

FNB CORP/PA/
Form 10-Q
November 07, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2018

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 (I.R.S. Employer
incorporation or organization) 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 every Interactive Data File required to be submitted 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 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):

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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, 2018
Common Stock, \$0.01 Par Value	324,296,105 Shares

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Glossary of Acronyms and Terms
AFS Available for sale
ALCO Asset/Liability Committee
AOCI Accumulated other comprehensive income
ASC Accounting Standards Codification
ASU Accounting Standards Update
BOLI Bank owned life insurance
Basel III Basel III Capital Rules
EVE Economic value of equity
FDIC Federal Deposit Insurance Corporation
FHLB Federal Home Loan Bank
FNB F.N.B. Corporation
FNBPA First National Bank of Pennsylvania
FRB Board of Governors of the Federal Reserve System
FTE Fully taxable equivalent
FVO Fair value option
GAAP U.S. generally accepted accounting principles
HTM Held to maturity
IRLC Interest rate lock commitments
LCR Liquidity Coverage Ratio
LIBOR London Inter-bank Offered Rate
MCH Months of Cash on Hand
MSR Mortgage servicing rights
OCC Office of the Comptroller of the Currency
OREO Other real estate owned
OTTI Other-than-temporary impairment
Regency Regency Finance Company
SBA Small Business Administration
SEC Securities and Exchange Commission
TCJA Tax Cuts and Jobs Act of 2017
TDR Troubled debt restructuring
TPS Trust preferred securities
UST U.S. Department of the Treasury
YDKN Yadkin Financial Corporation

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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, 2018	December 31, 2017
	(Unaudited)	
Assets		
Cash and due from banks	\$ 397,268	\$ 408,718
Interest bearing deposits with banks	40,585	70,725
Cash and Cash Equivalents	437,853	479,443
Securities available for sale	3,298,894	2,764,562
Debt securities held to maturity (fair value of \$3,032,947 and \$3,218,379)	3,206,345	3,242,268
Loans held for sale (includes \$24,943 and \$56,458 measured at fair value) ⁽¹⁾	42,083	92,891
Loans and leases, net of unearned income of \$4,926 and \$50,680	21,839,403	20,998,766
Allowance for credit losses	(177,881	) (175,380
Net Loans and Leases	21,661,522	20,823,386
Premises and equipment, net	323,244	336,540
Goodwill	2,249,541	2,249,188
Core deposit and other intangible assets, net	80,290	92,075
Bank owned life insurance	533,991	526,818
Other assets	783,832	810,464
Total Assets	\$ 32,617,595	\$ 31,417,635
Liabilities		
Deposits:		
Non-interest-bearing demand	\$ 6,018,852	\$ 5,720,030
Interest-bearing demand	9,519,704	9,571,038
Savings	2,513,679	2,488,178
Certificates and other time deposits	5,447,751	4,620,479
Total Deposits	23,499,986	22,399,725
Short-term borrowings	3,679,380	3,678,337
Long-term borrowings	627,049	668,173
Other liabilities	286,316	262,206
Total Liabilities	28,092,731	27,008,441
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 – 326,081,395 and 325,095,055 shares	3,263	3,253
Additional paid-in capital	4,046,168	4,033,567
Retained earnings	516,865	367,658
Accumulated other comprehensive loss	(126,840	) (83,052
Treasury stock – 1,806,209 and 1,629,915 shares at cost	(21,474	) (19,114
Total Stockholders' Equity	4,524,864	4,409,194

Total Liabilities and Stockholders' Equity	\$32,617,595	\$31,417,635
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(1) Amount represents loans for which we have elected the fair value option. See Note 18.
See accompanying Notes to Consolidated Financial Statements (unaudited)

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CONSOLIDATED STATEMENTS OF INCOME

Dollars in thousands, except per share data

Unaudited

	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Interest Income				
Loans and leases, including fees	\$259,744	\$232,834	\$756,733	\$622,554
Securities:				
Taxable	30,467	24,763	86,341	72,258
Tax-exempt	7,259	5,597	20,813	13,675
Dividends	—	—	—	85
Other	345	320	972	669
Total Interest Income	297,815	263,514	864,859	709,241
Interest Expense				
Deposits	38,175	18,987	95,693	47,480
Short-term borrowings	19,576	14,387	53,192	32,020
Long-term borrowings	5,277	4,909	15,727	13,343
Total Interest Expense	63,028	38,283	164,612	92,843
Net Interest Income	234,787	225,231	700,247	616,398
Provision for credit losses	15,975	16,768	46,024	44,374
Net Interest Income After Provision for Credit Losses	218,812	208,463	654,223	572,024
Non-Interest Income				
Service charges	31,922	32,212	93,113	88,883
Trust services	6,395	5,748	19,312	17,210
Insurance commissions and fees	5,001	5,029	14,703	14,517
Securities commissions and fees	4,491	4,038	13,336	11,548
Capital markets income	5,100	2,822	16,168	11,673
Mortgage banking operations	5,962	5,437	17,431	14,400
Bank owned life insurance	4,399	3,123	10,761	8,368
Net securities gains	—	2,777	31	5,895
Other	11,564	4,965	22,371	14,851
Total Non-Interest Income	74,834	66,151	207,226	187,345
Non-Interest Expense				
Salaries and employee benefits	89,535	82,383	277,532	240,860
Net occupancy	14,219	13,723	45,936	39,132
Equipment	13,593	13,711	41,241	35,761
Amortization of intangibles	3,805	4,805	11,834	12,716
Outside services	17,176	15,439	48,946	41,965
FDIC insurance	8,821	9,183	26,822	23,946
Bank shares and franchise taxes	3,237	2,814	9,929	8,536
Merger-related	—	1,381	—	55,459
Other	20,343	20,304	62,585	56,637
Total Non-Interest Expense	170,729	163,743	524,825	515,012
Income Before Income Taxes	122,917	110,871	336,624	244,357
Income taxes	22,154	33,178	63,893	69,279
Net Income	100,763	77,693	272,731	175,078

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Preferred stock dividends	2,010	2,010	6,030	6,030
Net Income Available to Common Stockholders	\$98,753	\$75,683	\$266,701	\$169,048
Earnings per Common Share				
Basic	\$0.30	\$0.23	\$0.82	\$0.57
Diluted	\$0.30	\$0.23	\$0.82	\$0.57
Cash Dividends per Common Share	\$0.12	\$0.12	\$0.36	\$0.36
See accompanying Notes to Consolidated Financial Statements (unaudited)				

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Dollars in thousands

Unaudited

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Net income	\$100,763	\$77,693	\$272,731	\$175,078
Other comprehensive (loss) income:				
Securities available for sale:				
Unrealized (losses) gains arising during the period, net of tax (benefit) expense of \$(3,502), \$724, \$(14,492) and \$4,503	(12,310)	1,288	(50,970)	8,027
Reclassification adjustment for gains included in net income, net of tax expense of \$0, \$215, \$7 and \$223	—	(384)	(24)	(398)
Derivative instruments:				
Unrealized gains (losses) arising during the period, net of tax expense (benefit) of \$396, \$76, \$1,989 and \$(1,265)	1,391	136	6,991	(2,254)
Reclassification adjustment for (gains) losses included in net income, net of tax expense (benefit) of \$141, \$(44), \$346 and \$45	(495)	78	(1,216)	(81)
Pension and postretirement benefit obligations:				
Unrealized gains arising during the period, net of tax expense of \$130, \$535, \$404 and \$987	459	955	1,431	1,765
Other Comprehensive (Loss) Income	(10,955)	2,073	(43,788)	7,059
Comprehensive Income	\$89,808	\$79,766	\$228,943	\$182,137
See accompanying Notes to Consolidated Financial Statements (unaudited)				

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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, 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
Balance at January 1, 2018	\$ 106,882	\$ 3,253	\$ 4,033,567	\$ 367,658	\$ (83,052)	\$ (19,114)	\$ 4,409,194
Comprehensive income (loss)				272,731	(43,788)		228,943
Dividends declared:							
Preferred stock				(6,030)			(6,030)
Common stock: \$0.36/share				(117,494)			(117,494)
Issuance of common stock		10	5,291			(2,360)	2,941
Restricted stock compensation			7,310				7,310
Balance at September 30, 2018	\$ 106,882	\$ 3,263	\$ 4,046,168	\$ 516,865	\$ (126,840)	\$ (21,474)	\$ 4,524,864
See accompanying Notes to Consolidated Financial Statements (unaudited)							

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CONSOLIDATED STATEMENTS OF CASH FLOWS

Dollars in thousands

Unaudited

	Nine Months Ended September 30,	
	2018	2017
Operating Activities		
Net income	\$272,731	\$175,078
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation, amortization and accretion	82,074	60,349
Provision for credit losses	46,024	44,374
Deferred tax expense	28,867	36,706
Net securities gains	(31)	(5,895)
Tax benefit of stock-based compensation	(378)	(735)
Loans originated for sale	(864,757)	(787,957)
Loans sold	933,183	709,323
Gain on sale of loans	(17,618)	(10,583)
Net change in:		
Interest receivable	(8,259)	(10,104)
Interest payable	6,679	938
Bank owned life insurance	(7,204)	(8,100)
Other, net	45,530	(78,095)
Net cash flows provided by operating activities	516,841	125,299
Investing Activities		
Net change in loans and leases	(1,054,971)	(886,944)
Securities available for sale:		
Purchases	(1,029,263)	(1,042,784)
Sales	—	786,762
Maturities	421,666	404,618
Debt securities held to maturity:		
Purchases	(244,367)	(842,020)
Sales	—	57,050
Maturities	275,788	309,075
Purchase of bank owned life insurance	(39)	(25,102)
Increase in premises and equipment	(19,267)	(46,781)
Net cash received in business combinations and divestitures	141,082	196,964
Other, net	70	—
Net cash flows used in investing activities	(1,509,301)	(1,089,162)
Financing Activities		
Net change in:		
Demand (non-interest bearing and interest bearing) and savings accounts	272,989	384,103
Time deposits	830,662	306,745
Short-term borrowings	1,043	573,102
Proceeds from issuance of long-term borrowings	26,612	96,917
Repayment of long-term borrowings	(67,163)	(150,420)
Net proceeds from issuance of common stock	10,251	6,963
Cash dividends paid:		

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Preferred stock	(6,030)	(6,030)
Common stock	(117,494)	(103,584)
Net cash flows provided by financing activities	950,870	1,107,796
Net Increase (Decrease) in Cash and Cash Equivalents	(41,590)	143,933
Cash and cash equivalents at beginning of period	479,443	371,407
Cash and Cash Equivalents at End of Period	\$437,853	\$515,340
See accompanying Notes to Consolidated Financial Statements (unaudited)		

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

September 30, 2018

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

NATURE OF OPERATIONS

F.N.B. Corporation, headquartered in Pittsburgh, Pennsylvania, is a diversified financial services company operating in six states. Through FNBPA, we have over 150 years of serving the financial and banking needs of our customers. 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, 2018, we had 397 banking offices throughout Pennsylvania, Ohio, Maryland, West Virginia, North Carolina and South Carolina. We provide a full range of commercial banking, consumer banking and wealth management solutions through our subsidiary network which is led by our largest affiliate, FNBPA. Commercial banking solutions include corporate banking, small business banking, investment real estate financing, business credit, capital markets and lease financing. Consumer banking provides a full line of consumer banking products and services including deposit products, mortgage lending, consumer lending and a complete suite of mobile and online banking services. Wealth management services include fiduciary and brokerage services, asset management, private banking and insurance.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Our accompanying Consolidated Financial Statements and these Notes to 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, 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. 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, 2018 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.

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 2017 Annual Report on Form 10-K filed with the SEC on February 28, 2018. For a detailed description of our significant accounting policies, see Note 1 "Summary of Significant Accounting Policies" in the 2017 Form 10-K. 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, income taxes and deferred tax assets and litigation.

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Revenue from Contracts with Customers

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

In determining the appropriate revenue recognition for our contracts with customers, we consider whether the contract has commercial substance and is approved by both parties with identifiable contractual rights, payment terms, and the collectability of consideration is probable. Generally, we satisfy our performance obligations upon the completion of services at the amount to which we have the right to invoice or charge under contracts with an original expected duration of one year or less. We apply this guidance on a portfolio basis to contracts with similar characteristics and for which we believe the results would not differ materially from applying this guidance to individual contracts. Our services provided under contracts with customers are transferred at the point in time when the services are rendered. Generally, we do not defer incremental direct costs to obtain contracts with customers that would be amortized in one year or less under the practical expedient. These costs are recognized as expense, primarily salary and benefit expense, in the period incurred.

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

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

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

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

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

Debt Securities

Debt securities comprise a significant portion of our Consolidated Balance Sheets. Such securities can be classified as trading, HTM or AFS. As of September 30, 2018 and 2017, we did not hold any trading debt securities.

Debt securities HTM are the securities that management has the positive intent and ability to hold until their maturity. Such securities are carried at cost, adjusted for related amortization of premiums and accretion of discounts through interest income from securities, and subject to evaluation for OTTI.

Debt securities that are not classified as trading or HTM are classified as AFS. Such securities are carried at fair value with net unrealized gains and losses deemed to be temporary and OTTI attributable to non-credit factors reported separately as a component of other comprehensive income, net of tax.

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

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

Low Income Housing Tax Credit (LIHTC) Partnerships

We invest in various affordable housing projects that qualify for LIHTCs. The net investments are recorded in other assets on the Consolidated Balance Sheets. These investments generate a return through the realization of federal tax credits. We use the proportional amortization method to account for a majority of our investments in these entities. LIHTCs that do not meet the requirements of the proportional amortization method are recognized using the equity method. Our net investment in LIHTCs was \$35.7 million and \$20.9 million at September 30, 2018 and December 31, 2017, respectively. Our unfunded commitments in LIHTCs were \$46.6 million and \$67.2 million at September 30, 2018 and December 31, 2017, respectively.

Cloud Computing Arrangements

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

In the third quarter of 2018, we early adopted, on a prospective basis, ASU 2018-15 (See Note 2) which allows for implementation costs for activities performed in cloud computing arrangements that are a service contract to be accounted for under the internal-use software guidance which allows for certain implementation costs to be capitalized depending on the nature of the costs and the project stage. Prior to the adoption of ASU 2018-15 all implementation costs for cloud computing arrangements that were a service contract were expensed as incurred.

NOTE 2. NEW ACCOUNTING STANDARDS

The following table summarizes accounting pronouncements issued by the Financial Accounting Standards Board that we recently adopted or will be adopting in the future.

TABLE 2.1

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

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Standard	Description	Required Date of Adoption	Financial Statements Impact
Derivative and Hedging Activities			
ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities	This Update improves the financial reporting of hedging to better align with a company's risk management activities. In addition, this Update makes certain targeted improvements to simplify the application of the current hedge accounting guidance.	January 1, 2019 Early adoption is permitted.	This Update is to be applied using a modified retrospective method. The presentation and disclosure guidance are applied prospectively. We are currently assessing the potential impact to our Consolidated Financial Statements.
Securities			
ASU 2017-08, Receivables-Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities	This Update shortens the amortization period for the premium on certain purchased callable securities to the earliest call date. The accounting for purchased callable debt securities held at a discount does not change.	January 1, 2019 Early adoption is permitted.	This Update is to be applied using a modified retrospective transition method. The adoption of this Update is not expected to have a material effect on our Consolidated Financial Statements.
Retirement Benefits			
ASU 2017-07, Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost	This Update requires that an employer disaggregate the service cost component from the other components of net benefit cost. The amendments also provide explicit guidance on how to present the service cost component and the other components of net benefit cost in the Income Statement and allows only the service cost component of net benefit cost to be eligible for capitalization.	January 1, 2018	We adopted this Update in the first quarter of 2018 by a retrospective transition method. The adoption of this Update did not have a material effect on our Consolidated Financial Statements.
Statement of Cash Flows			
ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force)	This Update adds or clarifies guidance on eight cash flow issues.	January 1, 2018	We adopted this Update in the first quarter of 2018 by retrospective application. The adoption of this Update did not have a material effect on our Consolidated Financial Statements.

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Standard	Description	Required Date of Adoption	Financial Statements Impact
Credit Losses	This Update replaces the current incurred loss impairment methodology with a methodology that reflects current expected credit losses (commonly referred to as CECL) for most financial assets measured at amortized cost and certain other instruments, including loans, HTM debt securities, net investments in leases and off-balance sheet credit exposures. CECL requires loss estimates for the remaining life of the financial asset at the time the asset is originated or acquired, considering historical experience, current conditions and reasonable and supportable forecasts. In addition, the Update will require the use of a modified AFS debt security impairment model and eliminate the current accounting for purchased credit impaired loans and debt securities.	January 1, 2020 Early adoption is permitted for fiscal years beginning after December 15, 2018	This Update is to be applied using a cumulative-effect adjustment to retained earnings. The CECL model is a significant change from existing GAAP and may result in a material change to our accounting for financial instruments and regulatory capital. We have created a cross-functional steering committee to govern implementation as we continue to review and enhance our business processes, information systems and controls to support recognition and disclosures under this Update including designing and building the models that will be used to calculate the expected credit losses. The impact of this Update will be dependent on the portfolio composition, credit quality and forecasts of economic conditions at the time of adoption.
ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments			
Extinguishments of Liabilities ASU 2016-04, Liabilities - Extinguishments of Liabilities (Subtopic 405-20): Recognition of Breakage for Certain Prepaid Stored-Value Products (a consensus of the Emerging Issues Task Force)	This Update requires entities that sell prepaid stored-value products redeemable for goods, services or cash at third-party merchants to recognize breakage.	January 1, 2018	We adopted this Update in the first quarter of 2018. The adoption of this Update did not have a material effect on our Consolidated Financial Statements.
ASU 2016-02, Leases (Topic 842)	These Updates require 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	January 1, 2019 Early adoption is permitted.	These Updates are to be applied using a modified retrospective application including a number of optional practical expedients. We are in the process of classifying our existing lease portfolios, implementing a software solution, and assessing the potential impact to our Consolidated Financial Statements. We
ASU 2018-10, Codification Improvements to Topic 842, Leases			

ASU 2018-11, Leases
(Topic 842), Targeted
Improvements

for most entities. All entities will
classify leases to determine how to
recognize lease related revenue and
expense.

do not believe this update will materially
impact our consolidated net income.

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Standard	Description	Required Date of Adoption	Financial Statements Impact
Financial Instruments – Recognition and Measurement			
ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities	This Update amends the presentation and accounting for certain financial instruments, including liabilities measured at fair value under the FVO, and equity investments. The guidance also updates fair value presentation and disclosure requirements for financial instruments measured at amortized cost.	January 1, 2018	We adopted this Update in the first quarter of 2018 by a cumulative-effect adjustment. The adoption of this Update did not have a material effect on our Consolidated Financial Statements. During the first quarter of 2018, we transferred marketable equity securities totaling \$1.1 million from securities AFS to other assets.
Revenue Recognition			
ASU 2014-09, Revenue from Contracts with Customers (Topic 606)	This Update modifies the guidance used to recognize revenue from contracts with customers for transfers of goods and services and transfers of nonfinancial assets, unless those contracts are within the scope of other guidance. The guidance also requires new qualitative and quantitative disclosures about contract balances and performance obligations.	January 1, 2018	We adopted this Update in the first quarter of 2018 under the modified retrospective method. The adoption of this Update did not have a material effect on our Consolidated Financial Statements.

NOTE 3. MERGERS AND ACQUISITIONS**Yadkin Financial Corporation**

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

On the acquisition date, the fair values of YDKN included \$6.8 billion in assets, of which there was \$5.1 billion in loans, and \$5.2 billion in deposits. The acquisition was valued at \$1.8 billion based on the acquisition date FNB common stock closing price of \$15.97 and resulted in FNB issuing 111,619,622 shares of our common stock in exchange for 51,677,565 shares of YDKN common stock. Under the terms of the merger agreement, shareholders of YDKN received 2.16 shares of FNB common stock for each share of YDKN common stock and cash in lieu of fractional shares. YDKN's fully vested and outstanding stock options were converted into options to purchase and receive FNB common stock. In conjunction with the acquisition, we assumed a warrant that was issued by YDKN to the UST under the Capital Purchase Program. Based on the exchange ratio, this warrant, which expires in 2019, was converted into a warrant to purchase up to 207,320 shares of FNB common stock with an exercise price of \$9.63. The acquisition of YDKN constituted a business combination and has been accounted for using the acquisition method of accounting, and accordingly, assets acquired, liabilities assumed and consideration exchanged were recorded at estimated fair value on the acquisition date. The determination of estimated fair values required management to make certain estimates about discount rates, future expected cash flows, market conditions, and other future events that are highly subjective in nature and may require adjustments, which can be updated for up to a year following the acquisition. Any adjustments to fair values and related adjustments to goodwill were recorded within the 12-month period.

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NOTE 4. SECURITIES

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

TABLE 4.1

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale:				
September 30, 2018				
U.S. government agencies	\$163,752	\$ 36	\$(788)	\$163,000
U.S. government-sponsored entities	362,967	—	(6,700)	356,267
Residential mortgage-backed securities:				
Agency mortgage-backed securities	1,540,049	356	(56,585)	1,483,820
Agency collateralized mortgage obligations	1,083,989	—	(37,508)	1,046,481
Commercial mortgage-backed securities	228,957	—	(2,182)	226,775
States of the U.S. and political subdivisions	20,782	—	(101)	20,681
Other debt securities	1,950	—	(80)	1,870
Total debt securities available for sale	\$3,402,446	\$ 392	\$(103,944)	\$3,298,894
December 31, 2017				
U.S. government-sponsored entities	\$347,767	\$ 52	\$(3,877)	\$343,942
Residential mortgage-backed securities:				
Agency mortgage-backed securities	1,615,168	1,225	(17,519)	1,598,874
Agency collateralized mortgage obligations	813,034	—	(18,077)	794,957
Non-agency collateralized mortgage obligations	1	—	—	1
States of the U.S. and political subdivisions	21,151	6	(64)	21,093
Other debt securities	4,913	—	(243)	4,670
Total debt securities	2,802,034	1,283	(39,780)	2,763,537
Equity securities	587	438	—	1,025
Total securities available for sale	\$2,802,621	\$ 1,721	\$(39,780)	\$2,764,562

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(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt Securities Held to Maturity:				
September 30, 2018				
U.S. Treasury	\$500	\$ 95	\$—	\$595
U.S. government agencies	1,987	58	—	2,045
U.S. government-sponsored entities	230,011	—	(6,170)	223,841
Residential mortgage-backed securities:				
Agency mortgage-backed securities	1,078,270	225	(40,969)	1,037,526
Agency collateralized mortgage obligations	797,940	219	(37,797)	760,362
Commercial mortgage-backed securities	76,818	1	(1,864)	74,955
States of the U.S. and political subdivisions	1,020,819	—	(87,196)	933,623
Total debt securities held to maturity	\$3,206,345	\$ 598	\$(173,996)	\$3,032,947
December 31, 2017				
U.S. Treasury	\$500	\$ 134	\$—	\$634
U.S. government-sponsored entities	247,310	93	(4,388)	243,015
Residential mortgage-backed securities:				
Agency mortgage-backed securities	1,219,802	3,475	(9,058)	1,214,219
Agency collateralized mortgage obligations	777,146	32	(20,095)	757,083
Commercial mortgage-backed securities	80,786	414	(575)	80,625
States of the U.S. and political subdivisions	916,724	13,209	(7,130)	922,803
Total debt securities held to maturity	\$3,242,268	\$ 17,357	\$(41,246)	\$3,218,379

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

TABLE 4.2

(in thousands)	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2017
Gross gains	\$—\$2,834	\$31 \$6,845
Gross losses	—(57)	— (950)
Net gains	\$—\$2,777	\$31 \$5,895

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As of September 30, 2018, the amortized cost and fair value of debt securities, by contractual maturities, were as follows:

TABLE 4.3

(in thousands)	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$121,270	\$120,729	\$40,450	\$40,308
Due from one to five years	258,824	252,577	202,164	195,882
Due from five to ten years	57,811	57,603	109,606	105,281
Due after ten years	111,546	110,909	901,097	818,633
	549,451	541,818	1,253,317	1,160,104
Residential mortgage-backed securities:				
Agency mortgage-backed securities	1,540,049	1,483,820	1,078,270	1,037,526
Agency collateralized mortgage obligations	1,083,989	1,046,481	797,940	760,362
Commercial mortgage-backed securities	228,957	226,775	76,818	74,955
Total debt securities	\$3,402,446	\$3,298,894	\$3,206,345	\$3,032,947

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

Following is information relating to securities pledged:

TABLE 4.4

(dollars in thousands)	September 30, 2018	December 31, 2017
Securities pledged (carrying value):		
To secure public deposits, trust deposits and for other purposes as required by law	\$3,912,575	\$3,491,634
As collateral for short-term borrowings	282,682	263,756
Securities pledged as a percent of total securities	64.5	% 62.5 %

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

TABLE 4.5

(dollars in thousands)	Less than 12 Months			12 Months or More			Total		
	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses
Debt Securities Available for Sale									
September 30, 2018									
U.S. government agencies	18	\$137,530	\$(788)	—	\$—	\$—	18	\$137,530	\$(788)
U.S. government-sponsored entities	6	136,678	(1,292)	11	219,589	(5,408)	17	356,267	(6,700)
Residential mortgage-backed securities:									
Agency mortgage-backed securities	40	666,851	(20,289)	48	807,826	(36,296)	88	1,474,677	(56,585)
Agency collateralized mortgage obligations	17	568,169	(11,501)	39	448,336	(26,007)	56	1,016,505	(37,508)
Commercial mortgage-backed securities	6	226,775	(2,182)	—	—	—	6	226,775	(2,182)
States of the U.S. and political subdivisions	7	11,672	(80)	2	2,028	(21)	9	13,700	(101)
Other debt securities	—	—	—	1	1,870	(80)	1	1,870	(80)
Total temporarily impaired debt securities AFS	94	\$1,747,675	\$(36,132)	101	\$1,479,649	\$(67,812)	195	\$3,227,324	\$(103,944)
December 31, 2017									
U.S. government-sponsored entities	7	\$106,809	\$(363)	10	\$201,485	\$(3,514)	17	\$308,294	\$(3,877)
Residential mortgage-backed securities:									
Agency mortgage-backed securities	43	976,738	(7,723)	28	473,625	(9,796)	71	1,450,363	(17,519)
Agency collateralized mortgage obligations	14	409,005	(6,231)	33	335,452	(11,846)	47	744,457	(18,077)
States of the U.S. and political subdivisions	7	11,254	(55)	1	879	(9)	8	12,133	(64)
Other debt securities	—	—	—	3	4,670	(243)	3	4,670	(243)
Total temporarily impaired debt securities AFS	71	\$1,503,806	\$(14,372)	75	\$1,016,111	\$(25,408)	146	\$2,519,917	\$(39,780)

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(dollars in thousands)	Less than 12 Months			12 Months or More			Total		
	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses
Debt Securities Held to Maturity									
September 30, 2018									
U.S. government-sponsored entities	3	\$39,696	\$(315)	10	\$184,145	\$(5,855)	13	\$223,841	\$(6,170)
Residential mortgage-backed securities:									
Agency mortgage-backed securities	66	609,169	(20,754)	29	417,024	(20,215)	95	1,026,193	(40,969)
Agency collateralized mortgage obligations	15	307,031	(9,673)	38	416,467	(28,124)	53	723,498	(37,797)
Commercial mortgage-backed securities	7	52,471	(1,184)	4	21,371	(680)	11	73,842	(1,864)
States of the U.S. and political subdivisions	278	810,893	(60,672)	42	122,730	(26,524)	320	933,623	(87,196)
Total temporarily impaired debt securities HTM	369	\$1,819,260	\$(92,598)	123	\$1,161,737	\$(81,398)	492	\$2,980,997	\$(173,996)
December 31, 2017									
U.S. government-sponsored entities	4	\$54,790	\$(239)	10	\$185,851	\$(4,149)	14	\$240,641	\$(4,388)
Residential mortgage-backed securities:									
Agency mortgage-backed securities	36	648,485	(4,855)	11	183,989	(4,203)	47	832,474	(9,058)
Agency collateralized mortgage obligations	14	275,290	(1,701)	35	473,257	(18,394)	49	748,547	(20,095)
Commercial mortgage-backed securities	3	26,399	(123)	2	19,443	(452)	5	45,842	(575)
States of the U.S. and political subdivisions	16	56,739	(933)	37	121,536	(6,197)	53	178,275	(7,130)
Total temporarily impaired debt securities HTM	73	\$1,061,703	\$(7,851)	95	\$984,076	\$(33,395)	168	\$2,045,779	\$(41,246)

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

Other-Than-Temporary Impairment

We evaluate our investment securities portfolio for OTTI on a quarterly basis. Impairment is assessed at the individual security level. We consider an investment security impaired if the fair value of the security is less than its cost or amortized cost basis. We did not recognize any OTTI losses on securities for the nine months ended September 30, 2018 or 2017.

States of the U.S. and Political Subdivisions

Our municipal bond portfolio with a carrying amount of \$1.0 billion as of September 30, 2018 is highly rated with an average entity-specific rating of AA and 100% of the portfolio rated A or better, while 99% have stand-alone ratings of A or better. All of the securities in the municipal portfolio except one are general obligation bonds. Geographically, municipal bonds support our primary footprint as 65% of the securities are from municipalities located throughout Pennsylvania, Ohio, Maryland, North Carolina and South Carolina. The average holding size of the securities in the municipal bond portfolio is \$3.1 million. In addition to the strong stand-alone ratings, 64% 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.

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NOTE 5. LOANS AND LEASES

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

TABLE 5.1

(in thousands)	Originated Loans and Leases	Acquired Loans	Total Loans and Leases
September 30, 2018			
Commercial real estate	\$5,978,629	\$2,867,111	\$8,845,740
Commercial and industrial	3,892,822	470,635	4,363,457
Commercial leases	346,579	—	346,579
Other	34,732	—	34,732
Total commercial loans and leases	10,252,762	3,337,746	13,590,508
Direct installment	1,670,964	107,159	1,778,123
Residential mortgages	2,457,380	527,282	2,984,662
Indirect installment	1,880,487	162	1,880,649
Consumer lines of credit	1,116,376	489,085	1,605,461
Total consumer loans	7,125,207	1,123,688	8,248,895
Total loans and leases, net of unearned income	\$17,377,969	\$4,461,434	\$21,839,403
December 31, 2017			
Commercial real estate	\$5,174,783	\$3,567,081	\$8,741,864
Commercial and industrial	3,495,247	675,420	4,170,667
Commercial leases	266,720	—	266,720
Other	17,063	—	17,063
Total commercial loans and leases	8,953,813	4,242,501	13,196,314
Direct installment	1,755,713	149,822	1,905,535
Residential mortgages	2,036,226	666,465	2,702,691
Indirect installment	1,448,268	165	1,448,433
Consumer lines of credit	1,151,470	594,323	1,745,793
Total consumer loans	6,391,677	1,410,775	7,802,452
Total loans and leases, net of unearned income	\$15,345,490	\$5,653,276	\$20,998,766

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

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

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

• Commercial leases consist of leases for new or used equipment;

• Other is comprised primarily of credit cards and mezzanine loans;

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

• Residential mortgages consist of conventional and jumbo mortgage loans for 1-4 family properties;

• Indirect installment is comprised of loans originated by approved third parties and underwritten by us, primarily automobile loans; and

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

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

TABLE 5.2

(dollars in thousands)	September 30, 2018		December 31, 2017	
Commercial construction, acquisition and development loans	\$ 1,146,612		\$ 1,170,175	
Percent of total loans and leases	5.3	%	5.6	%
Commercial real estate:				
Percent owner-occupied	34.7	%	35.3	%
Percent non-owner-occupied	65.3	%	64.7	%

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 2017 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:

TABLE 5.3

(in thousands)	September 30, 2018		December 31, 2017	
Accounted for under ASC 310-30:				
Outstanding balance	\$ 4,110,019		\$ 5,176,015	
Carrying amount	3,830,823		4,834,256	
Accounted for under ASC 310-20:				
Outstanding balance	644,077		835,130	
Carrying amount	626,041		812,322	
Total acquired loans:				
Outstanding balance	4,754,096		6,011,145	
Carrying amount	4,456,864		5,646,578	

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

The carrying amount of purchased credit impaired loans included in the table above totaled \$1.7 million at September 30, 2018 and \$1.9 million at December 31, 2017, representing 0.04% and 0.03%, respectively, of the carrying amount of total acquired loans as of each date.

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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.

TABLE 5.4

(in thousands)	Nine Months Ended	
	September 30,	
	2018	2017
Balance at beginning of period	\$708,481	\$467,070
Acquisitions	—	444,715
Reduction due to unexpected early payoffs	(117,469)	(90,097)
Reclass from non-accretable difference	184,545	163,714
Disposals/transfers	(444)	(341)
Other	(412)	1,129
Accretion	(169,605)	(164,219)
Balance at end of period	\$605,096	\$821,971

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. The excess of cash flows expected to be collected at acquisition over recorded fair value is referred to as the accretable yield.

The accretable yield is recognized into income over the remaining life of the loan, or pool of loans, using an effective yield method, if the timing and/or amount of cash flows expected to be collected can be reasonably estimated (the accretion model).

If the timing and/or amount of cash flows expected to be collected cannot be reasonably estimated, the cost recovery method of income recognition must be used. The difference between the loan's total scheduled principal and interest payments over all cash flows expected at acquisition is referred to as the non-accretable difference. The non-accretable difference represents

contractually required principal and interest payments which we do not expect to collect.

During the nine months ended September 30, 2018, there was an overall improvement in cash flow expectations which resulted in a net reclassification of \$184.5 million from the non-accretable difference to accretable yield. This reclassification was \$163.7 million for the nine months ended September 30, 2017. The reclassification from the non-accretable difference to the accretable yield results in prospective yield adjustments on the loan pools and was also positively impacted by the sale of \$56.5 million of acquired residential mortgage loans in the second quarter of 2018.

Credit Quality

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

Non-performing loans include non-accrual loans and non-performing TDRs. Past due loans are reviewed on a monthly basis to identify loans for non-accrual status. We place originated loans on non-accrual status and discontinue interest accruals on originated loans generally when principal or interest is due and has remained unpaid for a certain number of days or when the full amount of principal and interest is due and has remained unpaid for a certain number of days, unless the loan is both well secured and in the process of collection. Commercial loans and leases are placed on

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

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Following is a summary of non-performing assets:

TABLE 5.5

(dollars in thousands)	September 30, December 31,	
	2018	2017
Non-accrual loans	\$ 79,899	\$ 74,635
Troubled debt restructurings	22,322	23,481
Total non-performing loans	102,221	98,116
Other real estate owned	35,685	40,606
Total non-performing assets	\$ 137,906	\$ 138,722
Asset quality ratios:		
Non-performing loans / total loans and leases	0.47	% 0.47 %
Non-performing loans + OREO / total loans and leases + OREO	0.63	% 0.66 %
Non-performing assets / total assets	0.42	% 0.44 %

The carrying value of residential other real estate owned held as a result of obtaining physical possession upon completion of a foreclosure or through completion of a deed in lieu of foreclosure amounted to \$5.4 million at September 30, 2018 and \$3.6 million at December 31, 2017. The recorded investment of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are in process at September 30, 2018 and December 31, 2017 totaled \$9.0 million and \$15.2 million, respectively.

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

TABLE 5.6

(in thousands)	30-89 Days Past Due	> 90 Days Past Due and Still Accruing	Non- Accrual	Total Past Due (4)	Current	Total Loans and Leases
Originated Loans and Leases						
September 30, 2018						
Commercial real estate	\$ 12,978	\$ 2	\$ 18,243	\$ 31,223	\$ 5,947,406	\$ 5,978,629
Commercial and industrial	7,069	3	27,323	34,395	3,858,427	3,892,822
Commercial leases	712	—	5,526	6,238	340,341	346,579
Other	80	141	1,000	1,221	33,511	34,732
Total commercial loans and leases	20,839	146	52,092	73,077	10,179,685	10,252,762
Direct installment	7,779	663	7,888	16,330	1,654,634	1,670,964
Residential mortgages	19,274	1,754	6,110	27,138	2,430,242	2,457,380
Indirect installment	8,889	505	2,263	11,657	1,868,830	1,880,487
Consumer lines of credit	5,039	904	3,583	9,526	1,106,850	1,116,376
Total consumer loans	40,981	3,826	19,844	64,651	7,060,556	7,125,207
Total originated loans and leases	\$ 61,820	\$ 3,972	\$ 71,936	\$ 137,728	\$ 17,240,241	\$ 17,377,969
December 31, 2017						
Commercial real estate	\$ 8,273	\$ 1	\$ 24,773	\$ 33,047	\$ 5,141,736	\$ 5,174,783
Commercial and industrial	8,948	3	17,077	26,028	3,469,219	3,495,247
Commercial leases	1,382	41	1,574	2,997	263,723	266,720
Other	83	153	1,000	1,236	15,827	17,063
Total commercial loans and leases	18,686	198	44,424	63,308	8,890,505	8,953,813
Direct installment	13,192	4,466	8,896	26,554	1,729,159	1,755,713
Residential mortgages	14,096	2,832	5,771	22,699	2,013,527	2,036,226
Indirect installment	10,313	611	2,240	13,164	1,435,104	1,448,268
Consumer lines of credit	5,859	1,014	2,313	9,186	1,142,284	1,151,470
Total consumer loans	43,460	8,923	19,220	71,603	6,320,074	6,391,677
Total originated loans and leases	\$ 62,146	\$ 9,121	\$ 63,644	\$ 134,911	\$ 15,210,579	\$ 15,345,490

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(in thousands)	30-89 Days Past Due	> 90 Days Past Due and Still Accruing	Non- Accrual	Total Past Due (1) (2) (3)	Current	(Discount) Premium	Total Loans
Acquired Loans							
September 30, 2018							
Commercial real estate	\$33,024	\$ 48,044	\$3,030	\$84,098	\$2,956,931	\$(173,918)	\$2,867,111
Commercial and industrial	1,704	2,801	4,252	8,757	492,430	(30,552)	470,635
Total commercial loans	34,728	50,845	7,282	92,855	3,449,361	(204,470)	3,337,746
Direct installment	4,168	1,798	—	5,966	101,669	(476)	107,159
Residential mortgages	15,237	6,428	—	21,665	522,844	(17,227)	527,282
Indirect installment	—	1	—	1	—	161	162
Consumer lines of credit	6,699	2,244	681	9,624	490,358	(10,897)	489,085
Total consumer loans	26,104	10,471	681	37,256	1,114,871	(28,439)	1,123,688
Total acquired loans	\$60,832	\$ 61,316	\$7,963	\$130,111	\$4,564,232	\$(232,909)	\$4,461,434
December 31, 2017							
Commercial real estate	\$34,928	\$ 63,092	\$3,975	\$101,995	\$3,657,152	\$(192,066)	\$3,567,081
Commercial and industrial	3,187	6,452	5,663	15,302	698,265	(38,147)	675,420
Total commercial loans	38,115	69,544	9,638	117,297	4,355,417	(230,213)	4,242,501
Direct installment	5,267	2,013	—	7,280	141,386	1,156	149,822
Residential mortgages	17,191	15,139	—	32,330	675,499	(41,364)	666,465
Indirect installment	—	1	—	1	10	154	165
Consumer lines of credit	6,353	3,253	1,353	10,959	596,298	(12,934)	594,323
Total consumer loans	28,811	20,406	1,353	50,570	1,413,193	(52,988)	1,410,775
Total acquired loans	\$66,926	\$ 89,950	\$10,991	\$167,867	\$5,768,610	\$(283,201)	\$5,653,276

(1) Past due information for acquired loans is based on the contractual balance outstanding at September 30, 2018 and December 31, 2017.

Acquired loans are considered performing upon acquisition, regardless of whether the customer is contractually delinquent, if we can reasonably estimate the timing and amount of expected cash flows on such loans. In these instances, we do not consider acquired contractually delinquent loans to be non-accrual or non-performing and (2) 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.

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

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

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

TABLE 5.7

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

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

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

TABLE 5.8

(in thousands)	Commercial Loan and Lease Credit Quality Categories				
	Pass	Special Mention	Substandard	Doubtful	Total
Originated Loans and Leases					
September 30, 2018					
Commercial real estate	\$5,716,992	\$144,800	\$116,793	\$44	\$5,978,629
Commercial and industrial	3,626,199	187,032	74,879	4,712	3,892,822
Commercial leases	335,439	1,623	9,517	—	346,579
Other	33,481	110	1,141	—	34,732
Total originated commercial loans and leases	\$9,712,111	\$333,565	\$202,330	\$4,756	\$10,252,762
December 31, 2017					
Commercial real estate	\$4,922,872	\$152,744	\$98,728	\$439	\$5,174,783
Commercial and industrial	3,266,966	132,975	92,091	3,215	3,495,247
Commercial leases	260,235	4,425	2,060	—	266,720
Other	15,866	43	1,154	—	17,063
Total originated commercial loans and leases	\$8,465,939	\$290,187	\$194,033	\$3,654	\$8,953,813
Acquired Loans					
September 30, 2018					
Commercial real estate	\$2,481,679	\$181,813	\$203,448	\$171	\$2,867,111
Commercial and industrial	408,326	20,605	41,704	—	470,635
Total acquired commercial loans	\$2,890,005	\$202,418	\$245,152	\$171	\$3,337,746
December 31, 2017					
Commercial real estate	\$3,102,788	\$250,987	\$213,089	\$217	\$3,567,081
Commercial and industrial	603,611	26,059	45,661	89	675,420
Total acquired commercial loans	\$3,706,399	\$277,046	\$258,750	\$306	\$4,242,501

Credit quality information for acquired loans is based on the contractual balance outstanding at September 30, 2018 and December 31, 2017.

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

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Following is a table showing consumer loans by payment status:

TABLE 5.9

(in thousands)	Consumer Loan Credit Quality by Payment Status		
	Performing	Non- Performing	Total
Originated loans			
September 30, 2018			
Direct installment	\$ 1,656,375	\$ 14,589	\$ 1,670,964
Residential mortgages	2,441,374	16,006	2,457,380
Indirect installment	1,878,224	2,263	1,880,487
Consumer lines of credit	1,111,004	5,372	1,116,376
Total originated consumer loans	\$ 7,086,977	\$ 38,230	\$ 7,125,207
December 31, 2017			
Direct installment	\$ 1,739,060	\$ 16,653	\$ 1,755,713
Residential mortgages	2,019,816	16,410	2,036,226
Indirect installment	1,445,833	2,435	1,448,268
Consumer lines of credit	1,147,576	3,894	1,151,470
Total originated consumer loans	\$ 6,352,285	\$ 39,392	\$ 6,391,677
Acquired loans			
September 30, 2018			
Direct installment	\$ 107,091	\$ 68	\$ 107,159
Residential mortgages	527,282	—	527,282
Indirect installment	162	—	162
Consumer lines of credit	487,823	1,262	489,085
Total acquired consumer loans	\$ 1,122,358	\$ 1,330	\$ 1,123,688
December 31, 2017			
Direct installment	\$ 149,751	\$ 71	\$ 149,822
Residential mortgages	666,465	—	666,465
Indirect installment	165	—	165
Consumer lines of credit	592,384	1,939	594,323
Total acquired consumer loans	\$ 1,408,765	\$ 2,010	\$ 1,410,775

Loans are designated as impaired when, in the opinion of management, based on current information and events, the collection of principal and interest in accordance with the loan and lease contract is doubtful. Typically, we do not consider loans for impairment unless a sustained period of delinquency (i.e., 90-plus days) is noted or there are subsequent events that impact repayment probability (i.e., negative financial trends, bankruptcy filings, imminent foreclosure proceedings, etc.). Effective July 1, 2018, we changed our threshold for measuring impairment on a collective basis. Impairment is evaluated in the aggregate for newly impaired commercial loan relationships less than \$1.0 million based on loan segment loss given default. Impairment is evaluated in the aggregate for consumer installment loans, residential mortgages, consumer lines of credit and commercial loan relationships less than \$1.0 million based on loan segment loss given default. For commercial loan relationships greater than or equal to \$1.0 million, a specific valuation allowance is allocated, if necessary, so that the loan is reported net, at the present value of estimated future cash flows using a market interest rate or at the fair value of collateral if repayment is expected solely from the collateral. Consistent with our existing method of income recognition for loans, interest income on impaired loans, except those classified as non-accrual, is recognized using the accrual method. Impaired loans, or portions thereof, are charged off when deemed uncollectible.

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

TABLE 5.10

(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, 2018						
Commercial real estate	\$ 20,051	\$ 17,576	\$ 635	\$ 18,211	\$ 44	\$ 16,360
Commercial and industrial	31,219	19,533	8,272	27,805	4,712	27,096
Commercial leases	5,526	5,526	—	5,526	—	3,372
Total commercial loans and leases	56,796	42,635	8,907	51,542	4,756	46,828
Direct installment	17,554	14,589	—	14,589	—	15,191
Residential mortgages	17,316	16,006	—	16,006	—	16,887
Indirect installment	4,576	2,263	—	2,263	—	2,208
Consumer lines of credit	7,330	5,372	—	5,372	—	5,172
Total consumer loans	46,776	38,230	—	38,230	—	39,458
Total	\$ 103,572	\$ 80,865	\$ 8,907	\$ 89,772	\$ 4,756	\$ 86,286
At or for the Year Ended December 31, 2017						
Commercial real estate	\$ 27,718	\$ 21,748	\$ 2,906	\$ 24,654	\$ 439	\$ 24,413
Commercial and industrial	29,307	11,595	4,457	16,052	3,215	23,907
Commercial leases	1,574	1,574	—	1,574	—	1,386
Total commercial loans and leases	58,599	34,917	7,363	42,280	3,654	49,706
Direct installment	19,375	16,653	—	16,653	—	16,852
Residential mortgages	17,754	16,410	—	16,410	—	15,984
Indirect installment	5,709	2,435	—	2,435	—	2,279
Consumer lines of credit	5,039	3,894	—	3,894	—	3,815
Total consumer loans	47,877	39,392	—	39,392	—	38,930
Total	\$ 106,476	\$ 74,309	\$ 7,363	\$ 81,672	\$ 3,654	\$ 88,636

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Interest income continued to accrue on certain impaired loans and totaled approximately \$4.3 million and \$3.3 million for the nine months ended September 30, 2018 and 2017, 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:

TABLE 5.11

(in thousands)	September 30, 2018	December 31, 2017
Commercial real estate	\$ 2,440	\$ 4,976
Commercial and industrial	639	(415)
Total commercial loans	3,079	4,561
Direct installment	967	1,553
Residential mortgages	520	484
Indirect installment	226	177
Consumer lines of credit	(222)	(77)
Total consumer loans	1,491	2,137
Total allowance on acquired loans	\$ 4,570	\$ 6,698

Troubled Debt Restructurings

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

Following is a summary of the composition of total TDRs:

TABLE 5.12

(in thousands)	Originated	Acquired	Total
September 30, 2018			
Accruing:			
Performing	\$ 16,963	\$ 67	\$ 17,030
Non-performing	19,060	3,262	22,322
Non-accrual	8,621	91	8,712
Total TDRs	\$ 44,644	\$ 3,420	\$ 48,064
December 31, 2017			
Accruing:			
Performing	\$ 19,538	\$ 266	\$ 19,804
Non-performing	20,173	3,308	23,481
Non-accrual	10,472	234	10,706
Total TDRs	\$ 50,183	\$ 3,808	\$ 53,991

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, 2018, we returned to performing status \$3.0 million in restructured residential mortgage loans that have consistently met their modified obligations for more than six months. TDRs that are accruing and non-performing are comprised of consumer loans that have not demonstrated a consistent repayment pattern on the modified terms for more than six months, however it is expected that we will collect all future principal and interest payments. TDRs that are on non-accrual are not placed on accruing status until all delinquent

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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 \$1.0 million whose terms have been modified in a TDR are generally placed on non-accrual, individually analyzed and measured for estimated impairment based on the fair value of the underlying collateral. Our allowance for credit losses included specific reserves for commercial TDRs and pooled reserves for individually impaired loans under \$1.0 million based on loan segment loss given default. 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:

TABLE 5.13

(in thousands)	September 30, December 31,	
	2018	2017
Specific reserves for commercial TDRs	\$	—\$ 95
Pooled reserves for individual commercial loans	551	469

All other classes of loans, which are primarily secured by residential properties, whose terms have been modified in a TDR are pooled and measured for estimated impairment based on the expected net present value of the estimated future cash flows of the pool. Our allowance for credit losses included pooled reserves for these classes of loans of \$4.0 million for September 30, 2018 and \$4.0 million for December 31, 2017. Upon default of an individual loan, our charge-off policy is followed accordingly for that class of loan.

Following is a summary of TDR loans, by class:

TABLE 5.14

(dollars in thousands)	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2018	
	Pre- Modification Number of Outstanding Contracts Recorded Investment	Post- Modification Outstanding Recorded Investment	Pre- Modification Number of Outstanding Contracts Recorded Investment	Post- Modification Outstanding Recorded Investment
Commercial real estate	3 \$ 507	\$ 494	4 \$ 656	\$ 614
Commercial and industrial	1 15	—	12 662	633
Total commercial loans	4 522	494	16 1,318	1,247
Direct installment	15 650	638	65 3,215	2,941
Residential mortgages	4 283	279	13 898	854
Indirect installment	— —	—	— —	—
Consumer lines of credit	11 540	549	25 1,199	1,004
Total consumer loans	30 1,473	1,466	103 5,312	4,799
Total	34 \$ 1,995	\$ 1,960	119 \$ 6,630	\$ 6,046

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(dollars in thousands)	Three Months Ended September 30, 2017			Nine Months Ended September 30, 2017		
	Pre- Modification	Post- Modification		Pre- Modification	Post- Modification	
	Number of Contracts Recorded	Number of Outstanding Contracts Recorded	Investment	Number of Contracts Recorded	Number of Outstanding Contracts 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 consumer loans	167	2,065	1,925	567	6,669	5,959
Total	168	\$ 2,080	\$ 1,935	572	\$ 10,832	\$ 10,688

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

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.

TABLE 5.15

(dollars in thousands)	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2018	
	Number of Contracts Recorded	Investment	Number of Contracts Recorded	Investment
	Commercial real estate	3	\$ 1,078	3	$ 1,078
Commercial and industrial	2	16	1	9
Total commercial loans	5	1,094	4	1,087
Direct installment	3	\$ 274	5	\$ 332
Residential mortgages	2	108	4	224
Indirect installment	—	—	—	—
Consumer lines of credit	—	—	3	252
Total consumer loans	5	382	12	808
Total	10	\$ 1,476	16	\$ 1,895

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	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2017	
(dollars in thousands)	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 consumer loans	47	393	111	653
Total	48	\$ 856	115	\$ 1,442

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

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

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TABLE 6.1

(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, 2018						
Commercial real estate	\$ 50,587	\$(727)	\$ 567	\$(160)	\$4,256	\$ 54,683
Commercial and industrial	53,689	(2,432)	373	(2,059)	906	52,536
Commercial leases	7,039	(51)	2	(49)	510	7,500
Other	1,996	(918)	274	(644)	726	2,078
Total commercial loans and leases	113,311	(4,128)	1,216	(2,912)	6,398	116,797
Direct installment	20,279	(9,436)	276	(9,160)	2,714	13,833
Residential mortgages	15,163	(77)	7	(70)	2,576	17,669
Indirect installment	13,401	(2,061)	620	(1,441)	2,493	14,453
Consumer lines of credit	10,461	(832)	258	(574)	672	10,559
Total consumer loans	59,304	(12,406)	1,161	(11,245)	8,455	56,514
Total allowance on originated loans and leases	172,615	(16,534)	2,377	(14,157)	14,853	173,311
Purchased credit-impaired loans	624	—	—	—	—	624
Other acquired loans	3,335	(713)	202	(511)	1,122	3,946
Total allowance on acquired loans	3,959	(713)	202	(511)	1,122	4,570
Total allowance for credit losses	\$ 176,574	\$(17,247)	\$ 2,579	\$(14,668)	\$15,975	\$ 177,881
Nine Months Ended September 30, 2018						
Commercial real estate	\$ 50,281	\$(5,206)	\$ 1,669	\$(3,537)	\$7,939	\$ 54,683
Commercial and industrial	51,963	(14,479)	1,899	(12,580)	13,153	52,536
Commercial leases	5,646	(258)	26	(232)	2,086	7,500
Other	1,843	(3,293)	843	(2,450)	2,685	2,078
Total commercial loans and leases	109,733	(23,236)	4,437	(18,799)	25,863	116,797
Direct installment	20,936	(15,828)	1,179	(14,649)	7,546	13,833
Residential mortgages	15,507	(470)	114	(356)	2,518	17,669
Indirect installment	11,967	(6,688)	2,489	(4,199)	6,685	14,453
Consumer lines of credit	10,539	(2,468)	441	(2,027)	2,047	10,559
Total consumer loans	58,949	(25,454)	4,223	(21,231)	18,796	56,514
Total allowance on originated loans and leases	168,682	(48,690)	8,660	(40,030)	44,659	173,311
Purchased credit-impaired loans	635	—	—	—	(11)	624
Other acquired loans	6,063	(5,098)	1,605	(3,493)	1,376	3,946
Total allowance on acquired loans	6,698	(5,098)	1,605	(3,493)	1,365	4,570
Total allowance for credit losses	\$ 175,380	\$(53,788)	\$ 10,265	\$(43,523)	\$46,024	\$ 177,881

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(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
Other	1,838	(1,386)	298	(1,088)	1,018	1,768
Total commercial loans and leases	107,026	(8,700)	690	(8,010)	9,407	108,423
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
Total consumer loans	52,066	(6,392)	1,369	(5,023)	7,768	54,811
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 for credit losses	\$ 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
Other	1,392	(3,180)	978	(2,202)	2,578	1,768
Total commercial loans and leases	99,298	(22,713)	2,897	(19,816)	28,941	108,423
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
Total consumer loans	51,493	(18,250)	4,459	(13,791)	17,109	54,811
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 for credit losses	\$ 158,059	\$(41,763)	\$ 9,346	\$(32,417)	\$ 44,374	\$ 170,016

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

TABLE 6.2

(in thousands)	Originated Allowance		Originated Loans and Leases Outstanding		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Loans and Leases	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
September 30, 2018					
Commercial real estate	\$44	\$ 54,639	\$5,978,629	\$ 11,198	\$5,967,431
Commercial and industrial	4,712	47,824	3,892,822	21,690	3,871,132
Commercial leases	—	7,500	346,579	—	346,579
Other	—	2,078	34,732	—	34,732
Total commercial loans and leases	4,756	112,041	10,252,762	32,888	10,219,874
Direct installment	—	13,833	1,670,964	—	1,670,964
Residential mortgages	—	17,669	2,457,380	—	2,457,380
Indirect installment	—	14,453	1,880,487	—	1,880,487
Consumer lines of credit	—	10,559	1,116,376	—	1,116,376
Total consumer loans	—	56,514	7,125,207	—	7,125,207
Total	\$4,756	\$ 168,555	\$17,377,969	\$ 32,888	\$17,345,081
December 31, 2017					
Commercial real estate	\$439	\$ 49,842	\$5,174,783	\$ 11,114	\$5,163,669
Commercial and industrial	3,215	48,748	3,495,247	9,872	3,485,375
Commercial leases	—	5,646	266,720	—	266,720
Other	—	1,843	17,063	—	17,063
Total commercial loans and leases	3,654	106,079	8,953,813	20,986	8,932,827
Direct installment	—	20,936	1,755,713	—	1,755,713
Residential mortgages	—	15,507	2,036,226	—	2,036,226
Indirect installment	—	11,967	1,448,268	—	1,448,268
Consumer lines of credit	—	10,539	1,151,470	—	1,151,470
Total consumer loans	—	58,949	6,391,677	—	6,391,677
Total	\$3,654	\$ 165,028	\$15,345,490	\$ 20,986	\$15,324,504

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

NOTE 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, as of September 30, 2018 and December 31, 2017, is listed below:

TABLE 7.1

(in thousands)	September 30, 2018	December 31, 2017
Mortgage loans sold with servicing retained	\$ 3,802,891	\$ 3,256,548

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

TABLE 7.2

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Mortgage loans sold with servicing retained	\$295,243	\$305,752	\$814,256	\$1,469,352
Pretax gains resulting from above loan sales ⁽¹⁾	6,116	5,865	14,938	15,136
Mortgage servicing fees ⁽¹⁾	2,316	1,902	6,713	5,512

(1) Recorded in mortgage banking operations.

Following is a summary of the MSR activity:

TABLE 7.3

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Balance at beginning of period	\$32,970	\$24,444	\$29,053	\$13,521
Fair value of MSRs acquired	—	—	—	8,553
Additions	3,513	3,500	9,538	7,530
Payoffs and curtailments	(526)	(432)	(1,435)	(1,012)
Impairment charge	(13)	—	(13)	—
Amortization	(599)	(626)	(1,798)	(1,706)
Balance at end of period	\$35,345	\$26,886	\$35,345	\$26,886
Fair value, beginning of period	\$38,603	\$27,173	\$32,419	\$17,546
Fair value, end of period	41,715	29,004	41,715	29,004

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 and as interest rates increase, mortgage loan prepayments decline, which results in an increase in the fair value of the MSR. Measurement of fair value is limited to the conditions existing and the assumptions utilized as of a particular point in time, and those assumptions may not be appropriate if they are applied at a different time.

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

TABLE 7.4

(dollars in thousands)	September 30,		December 31,	
	2018		2017	
Weighted average life (months)	86.4		80.4	
Constant prepayment rate (annualized)	9.0	%	9.9	%
Discount rate	9.9	%	9.9	%
Effect on fair value due to change in interest rates:				
+0.25%	\$ 1,305		\$ 1,737	
+0.50%	2,295		3,220	
-0.25%	(1,666	)	(1,937)
-0.50%	(3,775	)	(4,007)

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 MSR 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

We retain the servicing rights on SBA-guaranteed loans sold to investors. The standard sale structure under the SBA Secondary Participation Guaranty Agreement provides for us to retain a portion of the cash flow from the interest payment received on the loan, which is commonly known as a servicing spread. The unpaid principal balance of SBA-guaranteed loans serviced for investors, as of September 30, 2018 and December 31, 2017, was as follows:

TABLE 7.5

(in thousands)	September 30,		December 31,	
	2018		2017	
SBA loans sold to investors with servicing retained	\$ 283,361		\$ 305,977	

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

TABLE 7.6

(in thousands)	Three Months		Nine Months	
	Ended		Ended	
	September 30,	September 30,	September 30,	September 30,
	2018	2017	2018	2017
SBA loans sold with servicing retained	\$10,138	\$16,443	\$33,651	\$42,172
Pretax gains resulting from above loan sales ⁽¹⁾	849	964	3,121	1,780
SBA servicing fees ⁽¹⁾	707	702	2,156	1,444

(1) Recorded in non-interest income.

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

TABLE 7.7

(in thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Balance at beginning of period	\$4,894	\$5,284	\$5,058	\$—
Fair value of servicing rights acquired	—	—	—	5,399
Additions	113	391	759	655
Impairment (charge) / recovery	(422)	(50)	(651)	(50)
Amortization	(280)	(342)	(861)	(721)
Balance at end of period	\$4,305	\$5,283	\$4,305	\$5,283
Fair value, beginning of period	\$4,894	\$5,299	\$5,058	\$—
Fair value, end of period	4,305	5,283	4,305	5,283

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

TABLE 7.8

(dollars in thousands)	September 30, 2018	Decline in fair value due to				December 31, 2017	Decline in fair value due to					
		Actual	10%		20%		Actual	10%		20%		
			adverse change	adverse change	adverse change			adverse change	adverse change	adverse change	adverse change	adverse change
Weighted-average life (months)	54.7					63.5						
Constant prepayment rate (annualized)	11.54 %	\$(148)	\$(287)	\$ —	\$ —	9.29 %	\$(145)	\$(284)	\$ —	\$ —		
Discount rate	19.37	—	—	(114)	(221)	14.87	—	—	(147)	(286)		

The fair value of the SBA servicing rights is compared to the amortized basis. If the amortized basis exceeds the fair value, the asset is considered impaired and is written down to fair value through a valuation allowance on the asset and a charge against SBA income. We had a \$0.9 million valuation allowance for SBA servicing rights as of September 30, 2018.

NOTE 8. BORROWINGS

Following is a summary of short-term borrowings:

TABLE 8.1

(in thousands)	September 30, 2018	December 31, 2017
Securities sold under repurchase agreements	\$ 265,029	\$ 256,017
Federal Home Loan Bank advances	1,985,000	2,285,000
Federal funds purchased	1,315,000	1,000,000
Subordinated notes	114,351	137,320
Total short-term borrowings	\$ 3,679,380	\$ 3,678,337

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

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outstanding balance. Of the total short-term FHLB advances, 67.0% and 75.7% had overnight maturities as of September 30, 2018 and December 31, 2017, respectively.

Following is a summary of long-term borrowings:

TABLE 8.2

(in thousands)	September 30, 2018	December 31, 2017
Federal Home Loan Bank advances	\$ 270,036	\$ 310,061
Subordinated notes	87,065	87,614
Junior subordinated debt	110,707	110,347
Other subordinated debt	159,241	160,151
Total long-term borrowings	\$ 627,049	\$ 668,173

Our banking affiliate has available credit with the FHLB of \$7.5 billion, of which \$2.3 billion was utilized as of September 30, 2018. These advances are secured by loans collateralized by residential mortgages, home equity lines of credit, commercial real estate and FHLB stock and are scheduled to mature in various amounts periodically through the year 2021. Effective interest rates paid on the long-term advances ranged from 1.39% to 4.19% for the nine months ended September 30, 2018 and 0.95% to 4.19% for the year ended December 31, 2017.

The junior subordinated debt is comprised of the debt securities issued by FNB in relation to our unconsolidated subsidiary trusts (collectively, the Trusts), which are unconsolidated variable interest entities, and is included on the Balance Sheet in long-term borrowings. Since third-party investors are the primary beneficiaries, the Trusts are not consolidated in our Financial Statements. We record the distributions on the junior subordinated debt issued to the Trusts as interest expense.

The following table provides information relating to the Trusts as of September 30, 2018:

TABLE 8.3

(dollars in thousands)	Trust Preferred Securities	Common Securities	Junior Subordinated Debt	Stated Maturity Date	Interest Rate	Rate Reset Factor
F.N.B. Statutory Trust II	\$21,500	\$ 665	\$ 22,165	6/15/2036	3.98 %	LIBOR + 165 basis points (bps)
Omega Financial Capital Trust I	26,000	1,114	26,502	10/18/2034	4.55 %	LIBOR + 219 bps
Yadkin Valley Statutory Trust I	25,000	774	21,049	12/15/2037	3.65 %	LIBOR + 132 bps
FNB Financial Services Capital Trust I	25,000	774	21,972	9/30/2035	3.80 %	LIBOR + 146 bps
American Community Capital Trust II	10,000	310	10,442	12/15/2033	5.13 %	LIBOR + 280 bps
Crescent Financial Capital Trust I	8,000	248	8,577	10/7/2033	5.44 %	LIBOR + 310 bps
Total	\$ 115,500	\$ 3,885	\$ 110,707			

NOTE 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

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are reported in the Consolidated Balance Sheets in other liabilities. Changes in fair value are recognized in earnings except for certain changes related to derivative instruments designated as part of a cash flow hedging relationship. The following table presents notional amounts and gross fair values of our derivative assets and derivative liabilities which are not offset in the Balance Sheet.

TABLE 9.1

(in thousands)	September 30, 2018			December 31, 2017		
	Notional Amount	Fair Value Asset	Liability	Notional Amount	Fair Value Asset	Liability
Gross Derivatives						
Subject to master netting arrangements:						
Interest rate contracts – designated	\$855,000	\$—	\$4,760	\$705,000	\$228	\$1,982
Interest rate swaps – not designated	2,674,906	5,353	6,147	2,245,442	1,169	11,599
Equity contracts – not designated	1,180	23	—	1,180	51	—
Total subject to master netting arrangements	3,531,086	5,376	10,907	2,951,622	1,448	13,581
Not subject to master netting arrangements:						
Interest rate swaps – not designated	2,674,906	12,214	64,006	2,245,442	27,233	15,303
Interest rate lock commitments – not designated	67,079	772	21	88,107	1,594	5
Forward delivery commitments – not designated	90,861	362	33	106,572	233	148
Credit risk contracts – not designated	201,781	23	51	235,196	39	109
Equity contracts – not designated	1,180	—	23	1,180	—	51
Total not subject to master netting arrangements	3,035,807	13,371	64,134	2,676,497	29,099	15,616
Total	\$6,566,893	\$18,747	\$75,041	\$5,628,119	\$30,547	\$29,197

Beginning in the first quarter of 2017, certain derivative exchanges have enacted a rule change which in effect results in the legal characterization of variation margin payments for certain derivative contracts as settlement of the derivatives mark-to-market exposure and not collateral. 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 exchanges that have adopted the rule change as settled where we had previously recorded cash collateral. The daily settlement of the derivative exposure does not change or reset the contractual terms of the instrument.

Derivatives Designated as Hedging Instruments under GAAP

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

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

TABLE 9.2

(in thousands)	September 30, 2018	December 31, 2017
Notional amount	\$ 855,000	\$ 705,000
Fair value included in other assets	—	228
Fair value included in other liabilities	4,760	1,982

The following table shows amounts reclassified from accumulated other comprehensive income for the nine months ended September 30, 2018:

TABLE 9.3

(in thousands)	Total	Net of Tax
Reclassified from AOCI to interest income	\$(130)	\$(103)
Reclassified from AOCI to interest expense	(1,693)	(1,337)

As of September 30, 2018, the maximum length of time over which forecasted interest cash flows are hedged is 5 years. In the twelve months that follow September 30, 2018, we expect to reclassify from the amount currently reported in AOCI net derivative gains of \$4.1 million (\$3.2 million net of tax), in association with interest on the hedged loans and FHLB advances. This amount could differ from amounts actually recognized due to changes in interest rates, hedge de-designations, and the addition of other hedges subsequent to September 30, 2018.

There were no components of derivative gains or losses excluded from the assessment of hedge effectiveness related to these cash flow hedges. For the nine months ended September 30, 2018 and 2017, there was no hedge ineffectiveness. Also, during the nine months ended September 30, 2018 and 2017, there were no gains or losses from cash flow hedge derivatives reclassified to earnings because it became probable that the original forecasted transactions would not occur.

Derivatives Not Designated as Hedging Instruments under GAAP

A description of interest rate swaps, interest rate lock commitments, forward delivery commitments and credit risk contracts can be found in Note 14 "Derivative Instruments and Hedging Activities" in the Consolidated Financial Statements of the Annual Report on Form 10-K for the year ended December 31, 2017 filed with the SEC on February 28, 2018.

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

TABLE 9.4

(in thousands)	September 30, 2018	December 31, 2017
Notional amount	\$ 5,349,812	\$ 4,490,884
Fair value included in other assets	17,567	28,402
Fair value included in other liabilities	70,153	26,902

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.

Risk participation agreements sold with notional amounts totaling \$121.7 million as of September 30, 2018 have remaining terms ranging from two months to nine years. Under these agreements, our maximum exposure assuming a customer defaults on their obligation to perform under certain derivative swap contracts with third parties would be \$0.1 million at September 30, 2018 and \$0.1 million at December 31, 2017. The fair values of risk participation agreements purchased and sold were \$0.02

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million and \$(0.05) million, respectively, at September 30, 2018 and \$0.04 million and \$(0.1) million, respectively at December 31, 2017.

Counterparty Credit Risk

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

Certain master netting agreements contain provisions that, if violated, could cause the counterparties to request immediate settlement or demand full collateralization under the derivative instrument. If we had breached our agreements with our derivative counterparties we would be required to settle our obligations under the agreements at the termination value and would be required to pay an additional \$0.4 million and \$0.9 million as of September 30, 2018 and December 31, 2017, respectively, in excess of amounts previously posted as collateral with the respective counterparty.

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

TABLE 9.5

(in thousands)	Net Amount Presented in the Balance Sheet	Amount Not Offset in the Balance Sheet		
		Financial Instruments	Cash Collateral	Net Amount
September 30, 2018				
Derivative Assets				
Interest rate contracts:				
Designated	\$ —	\$ —	\$ —	—\$ —
Not designated	5,353	5,279	—	74
Equity contracts – not designated	23	23	—	—
Total	\$ 5,376	\$ 5,302	\$ —	—\$ 74
Derivative Liabilities				
Interest rate contracts:				
Designated	\$4,760	\$4,760	\$—	—\$—
Not designated	6,147	5,840	—	307
Total	\$10,907	\$10,600	\$—	—\$307
December 31, 2017				
Derivative Assets				
Interest rate contracts:				
Designated	\$228	\$228	\$—	—\$—
Not designated	1,169	1,169	—	—
Equity contracts – not designated	51	51	—	—
Total	\$1,448	\$1,448	\$—	—\$—
Derivative Liabilities				
Interest rate contracts:				
Designated	\$1,982	\$1,982	\$—	—\$—
Not designated	11,599	10,940	—	659
Total	\$13,581	\$12,922	\$—	—\$659

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

TABLE 9.6

(in thousands)	Income Statement Location	Nine Months Ended September 30,	
		2018	2017
Interest Rate Contracts	Interest income - loans and leases	\$(130)	\$1,185
Interest Rate Contracts	Interest expense – short-term borrowings	(1,693)	1,059
Interest Rate Swaps	Other income	956	(592)
Credit Risk Contracts	Other income	42	(1)

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NOTE 10. COMMITMENTS, CREDIT RISK AND CONTINGENCIES

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

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

TABLE 10.1

(in thousands)	September 30, December 31,	
	2018	2017
Commitments to extend credit	\$ 7,349,375	\$ 6,957,822
Standby letters of credit	130,191	132,904

At September 30, 2018, funding of 77.3% of the commitments to extend credit was dependent on the financial condition of the customer. We have the ability to withdraw such commitments at our discretion. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Based on management's credit evaluation of the customer, collateral may be deemed necessary. Collateral requirements vary and may include accounts receivable, inventory, property, plant and equipment and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by us that may require payment at a future date. The credit risk involved in issuing letters of credit is actively monitored through review of the historical performance of our portfolios.

In addition to the above commitments, subordinated notes issued by FNB Financial Services, LP, a wholly-owned finance subsidiary, are fully and unconditionally guaranteed by FNB. These subordinated notes are included in the summaries of short-term borrowings and long-term borrowings in Note 8.

Other Legal Proceedings

In the ordinary course of business, we are routinely named as defendants in, or made parties to, pending and potential legal actions. Also, as regulated entities, we are subject to governmental and regulatory examinations, information-gathering requests, and may be subject to investigations and proceedings (both formal and informal). Such threatened claims, litigation, investigations, regulatory and administrative proceedings typically entail matters that are considered incidental to the normal conduct of business. Claims for significant monetary damages may be asserted in many of these types of legal actions, while claims for disgorgement, restitution, penalties and/or other remedial actions or sanctions may be sought in regulatory matters. In these instances, if we determine that we have meritorious defenses, we will engage in an aggressive defense. However, if management determines, in consultation with counsel, that settlement of a matter is in the best interest of our Company and our shareholders, we may do so. It is inherently difficult to predict the eventual outcomes of such matters given their complexity and the particular facts and circumstances at issue in each of these matters. However, on the basis of current knowledge and understanding, and advice of counsel, we do not believe that judgments, sanctions, settlements or orders, if any, that may arise from these matters (either individually or in the aggregate, after giving effect to applicable reserves and insurance coverage) will have a material adverse effect on our financial position or liquidity, although they could have a material effect on net income in a given period.

In view of the inherent unpredictability of outcomes in litigation and governmental and regulatory matters, particularly where (i) the damages sought are indeterminate, (ii) the proceedings are in the early stages, or (iii) the matters involve novel legal theories or a large number of parties, as a matter of course, there is considerable uncertainty surrounding the timing or ultimate resolution of litigation and governmental and regulatory matters, including a possible eventual loss, fine, penalty, business or adverse reputational impact, if any, associated with each such matter. In accordance with applicable accounting guidance, we establish accruals for litigation and governmental and regulatory matters when those matters proceed to a stage where they present loss contingencies that are both

probable and reasonably estimable. In such cases, there may be a possible exposure to loss in excess of any amounts accrued. We will continue to monitor such matters for developments that could affect the amount of the accrual, and will adjust the accrual amount as appropriate. If the loss contingency in question is not both probable and reasonably estimable, we do not establish an accrual and the matter will continue to be monitored for any developments that

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would make the loss contingency both probable and reasonably estimable. We believe that our accruals for legal proceedings are appropriate and, in the aggregate, are not material to our consolidated financial position, although future accruals could have a material effect on net income in a given period.

NOTE 11. STOCK INCENTIVE PLANS

Restricted Stock

We issue restricted stock awards to key employees under our Incentive Compensation Plan (Plan). We issue time-based awards and performance-based awards under this Plan, both of which are based on a three-year vesting period. The grant date fair value of the time-based awards is equal to the price of our common stock on the grant date. The fair value of the performance-based awards is based on a Monte-Carlo simulation valuation of our common stock as of the grant date. The assumptions used for this valuation include stock price volatility, risk-free interest rate and dividend yield.

We issued 283,037 and 251,379 performance-based restricted stock units during the first nine months of 2018 and 2017. For performance-based restricted stock awards granted in 2018, we incorporated a new metric in which recipients will earn shares totaling between 0% and 175% of the number of units issued, based on our return on average tangible assets (ROATA) relative to a specified peer group of financial institutions over the three-year period. The result calculated using ROATA will then be adjusted by 75% to 125%, based on our total shareholder return (TSR) relative to the specified peer group of financial institutions. For performance-based restricted stock awards granted from 2014 through 2017, the recipients will earn shares, totaling between 0% and 175% of the number of units issued, based on our TSR relative to a specified peer group of financial institutions over the three-year period. These market-based restricted stock award units are included in the table below based on where we expect them to vest, regardless of the actual vesting percentages.

As of September 30, 2018, we had available up to 2,333,089 shares of common stock to issue under this Plan. The following table details our issuance of restricted stock units and the aggregate weighted average grant date fair values under these plans for the years indicated.

TABLE 11.1

(dollars in thousands)	Nine Months Ended September 30,	
	2018	2017
Restricted stock units	958,720	713,998
Weighted average grant date fair values	\$12,665	\$10,474

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

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The following table summarizes the activity relating to restricted stock units during the periods indicated:

TABLE 11.2

	Nine Months Ended September 30,			
	2018	2017		
	Units	Weighted Average Grant Price per Share	Units	Weighted Average Grant Price per Share
Unvested units outstanding at beginning of period	1,975,862	\$ 13.64	1,836,363	\$ 12.97
Granted	958,720	13.21	713,998	14.67
Vested	(257,712)	13.18	(594,560)	12.84
Forfeited/expired	(209,438)	13.36	(27,109)	13.94
Dividend reinvestment	60,938	13.72	46,969	13.79
Unvested units outstanding at end of period	2,528,370	13.55	1,975,661	13.63

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

TABLE 11.3

(in thousands)	Nine Months Ended September 30,	
	2018	2017
Stock-based compensation expense	\$7,310	\$6,088
Tax benefit related to stock-based compensation expense	1,535	2,131
Fair value of units vested	3,472	8,046

As of September 30, 2018, there was \$16.3 million of unrecognized compensation cost related to unvested restricted stock units, including \$1.0 million that is subject to accelerated vesting under the Plan's immediate vesting upon retirement. The components of the restricted stock units as of September 30, 2018 are as follows:

TABLE 11.4

(dollars in thousands)	Service- Based Units	Performance- Based Units	Total
Unvested restricted stock units	1,455,391	1,072,979	2,528,370
Unrecognized compensation expense	\$ 10,770	\$ 5,514	\$ 16,284
Intrinsic value	\$ 18,513	\$ 13,648	\$ 32,161
Weighted average remaining life (in years)	2.09	1.19	1.71

Stock Options

All outstanding stock options were assumed from acquisitions and are fully vested. Upon consummation of our acquisitions, all outstanding stock options issued by the acquired companies were converted into equivalent FNB stock options. We issue shares of treasury stock or authorized but unissued shares to satisfy stock options exercised.

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The following table summarizes the activity relating to stock options during the periods indicated:

TABLE 11.5

	Nine Months Ended September 30,			
	2018	2017		
	Shares	Weighted Average Exercise Price per Share	Shares	Weighted Average Exercise Price per Share
Options outstanding at beginning of period	722,650	\$ 7.96	892,532	\$ 8.95
Assumed from acquisitions	—	—	207,645	8.92
Exercised	(214,781)	7.91	(163,455)	9.41
Forfeited/expired	(4,834)	11.65	(56,687)	11.16
Options outstanding and exercisable at end of period	503,035	7.97	880,035	8.72

The intrinsic value of outstanding and exercisable stock options at September 30, 2018 was \$2.4 million. The aggregate intrinsic value represents the amount by which the fair value of underlying stock exceeds the option exercise price.

NOTE 12. RETIREMENT PLANS

Our subsidiaries participate in a qualified 401(k) defined contribution plan under which employees may contribute a percentage of their salary. Employees are eligible to participate upon their first day of employment. Under this plan, we match 100% of the first 6% that the employee defers. During the second quarter of 2018, we made a one-time discretionary contribution of \$0.9 million to the vast majority of our employees following the tax reform that was enacted in December 2017. Additionally, we may provide a performance-based company contribution of up to 3% if we exceed annual financial goals. Our contribution expense is presented in the following table:

TABLE 12.1

(in thousands)	Nine Months Ended September 30,	
	2018	2017
401(k) contribution expense	\$11,210	\$9,081

We also sponsor an Employee Retirement Income Security Act of 1974 (ERISA) Excess Lost Match Plan for certain officers. This plan provides retirement benefits equal to the difference, if any, between the maximum benefit allowable under the Internal Revenue Code and the amount that would have been provided under the qualified 401(k) defined contribution plan, if no limits were applied.

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Additionally, we sponsor a qualified non-contributory defined benefit pension plan and two supplemental non-qualified retirement plans that have been frozen. Although not required, we made a \$4.0 million contribution to the non-contributory defined benefit pension plan during the third quarter of 2018 in order to meet the minimum funding requirements of this plan. The net periodic benefit credit for these plans includes the following components:

TABLE 12.2

(in thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Service cost	\$(3)	\$(3)	\$(11)	\$(11)
Interest cost	1,549	1,463	4,669	4,417
Expected return on plan assets	(2,946)	(2,427)	(8,736)	(7,281)
Amortization:				
Unrecognized prior service cost	1	2	1	6
Unrecognized loss	596	603	1,842	1,859
Net periodic pension credit	\$(803)	\$(362)	\$(2,235)	\$(1,010)

NOTE 13. INCOME TAXES

The TCJA includes several changes to existing U.S. tax laws that impact us, most notably a reduction of the U.S. corporate income tax rate from 35% to 21%, which became effective January 1, 2018. We recognized the initial income tax effects of the TCJA in our 2017 financial statements in accordance with Staff Accounting Bulletin No. 118, which provides SEC staff guidance for the application of ASC 740, Income Taxes, in the reporting period in which the TCJA was signed into law. We recorded a provisional amount of \$54.0 million at December 31, 2017 related to the remeasurement of deferred tax balances. Upon final analysis of available information and refinement of our calculations during the nine months ended September 30, 2018, we decreased our provisional amount by \$1.9 million which is included as a component of income tax expense from continuing operations. We consider the TCJA remeasurement of our deferred taxes to be complete.

Income Tax Expense

Federal and state income tax expense and the statutory tax rate and the actual effective tax rate consist of the following:

TABLE 13.1

(in thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Current income taxes:				
Federal taxes	\$7,683	\$16,569	\$31,132	\$29,859
State taxes	1,145	406	3,894	1,991
Total current income taxes	8,828	16,975	35,026	31,850
Deferred income taxes:				
Federal taxes	12,952	14,088	28,110	38,238
State taxes	374	2,115	757	(809)
Total deferred income taxes	13,326	16,203	28,867	37,429
Total income taxes	\$22,154	\$33,178	\$63,893	\$69,279
Statutory tax rate	21.0 %	35.0 %	21.0 %	35.0 %
Effective tax rate	18.0 %	29.9 %	19.0 %	28.4 %

The effective tax rate for the nine months ended September 30, 2018 was lower than the statutory tax rate of 21% due to the recognized adjustments to our provisional TCJA deferred tax remeasurement, and the tax benefits resulting from tax-exempt

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income on investments, loans, tax credits and income from BOLI. The lower effective tax rate for the nine months ended September 30, 2017 primarily related to merger expenses and an increase in the level of tax credits. In the fourth quarter of 2017, we elected to change our accounting policy under ASU 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220) to reclassify the income tax effects related to the TCJA from AOCI to retained earnings.

Deferred Income Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and tax purposes. Deferred tax assets and liabilities are measured based on the enacted tax rates that will apply in the years in which the temporary differences are expected to be recovered or paid. As such, during December 2017, we remeasured our deferred tax assets and liabilities as a result of the passage of the TCJA. The primary impact of this remeasurement was a reduction in deferred tax assets and liabilities in connection with the reduction of the U.S. corporate income tax rate from 35% to 21%.

NOTE 14. OTHER COMPREHENSIVE INCOME

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

TABLE 14.1

(in thousands)	Unrealized Net Losses on Debt Securities Available for Sale	Unrealized Net Gains (Losses) on Derivative Instruments	Unrecognized Pension and Postretirement Obligations	Total
Nine Months Ended September 30, 2018				
Balance at beginning of period	\$(29,626)	\$ 5,407	\$ (58,833)	\$(83,052)
Other comprehensive (loss) income before reclassifications	(50,970)	6,991	1,431	(42,548)
Amounts reclassified from AOCI	(24)	(1,216)	—	(1,240)
Net current period other comprehensive (loss) income	(50,994)	5,775	1,431	(43,788)
Balance at end of period	\$(80,620)	\$ 11,182	\$ (57,402)	\$(126,840)

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

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

NOTE 15. EARNINGS PER COMMON SHARE

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

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

Adjustments to the weighted average number of shares of common stock outstanding are made only when such adjustments dilute earnings per common share.

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

TABLE 15.1

(dollars in thousands, except per share data)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Net income	\$ 100,763	\$ 77,693	\$ 272,731	\$ 175,078
Less: Preferred stock dividends	2,010	2,010	6,030	6,030
Net income available to common stockholders	\$ 98,753	\$ 75,683	\$ 266,701	\$ 169,048
Basic weighted average common shares outstanding	324,435,933	323,410,932	324,118,239	319,012,986
Net effect of dilutive stock options, warrants and restricted stock	1,217,192	1,493,836	1,556,470	1,639,810
Diluted weighted average common shares outstanding	325,653,125	324,904,768	325,674,709	320,652,796
Earnings per common share:				
Basic	\$ 0.30	\$ 0.23	\$ 0.82	\$ 0.57
Diluted	\$ 0.30	\$ 0.23	\$ 0.82	\$ 0.57

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

TABLE 15.2

	Three		Nine	
	Months		Months	
	Ended	Ended	Ended	Ended
	September	September	September	September
	30,	30,	30,	30,
	2018	2017	2018	2017
Average shares excluded from the diluted earnings per common share calculation	86	1,842	59	1,059

NOTE 16. CASH FLOW INFORMATION

Following is a summary of supplemental cash flow information:

TABLE 16.1

(in thousands)	Nine Months	
	Ended	
	September 30,	
	2018	2017
Interest paid on deposits and other borrowings	\$ 157,933	\$ 89,014
Income taxes paid	14,000	52,500
Transfers of loans to other real estate owned	9,562	24,025
Financing of other real estate owned sold	—	19

NOTE 17. BUSINESS SEGMENTS

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

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

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

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

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

The following tables provide financial information for these segments of FNB. The information provided under the caption "Parent and Other" represents operations not considered to be reportable segments and/or general operating expenses of FNB, and includes the parent company, other non-bank subsidiaries and eliminations and adjustments to reconcile to the Consolidated Financial Statements.

TABLE 17.1

(in thousands)	Community Banking	Wealth Management	Insurance	Consumer Finance	Parent and Other	Consolidated
At or for the Three Months Ended September 30, 2018						
Interest income	\$ 291,478	\$ 6	\$ (16)	\$ 6,250	\$ 97	\$ 297,815
Interest expense	58,336	—	—	634	4,058	63,028
Net interest income	233,142	6	(16)	5,616	(3,961)	234,787
Provision for credit losses	13,692	—	—	1,337	946	15,975
Non-interest income	55,708	11,129	4,266	459	3,272	74,834
Non-interest expense ⁽¹⁾	148,847	8,300	4,362	3,825	1,590	166,924
Amortization of intangibles	3,695	61	49	—	—	3,805
Income tax expense (benefit)	22,188	599	(26)	234	(841)	22,154
Net income (loss)	100,428	2,175	(135)	679	(2,384)	100,763
Total assets	32,526,809	26,381	19,323	—	45,082	32,617,595
Total intangibles	2,307,734	10,006	12,091	—	—	2,329,831
At or for the Three Months Ended September 30, 2017						
Interest income	\$ 249,923	\$ —	\$ 20	\$ 9,981	\$ 3,590	\$ 263,514
Interest expense	29,463	—	—	938	7,882	38,283
Net interest income	220,460	—	20	9,043	(4,292)	225,231
Provision for credit losses	14,847	—	—	1,921	—	16,768
Non-interest income	52,020	10,006	4,209	741	(825)	66,151
Non-interest expense ⁽¹⁾	142,015	7,451	3,907	5,261	304	158,938
Amortization of intangibles	4,689	64	52	—	—	4,805
Income tax expense (benefit)	33,238	904	105	1,038	(2,107)	33,178
Net income (loss)	77,691	1,587	165	1,564	(3,314)	77,693
Total assets	30,889,485	23,573	21,242	185,209	3,786	31,123,295
Total intangibles	2,327,495	10,224	12,179	1,809	—	2,351,707

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

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(in thousands)	Community Banking	Wealth Management	Insurance	Consumer Finance	Parent and Other	Consolidated
At or for the Nine Months Ended September 30, 2018						
Interest income	\$ 839,833	\$ 6	\$ 23	\$ 24,893	\$ 104	\$ 864,859
Interest expense	150,814	—	—	2,429	11,369	164,612
Net interest income	689,019	6	23	22,464	(11,265)	700,247
Provision for credit losses	39,381	—	—	5,697	946	46,024
Non-interest income	160,157	33,370	12,264	1,750	(315)	207,226
Non-interest expense ⁽¹⁾	457,189	25,272	11,968	14,348	4,214	512,991
Amortization of intangibles	11,499	182	153	—	—	11,834
Income tax expense (benefit)	65,199	1,769	55	1,152	(4,282)	63,893
Net income (loss)	275,908	6,153	111	3,017	(12,458)	272,731
Total assets	32,526,809	26,381	19,323	—	45,082	32,617,595
Total intangibles	2,307,734	10,006	12,091	—	—	2,329,831
At or for the Nine Months Ended September 30, 2017						
Interest income	\$ 677,221	\$ —	\$ 59	\$ 29,997	\$ 1,964	\$ 709,241
Interest expense	76,742	—	—	2,748	13,353	92,843
Net interest income	600,479	—	59	27,249	(11,389)	616,398
Provision for credit losses	38,649	—	—	5,725	—	44,374
Non-interest income	145,768	29,376	12,030	2,221	(2,050)	187,345
Non-interest expense ⁽¹⁾	451,740	22,978	10,678	15,780	1,120	502,296
Amortization of intangibles	12,365	190	161	—	—	12,716
Income tax expense (benefit)	69,749	2,266	462	3,178	(6,376)	69,279
Net income (loss)	173,744	3,942	788	4,787	(8,183)	175,078
Total assets	30,889,485	23,573	21,242	185,209	3,786	31,123,295
Total intangibles	2,327,495	10,224	12,179	1,809	—	2,351,707

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

NOTE 18. FAIR VALUE MEASUREMENTS

Refer to Note 24 "Fair Value Measurements" to the Consolidated Financial Statements of the Annual Report on Form 10-K for the year ended December 31, 2017 filed with the SEC on February 28, 2018 for a description of additional valuation methodologies for assets and liabilities measured at fair value on a recurring and non-recurring basis.

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

TABLE 18.1

(in thousands)

September 30, 2018

	Level 1	Level 2	Level 3	Total
Assets Measured at Fair Value				
Debt securities available for sale				
U.S. government agencies	\$	—\$163,000	\$ —	\$163,000
U.S. government-sponsored entities	—	356,267	—	356,267
Residential mortgage-backed securities:				
Agency mortgage-backed securities	—	1,483,820	—	1,483,820
Agency collateralized mortgage obligations	—	1,046,481	—	1,046,481
Non-agency collateralized mortgage obligations	—	—	—	—
Commercial mortgage-backed securities	—	226,775	—	226,775
States of the U.S. and political subdivisions	—	20,681	—	20,681
Other debt securities	—	1,870	—	1,870
Total debt securities available for sale	—	3,298,894	—	3,298,894
Loans held for sale				
Marketable equity securities				
Fixed income mutual fund	—	—	—	—
Financial services industry	—	188	—	188
Total marketable equity securities	—	188	—	188
Derivative financial instruments				
Trading				
Trading	—	17,590	—	17,590
Not for trading	—	385	772	1,157
Total derivative financial instruments	—	17,975	772	18,747
Total assets measured at fair value on a recurring basis	\$	—\$3,342,000	\$ 772	\$3,342,772
Liabilities Measured at Fair Value				
Derivative financial instruments				
Trading				
Trading	\$	—\$70,176	\$ —	\$70,176
Not for trading	—	4,844	21	4,865
Total derivative financial instruments	—	75,020	21	75,041
Total liabilities measured at fair value on a recurring basis	\$	—\$75,020	\$ 21	\$75,041

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(in thousands)	Level 1	Level 2	Level 3	Total
December 31, 2017				
Assets Measured at Fair Value				
Debt securities available for sale				
U.S. government-sponsored entities	\$ —	\$343,942	\$—	\$343,942
Residential mortgage-backed securities:				
Agency mortgage-backed securities	—	1,598,874	—	1,598,874
Agency collateralized mortgage obligations	—	794,957	—	794,957
Non-agency collateralized mortgage obligations	—	1	—	1
States of the U.S. and political subdivisions	—	21,093	—	21,093
Other debt securities	—	4,670	—	4,670
Total debt securities available for sale	—	2,763,537	—	2,763,537
Equity securities available for sale				
Fixed income mutual fund	161	—	—	161
Financial services industry	—	864	—	864
Total equity securities available for sale	161	864	—	1,025
Total securities available for sale	161	2,764,401	—	2,764,562
Loans held for sale	—	56,458	—	56,458
Derivative financial instruments				
Trading	—	28,453	—	28,453
Not for trading	—	500	1,594	2,094
Total derivative financial instruments	—	28,953	1,594	30,547
Total assets measured at fair value on a recurring basis	\$ 161	\$2,849,812	\$1,594	\$2,851,567
Liabilities Measured at Fair Value				
Derivative financial instruments				
Trading	\$ —	\$26,953	\$—	\$26,953
Not for trading	—	2,239	5	2,244
Total derivative financial instruments	—	29,192	5	29,197
Total liabilities measured at fair value on a recurring basis	\$ —	\$29,192	\$5	\$29,197

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

TABLE 18.2

(in thousands)	Other Debt Securities	Equity Securities	Residential Non-Agency Collateralized Mortgage Obligations	Interest Rate Lock Commitments	Total
Nine Months Ended September 30, 2018					
Balance at beginning of period	\$ —	\$ —	\$ —	\$ 1,594	\$1,594
Purchases, issuances, sales and settlements:					
Purchases	—	—	—	3,814	3,814
Settlements	—	—	—	(4,636)	(4,636)
Balance at end of period	\$ —	\$ —	\$ —	\$ 772	\$772
Year Ended December 31, 2017					
Balance at beginning of period	\$ —	\$ 492	\$ 894	\$ —	\$1,386
Total gains (losses) – realized/unrealized:					
Included in earnings	—	—	4	—	4
Included in other comprehensive income	—	86	(6)	—	80
Accretion included in earnings	(1)	—	1	—	—
Purchases, issuances, sales and settlements:					
Purchases	12,048	—	—	1,594	13,642
Sales/redemptions	(12,047)	—	(874)	—	(12,921)
Settlements	—	—	(19)	(4,569)	(4,588)
Transfers from Level 3	—	(578)	—	—	(578)
Transfers into Level 3	—	—	—	4,569	4,569
Balance at end of period	\$ —	\$ —	\$ —	\$ 1,594	\$1,594

We review fair value hierarchy classifications on a quarterly basis. Changes in the observability of the valuation attributes may result in reclassification of certain financial assets or liabilities. Such reclassifications are reported as transfers in/out of Level 3 at fair value at the beginning of the period in which the changes occur. There were no transfers of assets or liabilities between the hierarchy levels during the first nine months of 2018. During the first quarter of 2017, we acquired \$12.0 million in other debt securities from YDKN that are measured at Level 3. These securities were sold during the second quarter of 2017. During the first nine months of 2017, we transferred equity securities totaling \$0.6 million from Level 3 to Level 2, as a result of increased trading activity relating to these securities.

For the nine months ended September 30, 2018, we recorded in earnings \$0.6 million of unrealized gains relating to the adoption of ASU 2016-01 and market value adjustments on marketable equity securities. These unrealized gains included in earnings are in the other non-interest income line item in the Consolidated Statement of Income. For the nine months ended September 30, 2017, there were no gains or losses included in earnings attributable to the change in unrealized gains or losses relating to assets still held as of those dates. The total realized net securities gains included in earnings are in the net securities gains line item in the Consolidated Statements of Income.

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In accordance with GAAP, from time to time, we measure certain assets at fair value on a non-recurring basis. These adjustments to fair value usually result from the application of the lower of cost or fair value accounting or write-downs of individual assets. Valuation methodologies used to measure these fair value adjustments were described in Note 24 "Fair Value Measurements" in our 2017 Form 10-K. For assets measured at fair value on a non-recurring basis still held at the Balance Sheet date, the following table provides the hierarchy level and the fair value of the related assets or portfolios:

TABLE 18.3

(in thousands)	Level 1	Level 2	Level 3	Total
September 30, 2018				
Impaired loans	\$ —	—\$1,440	\$4,858	\$6,298
Other real estate owned	—	—	5,570	5,570
Other assets - SBA servicing asset	—	—	4,305	4,305
December 31, 2017				
Impaired loans	\$ —	—\$2,813	\$1,297	\$4,110
Other real estate owned	—	10,513	10,823	21,336
Loans held for sale - SBA	—	—	36,432	36,432
Other assets - SBA servicing asset	—	—	5,058	5,058

Substantially all of the fair value amounts in the table above were estimated at a date during the nine months or twelve months ended September 30, 2018 and December 31, 2017, respectively. Consequently, the fair value information presented is not necessarily as of the period's end.

Impaired loans measured or re-measured at fair value on a non-recurring basis during the nine months ended September 30, 2018 had a carrying amount of \$6.3 million, which includes an allocated allowance for credit losses of \$4.8 million. The allowance for credit losses includes a provision applicable to the current period fair value measurements of \$6.0 million, which was included in the provision for credit losses for the nine months ended September 30, 2018.

OREO with a carrying amount of \$8.4 million was written down to \$5.6 million, resulting in a loss of \$2.8 million, which was included in earnings for the nine months ended September 30, 2018.

Fair Value of Financial Instruments

Refer to Note 24 "Fair Value Measurements" to the Consolidated Financial Statements of the Annual Report on Form 10-K for the year ended December 31, 2017 filed with the SEC on February 28, 2018 for a description of methods and assumptions that were used to estimate the fair value of each financial instrument.

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The fair values of our financial instruments are as follows:

TABLE 18.4

(in thousands)	Carrying Amount	Fair Value	Fair Value Measurements		
			Level 1	Level 2	Level 3
September 30, 2018					
Financial Assets					
Cash and cash equivalents	\$ 437,853	\$ 437,853	\$ 437,853	\$ —	—
Debt securities available for sale	3,298,894	3,298,894	—	3,298,894	—
Debt securities held to maturity	3,206,345	3,032,947	—	3,032,947	—
Net loans and leases, including loans held for sale	21,703,605	21,270,133	—	24,943	21,245,190
Loan servicing rights	39,664	46,021	—	—	46,021
Marketable equity securities	188	188	—	188	—
Derivative assets	18,747	18,747	—	17,975	772
Accrued interest receivable	102,513	102,513	102,513	—	—
Financial Liabilities					
Deposits	23,499,986	23,437,161	18,052,235	5,384,926	—
Short-term borrowings	3,679,380	3,679,933	3,679,933	—	—
Long-term borrowings	627,049	618,778	—	—	618,778
Derivative liabilities	75,041	75,041	—	75,020	21
Accrued interest payable	19,159	19,159	19,159	—	—
December 31, 2017					
Financial Assets					
Cash and cash equivalents	\$ 479,443	\$ 479,443	\$ 479,443	\$ —	—
Securities available for sale	2,764,562	2,764,562	161	2,764,401	—
Debt securities held to maturity	3,242,268	3,218,379	—	3,218,379	—
Net loans and leases, including loans held for sale	20,916,277	20,661,196	—	56,458	20,604,738
Loan servicing rights	34,111	37,758	—	—	37,758
Derivative assets	30,547	30,547	—	28,953	1,594
Accrued interest receivable	94,254	94,254	94,254	—	—
Financial Liabilities					
Deposits	22,399,725	22,359,182	17,779,246	4,579,936	—
Short-term borrowings	3,678,337	3,678,723	3,678,723	—	—
Long-term borrowings	668,173	675,489	—	—	675,489
Derivative liabilities	29,197	29,197	—	29,192	5
Accrued interest payable	12,480	12,480	12,480	—	—

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

Management's Discussion and Analysis represents an overview of and highlights material changes to our financial condition and results of operations at and for the three- and nine-month periods ended September 30, 2018 and 2017. This Discussion and Analysis should be read in conjunction with the Consolidated Financial Statements and notes thereto contained herein and our 2017 Annual Report on Form 10-K filed with the SEC on February 28, 2018. Our results of operations for the nine months ended September 30, 2018 are not necessarily indicative of results expected for the full year.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

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

Where we express an expectation or belief as to future events or results, such expectation or belief is expressed in good faith and believed to have a reasonable basis. However, our forward-looking statements are based on current expectations and assumptions that are subject to risk, uncertainties and unforeseen events which may cause actual results to differ materially from future results expressed, projected or implied by these forward-looking statements. All forward-looking statements speak only as of the date they are made and are based on information available at that time. We assume no obligation to update forward-looking statements to reflect circumstances or events that occur after the date the forward-looking statements were made or to reflect the occurrence of unanticipated events, except as required by federal securities laws. Further, it is not possible to assess the effect of all risk factors on our business of the extent to which any one risk factor or compilation thereof may cause actual results to differ materially from those contained in any forward-looking statements. As forward-looking statements involve significant risks and uncertainties, caution should be exercised against placing undue reliance on such statements.

Such forward-looking statements may be expressed in a variety of ways, including the use of future and present tense language expressing expectations or predictions of future financial or business performance or conditions based on current performance and trends. Forward-looking statements are typically identified by words such as, "believe," "plan," "expect," "anticipate," "intend," "outlook," "estimate," "forecast," "will," "should," "project," "goal," and other similar words and expressions. These forward-looking statements involve certain risks and uncertainties. In addition to factors previously disclosed in our reports filed with the SEC, the following factors, among others, could cause actual results to differ materially from forward-looking statements or historical performance: changes in asset quality and credit risk; the inability to sustain revenue and earnings growth; changes in interest rates and capital markets; changes or errors in the methodologies, models, assumptions and estimates we use to prepare our financial statements, make business decisions and manage risks; inflation; inability to effectively grow and expand our customer bases; our ability to execute on key priorities, including successful completion of acquisitions and dispositions, business retention or expansion plans, strategic plans and attract, develop and retain key executives; and potential difficulties encountered in expanding into a new and remote geographic market; customer borrowing, repayment, investment and deposit practices; customer disintermediation; the introduction, withdrawal, success and timing of business and technology initiatives; economic conditions in the various regions in which we operate; competitive conditions, including increased competition through internet, mobile banking, fintech, and other non-traditional competitors; the inability to realize cost savings or revenues or to implement integration plans and other consequences associated with acquisitions and divestitures; the inability to originate and re-sell mortgage loans in accordance with business plans; our inability to effectively manage our economic exposure and GAAP earnings exposure to interest rate volatility, including availability of appropriate derivative financial investments needed for interest rate risk management purposes; economic conditions; interruption in or breach of security of our information systems; the failure of third parties and vendors to comply with their obligations to us, including related to care, control, and protection of such information; the evolution of various types of fraud or other criminal behavior to which we are exposed; integrity and functioning of products, information systems and services provided by third party external vendors; changes in tax

rules and regulations or interpretations including, but not limited to, the recently enacted Tax Cuts and Jobs Act or tariffs implemented by the U.S. President; changes in or anticipated impact of, accounting policies, standards and interpretations; ability to maintain adequate liquidity to fund our operations; changes in asset valuations; the initiation of significant legal or regulatory proceedings against us and the outcome of any significant legal or regulatory proceeding including, but not limited to, actions by federal or state authorities and class action cases, new decisions that result in changes to previously settled law or regulation, and any unexpected court or regulatory rulings; and the impact, extent and timing of technological changes, capital management activities, and other actions of the OCC, the FRB, the Bureau of Consumer Financial Protection (formerly named the Consumer Financial Protection Bureau), the FDIC and legislative and regulatory actions and reforms.

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The risks identified here are not exclusive. Actual results may differ materially from those expressed or implied as a result of these risks and uncertainties, including, but not limited to, the risk factors and other uncertainties described in our Annual Report on Form 10-K (including MD&A section) for the year ended December 31, 2017, our subsequent 2018 Quarterly Reports on Form 10-Q's (including the risk factors and risk management discussions) and our other subsequent filings with the SEC, which are available on our corporate website at <https://www.fnb-online.com/about-us/investor-relations-shareholder-services>. We have included our web address as an inactive textual reference only. Information on our website is not part of this Report.

APPLICATION OF CRITICAL ACCOUNTING POLICIES

A description of our critical accounting policies is included in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of our 2017 Annual Report on Form 10-K filed with the SEC on February 28, 2018 under the heading "Application of Critical Accounting Policies". There have been no significant changes in critical accounting policies or the assumptions and judgments utilized in applying these policies since December 31, 2017.

USE OF NON-GAAP FINANCIAL MEASURES AND KEY PERFORMANCE INDICATORS

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

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

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

To provide more meaningful comparisons of net interest margin and efficiency ratio, we use net interest income on a taxable-equivalent basis in calculating net interest margin by increasing the interest income earned on tax-exempt assets (loans and investments) to make it fully equivalent to interest income earned on taxable investments (this adjustment is not permitted under GAAP). Taxable equivalent amounts for the 2018 period were calculated using a federal income tax rate of 21% provided under the TCJA (effective January 1, 2018). Amounts for the 2017 periods were calculated using the previously applicable statutory federal income tax rate of 35%.

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FINANCIAL SUMMARY

Net income available to common stockholders for the third quarter of 2018 was \$98.8 million or \$0.30 per diluted common share, compared to net income available to common stockholders for third quarter of 2017 of \$75.7 million or \$0.23 per diluted common share. On an operating basis, third quarter of 2018 net income available to common stockholders (non-GAAP) was \$94.7 million, or \$0.29 per diluted common share, excluding a \$5.1 million gain recognized from the sale of Regency, compared to third quarter of 2017 net income available to common stockholders (non-GAAP) of \$76.6 million, or \$0.24 per diluted common share, excluding the impact of \$1.4 million in merger-related expenses.

On August 31, 2018, we completed the sale of 100 percent of the issued and outstanding capital stock of Regency Finance Company to Mariner Finance, LLC in exchange for cash consideration of \$142 million. This transaction was completed to accomplish several strategic objectives, including enhancing the credit risk profile of the consumer loan portfolio, offering additional liquidity and selling a non-strategic business segment that no longer fits with our core business. The transaction included a reduction of \$131.9 million in direct installment consumer loans, a net charge-off of \$7.1 million for the mark to fair value on the Regency loans prior to sale with no associated provision impact, a write-off of \$1.8 million of goodwill, and a reduction of branch/retail properties leased by FNB. As a result of the sale, we recognized a gain on sale of \$5.1 million during the third quarter.

Income Statement Highlights (Third quarter of 2018 compared to third quarter of 2017, except as noted)

Net income available to common stockholders was \$98.8 million, compared to \$75.7 million.

Operating net income available to common stockholders (non-GAAP) was \$94.7 million, compared to \$76.6 million.

Earnings per diluted common share were \$0.30, compared to \$0.23.

Operating earnings per diluted common share (non-GAAP) were \$0.29, compared to \$0.24.

Total revenue increased 6.3% to \$310 million, reflecting a 4.2% increase in net interest income and a 13.1% increase in non-interest income.

Net interest income was \$234.8 million, compared to \$225.2 million.

Net interest margin (FTE) (non-GAAP) declined 8 basis points to 3.36% from 3.44%, reflecting a 3 basis point decrease in the fully taxable equivalent adjustment related to the impact of tax reform. Regency contributed 8 basis points and 13 basis points, respectively.

Non-interest income increased \$8.7 million, or 13.1%. Excluding the Regency gain on sale, operating non-interest income increased \$3.5 million or 5.4%, with increases in mortgage banking, wealth management and capital markets.

Non-interest expense was \$170.7 million, compared to \$163.7 million.

Non-interest expense decreased \$12.3 million, or 6.7%, compared to the second quarter of 2018.

Income tax expense increased \$5.4 million, or 7.8%, primarily due to higher 2018 pre-tax income, partially offset by the lower tax rate in 2018.

The efficiency ratio (non-GAAP) equaled 53.7%, compared to 53.1%.

The annualized net charge-offs to total average loans ratio increased to 0.27%, compared to 0.24%. The third quarter of 2018 included 13 basis points of net charge-offs from the mark to fair value on the Regency loans prior to the sale, with no associated provision expense.

Balance Sheet Highlights (period-end balances, September 30, 2018 compared to December 31, 2017, unless otherwise indicated)

Total assets were \$32.6 billion, compared to \$31.4 billion.

Growth in total average loans was \$1.1 billion, or 5.4%, with average commercial loan growth of \$545.1 million, or 4.2%, and average consumer loan growth of \$575.6 million, or 7.5%, from the same period last year.

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Total average deposits grew \$1.9 billion, or 9.1%, including an increase in average non-interest-bearing deposits of \$439.4 million, or 7.9%, and an increase in average time deposits of \$1.4 billion, or 37.9%, from the same period last year.

• The ratio of loans to deposits was 92.9%, compared to 93.7%.

• Total stockholders' equity was \$4.5 billion, compared to \$4.4 billion, a slight increase of less than 3% since December 31, 2017, primarily driven by an increase in earnings partially offset by a decline in AOCI.

• There was improvement in the delinquency ratio in the originated portfolio from 0.88% to 0.79%.

• The ratio of the allowance for loan losses to total loans and leases was 0.81%, compared to 0.84%.

RESULTS OF OPERATIONS

Three Months Ended September 30, 2018 Compared to the Three Months Ended September 30, 2017

Net income available to common stockholders for the three months ended September 30, 2018 was \$98.8 million or \$0.30 per diluted common share, compared to net income available to common stockholders for the three months ended September 30, 2017 of \$75.7 million or \$0.23 per diluted common share. The third quarter of 2018 included a \$5.1 million gain recognized from the sale of Regency. The third quarter of 2017 included merger-related expenses of \$1.4 million.

Net interest income totaled \$234.8 million, increasing \$9.6 million or 4.2%. Non-interest income increased \$8.7 million, or 13.1%, and non-interest expense increased \$7.0 million, or 4.3%. Financial highlights are summarized below:

TABLE 1

	Three Months		\$	%
	Ended	Ended		
(in thousands, except per share data)	September 30,	September 30,	Change	Change
	2018	2017		
Net interest income	\$234,787	\$225,231	\$9,556	4.2 %
Provision for credit losses	15,975	16,768	(793)	(4.7)
Non-interest income	74,834	66,151	8,683	13.1
Non-interest expense	170,729	163,743	6,986	4.3
Income taxes	22,154	33,178	(11,024)	(33.2)
Net income	100,763	77,693	23,070	29.7
Less: Preferred stock dividends	2,010	2,010	—	—
Net income available to common stockholders	\$98,753	\$75,683	\$23,070	30.5 %
Earnings per common share – Basic	\$0.30	\$0.23	\$0.07	30.4 %
Earnings per common share – Diluted	0.30	0.23	0.07	30.4
Cash dividends per common share	0.12	0.12	—	—

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

TABLE 2

	Three Months		Ended	
	September 30,			
	2018	2017		
Return on average equity	8.85	% 6.96	%	
Return on average tangible common equity ⁽²⁾	19.44	% 15.82	%	
Return on average assets	1.23	% 1.00	%	
Return on average tangible assets ⁽²⁾	1.37	% 1.12	%	
Book value per common share ⁽¹⁾	\$13.62	\$13.39		
Tangible book value per common share ^{(1) (2)}	\$6.44	\$6.12		
Equity to assets ⁽¹⁾	13.87	% 14.25	%	
Tangible equity to tangible assets ^{(1) (2)}	7.25	% 7.24	%	
Common equity to assets ⁽¹⁾	13.54	% 13.91	%	
Tangible common equity to tangible assets ^{(1) (2)}	6.89	% 6.87	%	
Average equity to average assets	13.94	% 14.32	%	
Dividend payout ratio	39.71	% 51.56	%	

(1) Period-end

(2) Non-GAAP

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

TABLE 3

(dollars in thousands)	Three Months Ended September 30,					
	2018			2017		
	Average Balance	Interest Income/Expense	Yield/Rate	Average Balance	Interest Income/Expense	Yield/Rate
Assets						
Interest-earning assets:						
Interest-bearing deposits with banks	\$46,588	\$345	2.93%	\$117,602	\$320	1.08%
Taxable investment securities ⁽¹⁾	5,310,719	30,467	2.29	4,913,122	24,763	2.02
Tax-exempt investment securities ⁽¹⁾⁽²⁾	1,030,743	9,090	3.53	812,305	8,515	4.19
Loans held for sale	47,846	723	6.03	139,693	2,091	5.97
Loans and leases ⁽²⁾⁽³⁾	21,774,929	260,590	4.75	20,654,316	232,998	4.48
Total interest-earning assets ⁽²⁾	28,210,825	301,215	4.24	26,637,038	268,687	4.01
Cash and due from banks	367,764			374,542		
Allowance for credit losses	(180,387)			(169,283)		
Premises and equipment	323,682			334,870		
Other assets	3,680,919			3,733,497		
Total assets	\$32,402,803			\$30,910,664		
Liabilities						
Interest-bearing liabilities:						
Deposits:						
Interest-bearing demand	\$9,324,789	16,492	0.70	\$9,376,003	9,338	0.40
Savings	2,573,673	1,636	0.25	2,480,626	792	0.13
Certificates and other time	5,256,660	20,047	1.51	3,812,916	8,857	0.92
Short-term borrowings	3,863,563	19,576	2.00	4,394,106	14,387	1.29
Long-term borrowings	627,524	5,277	3.34	658,495	4,909	2.96
Total interest-bearing liabilities	21,646,209	63,028	1.15	20,722,146	38,283	0.73
Non-interest-bearing demand	5,966,581			5,527,180		
Other liabilities	274,005			234,358		
Total liabilities	27,886,795			26,483,684		
Stockholders' equity	4,516,008			4,426,980		
Total liabilities and stockholders' equity	\$32,402,803			\$30,910,664		
Excess of interest-earning assets over interest-bearing liabilities	\$6,564,616			\$5,914,892		
Net interest income (FTE) ⁽²⁾		238,187			230,404	
Tax-equivalent adjustment		(3,400)			(5,173)	
Net interest income		\$234,787			\$225,231	
Net interest spread			3.09%			3.28%
Net interest margin ⁽²⁾			3.36%			3.44%

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

The interest income amounts are reflected on an FTE basis (non-GAAP), which adjusts for the tax benefit of income on certain tax-exempt loans and investments using the federal statutory tax rate of 21% in 2018 and 35% in (2)2017. The yield on earning assets and the net interest margin are presented on an FTE basis. We believe this measure to be the preferred industry measurement of net interest income and provides relevant comparison between taxable and non-taxable amounts.

(3)

Average balances include non-accrual loans. Loans and leases consist of average total loans less average unearned income.

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Net Interest Income

Net interest income on an FTE basis (non-GAAP) increased \$7.8 million, or 3.4%, from \$230.4 million for the third quarter of 2017 to \$238.2 million for the third quarter of 2018. Average interest-earning assets of \$28.2 billion increased \$1.6 billion, or 5.9%, and average interest-bearing liabilities of \$21.6 billion increased \$924.1 million, or 4.5%, from 2017, due to organic growth in loans and deposits. The sale of Regency, which included \$132 million of direct installment loans, closed on August 31, 2018. Our net interest margin FTE (non-GAAP) was 3.36% for the third quarter of 2018, compared to 3.44% for the same period of 2017, reflecting a 3 basis point decrease in the FTE adjustment related to the impact of tax reform combined with the effect of the sale of Regency, which contributed 8 basis points to the margin in the third quarter of 2018 compared to 13 basis points in the third quarter of 2017. The Federal Open Market Committee has increased the target Fed Funds rate by 100 basis points between September 30, 2017 and September 30, 2018.

The following table provides certain information regarding changes in net interest income on an FTE basis (non-GAAP) attributable to changes in the average volumes and yields earned on interest-earning assets and the average volume and rates paid for interest-bearing liabilities for the three months ended September 30, 2018, compared to the three months ended September 30, 2017:

TABLE 4

(in thousands)	Volume	Rate	Net
Interest Income ⁽¹⁾			
Interest-bearing deposits with banks	\$(193)	\$218	\$25
Securities ⁽²⁾	4,095	2,184	6,279
Loans held for sale	(1,375)	7	(1,368)
Loans and leases ⁽²⁾	10,937	16,655	27,592
Total interest income ⁽²⁾	13,464	19,064	32,528
Interest Expense ⁽¹⁾			
Deposits:			
Interest-bearing demand	78	7,076	7,154
Savings	264	580	844
Certificates and other time	4,442	6,748	11,190
Short-term borrowings	(1,766)	6,955	5,189
Long-term borrowings	(213)	581	368
Total interest expense	2,805	21,940	24,745
Net change ⁽²⁾	\$10,659	\$(2,876)	\$7,783

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

Interest income amounts are reflected on an FTE basis (non-GAAP) which adjusts for the tax benefit of income on certain tax-exempt loans and investments using the federal statutory tax rate of 21% in 2018 and 35% in 2017. We believe this measure to be the preferred industry measurement of net interest income and provides relevant comparison between taxable and non-taxable amounts.

Interest income on an FTE basis (non-GAAP) of \$301.2 million for the third quarter of 2018, increased \$32.5 million or 12.1% from the same quarter of 2017, primarily due to increased interest-earning assets. During the third quarter of 2018, we recognized \$5.9 million of incremental purchase accounting accretion and \$1.5 million of cash recoveries, compared to \$2.2 million and \$4.3 million, respectively, in the third quarter of 2017. The increase in interest-earning assets was primarily driven by a \$1.1 billion, or 5.4%, increase in average loans and leases, which reflects solid growth in the commercial and consumer loan portfolios. Average commercial loan growth totaled \$545.1 million, or 4.2%, led by strong commercial activity in the Cleveland and Mid-Atlantic (Greater Baltimore-Washington D.C. markets) regions and continued growth in the equipment finance and asset-based lending businesses. Average consumer loan growth was \$575.6 million, or 7.5%, as growth in indirect auto loans of \$424.1 million, or 30.2%, and

residential mortgage loans of \$378.9 million, or 14.9%, was partially offset by declines in average direct installment loans of \$82.2 million, or 4.2% and consumer lines of credit of \$145.2 million, or 8.2%. Additionally, average securities increased \$616.0 million, or 10.8%, as we took advantage of higher interest rates. The yield on

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average interest-earning assets (non-GAAP) increased 23 basis points from the third quarter of 2017 to 4.24% for the third quarter of 2018.

Interest expense of \$63.0 million for the third quarter of 2018 increased \$24.7 million, or 64.6%, from the same quarter of 2017, due to an increase in rates paid on average interest-bearing liabilities and growth in average interest-bearing deposits over the same quarter of 2017. Average interest-bearing deposits increased \$1.5 billion or 9.5%, while average non-interest-bearing deposits increased \$439.4 million, or 7.9%. Organic growth in average time deposits, non-interest-bearing deposits, savings and money market balances was partially offset by a slight decline in interest checking accounts. The growth in non-interest-bearing deposits reflected successful efforts to attract new and larger corporate customers across our footprint. Average short-term borrowings decreased \$530.5 million, or 12.1%, primarily as a result of decreases of \$390.3 million in short-term FHLB advances, \$79.8 million in federal funds purchased, \$46.0 million in customer repurchase agreements and \$14.4 million in short-term subordinated notes. Average long-term borrowings decreased \$31.0 million, or 4.7%, resulting from the maturity of certain long-term FHLB advances. The rate paid on interest-bearing liabilities increased 42 basis points to 1.15% for the third quarter of 2018, due to changes in the funding mix combined with the interest rate increases made by the Federal Open Market Committee between September 30, 2017 and September 30, 2018.

Provision for Credit Losses

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

TABLE 5

(dollars in thousands)	Three Months Ended		\$	%
	September 30, 2018	September 30, 2017			Change	Change
Provision for credit losses:				
Originated	\$14,853	\$17,175	\$(2,322)	(13.5)%
Acquired	1,122	(407)	1,529	n/m
Total provision for credit losses	\$15,975	\$16,768	\$(793)	(4.7)%
Net loan charge-offs:				
Originated	\$14,157	\$13,033	\$1,124	8.6%
Acquired	511	(582)	1,093	n/m
Total net loan charge-offs	\$14,668	\$12,451	\$2,217	17.8%
Net loan charge-offs (annualized) / total average loans and leases	0.27%	0.24%		
Net originated loan charge-offs (annualized) / total average originated loans and leases	0.33%	0.37%		

n/m - not meaningful

The provision for credit losses of \$16.0 million during the third quarter of 2018 was down 4.7% from the same period of 2017, primarily due to the decrease in non-performing loans and lower organic loan growth. Net loan charge-offs were \$14.7 million, an increase of \$2.2 million. Included in reported net charge-offs for the third quarter was \$7.1 million, or 0.13%, for the mark to fair value on Regency loans prior to sale, with no associated provision impact. For additional information relating to the allowance and provision for credit losses, refer to the Allowance for Credit Losses section of this Management's Discussion and Analysis.

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Non-Interest Income

The breakdown of non-interest income for the three months ended September 30, 2018 and 2017 is presented in the following table:

TABLE 6

(in thousands)	Three Months Ended		\$	%
	September 30, 2018	September 30, 2017		
Service charges	\$31,922	\$32,212	\$(290)	(0.9)%
Trust services	6,395	5,748	647	11.2
Insurance commissions and fees	5,001	5,029	(28)	(0.6)
Securities commissions and fees	4,491	4,038	453	11.2
Capital markets income	5,100	2,822	2,278	80.7
Mortgage banking operations	5,962	5,437	525	9.7
Bank owned life insurance	4,399	3,123	1,276	40.9
Net securities gains	—	2,777	(2,777)	(100.0)
Other	11,564	4,965	6,599	132.9
Total non-interest income	\$74,834	\$66,151	\$8,683	13.1 %

Total non-interest income increased \$8.7 million, to \$74.8 million for the third quarter of 2018, a 13.1% increase from the same period of 2017. The variances in significant individual non-interest income items are further explained in the following paragraphs, with the overall increase reflecting the \$5.1 million gain on the sale of Regency and continued growth in our fee-based businesses. Excluding this significant item influencing earnings, non-interest income increased \$3.5 million, or 5.4%.

Trust services of \$6.4 million for the third quarter of 2018 increased \$0.6 million, or 11.2%, from the same period of 2017, primarily driven by strong organic revenue production. The market value of assets under management increased \$656.6 million, or 14.7%, from September 30, 2017 to \$5.3 billion at September 30, 2018, with the increase almost entirely attributable to organic growth.

Capital markets income of \$5.1 million for the third quarter of 2018 increased \$2.3 million, or 80.7%, from the same period of 2017, primarily attributable to higher levels of commercial swap activity across FNB's footprint, particularly in our North Carolina market.

Mortgage banking operations income of \$6.0 million for the third quarter of 2018 increased \$0.5 million, or 9.7%, from the same period of 2017. During the third quarter of 2018, we sold \$322.2 million of originated residential mortgage loans, which was slightly lower than the \$324.7 million for the same period of 2017. While we continue to see compressed margins due to competitive pressures for both retail and correspondent, we were able to increase income by improving the mix of retail loans sold versus correspondent loans. Retail loans have a greater gain on sale margin than correspondent loans. Additionally, \$0.3 million of the increase in the third quarter of 2018 compared to the same period of 2017 was due to the income from continued growth in our mortgage servicing portfolio.

Income from BOLI of \$4.4 million for the third quarter of 2018 increased \$1.3 million, or 40.9%, from \$3.1 million in the same period of 2017, primarily due to death benefits received.

Other non-interest income was \$11.6 million and \$5.0 million for the third quarter of 2018 and 2017, respectively. The increase was primarily due to the \$5.1 million gain on the sale of Regency during the third quarter of 2018.

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The following table presents non-interest income excluding the significant item for the three months ended September 30, 2018 and 2017:

TABLE 7

(in thousands)	Three Months Ended		\$	%
	September 30, 2018	September 30, 2017		
Total non-interest income, as reported	\$74,834	\$66,151	\$8,683	13.1 %
Significant item:				
Gain on sale of subsidiary	(5,135)	—	(5,135)	
Total non-interest income, excluding significant item ⁽¹⁾	\$69,699	\$66,151	\$3,548	5.4 %

(1) Non-GAAP

Non-Interest Expense

The breakdown of non-interest expense for the three months ended September 30, 2018 and 2017 is presented in the following table:

TABLE 8

(in thousands)	Three Months Ended		\$	%
	September 30, 2018	September 30, 2017		
Salaries and employee benefits	\$89,535	\$82,383	\$7,152	8.7 %
Net occupancy	14,219	13,723	496	3.6
Equipment	13,593	13,711	(118)	(0.9)
Amortization of intangibles	3,805	4,805	(1,000)	(20.8)
Outside services	17,176	15,439	1,737	11.3
FDIC insurance	8,821	9,183	(362)	(3.9)
Bank shares and franchise taxes	3,237	2,814	423	15.0
Merger-related	—	1,381	(1,381)	(100.0)
Other	20,343	20,304	39	0.2
Total non-interest expense	\$170,729	\$163,743	\$6,986	4.3 %

Total non-interest expense of \$170.7 million for the third quarter of 2018 increased \$7.0 million, a 4.3% increase from the same period of 2017. The variances in the individual non-interest expense items are further explained in the following paragraphs.

Salaries and employee benefits of \$89.5 million for the third quarter of 2018 increased \$7.2 million, or 8.7%, from the same period of 2017, primarily as a result of employees added in our expanded operations in our southeastern markets, combined with increasing the minimum wage for FNB hourly employees in response to tax reform and normal merit increases during 2018.

Amortization of intangibles expense of \$3.8 million for the third quarter of 2018 decreased \$1.0 million, or 20.8%, from the third quarter of 2017, due to the completion of amortization for a core deposit intangible from a prior acquisition.

Outside services expense of \$17.2 million for the third quarter of 2018 increased \$1.7 million, or 11.3%, from the same period of 2017, primarily due to increases of \$1.0 million in legal expense, \$0.4 million in data processing and information technology services, and \$0.3 million in consulting fees, combined with other various miscellaneous increases.

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The following table presents non-interest expense excluding significant items for the three months ended September 30, 2018 and 2017:

TABLE 9

(in thousands)	Three Months Ended		\$	%
	September 30, 2018	September 30, 2017			Change	Change
Total non-interest expense, as reported	\$ 170,729	\$ 163,743	\$ 6,986	4.3 %
Significant items:				
Merger-related	—	(1,381)	1,381	
Total non-interest expense, excluding significant items ⁽¹⁾	\$ 170,729	\$ 162,362	\$ 8,367	5.2 %

(1) Non-GAAP

Income Taxes

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

TABLE 10

(dollars in thousands)	Three Months Ended		2018	2017
	September 30, 2018	September 30, 2017		
Income tax expense	\$ 22,154	\$ 33,178		
Effective tax rate	18.0 %	29.9 %		
Statutory tax rate	21.0 %	35.0 %		

Both periods' tax rates are lower than the federal statutory tax rates of 21% in 2018 and 35% in 2017, due to the tax benefits primarily resulting from tax-exempt income on investments and loans, tax credits and income from BOLI. Additionally, in the third quarter of 2018, we recorded a net favorable adjustment of \$1.9 million to our provisional deferred tax remeasurement related to the TCJA. The effective tax rate for the current quarter reflects the 21% federal statutory tax and the recording of the final adjustments to the provisional deferred tax remeasurement, while the year-ago quarter was impacted by elevated tax credit recognition. The lower statutory corporate tax rate in 2018 is partially offset by changes to the deductibility of certain items such as FDIC insurance premiums.

Nine Months Ended September 30, 2018 Compared to the Nine Months Ended September 30, 2017

Net income available to common stockholders for the nine months ended September 30, 2018 was \$266.7 million or \$0.82 per diluted common share, compared to \$169.0 million or \$0.57 per diluted common share for the nine months ended September 30, 2017. The first nine months of 2018 included the impact of costs related to branch consolidations of \$6.6 million, gain on the sale of Regency of \$5.1 million and a \$0.9 million discretionary 401(k) contribution made following tax reform. Of the \$6.6 million of branch consolidation costs, \$3.8 million was included in non-interest expense and \$3.7 million was reflected as a loss on fixed assets reducing non-interest income. The first nine months of 2017 included \$2.6 million of merger-related net securities gains and merger-related expense of \$55.5 million. Operating earnings per diluted common share (non-GAAP) was \$0.82 for the first nine months of 2018 compared to \$0.69 for the nine months ended September 30, 2017. The effective tax rate for the first nine months of 2018 was 19.0%, compared to 28.4% in the first nine months of 2017. The first nine months of 2018 was impacted by the TCJA, including a change to a 21% statutory rate, while the first nine months of 2017 was impacted by merger-related expenses. Average diluted common shares outstanding increased 29.0 million shares, or 9.8%, to 325.7 million shares for the first nine months of 2018, primarily as a result of the YDKN acquisition, for which we issued 111.6 million shares on March 11, 2017. The major categories of the Income Statement and their respective impact to the increase (decrease) in net income are presented in the following table:

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TABLE 11

(in thousands, except per share data)	Nine Months Ended		\$	%
	September 30,			
	2018	2017	Change	Change
Net interest income	\$700,247	\$616,398	\$83,849	13.6 %
Provision for credit losses	46,024	44,374	1,650	3.7
Non-interest income	207,226	187,345	19,881	10.6
Non-interest expense	524,825	515,012	9,813	1.9
Income taxes	63,893	69,279	(5,386)	(7.8)
Net income	272,731	175,078	97,653	55.8
Less: Preferred stock dividends	6,030	6,030	—	—
Net income available to common stockholders	\$266,701	\$169,048	\$97,653	57.8 %
Earnings per common share – Basic	\$0.82	\$0.57	\$0.25	43.9 %
Earnings per common share – Diluted	0.82	0.57	0.25	43.9
Cash dividends per common share	0.36	0.36	—	—

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

TABLE 12

	Nine Months			
	Ended			
	September 30,			
	2018	2017		
Return on average equity	8.16	% 5.93	%	
Return on average tangible common equity ⁽²⁾	18.22	% 13.10	%	
Return on average assets	1.14	% 0.82	%	
Return on average tangible assets ⁽²⁾	1.27	% 0.93	%	
Book value per common share ⁽¹⁾	\$13.62	\$13.39		
Tangible book value per common share ^{(1) (2)}	\$6.44	\$6.12		
Equity to assets ⁽¹⁾	13.87	% 14.25	%	
Tangible equity to tangible assets ^{(1) (2)}	7.25	% 7.24	%	
Common equity to assets ⁽¹⁾	13.54	% 13.91	%	
Tangible common equity to tangible assets ^{(1) (2)}	6.89	% 6.87	%	
Average equity to average assets	13.99	% 13.86	%	
Dividend payout ratio	44.05	% 61.27	%	

(1) Period-end

(2) Non-GAAP

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

TABLE 13

(dollars in thousands)	Nine Months Ended September 30,					
	2018			2017		
	Average Balance	Interest Income/Expense	Yield/Rate	Average Balance	Interest Income/Expense	Yield/Rate
Assets						
Interest-earning assets:						
Interest-bearing deposits with banks	\$65,882	\$972	1.97%	\$97,122	\$660	0.91%
Federal funds sold	—	—	—	1,509	9	0.72
Taxable investment securities ⁽¹⁾	5,192,707	86,341	2.22	4,773,606	72,373	2.02
Tax-exempt investment securities ⁽¹⁾⁽²⁾	992,781	26,095	3.50	666,469	20,833	4.17
Loans held for sale	53,404	2,401	6.00	82,254	3,960	6.43
Loans and leases ⁽²⁾⁽³⁾	21,460,794	758,873	4.73	19,084,962	624,575	4.37
Total interest-earning assets ⁽²⁾	27,765,568	874,682	4.21	24,705,922	722,410	3.91
Cash and due from banks	362,098			336,303		
Allowance for credit losses	(181,154)			(165,543)		
Premises and equipment	330,698			319,901		
Other assets	3,674,471			3,274,305		
Total assets	\$31,951,681			\$28,470,888		
Liabilities						
Interest-bearing liabilities:						
Deposits:						
Interest-bearing demand	\$9,333,557	41,637	0.60	\$8,703,870	22,426	0.34
Savings	2,576,869	4,164	0.22	2,495,632	1,954	0.10
Certificates and other time	4,904,114	49,892	1.36	3,503,637	23,100	0.88
Short-term borrowings	3,981,880	53,192	1.78	3,831,883	32,020	1.11
Long-term borrowings	646,229	15,727	3.25	625,010	13,343	2.85
Total interest-bearing liabilities	21,442,649	164,612	1.02	19,160,032	92,843	0.65
Non-interest-bearing demand	5,780,770			5,140,016		
Other liabilities	258,685			225,219		
Total liabilities	27,482,104			24,525,267		
Stockholders' equity	4,469,577			3,945,621		
Total liabilities and stockholders' equity	\$31,951,681			\$28,470,888		
Excess of interest-earning assets over interest-bearing liabilities	\$6,322,919			\$5,545,890		
Net interest income (FTE) ⁽²⁾		710,070			629,567	
Tax-equivalent adjustment		(9,823)			(13,169)	
Net interest income		\$700,247			\$616,398	
Net interest spread			3.19%			3.26%
Net interest margin ⁽²⁾			3.42%			3.41%

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

The interest income amounts are reflected on an FTE basis (non-GAAP), which adjusts for the tax benefit of income on certain tax-exempt loans and investments using the federal statutory tax rate of 21% in 2018 and 35% in (2)2017. The yield on earning assets and the net interest margin are presented on an FTE basis. We believe this measure to be the preferred industry measurement of net interest income and provides relevant comparison between taxable and non-taxable amounts.

(3) Average balances include non-accrual loans. Loans and leases consist of average total loans less average unearned income.

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Net Interest Income

Net interest income on an FTE basis (non-GAAP) increased \$80.5 million, or 12.8%, from \$629.6 million for the first nine months of 2017 to \$710.1 million for the first nine months of 2018. Average interest-earning assets of \$27.8 billion increased \$3.1 billion or 12.4% and average interest-bearing liabilities of \$21.4 billion increased \$2.3 billion or 11.9% from the first nine months of 2017 due to our expanded banking footprint in our southeastern markets and organic growth in loans and deposits. Our net interest margin FTE (non-GAAP) was 3.42% for the first nine months of 2018, compared to 3.41% for the same period of 2017, reflecting higher yields on earning assets mostly offset by higher rates paid on deposits and borrowings. The Federal Open Market Committee has increased the target Fed Funds rate by 100 basis points between September 30, 2017 and September 30, 2018.

The following table provides certain information regarding changes in net interest income on an FTE basis (non-GAAP) attributable to changes in the average volumes and yields earned on interest-earning assets and the average volume and rates paid for interest-bearing liabilities for the nine months ended September 30, 2018, compared to the nine months ended September 30, 2017:

TABLE 14

(in thousands)	Volume	Rate	Net
Interest Income ⁽¹⁾			
Interest-bearing deposits with banks	\$(213)	\$525	\$312
Federal funds sold	(4)	(5)	(9)
Securities ⁽²⁾	15,205	4,025	19,230
Loans held for sale	(1,355)	(204)	(1,559)
Loans and leases ⁽²⁾	77,338	56,960	134,298
Total interest income ⁽²⁾	90,971	61,301	152,272
Interest Expense ⁽¹⁾			
Deposits:			
Interest-bearing demand	2,342	16,869	19,211
Savings	402	1,808	2,210
Certificates and other time	11,635	15,157	26,792
Short-term borrowings	1,434	19,738	21,172
Long-term borrowings	583	1,801	2,384
Total interest expense	16,396	55,373	71,769
Net change ⁽²⁾	\$74,575	\$5,928	\$80,503

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

Interest income amounts are reflected on an FTE basis (non-GAAP) which adjusts for the tax benefit of income on certain tax-exempt loans and investments using the federal statutory tax rate of 21% in 2018 and 35% in 2017. We believe this measure to be the preferred industry measurement of net interest income and provides relevant comparison between taxable and non-taxable amounts.

Interest income on an FTE basis (non-GAAP) of \$874.7 million for the first nine months of 2018, increased \$152.3 million or 21.1% from the same quarter of 2017, primarily due to increased interest-earning assets. During the first nine months of 2018, we recognized \$16.5 million of incremental purchase accounting accretion and \$12.8 million of cash recoveries, compared to \$5.7 million and \$5.8 million, respectively, in the first nine months of 2017. The increase in interest-earning assets was primarily driven by a \$2.4 billion or 12.4% increase in average loans and leases, which reflects the benefit of our expanded banking footprint and successful sales management, and includes \$1.1 billion or 5.4% of organic growth. Additionally, average securities increased \$745.4 million or 13.7%, primarily as a result of the securities portfolio acquired from YDKN and the subsequent repositioning of that portfolio. The yield on average interest-earning assets (non-GAAP) increased 30 basis points from the first nine months of 2017 to 4.21% for the first nine months of 2018. The 30 basis point increase in earning asset yields was driven by an increase in yields in both investments and loans including higher purchase accounting accretion and cash recoveries on

acquired loans.

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Interest expense of \$164.6 million for the first nine months of 2018 increased \$71.8 million, or 77.3%, from the same quarter of 2017 due to an increase in rates paid and growth in average interest-bearing liabilities, as interest-bearing deposits and borrowings increased over the same quarter of 2017. Average interest-bearing deposits increased \$2.1 billion or 14.4%, which reflects the benefit of our expanded banking footprint in our southeastern markets and organic growth in transaction deposits. Average short-term borrowings increased \$150.0 million or 3.9%, primarily as a result of an increase of \$210.6 million in federal funds purchased, partially offset by decreases of \$30.7 million in short-term FHLB borrowings and \$27.7 million in customer repurchase agreements. Average long-term borrowings increased \$21.2 million, or 3.4%, primarily as a result of increases of \$16.4 million and \$14.6 million in junior subordinated debt and subordinated debt, respectively, assumed in the YDKN transaction, partially offset by a decrease of \$9.3 million in long-term FHLB borrowings. Subsequent to the close of the acquisition, we remixed the long-term position based on our funding needs. The rate paid on interest-bearing liabilities increased 37 basis points to 1.02% for the first nine months of 2018, due to the Federal Open Market Committee interest rate increases and changes in the funding mix.

Provision for Credit Losses

The following table presents information regarding the provision for credit losses and net charge-offs:

TABLE 15

(dollars in thousands)	Nine Months Ended		\$	%
	September 30, 2018	September 30, 2017			Change	Change
Provision for credit losses:				
Originated	\$44,659	\$46,050	\$(1,391)	(3.0)%
Acquired	1,365	(1,676)	3,041	(181.4)
Total provision for credit losses	\$46,024	\$44,374	\$1,650	3.7%
Net loan charge-offs:				
Originated	\$40,030	\$33,607	\$6,423	19.1%
Acquired	3,493	(1,190)	4,683	(393.5)
Total net loan charge-offs	\$43,523	\$32,417	\$11,106	34.3%
Net loan charge-offs (annualized) / total average loans and leases	0.27%	0.23%		
Net originated loan charge-offs (annualized) / total average originated loans and leases	0.33%	0.33%		

The provision for credit losses of \$46.0 million during the first nine months of 2018 increased \$1.7 million from the same period of 2017, primarily due to an increase of \$3.0 million in the provision for the acquired portfolio, partially offset by a decrease of \$1.4 million in the provision for the originated portfolio, which was primarily attributable to lower non-performing loans during the first nine months of 2018 compared to the year-ago period. Net loan charge-offs of \$43.5 million for the first nine months of 2018 increased \$11.1 million from the year-ago period, primarily due to \$13.4 million, or 8 basis points, relating to both the sale of a small portfolio of non-performing loans in the second quarter of 2018 and the sale of Regency in the third quarter of 2018. Both actions had no associated provision expense. For additional information relating to the allowance and provision for credit losses, refer to the Allowance for Credit Losses section of this Management's Discussion and Analysis.

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Non-Interest Income

The breakdown of non-interest income for the nine months ended September 30, 2018 and 2017 is presented in the following table:

TABLE 16

(dollars in thousands)	Nine Months Ended		\$	%
	September 30,	September 30,		
	2018	2017	Change	Change
Service charges	\$93,113	\$88,883	\$4,230	4.8 %
Trust services	19,312	17,210	2,102	12.2
Insurance commissions and fees	14,703	14,517	186	1.3
Securities commissions and fees	13,336	11,548	1,788	15.5
Capital markets income	16,168	11,673	4,495	38.5
Mortgage banking operations	17,431	14,400	3,031	21.0
Bank owned life insurance	10,761	8,368	2,393	28.6
Net securities gains	31	5,895	(5,864)	(99.5)
Other	22,371	14,851	7,520	50.6
Total non-interest income	\$207,226	\$187,345	\$19,881	10.6 %

Total non-interest income increased \$19.9 million, to \$207.2 million for the first nine months of 2018, a 10.6% increase from the same period of 2017. The variances in significant individual non-interest income items are further explained in the following paragraphs. Excluding the \$5.1 million gain on the sale of Regency and \$3.7 million loss on fixed assets related to branch consolidations in 2018 and the \$2.6 million merger-related net securities gains in 2017, non-interest income increased \$21.0 million, or 11.4%, attributable to the expanded operations in North and South Carolina and continued growth of our fee-based businesses of wealth management, capital markets, mortgage banking and insurance.

Service charges on loans and deposits of \$93.1 million for the first nine months of 2018 increased \$4.2 million, or 4.8%, from the same period of 2017. The increase was driven by the expanded customer base in our southeastern markets, combined with organic growth in loans and deposit accounts.

Trust services of \$19.3 million for the first nine months of 2018 increased \$2.1 million, or 12.2%, from the same period of 2017 primarily driven by strong organic revenue production. The market value of assets under management increased \$656.6 million, or 14.7%, to \$5.3 billion from September 30, 2017 to September 30, 2018, with the increase almost entirely attributable to organic growth in accounts and services.

Securities commissions and fees of \$13.3 million for the first nine months of 2018 increased 15.5% from the same period of 2017. This increase reflects the benefit of expanded operations in our southeastern markets and increased brokerage activity.

Capital markets income of \$16.2 million for the first nine months of 2018 increased \$4.5 million or 38.5% from \$11.7 million for 2017, reflecting continued solid contributions from commercial swap activity across our footprint, combined with increased syndication fees and international banking activity.

Mortgage banking operations income of \$17.4 million for the first nine months of 2018 increased \$3.0 million, or 21.0%, from the same period of 2017. During the first nine months of 2018, we sold \$891.9 million of residential mortgage loans, a 27.3% increase compared to \$700.5 million for the same period of 2017. However, sold loan margins have been lower in both retail and correspondent loans due to competitive pressure and the mix of loans sold. Income from BOLI of \$10.8 million for the first nine months of 2018 increased \$2.4 million, or 28.6%, from \$8.4 million in the same period of 2017, due to investing in new policies during the third and fourth quarters of 2017 and death benefits received.

Net securities gains were \$0.03 million for the first nine months of 2018, compared to \$5.9 million for the first nine months of 2017. The gains in 2017 related to the sale of certain acquired YDKN securities after the closing of the acquisition.

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Other non-interest income was \$22.4 million and \$14.9 million for the first nine months of 2018 and 2017, respectively. During the first nine months of 2018, dividends on non-marketable equity securities increased \$4.8 million, gains on the sale of repossessed assets increased \$1.4 million and SBA loan gain on sale and servicing-related income increased \$1.0 million compared to the year-ago period and we recognized a \$5.1 million gain on the sale of Regency. These items were partially offset by a \$3.7 million loss on fixed assets recorded in 2018 related to the branch consolidations.

The following table presents non-interest income excluding significant items for the first nine months ended September 30, 2018 and 2017:

TABLE 17

(in thousands)	Nine Months Ended September 30,		\$	%
	2018	2017	Change	Change
Total non-interest income, as reported	\$207,226	\$187,345	\$19,881	10.6 %
Significant items:				
Gain on sale of subsidiary	(5,135)	—	(5,135)	
Loss on fixed assets related to branch consolidations	3,677	—	3,677	
Merger-related net securities gains	—	(2,609)	2,609	
Total non-interest income, excluding significant items ⁽¹⁾	\$205,768	\$184,736	\$21,032	11.4 %

(1) Non-GAAP

Non-Interest Expense

The breakdown of non-interest expense for the nine months ended September 30, 2018 and 2017 is presented in the following table:

TABLE 18

(dollars in thousands)	Nine Months Ended September 30,		\$	%
	2018	2017	Change	Change
Salaries and employee benefits	\$277,532	\$240,860	\$36,672	15.2 %
Net occupancy	45,936	39,132	6,804	17.4
Equipment	41,241	35,761	5,480	15.3
Amortization of intangibles	11,834	12,716	(882)	(6.9)
Outside services	48,946	41,965	6,981	16.6
FDIC insurance	26,822	23,946	2,876	12.0
Bank shares and franchise taxes	9,929	8,536	1,393	16.3
Merger-related	—	55,459	(55,459)	(100.0)
Other	62,585	56,637	5,948	10.5
Total non-interest expense	\$524,825	\$515,012	\$9,813	1.9 %

Total non-interest expense of \$524.8 million for the first nine months of 2018 increased \$9.8 million, a 1.9% increase from the same period of 2017. Excluding significant items influencing earnings of \$3.8 million, non-interest expense increased \$61.5 million or 13.4%. The variances in the individual non-interest expense items are further explained in the following paragraphs, with most increases relating at least partially to costs associated with expanded operations from the acquisition of YDKN in March of 2017 and \$2.9 million of branch consolidation costs in the first nine months of 2018, compared to merger-related expenses of \$55.5 million in the same period of 2017.

Salaries and employee benefits of \$277.5 million for the first nine months of 2018 increased \$36.7 million or 15.2% from the same period of 2017. The increase was primarily due to employees added in our expanded operations in our southeastern markets and increasing the minimum wage for FNB hourly employees in response to tax reform, combined with 2018 merit increases and higher benefit costs including items such as a large medical insurance claim of \$2.6 million, restricted stock

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awards, a \$1.0 million payroll tax rate adjustment plus a discretionary 401(k) contribution of \$0.9 million following tax reform in 2018.

Net occupancy and equipment expense of \$87.2 million for the first nine months of 2018 increased \$12.3 million, or 16.4%, from the same period of 2017, primarily due to our expanded operations in our southeastern markets, branch consolidation costs of \$2.9 million and our continued investment in new technology. The increased technology costs include upgrades to meet customer needs via the utilization of electronic delivery channels, such as online and mobile banking, investment in infrastructure to support our larger company and expenditures deemed necessary by management to maintain proficiency and compliance with regulatory requirements.

Outside services expense of \$48.9 million for the first nine months of 2018 increased \$7.0 million, or 16.6%, from the same period of 2017, primarily due to increases of \$2.3 million in legal expense, \$1.2 million in data processing and information technology services and \$1.0 million in security services, combined with various other miscellaneous increases. These increases were driven primarily by the expanded operations in our southeastern markets.

FDIC insurance of \$26.8 million for the first nine months of 2018 increased \$2.9 million, or 12.0%, from the same period of 2017, primarily due to a higher assessment base in 2018 resulting from merger and acquisition activity in 2017, combined with growth in loans.

Bank shares and franchise tax expense of \$9.9 million for the first nine months of 2018 increased \$1.4 million, or 16.3%, from \$8.5 million in the first nine months of 2017, primarily due to an increase in our capital base from the YDKN acquisition.

Other non-interest expense was \$62.6 million and \$56.6 million for the first nine months of 2018 and 2017, respectively. During the first nine months of 2018, loan-related expense increased by \$3.3 million, OREO increased by \$1.7 million, marketing expense increased by \$1.6 million, historic and other tax credit investments expense increased by \$0.5 million and telephone expense increased by \$0.4 million. These increases were primarily related to the expanded operations in North and South Carolina and branch consolidation activities. Other non-interest expense for the 2018 period also included branch consolidation costs of \$2.9 million.

The following table presents non-interest expense excluding significant items for the nine months ended September 30, 2018 and 2017:

TABLE 19

(in thousands)	Nine Months Ended		\$	%
	September 30,			
	2018	2017	Change	Change
Total non-interest expense, as reported	\$524,825	\$515,012	\$9,813	1.9 %
Significant items:				
Discretionary 401(k) contribution	(874)	—	(874)	
Branch consolidations - salaries and benefits	(45)	—	(45)	
Branch consolidations - occupancy and equipment	(1,609)	—	(1,609)	
Branch consolidations - other	(1,285)	—	(1,285)	
Merger-related	—	(55,459)	55,459	
Total non-interest expense, excluding significant items ⁽¹⁾	\$521,012	\$459,553	\$61,459	13.4 %

(1) Non-GAAP

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Income Taxes

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

TABLE 20

(dollars in thousands)	Nine Months Ended			
	September 30,			
	2018	2017		
Income tax expense	\$63,893	\$69,279		
Effective tax rate	19.0	% 28.4	%	
Statutory tax rate	21.0	% 35.0	%	

Both periods' tax rates are lower than the federal statutory tax rates of 21% in 2018 and 35% in 2017, due to the tax benefits primarily resulting from tax-exempt income on investments and loans, tax credits and income from BOLI. Additionally, in 2018, we recorded a net favorable adjustment of \$1.9 million to our provisional deferred tax remeasurement related to the TCJA. The effective tax rate in the first nine months of 2018 was impacted by the TCJA, including a change to a 21% federal statutory rate and the recording of final adjustments to the provisional deferred tax remeasurement, while the year-ago period was impacted by merger-related expenses. The lower statutory corporate tax rate in 2018 is partially offset by changes to the deductibility of certain items such as FDIC insurance premiums.

FINANCIAL CONDITION

The following table presents our condensed Consolidated Balance Sheets:

TABLE 21

(dollars in thousands)	September 30,	December 31,	\$	%
	2018	2017	Change	Change
Assets				
Cash and cash equivalents	\$ 437,853	\$ 479,443	\$(41,590)	(8.7)%
Securities	6,505,239	6,006,830	498,409	8.3
Loans held for sale	42,083	92,891	(50,808)	(54.7)
Loans and leases, net	21,661,522	20,823,386	838,136	4.0
Goodwill and other intangibles	2,329,831	2,341,263	(11,432)	(0.5)
Other assets	1,641,067	1,673,822	(32,755)	(2.0)
Total Assets	\$ 32,617,595	\$ 31,417,635	\$ 1,199,960	3.8%
Liabilities and Stockholders' Equity				
Deposits	\$ 23,499,986	\$ 22,399,725	\$ 1,100,261	4.9%
Borrowings	4,306,429	4,346,510	(40,081)	(0.9)
Other liabilities	286,316	262,206	24,110	9.2
Total liabilities	28,092,731	27,008,441	1,084,290	4.0
Stockholders' equity	4,524,864	4,409,194	115,670	2.6
Total Liabilities and Stockholders' Equity	\$ 32,617,595	\$ 31,417,635	\$ 1,199,960	3.8%

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Non-Performing Assets

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

TABLE 22

(in thousands)	September 30, 2018	December 31, 2017	\$ Change	% Change
Commercial real estate	\$ 23,991	\$ 31,399	\$(7,408)	(23.6)%
Commercial and industrial	32,142	22,740	9,402	41.3
Commercial leases	5,526	1,574	3,952	251.1
Other	1,000	1,000	—	—
Total commercial loans and leases	62,659	56,713	5,946	10.5
Direct installment	14,657	16,725	(2,068)	(12.4)
Residential mortgages	16,007	16,409	(402)	(2.4)
Indirect installment	2,263	2,435	(172)	(7.1)
Consumer lines of credit	6,635	5,834	801	13.7
Total consumer loans	39,562	41,403	(1,841)	(4.4)
Total non-performing loans and leases	\$ 102,221	\$ 98,116	\$4,105	4.2%

Non-performing assets decreased \$0.8 million, from \$138.7 million at December 31, 2017 to \$137.9 million at September 30, 2018. This reflects decreases of \$4.9 million in OREO and \$1.2 million in TDRs, partially offset by an increase of \$5.3 million in non-accrual loans. The decrease in OREO was primarily attributable to the sale of two commercial properties totaling \$2.4 million during the first nine months of 2018. The decrease in TDRs is related to the sale of the Regency portfolio, which resulted in a decrease of \$2.7 million in TDRs. The increase in non-accrual loans is attributable to the migration of a few commercial loans, partially offset by the commercial note sale that occurred during the second quarter of 2018.

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

TABLE 23

(in thousands)	Performing	Non-Performing	Non-Accrual	Total
Originated				
September 30, 2018				
Commercial real estate	\$ —	\$ 105	\$ 2,174	\$ 2,279
Commercial and industrial	—	567	106	673
Total commercial loans	—	672	2,280	2,952
Direct installment	10,735	6,701	3,746	21,182
Residential mortgages	4,172	9,897	1,741	15,810
Indirect installment	—	—	8	8
Consumer lines of credit	2,056	1,790	846	4,692
Total consumer loans	16,963	18,388	6,341	41,692
Total TDRs	\$ 16,963	\$ 19,060	\$ 8,621	\$ 44,644
December 31, 2017				
Commercial real estate	\$ 92	\$ —	\$ 3,870	\$ 3,962
Commercial and industrial	3,085	—	601	3,686
Total commercial loans	3,177	—	4,471	7,648
Direct installment	10,890	7,758	3,197	21,845
Residential mortgages	3,659	10,638	2,161	16,458
Indirect installment	—	195	14	209
Consumer lines of credit	1,812	1,582	629	4,023
Total consumer loans	16,361	20,173	6,001	42,535
Total TDRs	\$ 19,538	\$ 20,173	\$ 10,472	\$ 50,183
Acquired				
September 30, 2018				
Commercial real estate	\$ —	\$ 2,613	\$ 43	\$ 2,656
Commercial and industrial	—	—	35	35
Total commercial loans	—	2,613	78	2,691
Direct installment	—	68	—	68
Residential mortgages	—	—	—	—
Indirect installment	—	—	—	—
Consumer lines of credit	67	581	13	661
Total consumer loans	67	649	13	729
Total TDRs	\$ 67	\$ 3,262	\$ 91	\$ 3,420
December 31, 2017				
Commercial real estate	\$ —	\$ 2,651	\$ —	\$ 2,651
Commercial and industrial	—	—	—	—
Total commercial loans	—	2,651	—	2,651
Direct installment	15	71	—	86
Residential mortgages	—	—	—	—
Indirect installment	—	—	—	—
Consumer lines of credit	251	586	234	1,071
Total consumer loans	266	657	234	1,157
Total TDRs	\$ 266	\$ 3,308	\$ 234	\$ 3,808

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Allowance for Credit Losses

The allowance for credit losses of \$177.9 million at September 30, 2018 increased \$2.5 million, or 1.4%, from December 31, 2017, primarily in support of growth in originated loans and leases and a small increase in originated criticized commercial loans. The provision for credit losses during the nine months ended September 30, 2018 was \$46.0 million, which covered net charge-offs and supported organic loan growth. The amount of provision expense that resulted from the small increase in originated criticized commercial loans was offset by a provision benefit received through a decline in overall delinquency levels in the third quarter of 2018. Net charge-offs were \$43.5 million during the nine months ended September 30, 2018, compared to \$32.4 million during the nine months ended September 30, 2017, with the increase primarily due to \$13.4 million, or 8 basis points, relating to the sale of a small portfolio of non-performing loans in the second quarter of 2018 and the sale of Regency in the third quarter of 2018. The allowance for credit losses as a percentage of non-performing loans for the total portfolio decreased from 179% as of December 31, 2017 to 174% as of September 30, 2018, reflecting a larger increase in the level of non-performing loans relative to the increase in the allowance for credit losses during the nine-month period.

Following is a summary of supplemental statistical ratios pertaining to our originated loans and leases portfolio. The originated loans and leases portfolio excludes loans acquired at fair value and accounted for in accordance with ASC 805, Business Combinations. Also see Note 5, Loans and Leases, of the Notes to Consolidated Financial Statements (Unaudited).

TABLE 24

	At or For the Three Months Ended			
	September 30, 2018	December 31, 2017	September 30, 2017	September 30, 2017
Non-performing loans / total originated loans and leases	0.54%	0.57%	0.69%	0.69%
Non-performing loans + OREO / total originated loans and leases + OREO	0.73%	0.81%	0.91%	0.91%
Allowance for credit losses (originated loans) / total originated loans and leases	1.00%	1.10%	1.12%	1.12%
Net charge-offs on originated loans and leases (annualized) / total average originated loans and leases	0.33%	0.35%	0.37%	0.37%

Deposits

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

Following is a summary of deposits:

TABLE 25

(in thousands)	September 30, 2018	December 31, 2017	\$ Change	% Change
Non-interest-bearing demand	\$ 6,018,852	\$ 5,720,030	\$ 298,822	5.2 %
Interest-bearing demand	9,519,704	9,571,038	(51,334)	(0.5)
Savings	2,513,679	2,488,178	25,501	1.0
Certificates and other time deposits	5,447,751	4,620,479	827,272	17.9
Total deposits	\$ 23,499,986	\$ 22,399,725	\$ 1,100,261	4.9 %

Total deposits increased from December 31, 2017, primarily as a result of growth in non-interest-bearing demand balances and certificates and other time deposits. The growth reflects heightened deposit-gathering efforts focused on attracting new customer relationships through targeted promotional interest rates on 13-month, 19-month and 25-month certificates of deposit, combined with deepening relationships with existing customers through internal lead generation efforts. Relationship-based transaction deposits, which are comprised of demand (non-interest-bearing and interest-bearing) and savings accounts (including money market savings), also increased in total over this period.

Generating growth in these deposits remains a key focus for us and will help us manage to lower levels of short-term borrowings.

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Capital Resources and Regulatory Matters

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

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

In accordance with the terms of our merger with Yadkin Financial Corporation, we issued 111,619,622 shares of our common stock on March 11, 2017.

We have an effective shelf registration statement filed with the SEC. Pursuant to this registration statement, we may, from time to time, issue and sell in one or more offerings any combination of common stock, preferred stock, debt securities, depositary shares, warrants, stock purchase contracts or units.

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

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

As of September 30, 2018, the most recent notification from the federal banking agencies categorized FNB and FNBPA as “well-capitalized” under the regulatory framework for prompt corrective action. There are no conditions or events since the notification which management believes have changed this categorization. Our management believes that, as of September 30, 2018 and December 31, 2017, FNB and FNBPA met all “well-capitalized” requirements to which each of them was subject.

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Following are the capital amounts and related ratios as of September 30, 2018 and December 31, 2017 for FNB and FNBPA:

TABLE 26

	Actual		Well-Capitalized Requirements		Minimum Capital Requirements plus Capital Conservation Buffer	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(dollars in thousands)						
As of September 30, 2018						
F.N.B. Corporation						
Total capital	\$2,813,920	11.5%	\$2,456,625	10.0%	\$2,425,917	9.9%
Tier 1 capital	2,337,416	9.5	1,965,300	8.0	1,934,592	7.9
Common equity tier 1	2,230,534	9.1	1,596,806	6.5	1,566,099	6.4
Leverage	2,337,416	7.8	1,507,943	5.0	1,206,354	4.0
Risk-weighted assets	24,566,253					
FNBPA						
Total capital	2,666,288	10.9%	2,458,411	10.0%	2,427,681	9.9%
Tier 1 capital	2,485,996	10.1	1,966,729	8.0	1,935,999	7.9
Common equity tier 1	2,405,996	9.8	1,597,967	6.5	1,567,237	6.4
Leverage	2,485,996	8.3	1,501,877	5.0	1,201,502	4.0
Risk-weighted assets	24,584,112					
As of December 31, 2017						
F.N.B. Corporation						
Total capital	\$2,666,272	11.4%	\$2,340,362	10.0%	\$2,164,835	9.3%
Tier 1 capital	2,184,571	9.3	1,872,290	8.0	1,696,763	7.3
Common equity tier 1	2,077,689	8.9	1,521,235	6.5	1,345,708	5.8
Leverage	2,184,571	7.6	1,440,797	5.0	1,152,638	4.0
Risk-weighted assets	23,403,622					
FNBPA						
Total capital	2,504,191	10.7%	2,332,593	10.0%	2,157,649	9.3%
Tier 1 capital	2,332,892	10.0	1,866,075	8.0	1,691,130	7.3
Common equity tier 1	2,252,892	9.7	1,516,186	6.5	1,341,241	5.8
Leverage	2,332,892	8.1	1,432,604	5.0	1,146,084	4.0
Risk-weighted assets	23,325,934					

In accordance with Basel III, the implementation of capital requirements is transitional and phases-in from January 1, 2015 through January 1, 2019. The minimum capital requirements plus capital conservation buffer, which are presented for each period above based on the phase-in schedule, represent the minimum requirements needed to avoid limitations on distributions of dividends and certain discretionary bonus payments. Our management believes that FNB and FNBPA will continue to meet all “well-capitalized” requirements after Basel III is completely phased-in. Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act)

The Dodd-Frank Act broadly affects the financial services industry by establishing a framework for systemic risk oversight, creating a resolution authority for institutions determined to be systemically important, mandating higher capital and liquidity requirements, requiring banks to pay increased fees to regulatory agencies and containing numerous other provisions aimed at strengthening the sound operation of the financial services sector that significantly change the system of regulatory oversight as described in more detail under Part I, Item 1, “Business - Government Supervision and Regulation” included in our 2017 Annual Report on Form 10-K as filed with the SEC on February 28, 2018. Many aspects of the Dodd-Frank Act are subject to further rulemaking and will take effect over several years, making it difficult to anticipate the overall financial impact to us or across the financial services

industry.

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LIQUIDITY

Our goal in liquidity management is to satisfy the cash flow requirements of customers and the operating cash needs of FNB with cost-effective funding. Our Board of Directors has established an Asset/Liability Management Policy to guide management in achieving and maintaining earnings performance consistent with long-term goals, while maintaining acceptable levels of interest rate risk, a “well-capitalized” Balance Sheet and adequate levels of liquidity. Our Board of Directors has also established a Contingency Funding Policy to guide management in addressing stressed liquidity conditions. These policies designate our Asset/Liability Committee as the body responsible for meeting these objectives. The ALCO, which is comprised of members of executive management, reviews liquidity on a continuous basis and approves significant changes in strategies that affect Balance Sheet or cash flow positions. Liquidity is centrally managed daily by our Treasury Department.

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

The principal sources of the parent company’s liquidity are its strong existing cash resources plus dividends it receives from its subsidiaries. These dividends may be impacted by the parent’s or its subsidiaries’ capital needs, statutory laws and regulations, corporate policies, contractual restrictions, profitability and other factors. In addition, through one of our subsidiaries, we regularly issue subordinated notes, which are guaranteed by FNB. Cash on hand at the parent has been managed by various strategies over the last few years. One significant management strategy resulted in the sale of 100 percent of the issued and outstanding capital stock of Regency to Mariner Finance, LLC in exchange for cash consideration of \$142 million. This transaction closed on August 31, 2018 and was the primary driver of the parent’s cash position increasing by \$105.0 million from \$165.7 million at December 31, 2017 to \$270.7 million at September 30, 2018. This transaction accomplished several strategic objectives, including offering additional liquidity. Other potential strategies that management employs include strong earnings, increasing earnings retention rate and capital actions.

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

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

TABLE 27

(dollars in thousands)	September 30, 2018	December 31, 2017	Internal limit
Liquidity coverage ratio	2.3 times	1.8 times	> 1 time
Months of cash on hand	16.5 months	10.2 months	> 12 months

The sale of Regency has resulted in MCH and LCR ratios that are in compliance with our Policy. The MCH ratio had fallen below our internal limit due to the YDKN acquisition in March 2017, as YDKN did not manage to a similar ratio and held only a minimal amount of cash on hand at their holding company.

Our liquidity position has been positively impacted by our ability to generate growth in relationship-based accounts. Organic growth in low-cost transaction deposits was complemented by management’s strategy of heightened deposit gathering efforts focused on attracting new customer relationships and deepening relationships with existing customers, in part through internal lead generation efforts leveraging data analytics capabilities. Total deposits were \$23.5 billion at September 30, 2018, an increase of \$1.1 billion, or 6.6% annualized from December 31, 2017. Total non-interest demand deposit accounts grew by \$298.8 million, or 7.0% annualized, and savings accounts grew by \$25.5 million, or 1.4% annualized. Growth in time deposits was \$827.3 million, or 23.9% annualized. These increases were offset by slightly lower business demand deposit and interest checking balances which decreased \$51.3 million,

or 0.7% annualized.

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

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

TABLE 28

(dollars in thousands)	September 30, December	
	2018	31, 2017
Unused wholesale credit availability	\$9,874,088	\$8,189,379
Unused wholesale credit availability as a % of FNBPA assets	30.3	% 26.3
Salable unpledged government and agency securities	\$2,276,869	\$2,231,812
Salable unpledged government and agency securities as a % of FNBPA assets	7.0	% 7.2

Another metric for measuring liquidity risk is the liquidity gap analysis. The following liquidity gap analysis as of September 30, 2018 compares the difference between our cash flows from existing earning assets and interest-bearing liabilities over future time intervals. Management seeks to limit the size of the liquidity gaps so that sources and uses of funds are reasonably matched in the normal course of business. A reasonably matched position lays a better foundation for dealing with additional funding needs during a potential liquidity crisis. The twelve-month cumulative gap to total assets was (8.3)% and (5.8)% as of September 30, 2018 and December 31, 2017, respectively.

Management calculates this ratio at least quarterly and it is reviewed monthly by ALCO.

TABLE 29

(dollars in thousands)	Within 1 Month	2-3 Months	4-6 Months	7-12 Months	Total 1 Year			
Assets								
Loans	\$504,319	\$912,331	\$1,191,771	\$2,346,922	\$4,955,343			
Investments	123,496	167,400	223,591	448,840	963,327			
	627,815	1,079,731	1,415,362	2,795,762	5,918,670			
Liabilities								
Non-maturity deposits	179,434	358,869	538,306	1,076,614	2,153,223			
Time deposits	1,013,905	581,978	747,436	1,226,265	3,569,584			
Borrowings	2,655,204	16,270	173,897	46,480	2,891,851			
	3,848,543	957,117	1,459,639	2,349,359	8,614,658			
Period Gap (Assets - Liabilities)	\$(3,220,728)	\$122,614	\$(44,277)	\$446,403	\$(2,695,988)			
Cumulative Gap	\$(3,220,728)	\$(3,098,114)	\$(3,142,391)	\$(2,695,988)				
Cumulative Gap to Total Assets	(9.9)%	(9.5)%	(9.6)%	(8.3)%

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

MARKET RISK

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

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

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

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

The following repricing gap analysis as of September 30, 2018 compares the difference between the amount of interest-earning assets and interest-bearing liabilities subject to repricing over a period of time. Management utilizes the repricing gap analysis as a diagnostic tool in managing net interest income and EVE risk measures.

TABLE 30

(dollars in thousands)	Within 1 Month	2-3 Months	4-6 Months	7-12 Months	Total 1 Year
Assets					
Loans	\$9,696,914	\$745,691	\$787,623	\$1,526,153	\$12,756,381
Investments	128,754	179,471	372,089	438,351	1,118,665
	9,825,668	925,162	1,159,712	1,964,504	13,875,046
Liabilities					
Non-maturity deposits	6,148,871	—	—	—	6,148,871
Time deposits	1,112,582	581,539	745,468	1,221,796	3,661,385
Borrowings	3,117,588	642,150	157,966	14,620	3,932,324
	10,379,041	1,223,689	903,434	1,236,416	13,742,580
Off-balance sheet	(100,000)	555,000	—	—	455,000
Period Gap (assets – liabilities + off-balance sheet)	\$(653,373)	\$256,473	\$256,278	\$728,088	\$587,466
Cumulative Gap	\$(653,373)	\$(396,900)	\$(140,622)	\$587,466	
Cumulative Gap to Assets	(2.3)%	(1.4)%	(0.5)%	2.1 %	

The twelve-month cumulative repricing gap to total assets was 2.1% and 3.0% as of September 30, 2018 and December 31, 2017, respectively. The positive cumulative gap positions indicate that we have a greater amount of repricing earning assets than repricing interest-bearing liabilities over the subsequent twelve months. If interest rates increase then net interest income will increase and, conversely, if interest rates decrease then net interest income will decrease. The slight change in the cumulative repricing gap at September 30, 2018 compared to December 31, 2017, is primarily related to growth and changes in the mix of loans, deposits and borrowings. The growth in the CD portfolio was offset with the increased cash flow of the indirect portfolio, the increased repricing of adjustable loans

and the funding of long term FHLB advances.

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

Utilizing net interest income simulations, the following net interest income metrics were calculated using rate shocks which move market rates in an immediate and parallel fashion. The variance percentages represent the change between the net interest income and EVE calculated under the particular rate scenario versus the net interest income and EVE that was calculated assuming market rates as of September 30, 2018. Using a static Balance Sheet structure, the measures do not reflect all of management's potential counteractions.

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

TABLE 31

	September 30, 2018		December 31, 2017		ALCO Limits
Net interest income change (12 months):					
+ 300 basis points	3.3	%	3.0	%	n/a
+ 200 basis points	2.3	%	2.3	%	(5.0)%
+ 100 basis points	1.3	%	1.3	%	(5.0)%
- 100 basis points	(3.2)	)%	(3.9)	)%	(5.0)%
Economic value of equity:					
+ 300 basis points	8.3	%	(5.9)	)%	(25.0)%
+ 200 basis points	5.7	%	(3.7)	)%	(15.0)%
+ 100 basis points	2.4	%	(1.2)	)%	(10.0)%
- 100 basis points	0.5	%	(2.6)	)%	(10.0)%

We also model rate scenarios which move all rates gradually over twelve months (Rate Ramps) and model scenarios that gradually change the shape of the yield curve. Assuming a static Balance Sheet, a +300 basis point Rate Ramp increases net interest income (12 months) by 2.4% at September 30, 2018 and 2.0% at December 31, 2017.

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

The ALCO utilizes several tactics to manage our interest rate risk position. As mentioned earlier, the growth in transaction deposits provides funding that is less interest rate-sensitive than short-term time deposits and wholesale borrowings. On the lending side, we regularly sell long-term fixed-rate residential mortgages to the secondary market and have been successful in the origination of consumer and commercial loans with short-term repricing characteristics. Total variable and adjustable-rate loans were 57.0% and 56.6% of total loans as of September 30, 2018 and December 31, 2017, respectively. As of September 30, 2018, 79.2% of these loans, or 45.1% of total loans, are tied to the Prime or one-month LIBOR rates. The investment portfolio is used, in part, to manage our interest rate risk position. Finally, we have made use of interest rate swaps to commercial borrowers (commercial swaps) to manage our interest rate risk position as the commercial swaps effectively increase adjustable-rate loans. As of September 30, 2018, the commercial swaps totaled \$2.7 billion of notional principal, with \$610.8 million in notional swap principal originated during the first nine months of 2018. The success of the aforementioned tactics has resulted in a moderately asset-sensitive position. For additional information regarding interest rate swaps, see Note 9 in this Report.

We desired to remain modestly asset-sensitive during the first nine months of 2018. A number of management actions and market occurrences resulted in the slight increase in the asset sensitivity of our interest rate risk position during the period. The increase was primarily due to management's actions with the timing of funding loan and investment growth, as well as successful efforts to extend maturities in certificate of deposit activity and continued strong commercial loan interest rate swap activity.

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

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

RISK MANAGEMENT

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

The Board of Directors adopted a risk appetite statement that defines acceptable risk levels or risk limits under which we seek to operate in order to optimize returns, while managing risk. As such, the board monitors a host of risk metrics from both business and operational units, as well as by risk category, to provide insight into how our performance aligns with our risk appetite. The risk appetite dashboard is reviewed periodically by the Board of Directors and senior management to ensure performance alignment with our risk appetite, and where appropriate, makes adjustments to applicable business strategies and tactics where risks approach our desired risk tolerance limits. We support our risk management process through a governance structure involving our Board of Directors and senior management. The joint Risk Committee of our Board of Directors and the FNBPA Board of Directors helps ensure that business decisions are executed within appropriate risk tolerances. The Risk Committee has oversight responsibilities with respect to the following:

- identification, measurement, assessment and monitoring of enterprise-wide risk;
- development of appropriate and meaningful risk metrics to use in connection with the oversight of our businesses and strategies;
- review and assessment of our policies and practices to manage our credit, market, liquidity, legal, regulatory and operating risk (including technology, operational, compliance and fiduciary risks); and
- identification and implementation of risk management best practices.

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

As noted above, we have a Risk Management Council comprised of senior management. The purpose of this committee is to provide regular oversight of specific areas of risk with respect to the level of risk and risk management structure. Management has also established an Operational Risk Committee that is responsible for identifying, evaluating and monitoring operational risks across FNB, evaluating and approving appropriate

remediation efforts to address identified operational risks and providing periodic reports concerning operational risks to the Risk Management Council. The Risk Management Council reports on a regular basis to the Risk Committee of our Board of Directors regarding our enterprise-wide risk profile and other significant risk management issues. Our Chief Risk Officer is responsible for the design and implementation of our enterprise-wide risk management strategy and framework through the Compliance Department and the Information and Cyber Security

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

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

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

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

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

TABLE 32

Operating Net Income Available to Common Stockholders

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
(dollars in thousands)	2018	2017	2018	2017
Net income available to common stockholders	\$98,753	\$75,683	\$266,701	\$169,048
Merger-related expense	—	1,381	—	55,459
Tax benefit of merger-related expense	—	(483)	—	(18,481)
Merger-related net securities gains	—	—	—	(2,609)
Tax expense of merger-related net securities gains	—	—	—	913
Discretionary 401(k) contribution	—	—	874	—
Tax benefit of discretionary 401(k) contribution	—	—	(184)	—
Gain on sale of subsidiary	(5,135)	—	(5,135)	—
Tax expense of gain on sale of subsidiary	1,078	—	1,078	—
Branch consolidation costs	—	—	6,616	—
Tax benefit of branch consolidation costs	—	—	(1,389)	—
Operating net income available to common stockholders (non-GAAP)	\$94,696	\$76,581	\$268,561	\$204,330

The table above shows how operating net income available to common stockholders (non-GAAP) is derived from amounts reported in our financial statements. We believe charges such as merger expenses, branch consolidation costs and special one-time employee 401(k) contributions related to tax reform are not organic costs to run our operations and facilities. The merger expenses and branch consolidation charges principally represent expenses to satisfy contractual obligations of the acquired entity or closed branch without any useful ongoing benefit to us. These costs are specific to each individual transaction, and may vary significantly based on the size and complexity of the

transaction. Similarly, gains derived from the sale of a business are not organic to our operations.

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TABLE 33

Operating Earnings per Diluted Common Share

	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Net income per diluted common share	\$0.30	\$0.23	\$0.82	\$0.57
Merger-related expense	—	0.01	—	0.19
Tax benefit of merger-related expense	—	—	—	(0.06)
Merger-related net securities gains	—	—	—	(0.01)
Tax expense of merger-related net securities gains	—	—	—	—
Discretionary 401(k) contribution	—	—	—	—
Tax benefit of discretionary 401(k) contribution	—	—	—	—
Gain on sale of subsidiary	(0.02)	—	(0.02)	—
Tax expense of gain on sale of subsidiary	0.01	—	0.01	—
Branch consolidation costs	—	—	0.02	—
Tax benefit of branch consolidation costs	—	—	(0.01)	—
Operating earnings per diluted common share (non-GAAP)	\$0.29	\$0.24	\$0.82	\$0.69

TABLE 34

Return on Average Tangible Common Equity

(dollars in thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Net income available to common stockholders (annualized)	\$391,790	\$300,266	\$356,579	\$226,017
Amortization of intangibles, net of tax (annualized)	11,926	12,392	12,499	11,051
Tangible net income available to common stockholders (annualized) (non-GAAP)	\$403,716	\$312,658	\$369,078	\$237,068
Average total stockholders' equity	\$4,516,008	\$4,426,980	\$4,469,577	\$3,945,621
Less: Average preferred stockholders' equity	(106,882)	(106,882)	(106,882)	(106,882)
Less: Average intangibles ⁽¹⁾	(2,332,926)	(2,344,077)	(2,336,627)	(2,028,377)
Average tangible common equity (non-GAAP)	\$2,076,200	\$1,976,021	\$2,026,068	\$1,810,362
Return on average tangible common equity (non-GAAP)	19.44 %	15.82 %	18.22 %	13.10 %

(1) Excludes loan servicing rights.

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TABLE 35

Return on Average Tangible Assets

(dollars in thousands)	Three Months Ended		Nine Months Ended		
	September 30,		September 30,		
	2018	2017	2018	2017	
Net income (annualized)	\$399,766	\$308,237	\$364,640	\$234,078	
Amortization of intangibles, net of tax (annualized)	11,926	12,392	12,499	11,051	
Tangible net income (annualized) (non-GAAP)	\$411,692	\$320,629	\$377,139	\$245,129	
Average total assets	\$32,402,803	\$30,910,664	\$31,951,681	\$28,470,888	
Less: Average intangibles ⁽¹⁾	(2,332,926)	(2,344,077)	(2,336,627)	(2,028,377)	
Average tangible assets (non-GAAP)	\$30,069,877	\$28,566,587	\$29,615,054	\$26,442,511	
Return on average tangible assets (non-GAAP)	1.37	% 1.12	% 1.27	% 0.93	%

(1) Excludes loan servicing rights.

TABLE 36

Tangible Book Value per Common Share

(in thousands, except per share data)	Three Months Ended	
	September 30,	
	2018	2017
Total stockholders' equity	\$4,524,864	\$4,435,921
Less: Preferred stockholders' equity	(106,882)	(106,882)
Less: Intangibles ⁽¹⁾	(2,329,830)	(2,351,707)
Tangible common equity (non-GAAP)	\$2,088,152	\$1,977,332
Ending common shares outstanding	324,275,186	323,301,548
Tangible book value per common share (non-GAAP)	\$6.44	\$6.12

(1) Excludes loan servicing rights.

TABLE 37

Tangible equity to tangible assets (period-end)

(dollars in thousands)	Three Months Ended		
	September 30,		
	2018	2017	
Total stockholders' equity	\$4,524,864	\$4,435,921	
Less: Intangibles ⁽¹⁾	(2,329,830)	(2,351,707)	
Tangible equity (non-GAAP)	\$2,195,034	\$2,084,214	
Total assets	\$32,617,595	\$31,123,295	
Less: Intangibles ⁽¹⁾	(2,329,830)	(2,351,707)	
Tangible assets (non-GAAP)	\$30,287,765	\$28,771,588	
Tangible equity / tangible assets (period-end) (non-GAAP)	7.25	% 7.24	%

(1) Excludes loan servicing rights.

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TABLE 38

Tangible common equity / tangible assets (period-end)

(dollars in thousands)	Three Months Ended		
	September 30,		
	2018	2017	
Total stockholders' equity	\$4,524,864	\$4,435,921	
Less: Preferred stockholders' equity	(106,882)	(106,882)	
Less: Intangibles ⁽¹⁾	(2,329,830)	(2,351,707)	
Tangible common equity (non-GAAP)	\$2,088,152	\$1,977,332	
Total assets	\$32,617,595	\$31,123,295	
Less: Intangibles ⁽¹⁾	(2,329,830)	(2,351,707)	
Tangible assets (non-GAAP)	\$30,287,765	\$28,771,588	
Tangible common equity / tangible assets (period-end) (non-GAAP)	6.89	% 6.87	%

(1) Excludes loan servicing rights.

TABLE 39

Efficiency Ratio

(dollars in thousands)	Three Months Ended		Nine Months Ended		
	September 30,		September 30,		
	2018	2017	2018	2017	
Non-interest expense	\$170,729	\$163,743	\$524,825	\$515,012	
Less: Amortization of intangibles	(3,805)	(4,805)	(11,834)	(12,716)	
Less: OREO expense	(1,492)	(1,421)	(5,092)	(3,412)	
Less: Merger-related expense	—	(1,381)	—	(55,459)	
Less: Discretionary 401(k) contribution	—	—	(874)	—	
Less: Branch consolidation costs	—	—	(2,939)	—	
Adjusted non-interest expense	\$165,432	\$156,136	\$504,086	\$443,425	
Net interest income	\$234,787	\$225,231	\$700,247	\$616,398	
Taxable equivalent adjustment	3,400	5,173	9,823	13,169	
Non-interest income	74,834	66,151	207,226	187,345	
Less: Net securities gains	—	(2,777)	(31)	(5,895)	
Less: Gain on sale of subsidiary	(5,135)	—	(5,135)	—	
Less: Branch consolidation costs	—	—	3,677	—	
Adjusted net interest income (FTE) + non-interest income	\$307,886	\$293,778	\$915,807	\$811,017	
Efficiency ratio (FTE) (non-GAAP)	53.73	% 53.15	% 55.04	% 54.68	%

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information called for by this item is provided in the Market Risk section of "Management's Discussion and Analysis of Financial Condition and Results of Operations," which is included in Item 2 of this Report, and is incorporated herein by reference. There are no material changes in the information provided under Part II, Item 7A, "Quantitative and Qualitative Disclosures About Market Risk" included in our 2017 Annual Report on Form 10-K as filed with the SEC on February 28, 2018.

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ITEM 4. CONTROLS AND PROCEDURES

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

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

CHANGES IN INTERNAL CONTROLS. The CEO and the CFO have evaluated the changes to our internal controls over financial reporting that occurred during our fiscal quarter ended September 30, 2018, as required by paragraph (d) of Rules 13a–15 and 15d–15 under the Securities Exchange Act of 1934, as amended, and have concluded that there were no such changes that materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The information required by this Item is set forth in the “Other Legal Proceedings” discussion in Note 10 of the Notes to the Consolidated Financial Statements, which is incorporated herein by reference in response to this Item.

ITEM 1A. RISK FACTORS

For information regarding risk factors that could affect our results of operations, financial condition and liquidity, see the risk factors disclosed in the “Risk Factors” section of our Annual Report on Form 10-K for the year ended December 31, 2017. See also Part I, Item 2 (Management’s Discussion and Analysis) of this Report.

There are no material changes from any of the risk factors previously disclosed in our 2017 Annual Report on Form 10-K as filed with the SEC on February 28, 2018.

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

NONE

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

NONE

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

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ITEM 5. OTHER INFORMATION

NONE

ITEM 6. EXHIBITS

Exhibit Index

Exhibit
Number

Description

- 31.1. Certification of Chief Executive Officer Sarbanes-Oxley Act Section 302. (filed herewith).
- 31.2. Certification of Chief Financial Officer Sarbanes-Oxley Act Section 302. (filed herewith).
- 32.1. Certification of Chief Executive Officer Sarbanes-Oxley Act Section 906. (furnished herewith).
- 32.2. Certification of Chief Financial Officer Sarbanes-Oxley Act Section 906. (furnished herewith).

101 The following materials from F.N.B. Corporation's Quarterly Report on Form 10-Q for the period ended September 30, 2018, formatted in XBRL: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Stockholders' Equity, (v) the Consolidated Statements of Cash Flows and (vi) the Notes to Consolidated Financial Statements. (filed herewith).

SIGNATURES

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

F.N.B. Corporation

Dated: November 7, 2018 /s/ Vincent J. Delie, Jr.
Vincent J. Delie, Jr.
Chairman, President and Chief Executive Officer
(Principal Executive Officer)

Dated: November 7, 2018 /s/ Vincent J. Calabrese, Jr.
Vincent J. Calabrese, Jr.
Chief Financial Officer
(Principal Financial Officer)

Dated: November 7, 2018 /s/ James L. Dutey
James L. Dutey
Corporate Controller
(Principal Accounting Officer)