FNB CORP/PA/
Form 10-Q
November 06, 2017
Table of Contents

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

FORM 10-Q

(Mark One)
Quarterly Report Pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934

For the quarterly period ended September 30, 2017
Transition Report Pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934
For the transition period from to
Commission file number 001-31940

F.N.B. CORPORATION
(Exact name of registrant as specified in its charter)

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No
Indicate by check mark whether the registrant has submitted electronically and posted on its Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definition of "large accelerated filer," "accelerated

filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):
Large Accelerated Filer Accelerated Filer

Non-accelerated Filer Smaller reporting company

Emerging Growth Company

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

Class	Outstanding at October 31, 2017
Common Stock, $0.01 Par Value	323,310,106 Shares

F.N.B. CORPORATION
FORM 10-Q
September 30, 2017
INDEX

		PAGE
PART I – FINANCIAL INFORMATION		
Item 1.	Financial Statements	
	Consolidated Balance Sheets	3
	Consolidated Statements of Income	4
	Consolidated Statements of Comprehensive Income	5
	Consolidated Statements of Stockholders’ Equity	6
	Consolidated Statements of Cash Flows	7
	Notes to Consolidated Financial Statements	8
Item 2.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	63
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	94
Item 4.	Controls and Procedures	94
PART II – OTHER INFORMATION		
Item 1.	Legal Proceedings	95
Item 1A.	Risk Factors	95
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	96
Item 3.	Defaults Upon Senior Securities	96
Item 4.	Mine Safety Disclosures	96
Item 5.	Other Information	96
Item 6.	Exhibits	97
Signatures		98

Table of Contents

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	September 30, 2017 (Unaudited)	December 31, 2016
Assets		
Cash and due from banks	$433,442	$303,526
Interest bearing deposits with banks	81,898	67,881
Cash and Cash Equivalents	515,340	371,407
Securities available for sale	2,855,350	2,231,987
Securities held to maturity (fair value of $2,970,701 and $2,294,777)	2,985,921	2,337,342
Loans held for sale (includes $72,585 and $0 measured at fair value) [1]	113,778	11,908
Loans and leases, net of unearned income of $54,620 and $52,723	20,817,436	14,896,943
Allowance for credit losses	(170,016)	(158,059)
Net Loans and Leases	20,647,420	14,738,884
Premises and equipment, net	336,294	243,956
Goodwill	2,254,831	1,032,129
Core deposit and other intangible assets, net	129,042	67,327
Bank owned life insurance	498,698	330,152
Other assets	786,621	479,725
Total Assets	$31,123,295	$21,844,817
Liabilities		
Deposits:		
Non-interest-bearing demand	$5,569,239	$4,205,337
Interest-bearing demand	9,675,170	6,931,381
Savings	2,513,163	2,352,434
Certificates and other time deposits	4,171,599	2,576,495
Total Deposits	21,929,171	16,065,647
Short-term borrowings	3,872,301	2,503,010
Long-term borrowings	658,783	539,494
Other liabilities	227,119	165,049
Total Liabilities	26,687,374	19,273,200
Stockholders’ Equity		
Preferred stock - $0.01 par value; liquidation preference of $1,000 per share		
Authorized – 20,000,000 shares		
Issued – 110,877 shares	106,882	106,882
Common stock - $0.01 par value		
Authorized – 500,000,000 shares		
Issued – 324,930,173 and 212,378,494 shares	3,251	2,125
Additional paid-in capital	4,029,334	2,234,366
Retained earnings	369,861	304,397
Accumulated other comprehensive loss	(54,310)	(61,369)
Treasury stock – 1,628,625 and 1,318,947 shares at cost	(19,097)	(14,784)
Total Stockholders’ Equity	4,435,921	2,571,617

Total Liabilities and Stockholders’ Equity	$31,123,295	$21,844,817

(1) Amount represents loans for which we have elected the fair value option. See Note 17.

See accompanying Notes to Consolidated Financial Statements (unaudited)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Interest Income				
Loans and leases, including fees	$232,834	$154,272	$622,554	$442,113
Securities:				
Taxable	24,763	18,432	72,258	52,901
Tax-exempt	5,597	2,254	13,675	6,401
Dividends	—	9	85	23
Other	320	143	669	357
Total Interest Income	263,514	175,110	709,241	501,795
Interest Expense				
Deposits	18,987	10,477	47,480	30,387
Short-term borrowings	14,387	3,607	32,020	8,527
Long-term borrowings	4,909	3,520	13,343	10,652
Total Interest Expense	38,283	17,604	92,843	49,566
Net Interest Income	225,231	157,506	616,398	452,229
Provision for credit losses	16,768	14,639	44,374	43,047
Net Interest Income After Provision for Credit Losses	208,463	142,867	572,024	409,182
Non-Interest Income				
Service charges	33,610	25,411	91,806	72,349
Trust services	5,748	5,268	17,210	15,955
Insurance commissions and fees	5,029	4,866	14,517	13,892
Securities commissions and fees	4,038	3,404	11,548	10,400
Capital markets income	2,822	4,497	11,673	11,493
Mortgage banking operations	5,437	3,564	14,400	7,912
Bank owned life insurance	3,123	3,348	8,368	8,035
Net securities gains	2,777	299	5,895	596
Other	3,567	2,583	11,928	10,063
Total Non-Interest Income	66,151	53,240	187,345	150,695
Non-Interest Expense				
Salaries and employee benefits	82,383	60,927	240,860	178,681
Net occupancy	13,723	10,333	39,132	29,792
Equipment	13,711	10,034	35,761	28,604
Amortization of intangibles	4,805	3,571	12,716	9,608
Outside services	15,439	11,756	41,965	30,884
FDIC insurance	9,183	5,274	23,946	14,345
Supplies	1,925	2,787	6,595	8,195
Bank shares and franchise taxes	2,814	2,404	8,536	7,934
Merger-related	1,381	299	55,459	35,790
Other	18,379	13,665	50,042	43,494
Total Non-Interest Expense	163,743	121,050	515,012	387,327
Income Before Income Taxes	110,871	75,057	244,357	172,550
Income taxes	33,178	22,889	69,279	52,950

Net Income	77,693	52,168	175,078	119,600
Preferred stock dividends	2,010	2,010	6,030	6,030
Net Income Available to Common Stockholders	$75,683	$50,158	$169,048	$113,570
Earnings per Common Share				
Basic	$0.23	$0.24	$0.57	$0.55
Diluted	$0.23	$0.24	$0.57	$0.55
Cash Dividends per Common Share	$0.12	$0.12	$0.36	$0.36

See accompanying Notes to Consolidated Financial Statements (unaudited)

Table of Contents

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income	$77,693	$52,168	$175,078	$119,600
Other comprehensive income:				
Securities available for sale:				
Unrealized gains arising during the period, net of tax expense (benefit) of $724, $(1,535), $4,503 and $9,818	1,288	(2,851)	8,027	18,234
Reclassification adjustment for gains included in net income, net of tax expense of $215, $105, $223 and $209	(384)	(195)	(398)	(388)
Derivative instruments:				
Unrealized gains (losses) arising during the period, net of tax expense (benefit) of $76, $284, $(1,265) and $2,811	136	528	(2,254)	5,221
Reclassification adjustment for (losses) gains included in net income, net of tax (benefit) expense of $(44), $138, $45 and $517	78	(256)	(81)	(960)
Pension and postretirement benefit obligations:				
Unrealized gains arising during the period, net of tax expense of $535, $205, $987 and $632	955	380	1,765	1,173
Other comprehensive income	2,073	(2,394)	7,059	23,280
Comprehensive income	$79,766	$49,774	$182,137	$142,880

See accompanying Notes to Consolidated Financial Statements (unaudited)

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

	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance at January 1, 2016	$106,882	$ 1,766	$1,808,210	$243,217	$ (51,133)	$(12,760)	$2,096,182
Comprehensive income				119,600	23,280		142,880
Dividends declared:							
Preferred stock				(6,030)			(6,030)
Common stock: $0.36/share				(76,133)			(76,133)
Issuance of common stock		10	6,694			(1,990)	4,714
Issuance of common stock - acquisitions		341	403,690				404,031
Restricted stock compensation			4,644				4,644
Tax benefit of stock-based compensation			292				292
Balance at September 30, 2016	$106,882	$ 2,117	$2,223,530	$280,654	$ (27,853)	$(14,750)	$2,570,580
Balance at January 1, 2017	$106,882	$ 2,125	$2,234,366	$304,397	$ (61,369)	$(14,784)	$2,571,617
Comprehensive income				175,078	7,059		182,137
Dividends declared:							
Preferred stock				(6,030)			(6,030)
Common stock: $0.36/share				(103,584)			(103,584)
Issuance of common stock		10	5,178			(4,313)	875
Issuance of common stock - acquisitions		1,116	1,782,308				1,783,424
Assumption of warrant due to acquisition			1,394				1,394
Restricted stock compensation			6,088				6,088
Balance at September 30, 2017	$106,882	$ 3,251	$4,029,334	$369,861	$ (54,310)	$(19,097)	$4,435,921

See accompanying Notes to Consolidated Financial Statements (unaudited)

Table of Contents

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

	Nine Months Ended September 30,	
	2017	2016
Operating Activities		
Net income	$175,078	$119,600
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation, amortization and accretion	60,349	45,059
Provision for credit losses	44,374	43,047
Deferred tax expense	36,706	10,390
Net securities gains	(5,895)	(596)
Tax benefit of stock-based compensation	(735)	(292)
Loans originated for sale	(787,957)	(484,249)
Loans sold	709,323	478,218
Gain on sale of loans	(10,583)	(7,051)
Net change in:		
Interest receivable	(10,104)	(1,372)
Interest payable	938	945
Bank owned life insurance	(8,100)	(3,103)
Other, net	(78,095)	(10,708)
Net cash flows provided by operating activities	125,299	189,888
Investing Activities		
Net change in loans and leases	(886,944)	(666,413)
Securities available for sale:		
Purchases	(1,042,784)	(753,544)
Sales	786,762	615,199
Maturities	404,618	437,406
Securities held to maturity:		
Purchases	(842,020)	(875,597)
Sales	57,050	—
Maturities	309,075	259,202
Purchase of bank owned life insurance	(25,102)	(16,579)
Increase in premises and equipment	(46,781)	(37,074)
Net cash received in business combinations	196,964	245,762
Net cash flows used in investing activities	(1,089,162)	(791,638)
Financing Activities		
Net change in:		
Demand (non-interest bearing and interest bearing) and savings accounts	384,103	858,937
Time deposits	306,745	(134,234)
Short-term borrowings	573,102	(15,192)
Proceeds from issuance of long-term borrowings	96,917	39,888
Repayment of long-term borrowings	(150,420)	(119,005)
Net proceeds from issuance of common stock	6,963	9,358
Tax benefit of stock-based compensation	—	292
Cash dividends paid:		

Preferred stock	(6,030)	(6,030)
Common stock	(103,584)	(76,133)
Net cash flows provided by financing activities	1,107,796	557,881
Net Increase (Decrease) in Cash and Cash Equivalents	143,933	(43,869)
Cash and cash equivalents at beginning of period	371,407	489,119
Cash and Cash Equivalents at End of Period	$515,340	$445,250

See accompanying Notes to Consolidated Financial Statements (unaudited)

Table of Contents

F.N.B. CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
September 30, 2017

NATURE OF OPERATIONS

F.N.B. Corporation (FNB), headquartered in Pittsburgh, Pennsylvania, is a diversified financial services company operating in eight states. We hold a significant retail deposit market share in attractive markets including: Pittsburgh, Pennsylvania; Baltimore, Maryland; Cleveland, Ohio; and Charlotte, Raleigh, Durham and the Piedmont Triad (Winston-Salem, Greensboro and High Point) in North Carolina. As of September 30, 2017, we had 423 banking offices throughout Pennsylvania, Ohio, Maryland, West Virginia, North Carolina and South Carolina. We provide a full range of commercial banking, consumer banking and wealth management solutions through our subsidiary network which is led by our largest affiliate, First National Bank of Pennsylvania (FNBPA). Commercial banking solutions include corporate banking, small business banking, investment real estate financing, international banking, business credit, capital markets and lease financing. Consumer banking provides a full line of consumer banking products and services including deposit products, mortgage lending, consumer lending and a complete suite of mobile and online banking services. Wealth management services include fiduciary and brokerage services, asset management, private banking and insurance. We also operate Regency Finance Company (Regency), which had 76 consumer finance offices in Pennsylvania, Ohio, Kentucky and Tennessee as of September 30, 2017.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Our accompanying consolidated financial statements and these notes to the financial statements include subsidiaries in which we have a controlling financial interest. We own and operate FNBPA, First National Trust Company, First National Investment Services Company, LLC, F.N.B. Investment Advisors, Inc., First National Insurance Agency, LLC (FNIA), Regency, Bank Capital Services, LLC and F.N.B. Capital Corporation, LLC, and include results for each of these entities in the accompanying consolidated financial statements.

The accompanying consolidated financial statements include all adjustments that are necessary, in the opinion of management, to fairly reflect our financial position and results of operations in accordance with U.S. generally accepted accounting principles (GAAP). All significant intercompany balances and transactions have been eliminated. Certain prior period amounts have been reclassified to conform to the current period presentation. Such reclassifications had no impact on our net income and stockholders’ equity. Events occurring subsequent to the date of the September 30, 2017 balance sheet have been evaluated for potential recognition or disclosure in the consolidated financial statements through the date of the filing of the consolidated financial statements with the Securities and Exchange Commission (SEC).

Certain information and note disclosures normally included in consolidated financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to the rules and regulations of the SEC. The interim operating results are not necessarily indicative of operating results FNB expects for the full year. These interim unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in FNB’s Annual Report on Form 10-K filed with the SEC on February 23, 2017.

The accounting policies presented below have been added or amended for newly material items or the adoption of new accounting standards.

Use of Estimates

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

Loans Held for Sale and Loan Commitments

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

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

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

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. Assets to be disposed of are transferred to other assets and are reported at the lower of the carrying amount or fair value less costs to sell.

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.

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

Determining the fair value of a reporting unit under the first step of the goodwill impairment test and determining the fair value of individual assets and liabilities of a reporting unit under the second step of the goodwill impairment test are judgmental and often involve 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. Based on the results of quantitative assessments of all reporting units, we concluded that no impairment existed at December 31, 2016. 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.

Beginning in 2017, as permitted under the early adoption provisions of ASU 2017-4, we changed our impairment policy to record an impairment loss, if any, based on the excess of a reporting unit’s carrying amount over its fair value. This change in accounting principle will be applied prospectively. We believe this change in accounting policy is preferable as it reduces the cost and complexity of accounting for goodwill impairment.

Loan Servicing Rights

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

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

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

Bank-Owned Life Insurance (BOLI)

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

Low Income Housing Tax Credit Partnerships

We invest in various affordable housing projects that qualify for low income housing tax credits (LIHTCs). The 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 $18.1 million and $14.0 million at September 30, 2017 and December 31, 2016, respectively.

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.

Stock Based Compensation

We account for our stock based compensation awards in accordance with ASC 718, Compensation - Stock Compensation, which requires the measurement and recognition of compensation expense, based on estimated fair values, for all stock-based awards, including stock options and restricted stock, made to employees and directors. ASC 718 requires companies to estimate the fair value of stock-based awards on the date of grant. The value of the portion of the award that is ultimately expected to vest is recognized as expense in our consolidated statements of comprehensive income over the shorter of requisite service periods or the period through the date that the employee first becomes eligible to retire. Some of our plans contain performance targets that affect vesting and can be achieved after the requisite service period and are accounted for as performance conditions. Beginning in 2016, the performance target is not reflected in the estimation of the award’s grant date fair value and compensation cost is recognized in the period in which it becomes probable that the performance condition will be achieved.

Because stock-based compensation expense is based on awards that are ultimately expected to vest, stock-based compensation expense has been reduced to account for estimated forfeitures. Beginning in 2017, with the adoption of ASU 2016-09, we elected to change our accounting policy to account for forfeitures as they occur. The estimate for forfeitures prior to adoption of ASU 2016-09 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.

2. NEW ACCOUNTING STANDARDS

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

Stock Based Compensation

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

ASU 2016-09, Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. The Update was adopted in the first quarter of 2017 by an application method determined by the type of transaction impacted by the adoption. This Update did not have a material effect on our consolidated financial statements.

Securities

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

Retirement Benefits

ASU 2017-07, Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, requires that an employer disaggregate the service cost component from the other components of net benefit cost. The amendments also provide explicit guidance on how to present the service cost component and the other components of net benefit cost in the income statement and allows only the service cost component of net benefit cost to be eligible for capitalization. The Update is effective the first quarter of 2018. Early adoption is permitted. The Update is to be applied using a retrospective transition method to adopt the requirement for separate presentation in the income statement of service costs and other components and a prospective transition method to adopt the requirement to limit the capitalization of benefit costs to the service cost component. We are currently assessing the potential impact to our consolidated financial statements.

Goodwill

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

Business Combinations

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

Statement of Cash Flows

ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force), adds or clarifies guidance on eight cash flow issues. The Update is effective the first quarter of 2018. This Update will be applied retrospectively to all periods presented. Early adoption is permitted. We are currently assessing the potential impact to our consolidated financial statements.

Credit Losses

ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, commonly referred to as "CECL," replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses for most financial assets measured at amortized cost and certain other instruments, including loans, held-to-maturity debt securities, net investments in leases and off-balance sheet credit exposures. In addition, the Update will require the use of a modified available-for-sale debt security impairment model and eliminate the current accounting for purchased credit impaired loans and debt securities. The Update is effective the first quarter of 2020. Early adoption is permitted for fiscal years beginning after December 15, 2018. We continue to assess the potential impact to our consolidated financial statements. We are reviewing our business processes, information systems and controls to support recognition and disclosures under this Update. This review includes an assessment of our existing credit models and the financial statement disclosure requirements. The impact of this Update will be dependent on the portfolio composition, credit quality and economic conditions at the time of adoption.

Revenue Recognition

ASU 2017-05, Other Income-Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets, clarifies the scope for recognizing gains and losses from the transfer of nonfinancial assets in contracts with noncustomers.

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

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

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

ASU 2014-09, Revenue from Contracts with Customers (Topic 606), modifies the guidance used to recognize revenue from contracts with customers for transfers of goods and services and transfers of nonfinancial assets, unless those contracts are within the scope of other guidance. The guidance also requires new qualitative and quantitative disclosures about contract balances and performance obligations.

We expect to adopt ASU 2014-09 in the first quarter of 2018 under the modified retrospective method where the cumulative effect is recognized at the date of initial application. Our evaluation of ASU 2014-09 is ongoing and not complete. The FASB has issued, and may issue in the future, interpretative guidance which may cause our evaluation to change. Based on our evaluation under the current guidance, we estimate that substantially all of our interest income and non-interest income will not be impacted by the adoption of ASU 2014-09 because either the revenue from those contracts with customers is covered by other guidance in U.S. GAAP or the revenue recognition outcomes anticipated with the adoption of ASU 2014-09 will likely be similar to our current revenue recognition practices. In addition, we are reviewing our business processes, systems and controls to support recognition and disclosures under the new standard. This Update is not expected to have a material effect on our consolidated financial statements.

Investments

ASU 2016-07, Investments—Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting, eliminates the requirement for an investor to retrospectively apply the equity method when an investment that it had accounted for by another method qualifies for use of the equity method. The Update was adopted in the first quarter of 2017 by prospective application. This Update did not have a material effect on our consolidated financial statements.

Derivative and Hedging Activities

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

ASU 2016-06, Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments (a consensus of the Emerging Issues Task Force), provides clarification that determination of whether an embedded contingent put or call option in a financial instrument is clearly and closely related to the debt host requires only an analysis of the four-step decision sequence described in ASC 815-15-25-42. The Update was adopted in the first quarter of 2017 by modified retrospective application. This Update did not have a material effect on our consolidated financial statements.

ASU 2016-05, Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships (a consensus of the Emerging Issues Task Force), clarifies that a change in counterparty to a derivative instrument that has been designated as a hedging instrument under Topic 815 does not, in and of itself, require dedesignation of that hedging relationship provided all other hedge accounting criteria continue to be met. The Update was adopted in the first quarter of 2017 by prospective application. This Update did not have a material effect on our consolidated financial statements.

Extinguishments of Liabilities

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

Leases

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

Financial Instruments – Recognition and Measurement

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

3. MERGERS AND ACQUISITIONS

Yadkin Financial Corporation

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

On the acquisition date, the preliminary estimated 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 U.S. Department of the Treasury (UST) under the Capital Purchase Program (CPP). Based on the exchange ratio, this warrant, which expires in 2019, was converted into a warrant to purchase up to 207,320 shares of FNB common stock with an exercise price of $9.63.

The acquisition of YDKN constituted a business combination and has been accounted for using the acquisition method of accounting, and accordingly, assets acquired, liabilities assumed and consideration exchanged were recorded at 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. As of September 30, 2017, we continue to review information relating to events or circumstances existing at the acquisition date. Management anticipates that this review could result in adjustments to the preliminary acquisition date valuation amounts presented due to the complexity and time required by management and third-parties involved in the valuation of loans, core deposit intangibles, premises and equipment, and other real estate owned (OREO). Acquired loans and core deposit intangibles were recorded at provisional amounts based on our preliminary third party valuations. Acquired premises and equipment and OREO were recorded at provisional amounts, and are currently being valued in conjunction with third parties. The valuation of the acquired loans was not final prior to March 31, 2017. An estimate was recorded during the 2017 first quarter based on the results of a valuation exercise conducted and applied to the March 11, 2017 balance of loans acquired from YDKN.

During both the second and third quarters of 2017, we continued to analyze the valuations assigned to the acquired assets and assumed liabilities. Our third-party valuation firm provided revised valuations for loans based on the March 11, 2017 balances, which affected the valuation estimates. Due to the complexity in valuing the loans and the significant amount of data inputs required, the valuation of the loans is not yet final. As a result of revising the loan valuation, the purchase accounting accretion and unfunded commitment amortization amounts are also subject to change. In addition, we have now received third-party valuations on acquired premises resulting in the revised fair values below. Based on the revised valuations and new information, we updated our estimated fair values of these items within our Consolidated Balance Sheet with a corresponding adjustment to goodwill. There was no significant impact on the consolidated income statement for the three months ended September 30, 2017. The measurement period adjustments are reflected in the following table:

(in thousands)

Acquired Asset or Liability	Balance Sheet Line Item	Provisional Estimate	Revised Estimate	Increase (Decrease)
Loans and leases	Loans and leases, net	$ 5,116,497	$ 5,114,355	$ (2,142)
Premises and equipment	Premises and equipment, net	95,208	70,370	(24,838)
Deferred taxes	Other assets	94,307	115,017	20,710
Other liabilities	Other liabilities	70,761	69,863	(898)

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

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

(dollars in thousands, except per share data)	FNB	YDKN	Pro Forma Adjustments	Pro Forma Combined
Nine Months Ended September 30, 2017				
Revenue (net interest income and non-interest income)	$782,844	$74,574	$ 519	$857,937
Net income	203,352	22,435	(1,832)	223,955
Net income available to common stockholders	197,322	22,435	(1,832)	217,925
Earnings per common share – basic	0.79	1.06	—	0.74
Earnings per common share – diluted	0.79	1.06	—	0.73
Nine Months Ended September 30, 2016				
Revenue (net interest income and non-interest income)	602,924	219,305	(3,968)	818,261
Net income	119,600	41,490	(5,897)	155,193
Net income available to common stockholders	113,570	41,490	(5,897)	149,163
Earnings per common share – basic	0.55	0.88	—	0.48
Earnings per common share – diluted	0.55	0.88	—	0.48

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

In connection with the YDKN acquisition, we incurred expenses related to systems conversions and other costs of integrating and conforming acquired operations with and into FNB. These merger-related expenses, that were expensed as incurred, amounted to $55.1 million for the nine months ended September 30, 2017. Contract terminations and severance costs comprised 31.3% and 25.0%, respectively, of the merger-related expenses, with the remainder consisting of other non-interest expenses, including professional services, marketing and advertising, technology and communications, occupancy and equipment, and charitable contributions. We also incurred issuance costs of $0.6 million which were charged to additional paid-in capital.

Branch Purchase – Fifth Third Bank

On April 22, 2016, we completed our purchase of 17 branch-banking locations and certain consumer loans in the Pittsburgh, Pennsylvania metropolitan area from Fifth Third Bank (Fifth Third). The fair value of the acquired assets totaled $312.4 million, including $198.9 million in cash, $95.4 million in loans and $14.1 million in fixed and other assets. We also assumed $302.5 million in deposits, for which we paid a deposit premium of 1.97%, as part of the transaction. The assets and liabilities relating to these purchased branches were recorded on our balance sheet at their fair values as of April 22, 2016, and the related results of operations for these branches have been included in our consolidated income statement since that date. We recorded $14.1 million in goodwill and $4.1 million in core deposit intangibles as a result of the purchase transaction. The goodwill for this transaction is deductible for income tax purposes.

Metro Bancorp, Inc.

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

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

In connection with the METR acquisition, we incurred expenses related to systems conversions and other costs of integrating and conforming acquired operations with and into FNB. These merger-related charges, that were expensed as incurred, amounted to $0.4 million for the nine months ended September 30, 2017 and $31.0 million for the year ended December 31, 2016. Severance costs comprised 39.9% of the merger-related expenses, with the remainder consisting of other non-interest expenses, including professional services, marketing and advertising, technology and communications, occupancy and equipment, and charitable contributions. We also incurred issuance costs of $0.7 million which were charged to additional paid-in capital.

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

(in thousands)	YDKN	Fifth Third Branches	METR
Fair value of consideration paid	$1,784,783	$—	$404,242
Fair value of identifiable assets acquired:			
Cash and cash equivalents	196,964	198,872	46,890
Securities	940,272	—	722,980
Loans	5,114,355	95,354	1,862,447
Core deposit and other intangible assets	69,555	4,129	24,163
Fixed and other assets	460,124	14,069	127,185
Total identifiable assets acquired	6,781,270	312,424	2,783,665
Fair value of liabilities assumed:			
Deposits	5,176,915	302,529	2,328,238
Borrowings	969,385	—	227,539
Other liabilities	72,754	24,041	8,700
Total liabilities assumed	6,219,054	326,570	2,564,477
Fair value of net identifiable assets acquired	562,216	(14,146)	219,188
Goodwill recognized [(1)]	$1,222,567	$14,146	$185,054

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

4. SECURITIES

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

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale (AFS):				
September 30, 2017				
U.S. Treasury	$19,976	$ 4	$—	$19,980
U.S. government-sponsored entities	357,706	371	(2,465)	355,612
Residential mortgage-backed securities:				
Agency mortgage-backed securities	1,646,390	3,213	(7,828)	1,641,775
Agency collateralized mortgage obligations	807,342	191	(10,203)	797,330
Non-agency collateralized mortgage obligations	1	—	—	1
Commercial mortgage-backed securities	—	—	—	—
States of the U.S. and political subdivisions	29,986	28	(9)	30,005
Other debt securities	9,903	11	(208)	9,706
Total debt securities	2,871,304	3,818	(20,713)	2,854,409
Equity securities	587	362	(8)	941
Total securities available for sale	$2,871,891	$ 4,180	$(20,721)	$2,855,350
December 31, 2016				
U.S. Treasury	$29,874	$ 79	$—	$29,953
U.S. government-sponsored entities	367,604	864	(3,370)	365,098
Residential mortgage-backed securities:				
Agency mortgage-backed securities	1,267,535	2,257	(16,994)	1,252,798
Agency collateralized mortgage obligations	546,659	419	(11,104)	535,974
Non-agency collateralized mortgage obligations	891	6	—	897
Commercial mortgage-backed securities	1,292	—	(1)	1,291
States of the U.S. and political subdivisions	36,065	86	(302)	35,849
Other debt securities	9,828	94	(435)	9,487
Total debt securities	2,259,748	3,805	(32,206)	2,231,347
Equity securities	273	367	—	640
Total securities available for sale	$2,260,021	$ 4,172	$(32,206)	$2,231,987

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Held to Maturity (HTM):				
September 30, 2017				
U.S. Treasury	$500	$ 142	$—	$642
U.S. government-sponsored entities	247,462	268	(3,413)	244,317
Residential mortgage-backed securities:				
Agency mortgage-backed securities	1,133,911	6,811	(4,355)	1,136,367
Agency collateralized mortgage obligations	713,642	557	(13,703)	700,496
Commercial mortgage-backed securities	81,144	867	(357)	81,654
States of the U.S. and political subdivisions	809,262	8,870	(10,907)	807,225
Total securities held to maturity	$2,985,921	$ 17,515	$(32,735)	$2,970,701
December 31, 2016				
U.S. Treasury	$500	$ 137	$—	$637
U.S. government-sponsored entities	272,645	348	(4,475)	268,518
Residential mortgage-backed securities:				
Agency mortgage-backed securities	852,215	5,654	(8,645)	849,224
Agency collateralized mortgage obligations	743,148	447	(17,801)	725,794
Non-agency collateralized mortgage obligations	1,689	3	(6)	1,686
Commercial mortgage-backed securities	49,797	181	(226)	49,752
States of the U.S. and political subdivisions	417,348	1,456	(19,638)	399,166
Total securities held to maturity	$2,337,342	$ 8,226	$(50,791)	$2,294,777

During the first nine months of 2017, we received proceeds of $786.8 million from sales of AFS securities and realized a net gain of $3.7 million (gross gains of $4.7 million and gross losses of $1.0 million). We also received proceeds of $57.0 million from sales of HTM securities with a net carrying value of $54.9 million and realized a net gain of $2.2 million (gross gains of $2.2 million and gross losses of $4,000). The HTM securities that were sold represented amortizing securities that had already returned more than 85% of their principal outstanding at the time we acquired the securities and could be sold without tainting the remaining HTM portfolio.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2017	2016	2017	2016
Gross gains	$2,834	$299	$6,845	$597
Gross losses	(57)	—	(950)	(1)
Net gains	$2,777	$299	$5,895	$596

As of September 30, 2017, the amortized cost and fair value of securities, by contractual maturities, were as follows:

(in thousands)	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$70,291	$70,310	$15,610	$15,584
Due from one to five years	326,956	324,861	240,285	237,150
Due from five to ten years	17,358	17,299	79,476	80,669
Due after ten years	2,966	2,833	721,853	718,781
	417,571	415,303	1,057,224	1,052,184
Residential mortgage-backed securities:				
Agency mortgage-backed securities	1,646,390	1,641,775	1,133,911	1,136,367
Agency collateralized mortgage obligations	807,342	797,330	713,642	700,496
Non-agency collateralized mortgage obligations	1	1	—	—
Commercial mortgage-backed securities	—	—	81,144	81,654
Equity securities	587	941	—	—
Total securities	$2,871,891	$2,855,350	$2,985,921	$2,970,701

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

Following is information relating to securities pledged:

(dollars in thousands)	September 30, 2017	December 31, 2016
Securities pledged (carrying value):		
To secure public deposits, trust deposits and for other purposes as required by law	$3,642,235	$2,779,335
As collateral for short-term borrowings	336,392	322,038
Securities pledged as a percent of total securities	68.1 %	67.9 %

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

	Less than 12 Months			12 Months or More			Total		
(dollars in thousands)	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses
Securities Available for Sale									
September 30, 2017									
U.S. government-sponsored entities	10	$193,778	$(1,219)	2	$38,754	$(1,246)	12	$232,532	$(2,465)
Residential mortgage-backed securities:									
Agency mortgage-backed securities	49	1,032,211	(7,828)	—	—	—	49	1,032,211	(7,828)
Agency collateralized mortgage obligations	21	411,642	(4,846)	18	173,880	(5,357)	39	585,522	(10,203)
Non-agency collateralized mortgage obligations	—	—	—	—	—	—	—	—	—
Commercial mortgage-backed securities	—	—	—	—	—	—	—	—	—
States of the U.S. and political subdivisions	4	7,882	(6)	1	886	(3)	5	8,768	(9)
Other debt securities	—	—	—	3	4,704	(208)	3	4,704	(208)
Equity securities	1	185	(8)	—	—	—	1	185	(8)
Total temporarily impaired securities AFS	85	$1,645,698	$(13,907)	24	$218,224	$(6,814)	109	$1,863,922	$(20,721)
December 31, 2016									
U.S. government-sponsored entities	11	$211,636	$(3,370)	—	$—	$—	11	$211,636	$(3,370)
Residential mortgage-backed securities:									
Agency mortgage-backed securities	55	1,056,731	(16,994)	—	—	—	55	1,056,731	(16,994)
Agency collateralized mortgage obligations	26	346,662	(7,261)	9	89,040	(3,843)	35	435,702	(11,104)
Commercial mortgage-backed securities	1	1,291	(1)	—	—	—	1	1,291	(1)
States of the U.S. and political subdivisions	20	28,631	(302)	—	—	—	20	28,631	(302)
Other debt securities	—	—	—	3	4,470	(435)	3	4,470	(435)
Total temporarily impaired securities AFS	113	$1,644,951	$(27,928)	12	$93,510	$(4,278)	125	$1,738,461	$(32,206)

	Less than 12 Months			12 Months or More			Total		
(dollars in thousands)	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses
Securities Held to Maturity									
September 30, 2017									
U.S. government-sponsored entities	9	$162,966	$(2,035)	2	$38,621	$(1,378)	11	$201,587	$(3,413)
Residential mortgage-backed securities:									
Agency mortgage-backed securities	29	518,680	(4,355)	—	—	—	29	518,680	(4,355)
Agency collateralized mortgage obligations	15	197,186	(2,462)	23	332,491	(11,241)	38	529,677	(13,703)
Commercial mortgage-backed securities	3	14,730	(106)	1	7,562	(251)	4	22,292	(357)
States of the U.S. and political subdivisions	53	189,773	(6,956)	12	33,177	(3,951)	65	222,950	(10,907)
Total temporarily impaired securities HTM	109	$1,083,335	$(15,914)	38	$411,851	$(16,821)	147	$1,495,186	$(32,735)
December 31, 2016									
U.S. government-sponsored entities	10	$185,525	$(4,475)	—	$—	$—	10	$185,525	$(4,475)
Residential mortgage-backed securities:									
Agency mortgage-backed securities	36	551,404	(8,645)	—	—	—	36	551,404	(8,645)
Agency collateralized mortgage obligations	29	516,237	(13,710)	12	112,690	(4,091)	41	628,927	(17,801)
Non-agency collateralized mortgage obligations	3	1,128	(6)	—	—	—	3	1,128	(6)
Commercial mortgage-backed securities	1	12,317	(10)	1	8,267	(216)	2	20,584	(226)
States of the U.S. and political subdivisions	94	247,301	(19,638)	—	—	—	94	247,301	(19,638)
Total temporarily impaired securities HTM	173	$1,513,912	$(46,484)	13	$120,957	$(4,307)	186	$1,634,869	$(50,791)

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

Other-Than-Temporary Impairment

We evaluate our investment securities portfolio for other-than-temporary impairment (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 nine months ended September 30, 2017 or 2016.

States of the U.S. and Political Subdivisions

Our municipal bond portfolio with a carrying amount of $839.3 million as of September 30, 2017 is highly rated with an average entity-specific rating of AA and 99% of the portfolio rated A or better. All of the securities in the municipal portfolio are general obligation bonds. Geographically, municipal bonds support our primary footprint as 64.1% 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 $2.8 million. In addition to the strong stand-alone ratings, 62.0% 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.

5.LOANS AND LEASES

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

(in thousands)	Originated Loans and Leases	Acquired Loans	Total Loans and Leases
September 30, 2017			
Commercial real estate	$4,903,796	$3,918,227	$8,822,023
Commercial and industrial	3,159,197	821,387	3,980,584
Commercial leases	238,724	—	238,724
Total commercial loans and leases	8,301,717	4,739,614	13,041,331
Direct installment	1,757,830	168,165	1,925,995
Residential mortgages	1,904,620	705,043	2,609,663
Indirect installment	1,431,111	162	1,431,273
Consumer lines of credit	1,134,620	634,756	1,769,376
Other	39,798	—	39,798
Total loans and leases, net of unearned income	$14,569,696	$6,247,740	$20,817,436
December 31, 2016			
Commercial real estate	$4,095,817	$1,339,345	$5,435,162
Commercial and industrial	2,711,886	330,895	3,042,781
Commercial leases	196,636	—	196,636
Total commercial loans and leases	7,004,339	1,670,240	8,674,579
Direct installment	1,765,257	79,142	1,844,399
Residential mortgages	1,446,776	397,798	1,844,574
Indirect installment	1,196,110	203	1,196,313
Consumer lines of credit	1,099,627	201,573	1,301,200
Other	35,878	—	35,878
Total loans and leases, net of unearned income	$12,547,987	$2,348,956	$14,896,943

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

- Commercial real estate includes both owner-occupied and non-owner-occupied loans secured by commercial properties;
- Commercial and industrial includes loans to businesses that are not secured by real estate;
- Commercial leases consist of leases for new or used equipment;
- Direct installment is comprised of fixed-rate, closed-end consumer loans for personal, family or household use, such as home equity loans and automobile loans;
- Residential mortgages consist of conventional and jumbo mortgage loans for 1-4 family properties;
- Indirect installment is comprised of loans originated by approved third parties and underwritten by us, primarily automobile loans;
- Consumer lines of credit include home equity lines of credit (HELOC) and consumer lines of credit that are either unsecured or secured by collateral other than home equity; and
- Other is comprised primarily of credit cards, mezzanine loans and student loans.

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

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

(dollars in thousands)	September 30, 2017	December 31, 2016
Regency consumer finance loans	$ 172,454	$ 184,687
Percent of total loans and leases	0.8 %	1.2 %

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

(dollars in thousands)	September 30, 2017	December 31, 2016
Commercial construction, acquisition and development loans	$ 1,095,080	$ 597,617
Percent of total loans and leases	5.3 %	4.0 %
Commercial real estate:		
Percent owner-occupied	35.1 %	36.2 %
Percent non-owner-occupied	64.9 %	63.8 %

Acquired Loans

All acquired loans were initially recorded at fair value at the acquisition date. Refer to the Acquired Loans section in Note 1 of our 2016 Annual Report on Form 10-K for a discussion of ASC 310-20 and ASC 310-30 loans. The outstanding balance and the carrying amount of acquired loans included in the consolidated balance sheets are as follows:

(in thousands)	September 30, 2017	December 31, 2016
Accounted for under ASC 310-30:		
Outstanding balance	$ 5,625,305	$ 2,346,687
Carrying amount	5,266,494	2,015,904
Accounted for under ASC 310-20:		
Outstanding balance	1,000,780	342,015
Carrying amount	974,463	325,784
Total acquired loans:		
Outstanding balance	6,626,085	2,688,702
Carrying amount	6,240,957	2,341,688

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

The carrying amount of purchased credit impaired loans included in the table above totaled $20.3 million at September 30, 2017 and $2.8 million at December 31, 2016, representing 0.3% and 0.1% of the carrying amount of total acquired loans as of each date.

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

	Nine Months Ended September 30,	
(in thousands)	2017	2016
Balance at beginning of period	$467,070	$256,120
Acquisitions	444,715	308,311
Reduction due to unexpected early payoffs	(90,097)	(60,920)
Reclass from non-accretable difference	163,714	66,807
Disposals/transfers	(341)	(343)
Other	1,129	—
Accretion	(164,219)	(77,180)
Balance at end of period	$821,971	$492,795

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

During the nine months ended September 30, 2017, there was an overall improvement in cash flow expectations which resulted in a net reclassification of $163.7 million from the non-accretable difference to accretable yield. This reclassification was $66.8 million for the nine months ended September 30, 2016. The reclassification from the non-accretable difference to the accretable yield results in prospective yield adjustments on the loan pools.

The following table reflects amounts at acquisition for all purchased loans subject to ASC 310-30 (impaired and non-impaired loans with deteriorated credit quality) acquired from YDKN in 2017 based on the preliminary estimate of fair value as described in Note 3.

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

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

Credit Quality

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

Non-performing loans include non-accrual loans and non-performing troubled debt restructurings (TDRs). Past due loans are reviewed on a monthly basis to identify loans for non-accrual status. We place originated loans on non-accrual status and discontinue interest accruals on originated loans generally when principal or interest is due and has remained unpaid for a certain number of days or when the principal and interest is deemed uncollectible, unless the loan is both well secured and in

Table of Contents

the process of collection. Commercial loans are placed on non-accrual at 90 days, installment loans are placed on non-accrual at 120 days and residential mortgages and consumer lines of credit are generally placed on non-accrual at 180 days, though we may place a loan on non-accrual prior to these past due thresholds as warranted. When a loan is placed on non-accrual status, all unpaid interest is reversed. Non-accrual loans may not be restored to accrual status until all delinquent principal and interest have been paid and the ultimate ability to collect the remaining principal and interest is reasonably assured. TDRs are loans in which we have granted a concession on the interest rate or the original repayment terms due to the borrower’s financial distress.

Following is a summary of non-performing assets:

(dollars in thousands)	September 30, 2017		December 31, 2016	
Non-accrual loans	$ 88,391		$ 65,479	
Troubled debt restructurings	23,147		20,428	
Total non-performing loans	111,538		85,907	
Other real estate owned (OREO)	35,416		32,490	
Total non-performing assets	$ 146,954		$ 118,397	
Asset quality ratios:				
Non-performing loans / total loans and leases	0.54	%	0.58	%
Non-performing loans + OREO / total loans and leases + OREO	0.70	%	0.79	%
Non-performing assets / of total assets	0.47	%	0.54	%

The carrying value of residential OREO held as a result of obtaining physical possession upon completion of a foreclosure or through completion of a deed in lieu of foreclosure totaled $4.7 million at September 30, 2017 and $5.3 million at December 31, 2016. The recorded investment of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are in process at September 30, 2017 and December 31, 2016 totaled $13.8 million and $12.0 million, respectively.

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

(in thousands)	30-89 Days Past Due	> 90 Days Past Due and Still Accruing	Non-Accrual	Total Past Due	Current	Total Loans and Leases
Originated Loans and Leases						
September 30, 2017						
Commercial real estate	$ 5,023	$ 1	$24,188	$29,212	$4,874,584	$4,903,796
Commercial and industrial	4,880	1,906	32,541	39,327	3,119,870	3,159,197
Commercial leases	1,293	—	1,199	2,492	236,232	238,724
Total commercial loans and leases	11,196	1,907	57,928	71,031	8,230,686	8,301,717
Direct installment	10,139	4,104	8,858	23,101	1,734,729	1,757,830
Residential mortgages	10,518	2,593	5,687	18,798	1,885,822	1,904,620
Indirect installment	7,765	437	1,927	10,129	1,420,982	1,431,111
Consumer lines of credit	4,545	704	2,456	7,705	1,126,915	1,134,620
Other	291	533	928	1,752	38,046	39,798
Total originated loans and leases	$ 44,454	$ 10,278	$77,784	$132,516	$14,437,180	$14,569,696
December 31, 2016						
Commercial real estate	$ 8,452	$ 1	$20,114	$28,567	$4,067,250	$4,095,817
Commercial and industrial	16,019	3	24,141	40,163	2,671,723	2,711,886
Commercial leases	973	1	3,429	4,403	192,233	196,636
Total commercial loans and leases	25,444	5	47,684	73,133	6,931,206	7,004,339
Direct installment	10,573	4,386	6,484	21,443	1,743,814	1,765,257
Residential mortgages	10,594	3,014	3,316	16,924	1,429,852	1,446,776
Indirect installment	9,312	513	1,983	11,808	1,184,302	1,196,110
Consumer lines of credit	3,529	1,112	1,616	6,257	1,093,370	1,099,627
Other	398	83	1,000	1,481	34,397	35,878
Total originated loans and leases	$ 59,850	$ 9,113	$62,083	$131,046	$12,416,941	$12,547,987

(in thousands)	30-89 Days Past Due	> 90 Days Past Due and Still Accruing	Non-Accrual	Total Past Due (1) (2)	Current	Discount	Total Loans
Acquired Loans							
September 30, 2017							
Commercial real estate	$36,343	$ 64,905	$3,485	$ 104,733	$4,019,956	$(206,462)	$3,918,227
Commercial and industrial	8,764	4,968	6,151	19,883	845,806	(44,302)	821,387
Total commercial loans	45,107	69,873	9,636	124,616	4,865,762	(250,764)	4,739,614
Direct installment	3,471	1,721	—	5,192	161,616	1,357	168,165
Residential mortgages	20,535	11,347	—	31,882	715,366	(42,205)	705,043
Indirect installment	—	1	—	1	18	143	162
Consumer lines of credit	6,726	5,253	971	12,950	635,765	(13,959)	634,756
Total acquired loans	$75,839	$ 88,195	$10,607	$ 174,641	$6,378,527	$(305,428)	$6,247,740
December 31, 2016							
Commercial real estate	$9,501	$ 23,890	$949	$ 34,340	$1,384,752	$(79,747)	$1,339,345
Commercial and industrial	1,789	2,942	2,111	6,842	353,494	(29,441)	330,895
Total commercial loans	11,290	26,832	3,060	41,182	1,738,246	(109,188)	1,670,240
Direct installment	2,317	1,344	—	3,661	73,479	2,002	79,142
Residential mortgages	8,428	10,816	—	19,244	416,561	(38,007)	397,798
Indirect installment	19	4	—	23	96	84	203
Consumer lines of credit	2,156	1,528	336	4,020	201,958	(4,405)	201,573
Total acquired loans	$24,210	$ 40,524	$3,396	$ 68,130	$2,430,340	$(149,514)	$2,348,956

(1) Past due information for acquired loans is based on the contractual balance outstanding at September 30, 2017 and December 31, 2016.

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

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

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

The use of these internally assigned credit quality categories within the commercial loan and lease portfolio permits management’s use of transition matrices to estimate a quantitative portion of credit risk. Our internal credit risk grading system is based on past experiences with similarly graded loans and leases and conforms with regulatory categories. In general, loan and lease risk ratings within each category are reviewed on an ongoing basis according to our policy for each class of loans and leases. Each quarter, management analyzes the resulting ratings, as well as other external statistics and factors such as delinquency, to track the migration performance of the commercial loan and lease portfolio. Loans and leases within the Pass credit category or that migrate toward the Pass credit category generally have a lower risk of loss compared to loans and leases that migrate toward the Substandard or Doubtful credit categories. Accordingly, management applies higher risk factors to Substandard and Doubtful credit categories.

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

	Commercial Loan and Lease Credit Quality Categories				
(in thousands)	Pass	Special Mention	Substandard	Doubtful	Total
Originated Loans and Leases					
September 30, 2017					
Commercial real estate	$4,694,676	$111,657	$ 97,047	$ 416	$4,903,796
Commercial and industrial	2,907,083	148,668	95,203	8,243	3,159,197
Commercial leases	232,622	4,689	1,413	—	238,724
Total originated commercial loans and leases	$7,834,381	$265,014	$ 193,663	$ 8,659	$8,301,717
December 31, 2016					
Commercial real estate	$3,895,764	$130,452	$ 69,588	$ 13	$4,095,817
Commercial and industrial	2,475,955	104,652	128,089	3,190	2,711,886
Commercial leases	188,662	3,789	4,185	—	196,636
Total originated commercial loans and leases	$6,560,381	$238,893	$ 201,862	$ 3,203	$7,004,339
Acquired Loans					
September 30, 2017					
Commercial real estate	$3,368,100	$315,350	$ 234,555	$ 222	$3,918,227
Commercial and industrial	714,568	50,183	56,546	90	821,387
Total acquired commercial loans	$4,082,668	$365,533	$ 291,101	$ 312	$4,739,614
December 31, 2016					
Commercial real estate	$1,144,676	$85,894	$ 108,128	$ 647	$1,339,345
Commercial and industrial	274,819	20,593	34,967	516	330,895
Total acquired commercial loans	$1,419,495	$106,487	$ 143,095	$ 1,163	$1,670,240

Credit quality information for acquired loans is based on the contractual balance outstanding at September 30, 2017 and December 31, 2016.

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

Following is a table showing consumer loans by payment status:

	Consumer Loan Credit Quality by Payment Status		
(in thousands)	Performing	Non-Performing	Total
Originated loans			
September 30, 2017			
Direct installment	$1,740,699	$ 17,131	$1,757,830
Residential mortgages	1,889,056	15,564	1,904,620
Indirect installment	1,428,988	2,123	1,431,111
Consumer lines of credit	1,130,884	3,736	1,134,620
Total originated consumer loans	$6,189,627	$ 38,554	$6,228,181
December 31, 2016			
Direct installment	$1,750,305	$ 14,952	$1,765,257
Residential mortgages	1,433,409	13,367	1,446,776
Indirect installment	1,193,930	2,180	1,196,110
Consumer lines of credit	1,096,642	2,985	1,099,627
Total originated consumer loans	$5,474,286	$ 33,484	$5,507,770
Acquired loans			
September 30, 2017			
Direct installment	$168,093	$ 72	$168,165
Residential mortgages	705,043	—	705,043
Indirect installment	162	—	162
Consumer lines of credit	632,990	1,766	634,756
Total acquired consumer loans	$1,506,288	$ 1,838	$1,508,126
December 31, 2016			
Direct installment	$79,142	$ —	$79,142
Residential mortgages	397,798	—	397,798
Indirect installment	203	—	203
Consumer lines of credit	201,061	512	201,573
Total acquired consumer loans	$678,204	$ 512	$678,716

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

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

(in thousands)	Unpaid Contractual Principal Balance	Recorded Investment With No Specific Reserve	Recorded Investment With Specific Reserve	Total Recorded Investment	Specific Reserve	Average Recorded Investment
At or for the Nine Months Ended September 30, 2017						
Commercial real estate	$ 28,519	$ 21,804	$ 2,269	$ 24,073	$ 416	$ 24,348
Commercial and industrial	39,760	15,327	16,435	31,762	8,243	37,340
Commercial leases	1,199	1,199	—	1,199	—	1,608
Total commercial loans and leases	69,478	38,330	18,704	57,034	8,659	63,296
Direct installment	19,648	17,131	—	17,131	—	16,729
Residential mortgages	16,883	15,564	—	15,564	—	15,059
Indirect installment	5,219	2,123	—	2,123	—	2,032
Consumer lines of credit	4,767	3,736	—	3,736	—	3,536
Other	—	—	—	—	—	—
Total	$ 115,995	$ 76,884	$ 18,704	$ 95,588	$ 8,659	$ 100,652
At or for the Year Ended December 31, 2016						
Commercial real estate	$ 23,771	$ 19,699	$ 464	$ 20,163	$ 13	$ 19,217
Commercial and industrial	25,719	14,781	8,996	23,777	3,190	29,730
Commercial leases	3,429	3,429	—	3,429	—	3,394
Total commercial loans and leases	52,919	37,909	9,460	47,369	3,203	52,341
Direct installment	16,440	14,952	—	14,952	—	14,997
Residential mortgages	14,090	13,367	—	13,367	—	13,200
Indirect installment	5,172	2,180	—	2,180	—	2,037
Consumer lines of credit	3,858	2,985	—	2,985	—	2,813
Other	1,000	1,000	—	1,000	—	1,000
Total	$ 93,479	$ 72,393	$ 9,460	$ 81,853	$ 3,203	$ 86,388

Interest income continued to accrue on certain impaired loans and totaled approximately $3.7 million and $3.4 million for the nine months ended September 30, 2017 and 2016, respectively. The above tables do not reflect the additional allowance for credit losses relating to acquired loans. Following is a summary of the allowance for credit losses required for acquired loans due to changes in credit quality subsequent to the acquisition date:

(in thousands)	September 30, 2017	December 31, 2016
Commercial real estate	$ 4,242	$ 4,538
Commercial and industrial	—	500
Total commercial loans	4,242	5,038
Direct installment	1,637	1,005
Residential mortgages	647	632
Indirect installment	213	221
Consumer lines of credit	43	372
Total allowance on acquired loans	$ 6,782	$ 7,268

Troubled Debt Restructurings

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

Following is a summary of the payment status of TDRs:

(in thousands)	Originated	Acquired	Total
September 30, 2017			
Accruing:			
Performing	$ 16,601	$ 252	$16,853
Non-performing	19,629	3,518	23,147
Non-accrual	14,192	—	14,192
Total TDRs	$ 50,422	$ 3,770	$54,192
December 31, 2016			
Accruing:			
Performing	$ 17,105	$ 365	$17,470
Non-performing	20,252	176	20,428
Non-accrual	9,035	—	9,035
Total TDRs	$ 46,392	$ 541	$46,933

TDRs that are accruing and performing include loans that met the criteria for non-accrual of interest prior to restructuring for which we can reasonably estimate the timing and amount of the expected cash flows on such loans and for which we expect to fully collect the new carrying value of the loans. During the nine months ended September 30, 2017, we returned to performing status $3.7 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.

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

(in thousands)	September 30, 2017	December 31, 2016
Specific reserves for commercial TDRs	$ 253	$ 291
Pooled reserves for individual loans under $500	262	276

All other classes of loans, which are primarily secured by residential properties, whose terms have been modified in a TDR are pooled and measured for estimated impairment based on the expected net present value of the estimated future cash flows of the pool. Our allowance for credit losses included pooled reserves for these classes of loans of $3.9 million and $3.7 million at September 30, 2017 and December 31, 2016, respectively. Upon default of an individual loan, our charge-off policy is followed accordingly for that class of loan.

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

(dollars in thousands)	Three Months Ended September 30, 2017			Nine Months Ended September 30, 2017		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial real estate	—	$ —	$ —	2	$ 595	$ 560
Commercial and industrial	1	15	10	3	3,568	4,169
Total commercial loans	1	15	10	5	4,163	4,729
Direct installment	141	1,037	919	474	4,014	3,580
Residential mortgages	14	946	952	30	1,539	1,446
Indirect installment	3	5	4	12	36	32
Consumer lines of credit	9	77	50	51	1,080	901
Total	168	$ 2,080	$ 1,935	572	$ 10,832	$ 10,688

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

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

(dollars in thousands)	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2017	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
Commercial real estate	1	$ 463	1	$ 463
Commercial and industrial	—	—	3	326
Total commercial loans	1	463	4	789
Direct installment	39	265	91	278
Residential mortgages	1	80	4	264

Indirect installment	4	22	12	22
Consumer lines of credit	3	26	4	89
Total	48	$ 856	115	$ 1,442

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

6. ALLOWANCE FOR CREDIT LOSSES

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

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

(in thousands)	Balance at Beginning of Period	Charge-Offs	Recoveries	Net Charge-Offs	Provision for Credit Losses	Balance at End of Period
Three Months Ended September 30, 2017						
Commercial real estate	$ 46,958	$(610)	$ 93	$(517)	$1,682	$48,123
Commercial and industrial	54,108	(6,592)	298	(6,294)	5,889	53,703
Commercial leases	4,122	(112)	1	(111)	818	4,829
Total commercial loans and leases	105,188	(7,314)	392	(6,922)	8,389	106,655
Direct installment	20,736	(3,247)	402	(2,845)	2,786	20,677
Residential mortgages	11,252	(155)	8	(147)	1,630	12,735
Indirect installment	10,574	(2,468)	861	(1,607)	2,380	11,347
Consumer lines of credit	9,504	(522)	98	(424)	972	10,052
Other	1,838	(1,386)	298	(1,088)	1,018	1,768
Total allowance on originated loans and leases	159,092	(15,092)	2,059	(13,033)	17,175	163,234
Purchased credit-impaired loans	640	(21)	34	13	137	790
Other acquired loans	5,967	(222)	791	569	(544)	5,992
Total allowance on acquired loans	6,607	(243)	825	582	(407)	6,782
Total allowance	$ 165,699	$(15,335)	$ 2,884	$(12,451)	$16,768	$170,016
Nine Months Ended September 30, 2017						
Commercial real estate	$ 46,635	$(1,916)	$ 959	$(957)	$2,445	$48,123
Commercial and industrial	47,991	(16,791)	955	(15,836)	21,548	53,703
Commercial leases	3,280	(826)	5	(821)	2,370	4,829
Total commercial loans and leases	97,906	(19,533)	1,919	(17,614)	26,363	106,655
Direct installment	21,391	(9,366)	1,611	(7,755)	7,041	20,677
Residential mortgages	10,082	(517)	179	(338)	2,991	12,735
Indirect installment	10,564	(6,804)	2,256	(4,548)	5,331	11,347
Consumer lines of credit	9,456	(1,563)	413	(1,150)	1,746	10,052
Other	1,392	(3,180)	978	(2,202)	2,578	1,768
Total allowance on originated loans and leases	150,791	(40,963)	7,356	(33,607)	46,050	163,234
Purchased credit-impaired loans	572	(22)	34	12	206	790
Other acquired loans	6,696	(778)	1,956	1,178	(1,882)	5,992
Total allowance on acquired loans	7,268	(800)	1,990	1,190	(1,676)	6,782
Total allowance	$ 158,059	$(41,763)	$ 9,346	$(32,417)	$44,374	$170,016

(in thousands)	Balance at Beginning of Period	Charge-Offs	Recoveries	Net Charge-Offs	Provision for Credit Losses	Balance at End of Period
Three Months Ended September 30, 2016						
Commercial real estate	$ 44,428	$(3,537)	$ 1,810	$(1,727)	$(334)	$42,367
Commercial and industrial	51,475	(6,753)	598	(6,155)	8,388	53,708
Commercial leases	3,047	(100)	3	(97)	257	3,207
Total commercial loans and leases	98,950	(10,390)	2,411	(7,979)	8,311	99,282
Direct installment	21,543	(2,464)	545	(1,919)	1,463	21,087
Residential mortgages	8,410	(144)	11	(133)	969	9,246
Indirect installment	9,543	(1,781)	617	(1,164)	1,983	10,362
Consumer lines of credit	9,149	(459)	82	(377)	499	9,271
Other	1,124	(709)	3	(706)	847	1,265
Total allowance on originated loans and leases	148,719	(15,947)	3,669	(12,278)	14,072	150,513
Purchased credit-impaired loans	632	—	42	42	(102)	572
Other acquired loans	5,018	(240)	362	122	669	5,809
Total allowance on acquired loans	5,650	(240)	404	164	567	6,381
Total allowance	$ 154,369	$(16,187)	$ 4,073	$(12,114)	$14,639	$156,894
Nine Months Ended September 30, 2016						
Commercial real estate	$ 41,741	$(5,572)	$ 3,516	$(2,056)	$2,682	$42,367
Commercial and industrial	41,023	(12,722)	978	(11,744)	24,429	53,708
Commercial leases	2,541	(817)	49	(768)	1,434	3,207
Total commercial loans and leases	85,305	(19,111)	4,543	(14,568)	28,545	99,282
Direct installment	21,587	(7,552)	1,453	(6,099)	5,599	21,087
Residential mortgages	7,909	(301)	68	(233)	1,570	9,246
Indirect installment	9,889	(5,486)	1,545	(3,941)	4,414	10,362
Consumer lines of credit	9,582	(1,461)	187	(1,274)	963	9,271
Other	1,013	(1,988)	35	(1,953)	2,205	1,265
Total allowance on originated loans and leases	135,285	(35,899)	7,831	(28,068)	43,296	150,513
Purchased credit-impaired loans	834	(399)	42	(357)	95	572
Other acquired loans	5,893	(687)	947	260	(344)	5,809
Total allowance on acquired loans	6,727	(1,086)	989	(97)	(249)	6,381
Total allowance	$ 142,012	$(36,985)	$ 8,820	$(28,165)	$43,047	$156,894

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

	Originated Allowance		Originated Loans and Leases Outstanding		
(in thousands)	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Loans and Leases	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
September 30, 2017					
Commercial real estate	$416	$ 47,707	$4,903,796	$ 14,002	$4,889,794
Commercial and industrial	8,243	45,460	3,159,197	27,935	3,131,262
Commercial leases	—	4,829	238,724	—	238,724
Total commercial loans and leases	8,659	97,996	8,301,717	41,937	8,259,780
Direct installment	—	20,677	1,757,830	—	1,757,830
Residential mortgages	—	12,735	1,904,620	—	1,904,620
Indirect installment	—	11,347	1,431,111	—	1,431,111
Consumer lines of credit	—	10,052	1,134,620	—	1,134,620
Other	—	1,768	39,798	—	39,798
Total	$8,659	$ 154,575	$14,569,696	$ 41,937	$14,527,759
December 31, 2016					
Commercial real estate	$13	$ 46,622	$4,095,817	$ 12,973	$4,082,844
Commercial and industrial	3,190	44,801	2,711,886	21,746	2,690,140
Commercial leases	—	3,280	196,636	—	196,636
Total commercial loans and leases	3,203	94,703	7,004,339	34,719	6,969,620
Direct installment	—	21,391	1,765,257	—	1,765,257
Residential mortgages	—	10,082	1,446,776	—	1,446,776
Indirect installment	—	10,564	1,196,110	—	1,196,110
Consumer lines of credit	—	9,456	1,099,627	—	1,099,627
Other	—	1,392	35,878	—	35,878
Total	$3,203	$ 147,588	$12,547,987	$ 34,719	$12,513,268

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

7. 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 is listed below:

(in thousands)	September 30, 2017	December 31, 2016
Mortgage loans sold with servicing retained	$ 3,029,000	$ 1,800,000

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2017	2016	2017	2016
Residential mortgage loans sold with servicing retained	$305,752	$201,496	$1,469,352	$444,507
Mortgage servicing fees [(1)]	1,902	982	5,512	2,746

(1) Recorded in mortgage banking operations.

Table of Contents

Following is a summary of the MSR activity:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2017	2016	2017	2016
Balance at beginning of period	$24,444	$10,303	$13,521	$8,921
Fair value of MSRs acquired	—	—	8,553	—
Additions	3,500	2,144	7,530	4,739
Payoffs and curtailments	(432)	(247)	(1,012)	(544)
Amortization	(626)	(424)	(1,706)	(1,340)
Balance at end of period	$26,886	$11,776	$26,886	$11,776
Fair value, beginning of period	$27,173	$11,504	$17,546	$11,503
Fair value, end of period	29,004	12,717	29,004	12,717

We did not have a valuation allowance for MSRs for either period presented in the table above.

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

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

(dollars in thousands)	September 30, 2017	December 31, 2016
Weighted average life (months)	77.7	79.0
Constant prepayment rate (annualized)	10.4%	9.9%
Discount rate	9.8%	9.8%
Effect on fair value due to change in interest rates:		
+0.25%	$ 1,638	$ 692
+0.50%	3,080	1,288
-0.25%	(1,826)	(789)
-0.50%	(3,724)	(1,680)

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

SBA-Guaranteed Loan Servicing

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

(in thousands)	September 30, 2017
SBA loans sold to investors with servicing retained	$ 310,000

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

(in thousands)	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2017
SBA loans sold with servicing retained	$ 16,443	$ 42,172
Pretax gains resulting from above loan sales [(1)]	964	1,780
SBA servicing fees [(1)]	702	1,444

(1) Recorded in non-interest income.

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

(in thousands)	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2017
Balance at beginning of period	$ 5,284	$ —
Fair value of servicing rights acquired	—	5,399
Additions	391	655
Impairment (charge) / recovery	(50)	(50)
Amortization	(342)	(721)
Balance at end of period	$ 5,283	$ 5,283
Fair value, beginning of period	$ 5,299	$ —
Fair value, end of period	5,283	$ 5,283

Following is a summary of key assumptions and the sensitivity of the SBA loan servicing rights to changes in these assumptions at September 30, 2017:

	September 30, 2017				
		Decline in fair value due to			
(dollars in thousands)	Actual	10% adverse change	20% adverse change	1% adverse change	2% adverse change
Weighted-average life (months)	67.3				
Constant prepayment rate (annualized)	8.06 %	$(138)	$(270)	$ —	$ —
Discount rate	13.99	—	—	(162)	(315)

The fair value of the SBA servicing assets is compared to the amortized basis when certain triggering events occur. If the amortized basis exceeds the fair value, the asset is considered impaired and is written down to fair value through a valuation allowance on the asset and a charge against SBA income. We had a $50,000 valuation allowance for SBA servicing assets as of September 30, 2017.

8. BORROWINGS

Following is a summary of short-term borrowings:

(in thousands)	September 30, 2017	December 31, 2016
Securities sold under repurchase agreements	$ 309,779	$ 313,062
Federal Home Loan Bank advances	2,065,000	1,025,000
Federal funds purchased	1,362,000	1,037,000
Subordinated notes	135,522	127,948
Total short-term borrowings	$ 3,872,301	$ 2,503,010

Borrowings with original maturities of one year or less are classified as short-term. Securities sold under repurchase agreements is comprised of customer repurchase agreements, which are sweep accounts with next day maturities utilized by larger commercial customers to earn interest on their funds. Securities are pledged to these customers in an amount equal to the outstanding balance.

Following is a summary of long-term borrowings:

(in thousands)	September 30, 2017	December 31, 2016
Federal Home Loan Bank advances	$ 300,074	$ 305,110
Subordinated notes	88,029	87,147
Junior subordinated debt	110,226	48,600
Other subordinated debt	160,454	98,637
Total long-term borrowings	$ 658,783	$ 539,494

Our banking affiliate has available credit with the FHLB of $7.9 billion of which $2.4 billion was utilized as of September 30, 2017. These advances are secured by loans collateralized by residential mortgages, HELOCs, commercial real estate and FHLB stock and are scheduled to mature in various amounts periodically through the year 2021. Effective interest rates paid on the long-term advances ranged from 1.11% to 4.19% for the nine months ended September 30, 2017 and 0.95% to 4.19% for the year ended December 31, 2016.

On May 1, 2017, we repaid $7.5 million in other subordinated debt that we acquired from YDKN.

The junior subordinated debt is comprised of debt securities issued by FNB in relation to our six unconsolidated subsidiary trusts (collectively, the Trusts), which are unconsolidated variable interest entities. One hundred percent of the common equity of each Trust is owned by FNB. The Trusts were formed for the purpose of issuing FNB-obligated mandatorily redeemable capital securities, or trust preferred securities (TPS) to third-party investors. The proceeds from the sale of TPS and the issuance of common equity by the Trusts were invested in junior subordinated debt securities issued by FNB, which are the sole assets of each Trust. Since third-party investors are the primary beneficiaries, the Trusts are not consolidated in our financial statements. The Trusts pay dividends on the TPS at the same rate as the distributions paid by us on the junior subordinated debt held by the Trusts. F.N.B. Statutory Trust II was formed by us, and the other five statutory trusts were assumed through acquisitions. The acquired statutory trusts were adjusted to fair value in conjunction with the various acquisitions. During 2016, we redeemed $10.0 million of the TPS issued by Omega Financial Capital Trust I.

We record the distributions on the junior subordinated debt issued to the Trusts as interest expense. The TPS are subject to mandatory redemption, in whole or in part, upon repayment of the junior subordinated debt. The TPS are eligible for redemption at any time at our discretion. Under capital guidelines effective January 1, 2016, the junior subordinated debt, net of our investments in the Trusts, is included in tier 2 capital. We have entered into agreements which, when taken collectively, fully and unconditionally guarantee the obligations under the TPS subject to the terms of each of the guarantees.

Table of Contents

The following table provides information relating to the Trusts as of September 30, 2017:

(dollars in thousands)	Trust Preferred Securities	Common Securities	Junior Subordinated Debt	Stated Maturity Date		Interest Rate and Rate Reset Factor
F.N.B. Statutory Trust II	$21,500	$ 665	$ 22,165	6/15/2036	2.97%	LIBOR + 165 basis points (bps)
Omega Financial Capital Trust I	26,000	1,114	26,464	10/18/2034	3.49%	LIBOR + 219 bps
Yadkin Valley Statutory Trust I	25,000	774	20,801	12/15/2037	2.64%	LIBOR + 132 bps
FNB Financial Services Capital Trust I	25,000	774	21,747	9/30/2035	2.76%	LIBOR + 146 bps
American Community Capital Trust II	10,000	310	10,450	12/15/2033	4.10%	LIBOR + 280 bps
Crescent Financial Capital Trust I	8,000	248	8,599	10/7/2033	4.40%	LIBOR + 310 bps
Total	$115,500	$ 3,885	$ 110,226			

9. 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.

Table of Contents

The following table presents notional amounts and gross fair values of our derivative assets and derivative liabilities:

	September 30, 2017			December 31, 2016		
	Notional	Fair Value		Notional	Fair Value	
(in thousands)	Amount	Asset	Liability	Amount	Asset	Liability
Gross Derivatives						
Subject to master netting arrangements:						
Interest rate contracts – designated	$705,000	$807	$1,248	$450,000	$9,256	$1,171
Interest rate swaps – not designated	2,061,003	491	13,864	1,689,157	12,720	34,046
Equity contracts – not designated	1,180	49	—	1,180	61	—
Total subject to master netting arrangements	2,767,183	1,347	15,112	2,140,337	22,037	35,217
Not subject to master netting arrangements:						
Interest rate swaps – not designated	2,061,003	36,814	9,859	1,689,157	32,170	11,866
Interest rate lock commitments – not designated	159,437	4,569	56	—	—	—
Forward delivery commitments – not designated	202,040	705	199	—	—	—
Credit risk contracts – not designated	234,562	42	153	174,538	13	123
Equity contracts – not designated	1,180	—	49	1,180	—	61
Total not subject to master netting arrangements	2,658,222	42,130	10,316	1,864,875	32,183	12,050
Total	$5,425,405	$43,477	$25,428	$4,005,212	$54,220	$47,267

On January 3, 2017, the Chicago Mercantile Exchange (CME) enacted a rule change which in effect results in the legal characterization of variation margin payments for certain derivative contracts as settlement of the derivatives mark-to-market exposure and not collateral. This rule change became effective for us in the first quarter of 2017. Accordingly, we have changed our reporting of certain derivatives to record variation margin on trades cleared through CME as settled where we had previously recorded cash collateral. The daily settlement of the derivative exposure does not change or reset the contractual terms of the instrument.

Derivatives Designated as Hedging Instruments under GAAP

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

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

(in thousands)	September 30, 2017	December 31, 2016
Notional amount	$ 705,000	$ 450,000
Fair value included in other assets	807	9,256
Fair value included in other liabilities	1,248	1,171

The following table shows amounts reclassified from accumulated other comprehensive income (AOCI) for the nine months ended September 30, 2017:

(in thousands)	Total	Net of Tax
Reclassified from AOCI to interest income	$1,185	$ 770
Reclassified from AOCI to interest expense	1,059	688

As of September 30, 2017, the maximum length of time over which forecasted interest cash flows are hedged is 6 years. In the twelve months that follow September 30, 2017, we expect to reclassify from the amount currently reported in AOCI net derivative gains of $385,000 ($250,000 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 September 30, 2017.

There were no components of derivative gains or losses excluded from the assessment of hedge effectiveness related to these cash flow hedges. For the nine months ended September 30, 2017 and 2016, there was no hedge ineffectiveness. Also, during the nine months ended September 30, 2017 and 2016, there were no gains or losses from cash flow hedge derivatives reclassified to earnings because it became probable that the original forecasted transactions would not occur.

Derivatives Not Designated as Hedging Instruments under GAAP

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

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

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

(in thousands)	September 30, 2017	December 31, 2016
Notional amount	$ 4,122,006	$ 3,378,314
Fair value included in other assets	37,305	44,890
Fair value included in other liabilities	23,723	45,912

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

Interest Rate Lock Commitments. Interest rate lock commitments (IRLCs) represent an agreement to extend credit to a mortgage loan borrower, or an agreement to purchase a loan from a third-party originator, whereby the interest rate on the loan is set prior to funding. We are bound to fund the loan at a specified rate, regardless of whether interest rates have changed between the commitment date and the loan funding date, subject to the loan approval process. The borrower is not obligated to perform under the commitment. As such, outstanding IRLCs subject us to interest rate risk and related price risk during the period from the commitment to the borrower through the loan funding date, or commitment expiration. The IRLCs generally range between 30 to 90 days. The IRLCs are reported at fair value in other assets and other liabilities on the consolidated balance sheets with any resulting gain or loss recorded in current period earnings as mortgage banking operations income.

Forward Delivery Commitments. Forward delivery commitments on mortgage-backed securities are used to manage the interest rate and price risk of our IRLCs and mortgage loan held for sale inventory by fixing the forward sale price that will be realized upon sale of the mortgage loans into the secondary market. Historical commitment-to-closing ratios are considered to estimate the quantity of mortgage loans that will fund within the terms of the IRLCs. The forward delivery contracts are reported at fair value in other assets and other liabilities on the consolidated balance sheets with any resulting gain or loss recorded in current period earnings as mortgage banking operations income.

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

Risk participation agreements sold with notional amounts totaling $159.7 million as of September 30, 2017 have remaining terms ranging from 2 months to 9 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 $153,000 and $123,000 at September 30, 2017 and December 31, 2016, respectively. The fair values of risk participation agreements purchased and sold were not material at September 30, 2017 and December 31, 2016.

Counterparty Credit Risk

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

Certain master netting agreements contain provisions that, if violated, could cause the counterparties to request immediate settlement or demand full collateralization under the derivative instrument. If we had breached our agreements with our derivative counterparties we would be required to settle our obligations under the agreements at the termination value and would be required to pay an additional $0.9 million and $1.1 million as of September 30, 2017 and December 31, 2016, respectively, in excess of amounts previously posted as collateral with the respective counterparty.

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

(in thousands)	Gross Amount	Gross Amounts Offset in the Balance Sheet	Net Amount Presented in the Balance Sheet
September 30, 2017			
Derivative Assets			
Subject to master netting arrangements:			
Interest rate contracts			
Designated	$ 807	$ —	$ 807
Not designated	491	—	491
Equity contracts – not designated	49	—	49
Not subject to master netting arrangements:			
Interest rate contracts – not designated	36,814	—	36,814
Interest rate lock commitments – not designated	4,569	—	4,569
Forward delivery commitments – not designated	705	—	705
Credit risk contracts – not designated	42	—	42
Total derivative assets	$ 43,477	$ —	$ 43,477
Derivative Liabilities			
Subject to master netting arrangements:			