approximately $0.9 million and $0.7 million, respectively, of unrecognized tax benefits related to uncertain tax positions. As of December 31, 2018, $0.7 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. A tabular reconciliation of the unrecognized tax benefits is not presented as the impact of changes to uncertain tax positions on our income tax expense was immaterial.
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 2015. With limited exception, we are no longer subject to state income tax examinations for years prior to 2015. We anticipate that a reduction in the unrecognized tax benefit of up to $0.07 million 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:
TABLE 19.1

(in millions)	Unrealized Net Gains (Losses) on Debt Securities Available for Sale	Unrealized Net Gains (Losses) on Derivative Instruments	Unrecognized Pension and Postretirement Obligations	Total
Year Ended December 31, 2018				
Balance at beginning of period	$ (29)	$ 5	$ (59)	$(83)
Other comprehensive (loss) income before reclassifications	(17)	(2)	(2)	(21)
Amounts reclassified from AOCI	—	(2)	—	(2)
Net current period other comprehensive (loss) income	(17)	(4)	(2)	(23)
Balance at end of period	$ (46)	$ 1	$ (61)	$(106)

The amounts reclassified from AOCI related to debt securities AFS are included in net securities gains on the Consolidated Statements of Income, while the amounts reclassified from AOCI related to derivative instruments are included in interest income on loans and leases on the Consolidated Statements of Income.
The tax (benefit) expense amounts reclassified from AOCI in connection with the debt securities AFS and derivative instruments reclassifications are included in income taxes on the Consolidated Statements of Income.

Table of Contents

NOTE 20. EARNINGS PER COMMON SHARE

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

TABLE 20.1

Year Ended December 31	2018	2017	2016
(dollars in millions, except per share data)			
Net income	$ 373	$ 199	$ 171
Less: Preferred stock dividends	8	8	8
Net income available to common stockholders	$ 365	$ 191	$ 163
Basic weighted average common shares outstanding	324,207,198	302,195,295	206,244,498
Net effect of dilutive stock options, warrants and restricted stock	1,416,405	1,662,681	1,524,111
Diluted weighted average common shares outstanding	325,623,603	303,857,976	207,768,609
Earnings per common share:			
Basic	$ 1.13	$ 0.63	$ 0.79
Diluted	$ 1.12	$ 0.63	$ 0.78

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

TABLE 20.2

Year Ended December 31	2018	2017	2016
Average shares excluded from the diluted earnings per common share calculation	81	910	9,980

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, 2018, 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.

Table of Contents

Following are the capital ratios for FNB and FNBPA:

TABLE 21.1

	Actual		Well-Capitalized Requirements		Minimum Capital Requirements plus Capital Conservation Buffer	
(dollars in millions)	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2018						
F.N.B. Corporation:						
Total capital	$2,875	11.54%	$2,490	10.00 %	$2,459	9.88%
Tier 1 capital	2,395	9.62	1,992	8.00	1,961	7.88
Common equity tier 1	2,289	9.19	1,619	6.50	1,588	6.38
Leverage	2,395	7.87	1,523	5.00	1,218	4.00
Risk-weighted assets	24,900					
FNBPA:						
Total capital	2,735	10.99	2,489	10.00	2,458	9.88
Tier 1 capital	2,553	10.26	1,992	8.00	1,960	7.88
Common equity tier 1	2,473	9.94	1,618	6.50	1,587	6.38
Leverage	2,553	8.39	1,521	5.00	1,217	4.00
Risk-weighted assets	24,894					
As of December 31, 2017						
F.N.B. Corporation:						
Total capital	$2,666	11.39%	$2,340	10.00 %	$2,165	9.25%
Tier 1 capital	2,185	9.33	1,872	8.00	1,697	7.25
Common equity tier 1	2,078	8.88	1,521	6.50	1,346	5.75
Leverage	2,185	7.58	1,441	5.00	1,153	4.00
Risk-weighted assets	23,404					
FNBPA:						
Total capital	2,504	10.74	2,333	10.00	2,158	9.25
Tier 1 capital	2,333	10.00	1,866	8.00	1,691	7.25
Common equity tier 1	2,253	9.66	1,516	6.50	1,341	5.75
Leverage	2,333	8.14	1,433	5.00	1,146	4.00
Risk-weighted assets	23,326					

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.

Due to usable vault cash, the aggregate cash reserves FNBPA was required to maintain with the FRB amounted to less than $1 million at December 31, 2018. 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, 2018, our subsidiaries had $356.1 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 $537.1

million at December 31, 2018.

146

Table of Contents

NOTE 22. CASH FLOW INFORMATION

Following is a summary of supplemental cash flow information:

TABLE 22.1

Year Ended December 31 (in millions)	2018	2017	2016
Interest paid on deposits and other borrowings	$230	$129	$ 67
Income taxes paid	19	53	60
Transfers of loans to other real estate owned	12	35	15

NOTE 23. BUSINESS SEGMENTS

We operate in three reportable segments: Community Banking, Wealth Management and Insurance.

- 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.
- We also previously operated a Consumer Finance segment, which is no longer a reportable segment. This segment primarily made installment loans to individuals and purchased installment sales finance contracts from retail merchants. On August 31, 2018, as part of our strategy to enhance the overall positioning of our consumer banking operations, we sold 100 percent of the issued and outstanding capital stock of Regency to Mariner Finance, LLC. This transaction was completed to accomplish several strategic objectives, including enhancing the credit risk profile of the consumer loan portfolio, offering additional liquidity and selling a non-strategic business segment that no longer fits with our core business. The Consumer Finance segment is shown in the following tables to include Regency's financial information through August 31, 2018.

Table of Contents

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.

TABLE 23.1

(in millions)	Community Banking	Wealth Manage- ment	Insurance	Consumer Finance	Parent and Other	Consolidated
At or for the Year Ended December 31, 2018						
Interest income	$ 1,145	$ —	$ —	$ 25	$ —	$ 1,170
Interest expense	219	—	—	2	17	238
Net interest income	926	—	—	23	(17)	932
Provision for credit losses	54	—	—	6	1	61
Non-interest income	213	44	16	2	1	276
Non-interest expense [(1)]	609	33	17	15	5	679
Amortization of intangibles	15	1	—	—	—	16
Income tax expense (benefit)	82	2	—	1	(6)	79
Net income (loss)	379	8	(1)	3	(16)	373
Total assets	32,997	26	25	—	54	33,102
Total intangibles	2,304	10	20	—	—	2,334
At or for the Year Ended December 31, 2017						
Interest income	$ 944	$ —	$ —	$ 40	$ (4)	$ 980
Interest expense	118	—	—	4	12	134
Net interest income	826	—	—	36	(16)	846
Provision for credit losses	53	—	—	8	—	61
Non-interest income	197	39	16	3	(3)	252
Non-interest expense [(1)]	597	30	15	21	—	663
Amortization of intangibles	17	1	—	—	—	18
Income tax expense (benefit)	153	3	—	5	(4)	157
Net income (loss)	203	5	1	5	(15)	199
Total assets	31,156	24	21	181	36	31,418
Total intangibles	2,317	10	12	2	—	2,341
At or for the Year Ended December 31, 2016						
Interest income	$ 641	$ —	$ —	$ 41	$ (3)	$ 679
Interest expense	56	—	—	4	7	67
Net interest income	585	—	—	37	(10)	612
Provision for credit losses	49	—	—	7	—	56
Non-interest income	149	35	15	3	(1)	201
Non-interest expense [(1)]	437	27	13	22	1	500
Amortization of intangibles	11	—	—	—	—	11
Income tax expense (benefit)	72	3	1	4	(5)	75
Net income (loss)	165	5	1	7	(7)	171
Total assets	21,629	20	22	193	(19)	21,845
Total intangibles	1,062	10	12	2	—	1,086

(1) Excludes amortization of intangibles, which is presented separately.

148

Table of Contents

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 AFS, mortgage loans held for sale accounted for under FVO 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 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 independent sources. 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:

TABLE 24.1

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

These securities are recorded at fair value on a recurring basis. At December 31, 2018, 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

149

Table of Contents

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, 2018 and 2017, 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

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, 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 $1.0 million 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.

150

Table of Contents

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:

TABLE 24.2

(in millions)	Level 1	Level 2	Level 3	Total
December 31, 2018				
Assets Measured at Fair Value				
Debt securities available for sale				
U.S. government agencies	$ —	$187	$ —	$187
U.S. government-sponsored entities	—	313	—	313
Residential mortgage-backed securities				
Agency mortgage-backed securities	—	1,429	—	1,429
Agency collateralized mortgage obligations	—	1,161	—	1,161
Commercial mortgage-backed securities	—	228	—	228
States of the U.S. and political subdivisions	—	21	—	21
Other debt securities	—	2	—	2
Total debt securities available for sale	—	3,341	—	3,341
Loans held for sale	—	14	—	14
Derivative financial instruments				
Trading	—	42	1	43
Total derivative financial instruments	—	42	1	43
Total assets measured at fair value on a recurring basis	$ —	$3,397	$ 1	$3,398
Liabilities Measured at Fair Value				
Derivative financial instruments				
Trading	$ —	$36	$ —	$36
Not for trading	—	3	—	3
Total derivative financial instruments	—	39	—	39
Total liabilities measured at fair value on a recurring basis	$ —	$39	$ —	$39

Explanation of Responses:

Table of Contents

(in millions)	Level 1	Level 2	Level 3	Total
December 31, 2017				
Assets Measured at Fair Value				
Debt securities available for sale				
U.S. government-sponsored entities	$ —	$344	$ —	$344
Residential mortgage-backed securities				
Agency mortgage-backed securities	—	1,599	—	1,599
Agency collateralized mortgage obligations	—	795	—	795
States of the U.S. and political subdivisions	—	21	—	21
Other debt securities	—	5	—	5
Total debt securities available for sale	—	2,764	—	2,764
Equity securities available for sale				
Financial services industry	—	1	—	1
Total equity securities available for sale	—	1	—	1
Total securities available for sale	—	2,765	—	2,765
Loans held for sale	—	56	—	56
Derivative financial instruments				
Trading	—	28	—	28
Not for trading	—	1	2	3
Total derivative financial instruments	—	29	2	31
Total assets measured at fair value on a recurring basis	$ —	$2,850	$ 2	$2,852
Liabilities Measured at Fair Value				
Derivative financial instruments				
Trading	$ —	$27	$ —	$27
Not for trading	—	2	—	2
Total derivative financial instruments	—	29	—	29
Total liabilities measured at fair value on a recurring basis	$ —	$29	$ —	$29

152

Table of Contents

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:
TABLE 24.3

(in millions)	Other Debt Securities	Equity Securities	Residential Non-Agency Collateralized Mortgage Obligations	Interest Rate Lock Commitments	Total
Year Ended December 31, 2018					
Balance at beginning of period	$ —	$ —	$ —	$ 2	$ 2
Purchases, issuances, sales and settlements:					
Purchases	—	—	—	5	5
Settlements	—	—	—	(6)	(6)
Balance at end of period	$ —	$ —	$ —	$ 1	$ 1
Year Ended December 31, 2017					
Balance at beginning of period	$ —	$ 1	$ 1	$ —	$ 2
Purchases, issuances, sales and settlements:					
Purchases	12	—	—	2	14
Sales/redemptions	(12)	—	(1)	—	(13)
Settlements	—	—	—	(5)	(5)
Transfers from Level 3	—	(1)	—	—	(1)
Transfers into Level 3	—	—	—	5	5
Balance at end of period	$ —	$ —	$ —	$ 2	$ 2

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. There were no transfers of assets or liabilities between the hierarchy levels during 2018. 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.
For the year ended December 31, 2018, we recorded in earnings $0.6 million of unrealized gains relating to the adoption of ASU 2016-01 and market value adjustments on marketable equity securities. These unrealized gains included in earnings are in the other non-interest income line item in the Consolidated Statement of Income. For the year ended December 31, 2017, 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 realized net securities gains included in earnings are in the net securities gains line item in the Consolidated Statements of Income.

Table of Contents

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:

TABLE 24.4

(in millions)	Level 1	Level 2	Level 3	Total
December 31, 2018				
Impaired loans	$ —	$ —	$ 15	$ 15
Other real estate owned	—	—	5	5
Other assets - SBA servicing asset	—	—	4	4
December 31, 2017				
Impaired loans	$ —	$ 3	$ 1	$ 4
Other real estate owned	—	10	11	21
Loans held for sale - SBA	—	—	36	36
Other assets - SBA servicing asset	—	—	5	5

Substantially all of the fair value amounts in the table above were estimated at a date during the twelve months ended December 31, 2018 and 2017. Consequently, the fair value information presented is not necessarily as of the period’s end.

Impaired loans measured or re-measured at fair value on a non-recurring basis during 2018 had a carrying amount of $15.4 million which includes an allocated allowance for credit losses of $4.2 million. The allowance for credit losses includes a provision applicable to the current period fair value measurements of $6.9 million, which was included in the provision for credit losses for 2018.

OREO with a carrying amount of $8.6 million was written down to $5.0 million, resulting in a loss of $3.6 million, which was included in earnings for 2018.

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 AFS and securities HTM, 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, as the fair value measurement represents an exit price from a market participants' viewpoint. 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.

Table of Contents

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.

Table of Contents

The fair values of our financial instruments are as follows:
TABLE 24.5

(in millions)	Carrying Amount	Fair Value	Fair Value Measurements Level 1	Level 2	Level 3
December 31, 2018					
Financial Assets					
Cash and cash equivalents	$ 488	$ 488	$ 488	$ —	$ —
Debt securities available for sale	3,341	3,341	—	3,341	—
Debt securities held to maturity	3,254	3,155	—	3,155	—
Net loans and leases, including loans held for sale	21,995	21,742	—	14	21,728
Loan servicing rights	41	45	—	—	45
Derivative assets	43	43	—	42	1
Accrued interest receivable	101	101	101	—	—
Financial Liabilities					
Deposits	23,455	23,411	18,142	5,269	—
Short-term borrowings	4,129	4,130	4,130	—	—
Long-term borrowings	627	618	—	—	618
Derivative liabilities	39	39	—	39	—
Accrued interest payable	20	20	20	—	—
December 31, 2017					
Financial Assets					
Cash and cash equivalents	$ 479	$ 479	$ 479	$ —	$ —
Securities available for sale	2,765	2,765	—	2,765	—
Debt securities held to maturity	3,242	3,218	—	3,218	—
Net loans and leases, including loans held for sale	20,917	20,661	—	56	20,605
Loan servicing rights	34	38	—	—	38
Derivative assets	31	31	—	29	2
Accrued interest receivable	94	94	94	—	—
Financial Liabilities					
Deposits	22,400	22,359	17,779	4,580	—
Short-term borrowings	3,679	3,679	3,679	—	—
Long-term borrowings	668	675	—	—	675
Derivative liabilities	29	29	—	29	—
Accrued interest payable	12	12	12	—	—

Table of Contents

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.

TABLE 25.1

Balance Sheets (in millions) December 31	2018	2017
Assets		
Cash and cash equivalents	$254	$166
Securities available for sale	—	1
Other assets	19	22
Investment in bank subsidiary	4,754	4,554
Investments in and advances to non-bank subsidiaries	97	294
Total Assets	$5,124	$5,037
Liabilities		
Other liabilities	$32	$33
Advances from affiliates	197	306
Long-term borrowings	279	280
Subordinated notes:		
Short-term	7	8
Long-term	1	1
Total Liabilities	516	628
Stockholders' Equity	4,608	4,409
Total Liabilities and Stockholders' Equity	$5,124	$5,037

Table of Contents

TABLE 25.2

Statements of Income (in millions) Year Ended December 31	2018	2017	2016
Income			
Dividend income from subsidiaries:			
Bank	$162	$149	$109
Non-bank	8	9	9
	170	158	118
Interest income	4	5	5
Other income	5	—	3
Total Income	179	163	126
Expenses			
Interest expense	20	18	14
Other expenses	15	10	10
Total Expenses	35	28	24
Income Before Taxes and Equity in Undistributed Income of Subsidiaries	144	135	102
Income tax benefit	6	3	6
	150	138	108
Equity in undistributed income (loss) of subsidiaries:			
Bank	225	60	61
Non-bank	(2)	1	2
Net Income	$373	$199	$171

Table of Contents

TABLE 25.3

Statements of Cash Flows (in millions) Year Ended December 31	2018	2017	2016
Operating Activities			
Net income	$373	$199	$171
Adjustments to reconcile net income to net cash flows from operating activities:			
Undistributed earnings from subsidiaries	(222)	(61)	(63)
Other, net	(13)	6	(3)
Net cash flows provided by operating activities	138	144	105
Investing Activities			
Proceeds from sale of securities available for sale	1	—	1
Net (increase) decrease in advances to subsidiaries	20	(10)	(6)
Payment for further investment in subsidiaries	(22)	(4)	(71)
Net cash received in business combinations	123	3	1
Net cash flows (used in) provided by investing activities	122	(11)	(75)
Financing Activities			
Net decrease in advance from affiliate	(19)	10	6
Net decrease in short-term borrowings	(1)	—	—
Decrease in long-term debt	(2)	(2)	(10)
Increase in long-term debt	1	1	—
Net proceeds from issuance of common stock	14	11	18
Tax benefit of stock-based compensation	—	—	2
Cash dividends paid:			
Preferred stock	(8)	(8)	(8)
Common stock	(157)	(143)	(102)
Net cash flows (used in) provided by financing activities	(172)	(131)	(94)
Net (Decrease) Increase in Cash and Cash Equivalents	88	2	(64)
Cash and cash equivalents at beginning of year	166	164	228
Cash and Cash Equivalents at End of Year	$254	$166	$164
Cash paid during the year for:			
Interest	$17	$16	$14

Table of Contents

NOTE 26. QUARTERLY EARNINGS SUMMARY (UNAUDITED)
TABLE 26.1
Dollars in millions, except per share data

Quarter Ended 2018	Dec. 31	Sept. 30	June 30	Mar. 31
Total interest income	$305	$298	$ 294	$273
Total interest expense	73	63	55	47
Net interest income	232	235	239	226
Provision for credit losses	15	16	16	14
Total non-interest income	68	75	65	68
Total non-interest expense	170	171	183	171
Net income	100	101	85	87
Net income available to common stockholders	98	99	83	85
Per Common Share				
Basic earnings per share	$0.30	$0.30	$ 0.26	$0.26
Diluted earnings per share	0.30	0.30	0.26	0.26
Cash dividends declared	0.12	0.12	0.12	0.12
Quarter Ended 2017				
Total interest income	$271	$263	$ 251	$195
Total interest expense	41	38	33	22
Net interest income	230	225	218	173
Provision for credit losses	16	17	17	11
Net securities gains	—	3	—	3
Other non-interest income	65	63	66	52
Total non-interest expense	166	164	164	187
Net income	24	78	74	23
Net income available to common stockholders	22	76	72	21
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

Table of Contents

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 Chief Executive Officer and Chief Financial Officer, 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 Chief Executive Officer and Chief Financial Officer 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 "Report of Management on F.N.B. Corporation's Internal Control Over Financial Reporting" 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, 2018 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 15, 2019. 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 15, 2019. 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.

Table of Contents

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 15, 2019. Such information is incorporated herein by reference.

The following table provides information related to equity compensation plans as of December 31, 2018:

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Stock Options, Warrants and Rights (a)		Weighted Average Exercise Price of Outstanding Stock Options, Warrants and Rights (b)	Number of Securities Remaining for Future Issuance Under Equity Compensation Plans (excluding securities reflected in column (a)) (c)	
Equity compensation plans approved by security holders	2,556,174	(1)	n/a	2,332,770	(2)
Equity compensation plans not approved by security holders	458,354	(3)	$ 7.99	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 15, 2019. 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 15, 2019. Such information is incorporated herein by reference.

Table of Contents

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 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).
2.4.	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 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).
4.3.	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).
4.4.	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).

4.5.	Form of Depositary Receipt (included as Exhibit A to Exhibit 4.4. above).
4.6.	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).
4.7.	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).
4.8.	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.

Table of Contents

Exhibit Number	Description
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.	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). *
10.14.	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). *

10.15.	Form of Performance-Based Restricted Stock Unit Award Agreement. (Incorporated by reference to Exhibit 10.1. of FNB's Current Report on Form 8-K filed on April 6, 2018).*
10.16.	Form of Time-Based Restricted Stock Unit Award Agreement. (Incorporated by reference to Exhibit 10.2. of FNB's Current Report on Form 8-K filed on April 6, 2018).*
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). *
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).

Table of Contents

Exhibit Number	Description
101.	The following materials from F.N.B. Corporation's Annual Report on Form 10-K for the period ended December 31, 2018, 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.

(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.

Table of Contents

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 26, 2019
/s/ Vincent J. Calabrese, Jr. Vincent J. Calabrese, Jr.	Chief Financial Officer (Principal Financial Officer)	February 26, 2019
/s/ James L. Dutey James L. Dutey	Corporate Controller and Senior Vice President (Principal Accounting Officer)	February 26, 2019
/s/ Pamela A. Bena Pamela A. Bena	Director	February 26, 2019
/s/ William B. Campbell William B. Campbell	Director	February 26, 2019
/s/ James D. Chiafullo James D. Chiafullo	Director	February 26, 2019
/s/ Mary Jo Dively Mary Jo Dively	Director	February 26, 2019
/s/ Stephen J. Gurgovits Stephen J. Gurgovits	Director	February 26, 2019
/s/ Robert A. Hormell Robert A. Hormell	Director	February 26, 2019

/s/ David J. Malone David J. Malone	Director	February 26, 2019
/s/ Frank C. Mencini Frank C. Mencini	Director	February 26, 2019

166

Table of Contents

/s/ David L. Motley David L. Motley	Director	February 26, 2019
/s/ Heidi A. Nicholas Heidi A. Nicholas	Director	February 26, 2019
/s/ John S. Stanik John S. Stanik	Director	February 26, 2019
/s/ William J. Strimbu William J. Strimbu	Director	February 26, 2019

167