

FNB CORP/PA/
Form 10-Q
August 04, 2017
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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 June 30, 2017

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

For the transition period from _____ to _____

Commission file number 001-31940

F.N.B. CORPORATION

(Exact name of registrant as specified in its charter)

Pennsylvania 25-1255406

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definition of "large accelerated filer," "accelerated

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

Non-accelerated Filer Smaller reporting company

Emerging Growth Company

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

Class	Outstanding at July 31, 2017
Common Stock, \$0.01 Par Value	323,227,563 Shares

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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

	June 30, 2017 (Unaudited)	December 31, 2016
Assets		
Cash and due from banks	\$397,482	\$303,526
Interest bearing deposits with banks	125,136	67,881
Cash and Cash Equivalents	522,618	371,407
Securities available for sale	2,593,455	2,231,987
Securities held to maturity (fair value of \$3,059,223 and \$2,294,777)	3,075,634	2,337,342
Loans held for sale (includes \$121,941 and \$0 measured at fair value) ⁽¹⁾	168,727	11,908
Loans and leases, net of unearned income of \$60,250 and \$52,723	20,533,298	14,896,943
Allowance for credit losses	(165,699)	(158,059)
Net Loans and Leases	20,367,599	14,738,884
Premises and equipment, net	335,297	243,956
Goodwill	2,244,972	1,032,129
Core deposit and other intangible assets, net	131,410	67,327
Bank owned life insurance	476,363	330,152
Other assets	837,651	479,725
Total Assets	\$30,753,726	\$21,844,817
Liabilities		
Deposits:		
Non-interest-bearing demand	\$5,544,753	\$4,205,337
Interest-bearing demand	9,221,408	6,931,381
Savings	2,562,259	2,352,434
Certificates and other time deposits	3,723,287	2,576,495
Total Deposits	21,051,707	16,065,647
Short-term borrowings	4,425,967	2,503,010
Long-term borrowings	656,883	539,494
Other liabilities	226,731	165,049
Total Liabilities	26,361,288	19,273,200
Stockholders' Equity		
Preferred stock - \$0.01 par value; liquidation preference of \$1,000 per share		
Authorized – 20,000,000 shares		
Issued – 110,877 shares	106,882	106,882
Common stock - \$0.01 par value		
Authorized – 500,000,000 shares		
Issued – 324,854,375 and 212,378,494 shares	3,250	2,125
Additional paid-in capital	4,024,576	2,234,366
Retained earnings	333,201	304,397
Accumulated other comprehensive loss	(56,383)	(61,369)
Treasury stock – 1,627,901 and 1,318,947 shares at cost	(19,088)	(14,784)
Total Stockholders' Equity	4,392,438	2,571,617

Total Liabilities and Stockholders' Equity	\$30,753,726	\$21,844,817
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(1) Amount represents loans for which we have elected the fair value option. See Note 17.
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 June 30,		Six Months Ended June 30, 2017	
	2017	2016	2017	2016
Interest Income				
Loans and leases, including fees	\$221,091	\$150,720	\$389,720	\$287,841
Securities:				
Taxable	25,029	17,976	47,495	34,469
Tax-exempt	4,677	2,129	8,078	4,147
Dividends	76	9	85	14
Other	161	97	349	214
Total Interest Income	251,034	170,931	445,727	326,685
Interest Expense				
Deposits	16,753	10,424	28,493	19,910
Short-term borrowings	10,959	2,559	17,633	4,920
Long-term borrowings	4,907	3,579	8,434	7,132
Total Interest Expense	32,619	16,562	54,560	31,962
Net Interest Income	218,415	154,369	391,167	294,723
Provision for credit losses	16,756	16,640	27,606	28,408
Net Interest Income After Provision for Credit Losses	201,659	137,729	363,561	266,315
Non-Interest Income				
Service charges	33,389	25,804	58,196	46,938
Trust services	5,715	5,405	11,462	10,687
Insurance commissions and fees	4,347	4,105	9,488	9,026
Securities commissions and fees	3,887	3,622	7,510	6,996
Capital markets income	5,004	4,147	8,851	6,996
Mortgage banking operations	5,173	2,753	8,963	4,348
Bank owned life insurance	3,092	2,592	5,245	4,687
Net securities gains	493	226	3,118	297
Other	4,978	2,757	8,361	7,480
Total Non-Interest Income	66,078	51,411	121,194	97,455
Non-Interest Expense				
Salaries and employee benefits	84,899	61,329	158,477	117,754
Net occupancy	14,060	10,193	25,409	19,459
Equipment	12,420	10,014	22,050	18,570
Amortization of intangibles	4,813	3,388	7,911	6,037
Outside services	13,483	9,825	26,526	19,128
FDIC insurance	9,376	5,103	14,763	9,071
Supplies	2,474	2,754	4,670	5,408
Bank shares and franchise taxes	2,742	2,913	5,722	5,530
Merger-related	1,354	10,551	54,078	35,491
Other	18,093	13,559	31,663	29,829
Total Non-Interest Expense	163,714	129,629	351,269	266,277
Income Before Income Taxes	104,023	59,511	133,486	97,493
Income taxes	29,617	18,211	36,101	30,061

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Net Income	74,406	41,300	97,385	67,432
Preferred stock dividends	2,010	2,010	4,020	4,020
Net Income Available to Common Stockholders	\$72,396	\$39,290	\$93,365	\$63,412
Earnings per Common Share				
Basic	\$0.22	\$0.19	\$0.33	\$0.31
Diluted	\$0.22	\$0.19	\$0.33	\$0.31
Cash Dividends per Common Share	\$0.12	\$0.12	\$0.24	\$0.24
See accompanying Notes to Consolidated Financial Statements (unaudited)				

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Dollars in thousands, except per share data

Unaudited

	Three Months Ended June 30,		Six Months Ended June 30, 2017	
	2017	2016	2017	2016
Net income	\$74,406	\$41,300	\$97,385	\$67,432
Other comprehensive income:				
Securities available for sale:				
Unrealized gains arising during the period, net of tax expense of \$403, \$3,634, \$3,779 and \$11,353	720	6,750	6,739	21,085
Reclassification adjustment for (losses) gains included in net income, net of tax (benefit) expense of \$(427), \$79, \$8 and \$104	761	(147)	(14)	(193)
Derivative instruments:				
Unrealized (losses) gains arising during the period, net of tax (benefit) expense of \$(766), \$834, \$(1,341) and \$2,527	(1,365)	1,548	(2,390)	4,693
Reclassification adjustment for (losses) gains included in net income, net of tax (benefit) expense of \$(40), \$191, \$89 and \$379	70	(355)	(159)	(704)
Pension and postretirement benefit obligations:				
Unrealized gains arising during the period, net of tax expense of \$224, \$213, \$452 and \$427	400	396	810	793
Other comprehensive income	586	8,192	4,986	25,674
Comprehensive income	\$74,992	\$49,492	\$102,371	\$93,106
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				97,385	4,986		102,371
Dividends declared:							
Preferred stock				(4,020)			(4,020)
Common stock: \$0.24/share				(64,561)			(64,561)
Issuance of common stock		9	4,039			(4,304)	(256)
Issuance of common stock - acquisitions		1,116	1,780,819				1,781,935
Assumption of warrant due to acquisition			1,394				1,394
Restricted stock compensation			3,958				3,958
Balance at June 30, 2017	\$ 106,882	\$ 3,250	\$ 4,024,576	\$ 333,201	\$ (56,383)	\$ (19,088)	\$ 4,392,438
Balance at January 1, 2016	\$ 106,882	\$ 1,766	\$ 1,808,210	\$ 243,217	\$ (51,133)	\$ (12,760)	\$ 2,096,182
Comprehensive income				67,432	25,674		93,106
Dividends declared:							
Preferred stock				(4,020)			(4,020)
Common stock: \$0.24/share				(50,708)			(50,708)
Issuance of common stock		9	5,284			(1,606)	3,687
Issuance of common stock - acquisitions		341	403,690				404,031
Restricted stock compensation			2,916				2,916
Tax benefit of stock-based compensation			143				143
Balance at June 30, 2016	\$ 106,882	\$ 2,116	\$ 2,220,243	\$ 255,921	\$ (25,459)	\$ (14,366)	\$ 2,545,337

See accompanying Notes to Consolidated Financial Statements (unaudited)

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CONSOLIDATED STATEMENTS OF CASH FLOWS

Dollars in thousands

Unaudited

	Six Months Ended	
	June 30,	
	2017	2016
Operating Activities		
Net income	\$97,385	\$67,432
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation, amortization and accretion	36,392	25,892
Provision for credit losses	27,606	28,408
Deferred tax expense	21,226	11,539
Net securities gains	(3,118)	(297)
Tax benefit of stock-based compensation	(724)	(143)
Loans originated for sale	(519,973)	(266,597)
Loans sold	380,522	263,112
Gain on sale of loans	(4,716)	(3,797)
Net change in:		
Interest receivable	(462)	(215)
Interest payable	58	(131)
Bank owned life insurance	(5,063)	(3,355)
Other, net	(114,988)	(21,916)
Net cash flows (used in) provided by operating activities	(85,855)	99,932
Investing Activities		
Net change in loans and leases	(582,236)	(438,448)
Securities available for sale:		
Purchases	(592,601)	(622,544)
Sales	755,866	615,199
Maturities	247,930	256,722
Securities held to maturity:		
Purchases	(782,281)	(588,138)
Sales	1,574	—
Maturities	214,739	158,240
Purchase of bank owned life insurance	(5,805)	(16,579)
Increase in premises and equipment	(34,832)	(27,311)
Net cash received in business combinations	196,964	245,762
Net cash flows used in investing activities	(580,682)	(417,097)
Financing Activities		
Net change in:		
Demand (non-interest bearing and interest bearing) and savings accounts	(45,049)	355,565
Time deposits	(143,154)	(79,850)
Short-term borrowings	1,126,769	9,114
Proceeds from issuance of long-term borrowings	77,223	28,168
Repayment of long-term borrowings	(133,162)	(37,942)
Net proceeds from issuance of common stock	3,702	6,603
Tax benefit of stock-based compensation	—	143
Cash dividends paid:		

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Preferred stock	(4,020)	(4,020)
Common stock	(64,561)	(50,708)
Net cash flows provided by financing activities	817,748	227,073
Net Increase (Decrease) in Cash and Cash Equivalents	151,211	(90,092)
Cash and cash equivalents at beginning of period	371,407	489,119
Cash and Cash Equivalents at End of Period	\$522,618	\$399,027
See accompanying Notes to Consolidated Financial Statements (unaudited)		

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

NATURE OF OPERATIONS

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

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

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

Use of Estimates

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

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Loans Held for Sale and Loan Commitments

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

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

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

Premises and Equipment

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

Premises and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Assets to be disposed of are transferred to other assets and are reported at the lower of the carrying amount or fair value less costs to sell.

Goodwill and Other Intangible Assets

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

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

amounts, as necessary.

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

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Determining the fair value of a reporting unit under the first step of the goodwill impairment test and determining the fair value of individual assets and liabilities of a reporting unit under the second step of the goodwill impairment test are judgmental and often involve the use of significant estimates and assumptions. Similarly, estimates and assumptions are used in determining the fair value of other intangible assets. Estimates of fair value are primarily determined using discounted cash flows, market comparisons and recent transactions. These approaches use significant estimates and assumptions including projected future cash flows, discount rates reflecting the market rate of return, projected growth rates and determination and evaluation of appropriate market comparables. Based on the results of quantitative assessments of all reporting units, we concluded that no impairment existed at December 31, 2016. However, future events could cause us to conclude that goodwill or other intangibles have become impaired, which would result in recording an impairment loss. Any resulting impairment loss could have a material adverse impact on our financial condition and results of operations.

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

Loan Servicing Rights

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

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

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

Bank-Owned Life Insurance (BOLI)

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

Low Income Housing Tax Credit Partnerships

We invest in various affordable housing projects that qualify for low income housing tax credits (LIHTCs). The investments are recorded in other assets on the consolidated balance sheets. These investments generate a return through the realization of federal tax credits. We use the proportional amortization method to account for a majority of our investments in these entities. LIHTCs that do not meet the requirements of the proportional amortization method are recognized using the equity method. Our net investment in LIHTCs was \$15.9 million and \$14.0 million at June 30, 2017 and December 31, 2016, respectively.

Per Share Amounts

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

Basic earnings per common share is calculated by dividing net income available to common stockholders by the weighted average number of shares of common stock outstanding, net of unvested shares of restricted stock. Diluted earnings per common share is calculated by dividing net income available to common stockholders by the weighted average number of shares of common stock outstanding, adjusted for the dilutive effect of potential common shares issuable for

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stock options, warrants and restricted shares, as calculated using the treasury stock method. Adjustments to net income available to common stockholders and the weighted average number of shares of common stock outstanding are made only when such adjustments dilute earnings per common share.

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

Stock Based Compensation

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

Because stock-based compensation expense is based on awards that are ultimately expected to vest, stock-based compensation expense has been reduced to account for estimated forfeitures. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Beginning in 2017, with the adoption of ASU 2016-9, we elected to change our accounting policy to account for forfeitures as they occur. The estimate for forfeitures prior to adoption of ASU 2016-9 was immaterial to our consolidated financial statements. We believe this change in accounting policy reduces the cost and complexity of accounting for stock-based compensation and is preferable to estimating forfeitures at the time of grant.

2. NEW ACCOUNTING STANDARDS

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

Stock Based Compensation

Accounting Standards Update (ASU or Update) 2017-09, Compensation - Stock Compensation: Scope of Modification Accounting, provides guidance about which changes to the terms and conditions of a share-based payment award requires the application of modification accounting. The Update is effective in the first quarter of 2018. Early adoption is permitted. The Update is to be applied prospectively and is not expected to have a material effect on our consolidated financial statements.

Securities

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

Retirement Benefits

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

method to adopt the requirement to limit the capitalization of

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benefit costs to the service cost component. We are currently assessing the potential impact to our consolidated financial statements.

Goodwill

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

Business Combinations

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

Statement of Cash Flows

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

Credit Losses

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

Revenue Recognition

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

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

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

ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net), clarifies the guidance on principal versus agent considerations when another party is involved in

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providing goods and services to a customer. The guidance requires a company to determine whether it is required to provide the specific good or service itself or to arrange for that good or service to be provided by another party. ASU 2014-09, Revenue from Contracts with Customers (Topic 606), modifies the guidance used to recognize revenue from contracts with customers for transfers of goods and services and transfers of nonfinancial assets, unless those contracts are within the scope of other guidance. The guidance also requires new qualitative and quantitative disclosures about contract balances and performance obligations.

We expect to adopt ASU 2014-09 in the first quarter of 2018 under the modified retrospective method where the cumulative effect is recognized at the date of initial application. Our evaluation of ASU 2014-09 is ongoing and not complete. The FASB has issued, and may issue in the future, interpretative guidance which may cause our evaluation to change. Based on our evaluation under the current guidance, we estimate that substantially all of our interest income and non-interest income will not be impacted by the adoption of ASU 2014-09 because either the revenue from those contracts with customers is covered by other guidance in U.S. GAAP or the revenue recognition outcomes anticipated with the adoption of ASU 2014-09 will likely be similar to our current revenue recognition practices. We may continue to identify contracts with customers that are out-of-scope or with similar revenue recognition practices through the date of adoption. In addition, we are reviewing our business processes, systems and controls to support recognition and disclosures under the new standard. While we anticipate some changes to revenue recognition within trust, investment management fees and insurance commissions and fees, we have not yet completed our assessment of the potential impact to our consolidated financial statements upon adoption.

Stock Based Compensation

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

Investments

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

Derivative and Hedging Activities

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

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

Extinguishments of Liabilities

ASU 2016-04, Liabilities—Extinguishments of Liabilities (Subtopic 405-20): Recognition of Breakage for Certain Prepaid Stored-Value Products (a consensus of the Emerging Issues Task Force), requires entities that sell prepaid stored-value products redeemable for goods, services or cash at third-party merchants to recognize breakage. The Update is effective in the first quarter of 2018 with either the modified retrospective method by means of a

cumulative-effect adjustment to retained earnings or retrospective application. Early adoption is permitted. This Update is not expected to have a material effect on our consolidated financial statements.

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Leases

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

Financial Instruments – Recognition and Measurement

ASU 2016-01, Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, amends the presentation and accounting for certain financial instruments, including liabilities measured at fair value under the fair value option, and equity investments. The guidance also updates fair value presentation and disclosure requirements for financial instruments measured at amortized cost. The Update is effective in the first quarter of 2018 with a cumulative-effect adjustment as of the beginning of the fiscal year of adoption. Early adoption is prohibited except for the provision requiring the recognition of changes in fair value related to changes in an entity's own credit risk in other comprehensive income for financial liabilities measured using the fair value option. We are currently assessing the potential impact to our consolidated financial statements.

3. MERGERS AND ACQUISITIONS

Yadkin Financial Corporation

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

On the acquisition date, the preliminary estimated fair values of YDKN included \$6.8 billion in assets, \$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 111,619,975 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 and restricted stock awards were converted into options to purchase and receive FNB common stock. In conjunction with the acquisition, we assumed a warrant that was issued by YDKN to the U.S. Department of the Treasury (UST) under the Capital Purchase Program (CPP). Based on the exchange ratio, this warrant, which expires in 2019, was converted into a warrant to purchase up to 207,320 shares of FNB common stock with an exercise price of \$9.63.

The acquisition of YDKN constituted a business combination and has been accounted for using the acquisition method of accounting, and accordingly, assets acquired, liabilities assumed and consideration exchanged were recorded at estimated fair value on the acquisition date. The determination of estimated fair values required management to make certain estimates about discount rates, future expected cash flows, market conditions, and other future events that are highly subjective in nature and may require adjustments, which can be updated for up to a year following the acquisition. As of June 30, 2017, we continue to review information relating to events or circumstances existing at the acquisition date. Management anticipates that this review could result in adjustments to the preliminary acquisition date valuation amounts presented due to the complexity and time required by management and third-parties involved in the valuation of loans, core deposit intangibles, premises and equipment, and other real estate owned (OREO). Acquired loans and core deposit intangibles were recorded at provisional amounts based on our preliminary third party valuations. Acquired premises and equipment and OREO were recorded at provisional amounts, and are currently being valued in conjunction with third parties. The valuation of the acquired loans was not final prior to March 31, 2017. An estimate was recorded during the 2017 first quarter based on the results of a valuation exercise conducted and applied to the March 11, 2017 balance of loans acquired from YDKN.

During the second quarter of 2017, we continued to analyze the valuations assigned to the acquired assets and assumed liabilities. Our third-party valuation firm provided revised valuations for loans based on the March 11, 2017 balances, which affected the valuation estimates. Due to the complexity in valuing the loans and the significant amount of data inputs required, the valuation of the loans is not yet final. As a result of revising the loan valuation, the purchase accounting accretion and

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unfunded commitment amortization amounts are also subject to change. In addition, we have now received third-party valuations on acquired premises resulting in the revised fair values below. Based on the revised valuations and new information, we updated our estimated fair values of these items within our Consolidated Balance Sheet with a corresponding adjustment to goodwill. There was no significant impact on the consolidated income statement for the three months ended June 30, 2017. The measurement period adjustments are reflected in the following table:

(in thousands)

Acquired Asset or Liability	Balance Sheet Line Item	Provisional Estimate	Revised Estimate	Increase (Decrease)
Loans and leases	Loans and leases, net	\$ 5,116,497	\$ 5,114,355	\$ (2,142)
Premises and equipment	Premises and equipment, net	95,208	72,202	(23,006)
Deferred taxes	Other assets	94,307	120,411	26,104
Other liabilities	Other liabilities	70,761	66,806	(3,955)

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

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

(dollars in thousands, except per share data)	FNB	YDKN	Pro Forma Adjustments	Pro Forma Combined
Six Months Ended June 30, 2017				
Revenue (net interest income and non-interest income)	\$491,462	\$74,574	\$ (2,381)	\$563,655
Net income	125,659	22,435	(2,498)	145,596
Net income available to common stockholders	121,605	22,435	(2,498)	141,542
Earnings per common share – basic	0.58	0.70	—	0.50
Earnings per common share – diluted	0.57	0.70	—	0.50
Six Months Ended June 30, 2016				
Revenue (net interest income and non-interest income)	392,178	138,445	(2,645)	527,978
Net income	67,432	25,203	(3,931)	88,704
Net income available to common stockholders	63,412	25,203	(3,931)	84,684
Earnings per common share – basic	0.31	0.56	—	0.28
Earnings per common share – diluted	0.31	0.56	—	0.28

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

In connection with the YDKN acquisition, we incurred expenses related to systems conversions and other costs of integrating and conforming acquired operations with and into FNB. These merger-related expenses, that were expensed as incurred, amounted to \$53.7 million for the six months ended June 30, 2017. Contract terminations and severance costs comprised 31.3% and 25.7%, respectively, of the merger-related expenses, with the remainder consisting of other non-interest expenses, including professional services, marketing and advertising, technology and communications, occupancy and equipment, and charitable contributions. We also incurred issuance costs of \$0.6 million which were charged to additional paid-in capital.

Branch Purchase – Fifth Third Bank

On April 22, 2016, we completed our purchase of 17 branch-banking locations and certain consumer loans in the Pittsburgh, Pennsylvania metropolitan area from Fifth Third Bank (Fifth Third). The fair value of the acquired assets totaled \$312.4 million, including \$198.9 million in cash, \$95.4 million in loans and \$14.1 million in fixed and other assets. We also assumed \$302.5 million in deposits, for which we paid a deposit premium of 1.97%, as part of the transaction. The assets and liabilities

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relating to these purchased branches were recorded on our balance sheet at their fair values as of April 22, 2016, and the related results of operations for these branches have been included in our consolidated income statement since that date. We recorded \$14.1 million in goodwill and \$4.1 million in core deposit intangibles as a result of the purchase transaction. The goodwill for this transaction is deductible for income tax purposes.

Metro Bancorp, Inc.

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

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

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

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

(in thousands)	YDKN	Fifth Third Branches	METR
Fair value of consideration paid	\$1,783,294	\$—	\$404,242
Fair value of identifiable assets acquired:			
Cash and cash equivalents	196,964	198,872	46,890
Securities	940,272	—	722,980
Loans	5,114,355	95,354	1,862,447
Core deposit and other intangible assets	69,555	4,129	24,163
Fixed and other assets	465,437	14,069	127,185
Total identifiable assets acquired	6,786,583	312,424	2,783,665
Fair value of liabilities assumed:			
Deposits	5,176,915	302,529	2,328,238
Borrowings	969,385	—	227,539
Other liabilities	69,696	24,041	8,700
Total liabilities assumed	6,215,996	326,570	2,564,477
Fair value of net identifiable assets acquired	570,587	(14,146)	219,188
Goodwill recognized (1)	\$1,212,707	\$14,146	\$185,054

(1)

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

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4. SECURITIES

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

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale (AFS):				
June 30, 2017				
U.S. Treasury	\$29,942	\$ 7	\$—	\$29,949
U.S. government-sponsored entities	382,668	518	(2,853)	380,333
Residential mortgage-backed securities:				
Agency mortgage-backed securities	1,672,304	3,116	(9,913)	1,665,507
Agency collateralized mortgage obligations	483,556	284	(9,373)	474,467
Non-agency collateralized mortgage obligations	2	—	—	2
Commercial mortgage-backed securities	315	—	—	315
States of the U.S. and political subdivisions	31,048	49	(27)	31,070
Other debt securities	9,878	39	(229)	9,688
Total debt securities	2,609,713	4,013	(22,395)	2,591,331
Equity securities	1,696	495	(67)	2,124
Total securities available for sale	\$2,611,409	\$ 4,508	\$(22,462)	\$2,593,455
December 31, 2016				
U.S. Treasury	\$29,874	\$ 79	\$—	\$29,953
U.S. government-sponsored entities	367,604	864	(3,370)	365,098
Residential mortgage-backed securities:				
Agency mortgage-backed securities	1,267,535	2,257	(16,994)	1,252,798
Agency collateralized mortgage obligations	546,659	419	(11,104)	535,974
Non-agency collateralized mortgage obligations	891	6	—	897
Commercial mortgage-backed securities	1,292	—	(1)	1,291
States of the U.S. and political subdivisions	36,065	86	(302)	35,849
Other debt securities	9,828	94	(435)	9,487
Total debt securities	2,259,748	3,805	(32,206)	2,231,347
Equity securities	273	367	—	640
Total securities available for sale	\$2,260,021	\$ 4,172	\$(32,206)	\$2,231,987

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(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Held to Maturity (HTM):				
June 30, 2017				
U.S. Treasury	\$500	\$ 144	\$—	\$644
U.S. government-sponsored entities	247,537	327	(3,704)	244,160
Residential mortgage-backed securities:				
Agency mortgage-backed securities	1,238,720	8,047	(5,561)	1,241,206
Agency collateralized mortgage obligations	757,780	1,122	(14,066)	744,836
Commercial mortgage-backed securities	81,455	903	(279)	82,079
States of the U.S. and political subdivisions	749,642	8,560	(11,904)	746,298
Total securities held to maturity	\$3,075,634	\$ 19,103	\$(35,514)	\$3,059,223
December 31, 2016				
U.S. Treasury	\$500	\$ 137	\$—	\$637
U.S. government-sponsored entities	272,645	348	(4,475)	268,518
Residential mortgage-backed securities:				
Agency mortgage-backed securities	852,215	5,654	(8,645)	849,224
Agency collateralized mortgage obligations	743,148	447	(17,801)	725,794
Non-agency collateralized mortgage obligations	1,689	3	(6)	1,686
Commercial mortgage-backed securities	49,797	181	(226)	49,752
States of the U.S. and political subdivisions	417,348	1,456	(19,638)	399,166
Total securities held to maturity	\$2,337,342	\$ 8,226	\$(50,791)	\$2,294,777

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

	Three Months Ended June 30,		Six Months Ended June 30, 2017	
(in thousands)	2017	2016	2017	2016
Gross gains	\$611	\$227	\$4,011	\$298
Gross losses	(118)	(1)	(893)	(1)
Net gains	\$493	\$226	\$3,118	\$297

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

(in thousands)	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$105,257	\$105,295	\$612	\$618
Due from one to five years	325,946	323,633	253,083	249,675
Due from five to ten years	19,367	19,317	68,554	69,711
Due after ten years	2,966	2,795	675,430	671,098
	453,536	451,040	997,679	991,102
Residential mortgage-backed securities:				
Agency mortgage-backed securities	1,672,304	1,665,507	1,238,720	1,241,206
Agency collateralized mortgage obligations	483,556	474,467	757,780	744,836
Non-agency collateralized mortgage obligations	2	2	—	—
Commercial mortgage-backed securities	315	315	81,455	82,079

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Equity securities	1,696	2,124	—	—
Total securities	\$2,611,409	\$2,593,455	\$3,075,634	\$3,059,223

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

Following is information relating to securities pledged:

(dollars in thousands)	June 30, 2017	December 31, 2016
Securities pledged (carrying value):		
To secure public deposits, trust deposits and for other purposes as required by law	\$3,058,009	\$2,779,335
As collateral for short-term borrowings	299,651	322,038
Securities pledged as a percent of total securities	59.2	% 67.9 %

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

(dollars in thousands)	Less than 12 Months			12 Months or More			Total		
	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses
Securities Available for Sale									
June 30, 2017									
U.S. government-sponsored entities	13	\$237,159	\$(2,853)	—	\$—	\$—	13	\$237,159	\$(2,853)
Residential mortgage-backed securities:									
Agency mortgage-backed securities	57	1,185,412	(9,913)	—	—	—	57	1,185,412	(9,913)
Agency collateralized mortgage obligations	35	302,658	(5,864)	10	90,687	(3,509)	45	393,345	(9,373)
Non-agency collateralized mortgage obligations	1	2	—	—	—	—	1	2	—
Commercial mortgage-backed securities	1	315	—	—	—	—	1	315	—
States of the U.S. and political subdivisions	9	14,906	(19)	3	3,839	(8)	12	18,745	(27)
Other debt securities	—	—	—	3	4,680	(229)	3	4,680	(229)
Equity securities	3	1,219	(67)	—	—	—	3	1,219	(67)
Total temporarily impaired securities AFS	119	\$1,741,671	\$(18,716)	16	\$99,206	\$(3,746)	135	\$1,840,877	\$(22,462)
December 31, 2016									
U.S. government-sponsored entities	11	\$211,636	\$(3,370)	—	\$—	\$—	11	\$211,636	\$(3,370)
Residential mortgage-backed securities:									
Agency mortgage-backed securities	55	1,056,731	(16,994)	—	—	—	55	1,056,731	(16,994)
Agency collateralized mortgage obligations	26	346,662	(7,261)	9	89,040	(3,843)	35	435,702	(11,104)
Commercial mortgage-backed securities	1	1,291	(1)	—	—	—	1	1,291	(1)
States of the U.S. and political subdivisions	20	28,631	(302)	—	—	—	20	28,631	(302)
Other debt securities	—	—	—	3	4,470	(435)	3	4,470	(435)
	113	\$1,644,951	\$(27,928)	12	\$93,510	\$(4,278)	125	\$1,738,461	\$(32,206)

Total temporarily impaired
securities AFS

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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
Securities Held to Maturity									
June 30, 2017									
U.S. government-sponsored entities	11	\$201,295	\$(3,704)	—	\$—	\$—	11	\$201,295	\$(3,704)
Residential mortgage-backed securities:									
Agency mortgage-backed securities	37	668,448	(5,561)	—	—	—	37	668,448	(5,561)
Agency collateralized mortgage obligations	29	470,354	(11,451)	11	91,676	(2,615)	40	562,030	(14,066)
Commercial mortgage-backed securities	3	14,839	(52)	1	7,640	(227)	4	22,479	(279)
States of the U.S. and political subdivisions	58	176,763	(11,904)	—	—	—	58	176,763	(11,904)
Total temporarily impaired securities HTM	138	\$1,531,699	\$(32,672)	12	\$99,316	\$(2,842)	150	\$1,631,015	\$(35,514)
December 31, 2016									
U.S. government-sponsored entities	10	\$185,525	\$(4,475)	—	\$—	\$—	10	\$185,525	\$(4,475)
Residential mortgage-backed securities:									
Agency mortgage-backed securities	36	551,404	(8,645)	—	—	—	36	551,404	(8,645)
Agency collateralized mortgage obligations	29	516,237	(13,710)	12	112,690	(4,091)	41	628,927	(17,801)
Non-agency collateralized mortgage obligations	3	1,128	(6)	—	—	—	3	1,128	(6)
Commercial mortgage-backed securities	1	12,317	(10)	1	8,267	(216)	2	20,584	(226)
States of the U.S. and political subdivisions	94	247,301	(19,638)	—	—	—	94	247,301	(19,638)
Total temporarily impaired securities HTM	173	\$1,513,912	\$(46,484)	13	\$120,957	\$(4,307)	186	\$1,634,869	\$(50,791)

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

Other-Than-Temporary Impairment

We evaluate our investment securities portfolio for other-than-temporary impairment (OTTI) on a quarterly basis. Impairment is assessed at the individual security level. We consider an investment security impaired if the fair value of the security is less than its cost or amortized cost basis. We did not recognize any OTTI losses on securities for the six months ended June 30, 2017 or 2016.

States of the U.S. and Political Subdivisions

Our municipal bond portfolio with a carrying amount of \$780.7 million as of June 30, 2017 is highly rated with an average entity-specific rating of AA and 100% of the portfolio rated A or better. All of the securities in the municipal portfolio are general obligation bonds. Geographically, municipal bonds support our primary footprint as 66.1% of the securities are from municipalities located throughout Pennsylvania, Ohio, Maryland, North Carolina and South Carolina. The average holding size of the securities in the municipal bond portfolio is \$2.7 million. In addition to the

strong stand-alone ratings, 62.0% of the municipalities have some formal credit enhancement insurance that strengthens the creditworthiness of their issue. Management reviews the credit profile of each issuer on a quarterly basis.

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5. LOANS AND LEASES

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

(in thousands)	Originated Loans and Leases	Acquired Loans	Total Loans and Leases
June 30, 2017			
Commercial real estate	\$4,610,404	\$4,212,525	\$8,822,929
Commercial and industrial	3,035,005	875,922	3,910,927
Commercial leases	226,483	—	226,483
Total commercial loans and leases	7,871,892	5,088,447	12,960,339
Direct installment	1,764,096	185,883	1,949,979
Residential mortgages	1,683,383	746,460	2,429,843
Indirect installment	1,374,370	154	1,374,524
Consumer lines of credit	1,120,050	668,484	1,788,534
Other	30,079	—	30,079
Total loans and leases, net of unearned income	\$13,843,870	\$6,689,428	\$20,533,298
December 31, 2016			
Commercial real estate	\$4,095,817	\$1,339,345	\$5,435,162
Commercial and industrial	2,711,886	330,895	3,042,781
Commercial leases	196,636	—	196,636
Total commercial loans and leases	7,004,339	1,670,240	8,674,579
Direct installment	1,765,257	79,142	1,844,399
Residential mortgages	1,446,776	397,798	1,844,574
Indirect installment	1,196,110	203	1,196,313
Consumer lines of credit	1,099,627	201,573	1,301,200
Other	35,878	—	35,878
Total loans and leases, net of unearned income	\$12,547,987	\$2,348,956	\$14,896,943

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

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

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

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

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

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

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

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

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

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

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

(dollars in thousands)	June 30, 2017	December 31, 2016
Regency consumer finance loans	\$ 175,605	\$ 184,687
Percent of total loans and leases	0.9	% 1.2

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

(dollars in thousands)	June 30, 2017	December 31, 2016
Commercial construction loans	\$ 971,412	\$ 459,995
Percent of total loans and leases	4.7	% 3.1
Commercial real estate:		
Percent owner-occupied	36.4	% 36.2
Percent non-owner-occupied	63.6	% 63.8

Acquired Loans

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

(in thousands)	June 30, 2017	December 31, 2016
Accounted for under ASC 310-30:		
Outstanding balance	\$ 6,043,780	\$ 2,346,687
Carrying amount	5,659,646	2,015,904
Accounted for under ASC 310-20:		
Outstanding balance	1,051,656	342,015
Carrying amount	1,023,175	325,784
Total acquired loans:		
Outstanding balance	7,095,436	2,688,702
Carrying amount	6,682,821	2,341,688

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

The carrying amount of purchased credit impaired loans included in the table above totaled \$20.8 million at June 30, 2017 and \$7.1 million at December 31, 2016, representing 0.3% 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.

(in thousands)	Six Months Ended	
	June 30, 2017	
	2017	2016
Balance at beginning of period	\$467,070	\$256,120
Acquisitions	444,715	308,311
Reduction due to unexpected early payoffs	(61,093)	(35,879)
Reclass from non-accretable difference	40,304	14,508
Disposals/transfers	(324)	(208)
Accretion	(100,628)	(49,646)
Balance at end of period	\$790,044	\$493,206

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

During the six months ended June 30, 2017, there was an overall improvement in cash flow expectations which resulted in a net reclassification of \$40.3 million from the non-accretable difference to accretable yield. This reclassification was \$14.5 million for the six months ended June 30, 2016. The reclassification from the non-accretable difference to the accretable yield results in prospective yield adjustments on the loan pools.

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

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

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

Credit Quality

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

Non-performing loans include non-accrual loans and non-performing troubled debt restructurings (TDRs). Past due loans are reviewed on a monthly basis to identify loans for non-accrual status. We place originated loans on non-accrual status and discontinue interest accruals on originated loans generally when principal or interest is due and has remained unpaid for a certain number of days or when the principal and interest is deemed uncollectible, unless the loan is both well secured and in the process of collection. Commercial loans are placed on non-accrual at 90 days, installment loans are placed on non-accrual

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

Following is a summary of non-performing assets:

(dollars in thousands)	June 30, 2017	December 31, 2016		
Non-accrual loans	\$95,303	\$ 65,479		
Troubled debt restructurings	19,487	20,428		
Total non-performing loans	114,790	85,907		
Other real estate owned (OREO)	45,712	32,490		
Total non-performing assets	\$160,502	\$ 118,397		
Asset quality ratios:				
Non-performing loans / total loans and leases	0.56	%	0.58	%
Non-performing loans + OREO / total loans and leases + OREO	0.78	%	0.79	%
Non-performing assets / of total assets	0.52	%	0.54	%

The carrying value of residential OREO held as a result of obtaining physical possession upon completion of a foreclosure or through completion of a deed in lieu of foreclosure totaled \$4.9 million at June 30, 2017 and \$5.3 million at December 31, 2016. The recorded investment of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are in process at June 30, 2017 and December 31, 2016 totaled \$11.2 million and \$12.0 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:

(in thousands)	30-89 Days Past Due	> 90 Days Past Due and Still Accruing	Non- Accrual	Total Past Due	Current	Total Loans and Leases
Originated Loans and Leases						
June 30, 2017						
Commercial real estate	\$ 4,171	\$ 1	\$24,624	\$28,796	\$4,581,608	\$4,610,404
Commercial and industrial	5,248	3	40,210	45,461	2,989,544	3,035,005
Commercial leases	1,302	—	1,507	2,809	223,674	226,483
Total commercial loans and leases	10,721	4	66,341	77,066	7,794,826	7,871,892
Direct installment	10,052	4,154	8,285	22,491	1,741,605	1,764,096
Residential mortgages	12,698	2,360	5,119	20,177	1,663,206	1,683,383
Indirect installment	7,174	465	1,744	9,383	1,364,987	1,374,370
Consumer lines of credit	2,527	1,183	2,162	5,872	1,114,178	1,120,050
Other	512	282	1,000	1,794	28,285	30,079
Total originated loans and leases	\$ 43,684	\$ 8,448	\$84,651	\$136,783	\$13,707,087	\$13,843,870
December 31, 2016						
Commercial real estate	\$ 8,452	\$ 1	\$20,114	\$28,567	\$4,067,250	\$4,095,817
Commercial and industrial	16,019	3	24,141	40,163	2,671,723	2,711,886
Commercial leases	973	1	3,429	4,403	192,233	196,636
Total commercial loans and leases	25,444	5	47,684	73,133	6,931,206	7,004,339
Direct installment	10,573	4,386	6,484	21,443	1,743,814	1,765,257
Residential mortgages	10,594	3,014	3,316	16,924	1,429,852	1,446,776
Indirect installment	9,312	513	1,983	11,808	1,184,302	1,196,110
Consumer lines of credit	3,529	1,112	1,616	6,257	1,093,370	1,099,627
Other	398	83	1,000	1,481	34,397	35,878
Total originated loans and leases	\$ 59,850	\$ 9,113	\$62,083	\$131,046	\$12,416,941	\$12,547,987

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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)	Current	Discount	Total Loans
Acquired Loans							
June 30, 2017							
Commercial real estate	\$52,011	\$ 37,196	\$3,478	\$ 92,685	\$4,326,243	\$(206,403)	\$4,212,525
Commercial and industrial	5,552	6,222	6,676	18,450	913,794	(56,322)	875,922
Total commercial loans	57,563	43,418	10,154	111,135	5,240,037	(262,725)	5,088,447
Direct installment	2,086	1,888	—	3,974	180,278	1,631	185,883
Residential mortgages	18,141	12,384	—	30,525	758,511	(42,576)	746,460
Indirect installment	—	1	—	1	37	116	154
Consumer lines of credit	9,153	3,731	498	13,382	669,981	(14,879)	668,484
Total acquired loans	\$86,943	\$ 61,422	\$ 10,652	\$ 159,017	\$6,848,844	\$(318,433)	\$6,689,428
December 31, 2016							
Commercial real estate	\$9,501	\$ 23,890	\$949	\$ 34,340	\$1,384,752	\$(79,747)	\$1,339,345
Commercial and industrial	1,789	2,942	2,111	6,842	353,494	(29,441)	330,895
Total commercial loans	11,290	26,832	3,060	41,182	1,738,246	(109,188)	1,670,240
Direct installment	2,317	1,344	—	3,661	73,479	2,002	79,142
Residential mortgages	8,428	10,816	—	19,244	416,561	(38,007)	397,798
Indirect installment	19	4	—	23	96	84	203
Consumer lines of credit	2,156	1,528	336	4,020	201,958	(4,405)	201,573
Total acquired loans	\$24,210	\$ 40,524	\$ 3,396	\$ 68,130	\$2,430,340	\$(149,514)	\$2,348,956

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

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

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

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

The use of these internally assigned credit quality categories within the commercial loan and lease portfolio permits management's use of transition matrices to estimate a quantitative portion of credit risk. Our internal credit risk

grading system is based on past experiences with similarly graded loans and leases and conforms with regulatory categories. In general, loan and lease risk ratings within each category are reviewed on an ongoing basis according to our policy for each class of loans and leases. Each quarter, management analyzes the resulting ratings, as well as other external statistics and factors such as delinquency, to track the migration performance of the commercial loan and lease portfolio. Loans and leases within the Pass

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credit category or that migrate toward the Pass credit category generally have a lower risk of loss compared to loans and leases that migrate toward the Substandard or Doubtful credit categories. Accordingly, management applies higher risk factors to Substandard and Doubtful credit categories.

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

(in thousands)	Commercial Loan and Lease Credit Quality Categories				
	Pass	Special Mention	Substandard	Doubtful	Total
Originated Loans and Leases					
June 30, 2017					
Commercial real estate	\$4,418,459	\$122,831	\$ 68,911	\$ 203	\$4,610,404
Commercial and industrial	2,784,838	141,611	98,660	9,896	3,035,005
Commercial leases	221,434	3,611	1,438	—	226,483
Total originated commercial loans and leases	\$7,424,731	\$268,053	\$ 169,009	\$ 10,099	\$7,871,892
December 31, 2016					
Commercial real estate	\$3,895,764	\$130,452	\$ 69,588	\$ 13	\$4,095,817
Commercial and industrial	2,475,955	104,652	128,089	3,190	2,711,886
Commercial leases	188,662	3,789	4,185	—	196,636
Total originated commercial loans and leases	\$6,560,381	\$238,893	\$ 201,862	\$ 3,203	\$7,004,339
Acquired Loans					
June 30, 2017					
Commercial real estate	\$3,589,248	\$376,733	\$ 246,299	\$ 245	\$4,212,525
Commercial and industrial	757,054	58,486	60,291	91	875,922
Total acquired commercial loans	\$4,346,302	\$435,219	\$ 306,590	\$ 336	\$5,088,447
December 31, 2016					
Commercial real estate	\$1,144,676	\$85,894	\$ 108,128	\$ 647	\$1,339,345
Commercial and industrial	274,819	20,593	34,967	516	330,895
Total acquired commercial loans	\$1,419,495	\$106,487	\$ 143,095	\$ 1,163	\$1,670,240

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

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

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Following is a table showing consumer loans by payment status:

(in thousands)	Consumer Loan Credit Quality by Payment Status		
	Performing	Non- Performing	Total
Originated loans			
June 30, 2017			
Direct installment	\$ 1,747,660	\$ 16,436	\$ 1,764,096
Residential mortgages	1,669,019	14,364	1,683,383
Indirect installment	1,372,414	1,956	1,374,370
Consumer lines of credit	1,116,714	3,336	1,120,050
Total originated consumer loans	\$ 5,905,807	\$ 36,092	\$ 5,941,899
December 31, 2016			
Direct installment	\$ 1,750,305	\$ 14,952	\$ 1,765,257
Residential mortgages	1,433,409	13,367	1,446,776
Indirect installment	1,193,930	2,180	1,196,110
Consumer lines of credit	1,096,642	2,985	1,099,627
Total originated consumer loans	\$ 5,474,286	\$ 33,484	\$ 5,507,770
Acquired loans			
June 30, 2017			
Direct installment	\$ 185,883	\$ —	\$ 185,883
Residential mortgages	746,460	—	746,460
Indirect installment	154	—	154
Consumer lines of credit	667,290	1,194	668,484
Total acquired consumer loans	\$ 1,599,787	\$ 1,194	\$ 1,600,981
December 31, 2016			
Direct installment	\$ 79,142	\$ —	\$ 79,142
Residential mortgages	397,798	—	397,798
Indirect installment	203	—	203
Consumer lines of credit	201,061	512	201,573
Total acquired consumer loans	\$ 678,204	\$ 512	\$ 678,716

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

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

(in thousands)	Unpaid Contractual Principal Balance	Recorded Investment With No Specific Reserve	Recorded Investment With Specific Reserve	Total Recorded Investment	Specific Reserve	Average Recorded Investment
At or for the Six Months Ended June 30, 2017						
Commercial real estate	\$ 28,900	\$ 22,685	\$ 1,834	\$ 24,519	\$ 203	\$ 23,845
Commercial and industrial	46,200	13,038	26,631	39,669	9,909	37,011
Commercial leases	1,507	1,507	—	1,507	—	1,762
Total commercial loans and leases	76,607	37,230	28,465	65,695	10,112	62,618
Direct installment	18,651	16,436	—	16,436	—	16,273
Residential mortgages	15,515	14,364	—	14,364	—	14,357
Indirect installment	4,622	1,956	—	1,956	—	1,821
Consumer lines of credit	4,247	3,336	—	3,336	—	3,125
Other	1,000	1,000	—	1,000	—	1,000
Total	\$ 120,642	\$ 74,322	\$ 28,465	\$ 102,787	\$ 10,112	\$ 99,194
At or for the Year Ended December 31, 2016						
Commercial real estate	\$ 23,771	\$ 19,699	\$ 464	\$ 20,163	\$ 13	\$ 19,217
Commercial and industrial	25,719	14,781	8,996	23,777	3,190	29,730
Commercial leases	3,429	3,429	—	3,429	—	3,394
Total commercial loans and leases	52,919	37,909	9,460	47,369	3,203	52,341
Direct installment	16,440	14,952	—	14,952	—	14,997
Residential mortgages	14,090	13,367	—	13,367	—	13,200
Indirect installment	5,172	2,180	—	2,180	—	2,037
Consumer lines of credit	3,858	2,985	—	2,985	—	2,813
Other	1,000	1,000	—	1,000	—	1,000
Total	\$ 93,479	\$ 72,393	\$ 9,460	\$ 81,853	\$ 3,203	\$ 86,388

Interest income continued to accrue on certain impaired loans and totaled approximately \$2.6 million and \$2.2 million for the six months ended June 30, 2017 and 2016, respectively. The above tables do not reflect the additional allowance for credit losses relating to acquired loans. Following is a summary of the allowance for credit losses required for acquired loans due to changes in credit quality subsequent to the acquisition date:

(in thousands)	June 30, December 31,	
	2017	2016
Commercial real estate	\$ 3,626	\$ 4,538
Commercial and industrial	108	500
Total commercial loans	3,734	5,038
Direct installment	1,037	1,005
Residential mortgages	753	632
Indirect installment	221	221
Consumer lines of credit	862	372
Total allowance on acquired loans	\$ 6,607	\$ 7,268

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Troubled Debt Restructurings

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

Following is a summary of the payment status of TDRs:

(in thousands)	Originated	Acquired	Total
June 30, 2017			
Accruing:			
Performing	\$ 18,113	\$ 271	\$18,384
Non-performing	18,791	696	19,487
Non-accrual	13,894	—	13,894
Total TDRs	\$ 50,798	\$ 967	\$51,765
December 31, 2016			
Accruing:			
Performing	\$ 17,105	\$ 365	\$17,470
Non-performing	20,252	176	20,428
Non-accrual	9,035	—	9,035
Total TDRs	\$ 46,392	\$ 541	\$46,933

TDRs that are accruing and performing include loans that met the criteria for non-accrual of interest prior to restructuring for which we can reasonably estimate the timing and amount of the expected cash flows on such loans and for which we expect to fully collect the new carrying value of the loans. During the six months ended June 30, 2017, we returned to performing status \$3.5 million in restructured residential mortgage loans that have consistently met their modified obligations for more than six months. TDRs that are accruing and non-performing are comprised of consumer loans that have not demonstrated a consistent repayment pattern on the modified terms for more than six months, however it is expected that we will collect all future principal and interest payments. TDRs that are on non-accrual are not placed on accruing status until all delinquent principal and interest have been paid and the ultimate collectability of the remaining principal and interest is reasonably assured. Some loan modifications classified as TDRs may not ultimately result in the full collection of principal and interest, as modified, and may result in potential incremental losses which are factored into the allowance for credit losses.

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

(in thousands)	June 30, 2017	December 31, 2016
Specific reserves for commercial TDRs	\$ 275	\$ 291
Pooled reserves for individual loans under \$500	257	276

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

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

(dollars in thousands)	Three Months Ended June 30, 2017			Six Months Ended June 30, 2017		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial real estate	1	\$ 463	\$ 463	2	\$ 595	\$ 566
Commercial and industrial	2	4,038	4,204	2	3,542	4,204
Total commercial loans	3	4,501	4,667	4	4,137	4,770
Direct installment	162	1,448	1,301	333	2,951	2,688
Residential mortgages	9	405	345	16	570	497
Indirect installment	4	15	14	9	31	27
Consumer lines of credit	21	311	208	43	1,054	905
Total	199	\$ 6,680	\$ 6,535	405	\$ 8,743	\$ 8,887

(dollars in thousands)	Three Months Ended June 30, 2016			Six Months Ended June 30, 2016		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial real estate	—	\$ —	\$ —	4	\$ 778	\$ 749
Commercial and industrial	—	—	—	—	—	—
Total commercial loans	—	—	—	4	778	749
Direct installment	120	1,960	1,832	265	3,984	3,772
Residential mortgages	8	385	390	27	1,420	1,402
Indirect installment	2	6	6	5	17	17
Consumer lines of credit	17	302	298	36	481	473
Total	147	\$ 2,653	\$ 2,526	337	\$ 6,680	\$ 6,413

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

(dollars in thousands)	Three Months Ended June 30, 2017		Six Months Ended June 30, 2017	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
Commercial real estate	—	\$ —	—	\$ —
Commercial and industrial	2	312	3	326
Total commercial loans	2	312	3	326
Direct installment	31	134	55	146
Residential mortgages	1	80	4	264
Indirect installment	6	19	10	19

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Consumer lines of credit	1	63	1	63
Total	41	\$ 608	73	\$ 818

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(dollars in thousands)	Three Months Ended June 30, 2016		Six Months Ended June 30, 2016	
	Number Contracts	Recorded Investment	Number Contracts	Recorded Investment
Commercial real estate	—	\$ —	—	\$ —
Commercial and industrial	—	—	—	—
Total commercial loans	—	—	—	—
Direct installment	32	135	57	246
Residential mortgages	3	142	4	193
Indirect installment	2	8	6	8
Consumer lines of credit	1	55	2	65
Total	38	\$ 340	69	\$ 512

6. ALLOWANCE FOR CREDIT LOSSES

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

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

(in thousands)	Balance at Beginning of Period	Charge- Offs	Recoveries	Net Charge- Offs	Provision for Credit Losses	Balance at End of Period
Three Months Ended June 30, 2017						
Commercial real estate	\$ 46,389	\$(318)	\$ 505	\$ 187	\$ 382	\$ 46,958
Commercial and industrial	53,570	(7,736)	183	(7,553)	8,091	54,108
Commercial leases	3,513	(208)	3	(205)	814	4,122
Total commercial loans and leases	103,472	(8,262)	691	(7,571)	9,287	105,188
Direct installment	20,210	(3,245)	581	(2,664)	3,190	20,736
Residential mortgages	10,210	(182)	10	(172)	1,214	11,252
Indirect installment	9,630	(1,966)	614	(1,352)	2,296	10,574
Consumer lines of credit	8,883	(583)	150	(433)	1,054	9,504
Other	1,809	(821)	353	(468)	497	1,838
Total allowance on originated loans and leases	154,214	(15,059)	2,399	(12,660)	17,538	159,092
Purchased credit-impaired loans	660	(1)	—	(1)	(19)	640
Other acquired loans	5,908	(74)	896	822	(763)	5,967
Total allowance on acquired loans	6,568	(75)	896	821	(782)	6,607
Total allowance	\$ 160,782	\$(15,134)	\$ 3,295	\$(11,839)	\$ 16,756	\$ 165,699
Six Months Ended June 30, 2017						
Commercial real estate	\$ 46,635	\$(1,306)	\$ 866	\$(440)	\$ 763	\$ 46,958
Commercial and industrial	47,991	(10,199)	657	(9,542)	15,659	54,108
Commercial leases	3,280	(714)	4	(710)	1,552	4,122
Total commercial loans and leases	97,906	(12,219)	1,527	(10,692)	17,974	105,188
Direct installment	21,391	(6,119)	1,209	(4,910)	4,255	20,736
Residential mortgages	10,082	(362)	171	(191)	1,361	11,252
Indirect installment	10,564	(4,336)	1,395	(2,941)	2,951	10,574
Consumer lines of credit	9,456	(1,041)	315	(726)	774	9,504
Other	1,392	(1,794)	680	(1,114)	1,560	1,838
Total allowance on originated loans and leases	150,791	(25,871)	5,297	(20,574)	28,875	159,092
Purchased credit-impaired loans	572	(1)	—	(1)	69	640
Other acquired loans	6,696	(556)	1,165	609	(1,338)	5,967
Total allowance on acquired loans	7,268	(557)	1,165	608	(1,269)	6,607
Total allowance	\$ 158,059	\$(26,428)	\$ 6,462	\$(19,966)	\$ 27,606	\$ 165,699

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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 June 30, 2016						
Commercial real estate	\$ 43,898	\$(666)	\$ 1,109	\$443	\$ 87	\$44,428
Commercial and industrial	47,863	(5,671)	190	(5,481)	9,093	51,475
Commercial leases	2,818	(603)	32	(571)	800	3,047
Total commercial loans and leases	94,579	(6,940)	1,331	(5,609)	9,980	98,950
Direct installment	20,725	(2,421)	454	(1,967)	2,785	21,543
Residential mortgages	7,810	(72)	38	(34)	634	8,410
Indirect installment	9,065	(1,763)	666	(1,097)	1,575	9,543
Consumer lines of credit	8,967	(528)	49	(479)	661	9,149
Other	1,074	(725)	26	(699)	749	1,124
Total allowance on originated loans and leases	142,220	(12,449)	2,564	(9,885)	16,384	148,719
Purchased credit-impaired loans	704	(239)	—	(239)	167	632
Other acquired loans	4,876	(226)	279	53	89	5,018
Total allowance on acquired loans	5,580	(465)	279	(186)	256	5,650
Total allowance	\$ 147,800	\$(12,914)	\$ 2,843	\$(10,071)	\$ 16,640	\$ 154,369
Six Months Ended June 30, 2016						
Commercial real estate	\$ 41,741	\$(2,035)	\$ 1,706	\$(329)	\$ 3,016	\$44,428
Commercial and industrial	41,023	(5,969)	380	(5,589)	16,041	51,475
Commercial leases	2,541	(717)	46	(671)	1,177	3,047
Total commercial loans and leases	85,305	(8,721)	2,132	(6,589)	20,234	98,950
Direct installment	21,587	(5,088)	908	(4,180)	4,136	21,543
Residential mortgages	7,909	(157)	57	(100)	601	8,410
Indirect installment	9,889	(3,705)	928	(2,777)	2,431	9,543
Consumer lines of credit	9,582	(1,002)	105	(897)	464	9,149
Other	1,013	(1,279)	32	(1,247)	1,358	1,124
Total allowance on originated loans and leases	135,285	(19,952)	4,162	(15,790)	29,224	148,719
Purchased credit-impaired loans	834	(399)	—	(399)	197	632
Other acquired loans	5,893	(447)	585	138	(1,013)	5,018
Total allowance on acquired loans	6,727	(846)	585	(261)	(816)	5,650
Total allowance	\$ 142,012	\$(20,798)	\$ 4,747	\$(16,051)	\$ 28,408	\$ 154,369

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

(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
June 30, 2017					
Commercial real estate	\$203	\$ 46,755	\$4,610,404	\$ 15,350	\$4,595,054
Commercial and industrial	9,909	44,199	3,035,005	36,638	2,998,367
Commercial leases	—	4,122	226,483	—	226,483
Total commercial loans and leases	10,112	95,076	7,871,892	51,988	7,819,904
Direct installment	—	20,736	1,764,096	—	1,764,096
Residential mortgages	—	11,252	1,683,383	—	1,683,383
Indirect installment	—	10,574	1,374,370	—	1,374,370
Consumer lines of credit	—	9,504	1,120,050	—	1,120,050
Other	—	1,838	30,079	—	30,079
Total	\$10,112	\$ 148,980	\$13,843,870	\$ 51,988	\$13,791,882
December 31, 2016					
Commercial real estate	\$13	\$ 46,622	\$4,095,817	\$ 12,973	\$4,082,844
Commercial and industrial	3,190	44,801	2,711,886	21,746	2,690,140
Commercial leases	—	3,280	196,636	—	196,636
Total commercial loans and leases	3,203	94,703	7,004,339	34,719	6,969,620
Direct installment	—	21,391	1,765,257	—	1,765,257
Residential mortgages	—	10,082	1,446,776	—	1,446,776
Indirect installment	—	10,564	1,196,110	—	1,196,110
Consumer lines of credit	—	9,456	1,099,627	—	1,099,627
Other	—	1,392	35,878	—	35,878
Total	\$3,203	\$ 147,588	\$12,547,987	\$ 34,719	\$12,513,268

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 was \$2.8 billion and \$1.8 billion as of June 30, 2017 and December 31, 2016, respectively. Mortgage servicing fees, which include late fees and ancillary fees, are recorded in mortgage banking operations income in the consolidated statements of income, and totaled \$3.6 million and \$1.8 million, respectively, in the six months ended June 30, 2017 and 2016.

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Following is a summary of the MSR activity:

(in thousands)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Balance at beginning of period	\$22,866	\$9,240	\$13,521	\$8,921
Fair value of MSRs acquired	—	—	8,553	—
Additions	2,576	1,711	4,030	2,595
Payoffs and curtailments	(441)	(199)	(580)	(297)
Amortization	(557)	(449)	(1,080)	(916)
Balance at end of period	\$24,444	\$10,303	\$24,444	\$10,303
Fair value, beginning of period	\$26,962	\$11,538	\$17,546	\$11,503
Fair value, end of period	27,173	11,504	27,173	11,504

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

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

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

(dollars in thousands)	June 30,		December 31,	
	2017	2016	2017	2016
Weighted average life (months)	78.6	79.0		
Constant prepayment rate (annualized)	10.2 %	9.9 %		
Discount rate	9.8 %	9.8 %		
Effect on fair value due to change in interest rates:				
+0.25%	\$1,406	\$ 692		
+0.50%	2,638	1,288		
-0.25%	(1,585)	(789)		
-0.50%	(3,241)	(1,680)		

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

SBA-Guaranteed Loan Servicing

Beginning in March 2017, as a result of the YDKN acquisition, we retain the servicing rights on SBA-guaranteed loans sold to investors. The standard sale structure under the SBA Secondary Participation Guaranty Agreement provides for us to retain a portion of the cash flow from the interest payment received on the loan, which is commonly known as a servicing spread. The unpaid principal balance of SBA-guaranteed loans serviced for investors was \$313.4 million as of June 30, 2017. Servicing fees, which are recorded in service charges in the consolidated statements of income, totaled \$1.1 million for the six months ended June 30, 2017.

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

(in thousands)	Three Months Ended June 30, 2017	Six Months Ended June 30, 2017
Balance at beginning of period	\$5,339	\$—
Fair value of servicing rights acquired	—	5,399
Additions	264	264
Amortization	(319)	(379)
Balance at end of period	\$5,284	\$5,284
Fair value, beginning of period	\$5,399	\$—
Fair value, end of period	5,299	\$5,299

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

(dollars in thousands)	June 30, 2017	Decline in fair value due to	
		10%	20%
	Actual	adverse change	adverse change
Weighted-average life (months)	68.0		
Constant prepayment rate (annualized)	8.02 %	\$(140)	\$(275)
Discount rate	13.27	(165)	(321)

The fair value of the SBA servicing assets is compared to the amortized basis when certain triggering events occur. If the amortized basis exceeds the fair value, the asset is considered impaired and is written down to fair value through a valuation allowance on the asset and a charge against SBA income. We did not have a valuation allowance for SBA servicing assets as of June 30, 2017.

8. BORROWINGS

Following is a summary of short-term borrowings:

(in thousands)	June 30, 2017	December 31, 2016
Securities sold under repurchase agreements	\$270,216	\$ 313,062
Federal Home Loan Bank advances	2,620,000	1,025,000
Federal funds purchased	1,402,000	1,037,000
Subordinated notes	133,751	127,948
Total short-term borrowings	\$4,425,967	\$ 2,503,010

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

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Following is a summary of long-term borrowings:

(in thousands)	June 30, 2017	December 31, 2016
Federal Home Loan Bank advances	\$300,086	\$ 305,110
Subordinated notes	85,933	87,147
Junior subordinated debt	110,106	48,600
Other subordinated debt	160,758	98,637
Total long-term borrowings	\$656,883	\$ 539,494

Our banking affiliate has available credit with the FHLB of \$7.8 billion of which \$2.9 billion was utilized as of June 30, 2017. These advances are secured by loans collateralized by residential mortgages, HELOCs, commercial real estate and FHLB stock and are scheduled to mature in various amounts periodically through the year 2021. Effective interest rates paid on the long-term advances ranged from 1.11% to 4.19% for the six months ended June 30, 2017 and 0.95% to 4.19% for the year ended December 31, 2016.

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

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

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

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

(dollars in thousands)	Trust Preferred Securities	Common Securities	Junior Subordinated Debt	Stated Maturity Date	Interest Rate and Rate Reset Factor
F.N.B. Statutory Trust II	\$21,500	\$ 665	\$ 22,165	6/15/2036	2.90% LIBOR + 165 basis points (bps)
Omega Financial Capital Trust I	26,000	1,114	26,454	10/18/2034	3.35% LIBOR + 219 bps
Yadkin Valley Statutory Trust I	25,000	774	20,739	12/15/2037	2.57% LIBOR + 132 bps
FNB Financial Services Capital Trust I	25,000	774	21,692	9/30/2035	2.61% LIBOR + 146 bps
American Community Capital Trust II	10,000	310	10,452	12/15/2033	3.95% LIBOR + 280 bps
Crescent Financial Capital Trust I	8,000	248	8,604	10/7/2033	4.26% LIBOR + 310 bps
Total	\$115,500	\$ 3,885	\$ 110,106		

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,

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and through the use of derivative instruments. Derivative instruments are used to reduce the effects that changes in interest rates may have on net income and cash flows. We also use derivative instruments to facilitate transactions on behalf of our customers.

All derivatives are carried on the consolidated balance sheets at fair value and do not take into account the effects of master netting arrangements we have with other financial institutions. Credit risk is included in the determination of the estimated fair value of derivatives. Derivative assets are reported in the consolidated balance sheets in other assets and derivative liabilities are reported in the consolidated balance sheets in other liabilities. Changes in fair value are recognized in earnings except for certain changes related to derivative instruments designated as part of a cash flow hedging relationship.

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

(in thousands)	June 30, 2017			December 31, 2016		
	Notional Amount	Fair Value Asset	Liability	Notional Amount	Fair Value Asset	Liability
Gross Derivatives						
Subject to master netting arrangements:						
Interest rate contracts – designated	\$705,000	\$862	\$1,194	\$450,000	\$9,256	\$1,171
Interest rate swaps – not designated	2,014,278	472	13,758	1,689,157	12,720	34,046
Equity contracts – not designated	1,180	26	—	1,180	61	—
Total subject to master netting arrangements	2,720,458	1,360	14,952	2,140,337	22,037	35,217
Not subject to master netting arrangements:						
Interest rate swaps – not designated	2,014,278	36,762	10,393	1,689,157	32,170	11,866
Interest rate lock commitments – not designated	187,375	5,437	14	—	—	—
Forward delivery commitments – not designated	206,853	574	357	—	—	—
Credit risk contracts – not designated	207,566	26	115	174,538	13	123
Equity contracts – not designated	1,180	—	26	1,180	—	61
Total not subject to master netting arrangements	2,617,252	42,799	10,905	1,864,875	32,183	12,050
Total	\$5,337,710	\$44,159	\$25,857	\$4,005,212	\$54,220	\$47,267

On January 3, 2017, the Chicago Mercantile Exchange (CME) enacted a rule change which in effect results in the legal characterization of variation margin payments for certain derivative contracts as settlement of the derivatives mark-to-market exposure and not collateral. This rule change became effective for us in the first quarter of 2017.

Accordingly, we have changed our reporting of certain derivatives to record variation margin on trades cleared through CME as settled where we had previously recorded cash collateral. The daily settlement of the derivative exposure does not change or reset the contractual terms of the instrument.

Derivatives Designated as Hedging Instruments under GAAP

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

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with the forecasted transaction when the forecasted transaction affects earnings. The ineffective portion of the gain or loss is reported in earnings immediately.

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

(in thousands)	June 30, 2017	December 31, 2016
Notional amount	\$705,000	\$ 450,000
Fair value included in other assets	862	9,256
Fair value included in other liabilities	1,194	1,171

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

(in thousands)	Total	Net of Tax
Reclassified from AOCI to interest income	\$900	\$ 585
Reclassified from AOCI to interest expense	652	424

As of June 30, 2017, the maximum length of time over which forecasted interest cash flows are hedged is 6 years. In the twelve months that follow June 30, 2017, we expect to reclassify from the amount currently reported in AOCI net derivative gains of \$4,000 (\$3,000 net of tax), in association with interest on the hedged loans and FHLB advances. This amount could differ from amounts actually recognized due to changes in interest rates, hedge de-designations, and the addition of other hedges subsequent to June 30, 2017.

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

Derivatives Not Designated as Hedging Instruments under GAAP

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

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

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

(in thousands)	June 30, 2017	December 31, 2016
Notional amount	\$4,028,556	\$ 3,378,314
Fair value included in other assets	37,234	44,890
Fair value included in other liabilities	24,151	45,912

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

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

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

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

Risk participation agreements sold with notional amounts totaling \$145.4 million as of June 30, 2017 have remaining terms ranging from 5 months to 9 years. Under these agreements, our maximum exposure assuming a customer defaults on their obligation to perform under certain derivative swap contracts with third parties would be \$115,000 and \$123,000 at June 30, 2017 and December 31, 2016, respectively. The fair values of risk participation agreements purchased and sold were not material at June 30, 2017 and December 31, 2016.

Counterparty Credit Risk

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

Certain master netting agreements contain provisions that, if violated, could cause the counterparties to request immediate settlement or demand full collateralization under the derivative instrument. If we had breached our agreements with our derivative counterparties we would be required to settle our obligations under the agreements at the termination value and would be required to pay an additional \$1.3 million and \$1.1 million as of June 30, 2017 and December 31, 2016, respectively, in excess of amounts previously posted as collateral with the respective counterparty.

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

(in thousands)	Gross Amount	Gross Amounts Offset in the Balance Sheet	Net Amount Presented in the Balance Sheet
June 30, 2017			
Derivative Assets			
Subject to master netting arrangements:			
Interest rate contracts			
Designated	\$ 862	\$	—\$ 862
Not designated	472	—	472
Equity contracts – not designated	26	—	26
Not subject to master netting arrangements:			
Interest rate contracts – not designated	36,762	—	36,762
Interest rate lock commitments – not designated	5,437	—	5,437
Forward delivery commitments – not designated	574	—	574
Credit risk contracts – not designated	26	—	26
Total derivative assets	\$ 44,159	\$	—\$ 44,159
Derivative Liabilities			
Subject to master netting arrangements:			
Interest rate contracts			
Designated	\$1,194	\$–\$1,194	
Not designated	13,758	—13,758	
Not subject to master netting arrangements:			
Interest rate contracts – not designated	10,393	—10,393	
Interest rate lock commitments – not designated	14	—14	
Forward delivery commitments – not designated	357	—357	
Credit risk contracts – not designated	115	—115	
Equity contracts – not designated	26	—26	
Total derivative liabilities	\$25,857	\$–\$25,857	

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(in thousands)	Gross Amount	Gross Amounts Offset in the Balance Sheet	Net Amount Presented in the Balance Sheet
December 31, 2016			
Derivative Assets			
Subject to master netting arrangements:			
Interest rate contracts			
Designated	\$9,256	\$	—\$ 9,256
Not designated	12,720	—	12,720
Equity contracts – not designated	61	—	61
Not subject to master netting arrangements:			
Interest rate contracts – not designated	32,170	—	32,170
Credit contracts – not designated	13	—	13
Total derivative assets	\$54,220	\$	—\$ 54,220
Derivative Liabilities			
Subject to master netting arrangements:			
Interest rate contracts			
Designated	\$1,171	\$-\$1,171	
Not designated	34,046	—34,046	
Not subject to master netting arrangements:			
Interest rate contracts – not designated	11,866	—11,866	
Credit contracts – not designated	123	—123	
Equity contracts – not designated	61	—61	
Total derivative liabilities	\$47,267	\$-\$47,267	

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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:

(in thousands)	Net Amount Presented in the Balance Sheet	Amount Not Offset in the Balance Sheet			
		Financial Instruments	Cash Collateral	Net Amount	
June 30, 2017					
Derivative Assets					
Interest rate contracts:					
Designated	\$ 862	\$ 862	\$	—\$ —	
Not designated	472	405	—	67	
Equity contracts – not designated	26	26	—	—	
Total	\$ 1,360	\$ 1,293	\$	—\$ 67	
Derivative Liabilities					
Interest rate contracts:					
Designated	\$1,194	\$1,194	\$—	—	
Not designated	13,758	12,418	—	1,340	
Total	\$14,952	\$13,612	\$—	\$1,340	
December 31, 2016					
Derivative Assets					
Interest rate contracts:					
Designated	\$9,256	\$843	\$8,413	\$—	
Not designated	12,720	474	12,132	114	
Equity contracts – not designated	61	61	—	—	
Total	\$22,037	\$1,378	\$20,545	\$114	
Derivative Liabilities					
Interest rate contracts:					
Designated	\$1,171	\$1,171	\$—	—	
Not designated	34,046	15,490	17,651	905	
Total	\$35,217	\$16,661	\$17,651	\$905	

The following table presents the effect of certain derivative financial instruments on the income statement:

(in thousands)	Income Statement Location	Six Months Ended June 30,	
		2017	2016
Interest Rate Contracts	Interest income - loans and leases	\$900	\$1,368
Interest Rate Contracts	Interest expense – short-term borrowings	652	286
Interest Rate Swaps	Other income	(465)	(168)
Credit Risk Contracts	Other income	21	(234)

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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:

(in thousands)	June 30, 2017	December 31, 2016
Commitments to extend credit	\$6,326,459	\$ 4,424,834
Standby letters of credit	134,951	117,732

At June 30, 2017, funding of 74.4% 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, investigations and proceedings (both formal and informal). Such threatened claims, litigation, investigations, regulatory and administrative proceedings typically entail matters that are considered incidental to the normal conduct of business. Claims for significant monetary damages may be asserted in many of these types of legal actions, while claims for disgorgement, restitution, penalties and/or other remedial actions or sanctions may be sought in regulatory matters. In these instances, if we determine that we have meritorious defenses, we will engage in an aggressive defense. However, if management determines, in consultation with counsel, that settlement of a matter is in the best interest of our Company and our shareholders, we may do so. It is inherently difficult to predict the eventual outcomes of such matters given their complexity and the particular facts and circumstances at issue in each of these matters. However, on the basis of current knowledge and understanding, and advice of counsel, we do not believe that judgments, sanctions, settlements or orders, if any, that may arise from these matters (either individually or in the aggregate, after giving effect to applicable reserves and insurance coverage) will have a material adverse effect on our financial position or liquidity, although they could have a material effect on net income in a given period.

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

accrued. We will continue to monitor such matters for developments that could affect the amount of the accrual, and will adjust the accrual amount as appropriate. If the loss contingency in question is not both probable and reasonably estimable, we do not establish an accrual and the matter will continue to be monitored for any developments that would make the loss contingency both probable and reasonably estimable. We believe that our accruals for legal proceedings

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are appropriate and, in the aggregate, are not material to the consolidated financial position, although future accruals could have a material effect on net income in a given period.

11. STOCK INCENTIVE PLANS

Restricted Stock

We issue restricted stock awards, consisting of both restricted stock and restricted stock units, to key employees under our Incentive Compensation Plans (Plan). Beginning in 2014, we issue time-based awards and performance-based awards under this Plan, both of which are based on a three-year vesting period. The grant date fair value of the time-based awards is equal to the price of our common stock on the grant date. The fair value of the performance-based awards is based on a Monte-Carlo Simulation valuation of our common stock as of the grant date. The assumptions used for this valuation include stock price volatility, risk-free interest rate and dividend yield. We issued 251,379 and 277,174 performance-based restricted stock units during the first six months of 2017 and 2016, respectively. For performance-based restricted stock awards granted, the recipients will earn shares, totaling between 0% and 175% of the number of units issued, based on our total stockholder return relative to a specified peer group of financial institutions over the three-year period. These market-based restricted stock units are included in the table below as if the recipients earned shares equal to 100% of the units issued.

Prior to 2014, more than half of the restricted stock awards granted to management were earned if we met or exceeded certain financial performance results when compared to our peers. These performance-related awards were expensed ratably from the date that the likelihood of meeting the performance measure was probable through the end of a four-year vesting period. The service-based awards were expensed ratably over a three-year vesting period. We also issued discretionary service-based awards to certain employees that vested over five years.

The following table details our issuance of restricted stock awards and the aggregate weighted average grant date fair values under these plans for the years indicated. As of June 30, 2017, we had available up to 2,657,259 shares of common stock to issue under this Plan.

	Six Months Ended June 30,	
(dollars in thousands)	2017	2016
Restricted stock awards	707,851	571,322
Weighted average grant date fair values	\$ 10,398	\$ 7,347

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

	Six Months Ended June 30,			
	2017		2016	
	Awards	Weighted Average Grant Price	Awards	Weighted Average Grant Price
Unvested awards outstanding at beginning of period	1,836,363	\$ 12.97	1,548,444	\$ 12.85
Granted	707,851	14.69	571,322	12.86
Vested	(592,202)	12.84	(372,928)	12.10
Forfeited/expired	(14,679)	13.23	(20,230)	12.97
Dividend reinvestment	28,454	14.49	27,210	12.30
Unvested awards outstanding at end of period	1,965,787	13.65	1,753,818	13.01

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

(in thousands)	Six Months Ended June 30,	
	2017	2016
Stock-based compensation expense	\$3,958	\$2,916
Tax benefit related to stock-based compensation expense	1,385	1,021
Fair value of awards vested	8,013	4,542

As of June 30, 2017, there was \$16.5 million of unrecognized compensation cost related to unvested restricted stock awards, including \$0.9 million that is subject to accelerated vesting under the Plan's immediate vesting upon retirement provision for awards granted prior to the adoption of ASC 718, Compensation – Stock Compensation. The components of the restricted stock awards as of June 30, 2017 are as follows:

(dollars in thousands)	Service-	Performance-	Total
	Based Awards	Based Awards	
Unvested restricted stock awards	1,069,132	896,655	1,965,787
Unrecognized compensation expense	\$ 9,541	\$ 6,957	\$ 16,498
Intrinsic value	\$ 15,139	\$ 12,697	\$ 27,836
Weighted average remaining life (in years)	2.41	2.17	2.30

Stock Options

All outstanding stock options were assumed from acquisitions and are fully vested. Upon consummation of our acquisitions, all outstanding stock options issued by the acquired companies were converted into equivalent FNB stock options. We issue shares of treasury stock or authorized but unissued shares to satisfy stock options exercised. The following table summarizes the activity relating to stock options during the periods indicated:

	Six Months Ended June 30,			
	2017		2016	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Options outstanding at beginning of period	892,532	\$ 8.95	435,340	\$ 8.86
Assumed from acquisitions	207,645	8.92	1,707,036	7.83
Exercised	(155,597)	9.43	(287,787)	7.11
Forfeited/expired	(56,510)	11.17	(93,391)	6.73
Options outstanding and exercisable at end of period	888,070	8.72	1,761,198	8.26

The intrinsic value of outstanding and exercisable stock options at June 30, 2017 was \$4.6 million.

Warrants

In conjunction with our participation in the UST's CPP, we issued to the UST a warrant to purchase up to 1,302,083 shares of our common stock. Pursuant to Section 13(H) of the Warrant to Purchase Common Stock, the number of shares of common stock issuable upon exercise of the warrant was reduced in half to 651,042 shares on June 16, 2009, the date we completed a public offering. The warrant, which expires in 2019, was sold at auction by the UST and has an exercise price of \$11.52 per share.

In conjunction with the Annapolis Bancorp, Inc. (ANNB) acquisition on April 6, 2013, the warrant issued by ANNB to the UST under the CPP has been converted into a warrant to purchase up to 342,564 shares of our common stock at an exercise price of \$3.57 per share. Subsequent adjustments related to actual dividends paid by us have increased the

share amount of these

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warrants to 395,650, with a resulting lower exercise price of \$3.09 per share as of June 30, 2017. The warrant, which was recorded at its fair value on April 6, 2013, was sold at auction by the UST and expires in 2019.

In conjunction with the YDKN acquisition on March 11, 2017, the warrant issued by YDKN to the UST under the CPP has been converted into a warrant to purchase up to 207,320 shares of our common stock at an exercise price of \$9.63 per share. Subsequent adjustments related to actual dividends paid by us have increased the share amount of these warrants to 208,250, with a resulting lower exercise price of \$9.59 per share as of June 30, 2017. The warrant, which was recorded at its fair value on March 11, 2017, was sold at auction by the UST and expires in 2019.

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 six percent that the employee defers. Additionally, we may provide a performance-based company contribution of up to three percent if we exceed annual financial goals. Our contribution expense is presented in the following table:

	Six Months Ended June 30,	
(in thousands)	2017	2016
401(k) contribution expense	\$6,150	\$4,705

FNB also sponsors an ERISA Excess Lost Match Plan for certain officers. This plan provides retirement benefits equal to the difference, if any, between the maximum benefit allowable under the Internal Revenue Code and the amount that would have been provided under the qualified 401(k) defined contribution plan, if no limits were applied. Additionally, we sponsor a qualified non-contributory defined benefit pension plan and two supplemental non-qualified retirement plans that have been frozen. The net periodic benefit credit for these plans includes the following components:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2017	2016	2017	2016
Service cost	\$(4)	\$(4)	\$(8)	\$(8)
Interest cost	1,477	1,544	2,954	3,088
Expected return on plan assets	(2,427)	(2,353)	(4,854)	(4,706)
Amortization:				
Unrecognized prior service cost	2	2	4	4
Unrecognized loss	628	608	1,256	1,216
Net periodic pension credit	\$(324)	\$(203)	\$(648)	\$(406)

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13. OTHER COMPREHENSIVE INCOME

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

(in thousands)	Unrealized Net Gains (Losses) on Securities Available for Sale	Unrealized Net Gains (Losses) on Derivative Instruments	Unrecognized Pension and Postretirement Obligations	Total
Six Months Ended June 30, 2017				
Balance at beginning of period	\$ (18,222)	\$ 5,254	\$ (48,401)	\$ (61,369)
Other comprehensive income before reclassifications	6,739	(2,390)	810	5,159
Amounts reclassified from AOCI	(14)	(159)	—	(173)
Net current period other comprehensive income	6,725	(2,549)	810	4,986
Balance at end of period	\$ (11,497)	\$ 2,705	\$ (47,591)	\$ (56,383)

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

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

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14. 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.

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

(dollars in thousands, except per share data)	Three Months Ended		Six Months Ended	
	June 30,	2016	June 30,	2016
Net income	\$74,406	\$ 41,300	\$97,385	\$ 67,432
Less: Preferred stock dividends	2,010	2,010	4,020	4,020
Net income available to common stockholders	\$72,396	\$ 39,290	\$93,365	\$ 63,412
Basic weighted average common shares outstanding	323,303,460	106,985	280,578,720	1,846,343
Net effect of dilutive stock options, warrants and restricted stock	1,564,299	1,568,464	1,706,762	1,425,062
Diluted weighted average common shares outstanding	324,867,759	1,675,449	282,285,482	3,271,405
Earnings per common share:				
Basic	\$0.22	\$ 0.19	\$0.33	\$ 0.31
Diluted	\$0.22	\$ 0.19	\$0.33	\$ 0.31

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Average shares excluded from the diluted earnings per common share calculation	1,266	11,971	8,107	13,583

15. CASH FLOW INFORMATION

Following is a summary of supplemental cash flow information:

(in thousands)	Six Months Ended June 30,	
	2017	2016
Interest paid on deposits and other borrowings	\$51,611	\$31,788
Income taxes paid	43,500	35,500
Transfers of loans to other real estate owned	22,451	10,389
Financing of other real estate owned sold	—	141

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16. BUSINESS SEGMENTS

We operate in four reportable segments: Community Banking, Wealth Management, Insurance and Consumer Finance.

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

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

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

The Consumer Finance segment primarily makes installment loans to individuals and purchases installment sales finance contracts from retail merchants. The Consumer Finance segment activity is funded through the sale of subordinated notes, which are issued by a wholly-owned subsidiary and guaranteed by us.

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

(in thousands)	Community Banking	Wealth Management	Insurance	Consumer Finance	Parent and Other	Consolidated
At or for the Three Months Ended June 30, 2017						
Interest income	\$ 241,917	\$	—\$ 19	\$ 10,114	\$(1,016)	\$ 251,034
Interest expense	28,414	—	—	888	3,317	32,619
Net interest income	213,503	—	19	9,226	(4,333)	218,415
Provision for credit losses	14,738	—	—	2,018	—	16,756
Non-interest income	53,031	9,821	3,496	770	(1,040)	66,078
Non-interest expense ⁽¹⁾	141,441	7,987	3,456	5,288	729	158,901
Amortization of intangibles	4,694	65	54	—	—	4,813
Income tax expense (benefit)	30,200	651	10	1,073	(2,317)	29,617
Net income (loss)	75,461	1,118	(5)	1,617	(3,785)	74,406
Total assets	30,487,402	22,028	22,311	183,859	38,126	30,753,726
Total intangibles	2,352,054	10,288	12,231	1,809	—	2,376,382
At or for the Three Months Ended June 30, 2016						
Interest income	\$ 161,691	\$	—\$ 21	\$ 10,126	\$(907)	\$ 170,931
Interest expense	13,767	—	—	930	1,865	16,562
Net interest income	147,924	—	21	9,196	(2,772)	154,369
Provision for credit losses	15,168	—	—	1,472	—	16,640
Non-interest income	39,137	9,183	3,268	754	(931)	51,411
Non-interest expense ⁽¹⁾	110,201	6,960	3,276	5,372	432	126,241
Amortization of intangibles	3,180	64	144	—	—	3,388
Income tax expense (benefit)	17,665	782	(41)	1,208	(1,403)	18,211
Net income	40,847	1,377	(90)	1,898	(2,732)	41,300
Total assets	20,989,188	20,044	22,732	196,603	(13,600)	21,214,967
Total intangibles	1,080,385	10,318	12,479	1,809	—	1,104,991

(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 Six Months Ended June 30, 2017						
Interest income	\$ 427,298	\$ —	\$ 39	\$ 20,016	\$ (1,626)	\$ 445,727
Interest expense	47,279	—	—	1,810	5,471	54,560
Net interest income	380,019	—	39	18,206	(7,097)	391,167
Provision for credit losses	23,802	—	—	3,804	—	27,606
Non-interest income	93,748	19,370	7,821	1,480	(1,225)	121,194
Non-interest expense ⁽¹⁾	309,725	15,527	6,771	10,519	816	343,358
Amortization of intangibles	7,676	126	109	—	—	7,911
Income tax expense (benefit)	36,511	1,362	357	2,140	(4,269)	36,101
Net income (loss)	96,053	2,355	623	3,223	(4,869)	97,385
Total assets	30,487,402	22,028	22,311	183,859	38,126	30,753,726
Total intangibles	2,352,054	10,288	12,231	1,809	—	2,376,382
At or for the Six Months Ended June 30, 2016						
Interest income	\$ 308,275	\$ —	\$ 43	\$ 19,911	\$ (1,544)	\$ 326,685
Interest expense	26,362	—	—	1,871	3,729	31,962
Net interest income	281,913	—	43	18,040	(5,273)	294,723
Provision for credit losses	25,410	—	—	2,998	—	28,408
Non-interest income	69,923	17,999	7,462	1,470	601	97,455
Non-interest expense ⁽¹⁾	228,536	14,049	6,577	10,576	502	260,240
Amortization of intangibles	5,621	129	287	—	—	6,037
Income tax expense (benefit)	28,282	1,387	234	2,320	(2,162)	30,061
Net income	63,987	2,434	407	3,616	(3,012)	67,432
Total assets	20,989,188	20,044	22,732	196,603	(13,600)	21,214,967
Total intangibles	1,080,385	10,318	12,479	1,809	—	1,104,991

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

17. FAIR VALUE MEASUREMENTS

We use fair value measurements to record fair value adjustments to certain financial assets and liabilities and to determine fair value disclosures. Securities available for sale and derivatives are recorded at fair value on a recurring basis. Additionally, from time to time, we may be required to record at fair value other assets on a non-recurring basis, such as mortgage loans held for sale, certain impaired loans, OREO and certain other assets.

Fair value is defined as an exit price, representing the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements are not adjusted for transaction costs. Fair value is a market-based measure considered from the perspective of a market participant who holds the asset or owes the liability rather than an entity-specific measure.

In determining fair value, we use various valuation approaches, including market, income and cost approaches. ASC 820, Fair Value Measurements and Disclosures, establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability, which are developed based on market data obtained from sources independent of FNB. Unobservable inputs reflect our assumptions about the assumptions that market participants would use in pricing an asset or liability, which are developed based on the best information available in the circumstances.

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The fair value hierarchy gives the highest priority to unadjusted quoted market prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). The fair value hierarchy is broken down into three levels based on the reliability of inputs as follows:

Measurement Category	Definition
Level 1	valuation is based upon unadjusted quoted market prices for identical instruments traded in active markets.
Level 2	valuation is based upon quoted market prices for similar instruments traded in active markets, quoted market prices for identical or similar instruments traded in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by market data.
Level 3	valuation is derived from other valuation methodologies including discounted cash flow models and similar techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in determining fair value.

A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

Following is a description of the valuation methodologies we use for financial instruments recorded at fair value on either a recurring or non-recurring basis:

Securities Available For Sale

Securities available for sale consist of both debt and equity securities. These securities are recorded at fair value on a recurring basis. At June 30, 2017, 100.0% of these securities used valuation methodologies involving market-based or market-derived information, collectively Level 1 and Level 2 measurements, to measure fair value.

We closely monitor market conditions involving assets that have become less actively traded. If the fair value measurement is based upon recent observable market activity of such assets or comparable assets (other than forced or distressed transactions) that occur in sufficient volume, and do not require significant adjustment using unobservable inputs, those assets are classified as Level 1 or Level 2; if not, they are classified as Level 3. Making this assessment requires significant judgment.

We use prices from independent pricing services and, to a lesser extent, indicative (non-binding) quotes from independent brokers, to measure the fair value of investment securities. We validate prices received from pricing services or brokers using a variety of methods, including, but not limited to, comparison to secondary pricing services, corroboration of pricing by reference to other independent market data such as secondary broker quotes and relevant benchmark indices, and review of pricing information by corporate personnel familiar with market liquidity and other market-related conditions.

Derivative Financial Instruments

We determine fair value for derivatives using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects contractual terms of the derivative, including the period to maturity and uses observable market based inputs, including interest rate curves and implied volatilities.

We incorporate credit valuation adjustments to appropriately reflect both our own non-performance risk and the respective counterparty's non-performance risk in the fair value measurements. In adjusting the fair value of our derivative contracts for the effect of non-performance risk, we consider the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts and guarantees.

Although we have determined that the majority of the inputs used to value our derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with our derivatives and IRLCs utilize Level 3 inputs. Credit valuation estimates of current credit spreads are used to evaluate the likelihood of our default and the default of

our counterparties. However, as of June 30, 2017, we have assessed the significance of the impact of the credit valuation adjustments on the overall valuation of our derivative positions and have determined that the credit valuation adjustments are not significant to the overall valuation of our derivatives. As a result, we have determined that our derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy. The fair value of IRLCs is based upon the estimated fair value of the underlying mortgage

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loan, including the expected cash flows related to the MSRs and the estimated percentage of IRLCs that will result in a closed mortgage loan.

Loans Held For Sale

Beginning in 2017, residential mortgage loans held for sale are carried at fair value under the FVO. Prior to 2017, residential mortgage loans held for sale were carried at the lower of cost or fair value accounting, under which, periodically, it may have been necessary to record non-recurring fair value adjustments. Fair value for residential mortgage loans held for sale, when recorded, is based on independent quoted market prices and is classified as Level 2.

SBA loans held for sale are carried under lower of cost or fair value accounting, for which, periodically, it may be necessary to record non-recurring fair value adjustments. Fair value for SBA loans held for sale, when recorded, is based on independent quoted market prices and is classified as Level 2.

Impaired Loans

We reserve for commercial loan relationships greater than or equal to \$500,000 that we consider impaired as defined in ASC 310 at the time we identify the loan as impaired based upon the present value of expected future cash flows available to pay the loan, or based upon the fair value of the collateral less estimated selling costs where a loan is collateral dependent. Collateral may be real estate and/or business assets including equipment, inventory and accounts receivable.

We determine the fair value of real estate based on appraisals by licensed or certified appraisers. The value of business assets is generally based on amounts reported on the business' financial statements. Management must rely on the financial statements prepared and certified by the borrower or their accountants in determining the value of these business assets on an ongoing basis, which may be subject to significant change over time. Based on the quality of information or statements provided, management may require the use of business asset appraisals and site-inspections to better value these assets. We may discount appraised and reported values based on management's historical knowledge, changes in market conditions from the time of valuation or management's knowledge of the borrower and the borrower's business. Since not all valuation inputs are observable, we classify these non-recurring fair value determinations as Level 2 or Level 3 based on the lowest level of input that is significant to the fair value measurement.

We review and evaluate impaired loans no less frequently than quarterly for additional impairment based on the same factors identified above.

Other Real Estate Owned

OREO is comprised principally of commercial and residential real estate properties obtained in partial or total satisfaction of loan obligations. OREO acquired in settlement of indebtedness is recorded at the lower of carrying amount of the loan or fair value less costs to sell. Subsequently, these assets are carried at the lower of carrying value or fair value less costs to sell. Accordingly, it may be necessary to record non-recurring fair value adjustments. Fair value is generally based upon appraisals by licensed or certified appraisers and other market information and is classified as Level 2 or Level 3.

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

(in thousands)	Level 1	Level 2	Level 3	Total
June 30, 2017				
Assets Measured at Fair Value				
Debt securities available for sale:				
U.S. Treasury	\$—	\$29,949	\$—	\$29,949
U.S. government-sponsored entities	—	380,333	—	380,333
Residential mortgage-backed securities:				
Agency mortgage-backed securities	—	1,665,507	—	1,665,507
Agency collateralized mortgage obligations	—	474,467	—	474,467
Non-agency collateralized mortgage obligations	—	2	—	2
Commercial mortgage-backed securities	—	315	—	315
States of the U.S. and political subdivisions	—	31,070	—	31,070
Other debt securities	—	9,688	—	9,688
Total debt securities available for sale	—	2,591,331	—	2,591,331
Equity securities available for sale:				
Fixed income mutual fund	1,095	102	—	1,197
Financial services industry	—	767	—	767
Insurance services industry	160	—	—	160
Total equity securities available for sale	1,255	869	—	2,124
Total securities available for sale	1,255	2,592,200	—	2,593,455
Loans held for sale	—	121,941	—	121,941
Derivative financial instruments:				
Trading	—	37,260	—	37,260
Not for trading	—	1,462	5,437	6,899
Total derivative financial instruments	—	38,722	5,437	44,159
Total assets measured at fair value on a recurring basis	\$1,255	\$2,752,863	\$5,437	\$2,759,555
Liabilities Measured at Fair Value				
Derivative financial instruments:				
Trading	\$—	\$24,177	\$—	\$24,177
Not for trading	—	1,666	14	1,680
Total derivative financial instruments	—	25,843	14	25,857
Total liabilities measured at fair value on a recurring basis	\$—	\$25,843	\$14	\$25,857

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(in thousands)	Level 1	Level 2	Level 3	Total
December 31, 2016				
Assets Measured at Fair Value				
Debt securities available for sale:				
U.S. Treasury	\$ —	\$29,953	\$—	\$29,953
U.S. government-sponsored entities	—	365,098	—	365,098
Residential mortgage-backed securities:				
Agency mortgage-backed securities	—	1,252,798	—	1,252,798
Agency collateralized mortgage obligations	—	535,974	—	535,974
Non-agency collateralized mortgage obligations	—	3	894	897
Commercial mortgage-backed securities	—	1,291	—	1,291
States of the U.S. and political subdivisions	—	35,849	—	35,849
Other debt securities	—	9,487	—	9,487
Total debt securities available for sale	—	2,230,453	894	2,231,347
Equity securities available for sale:				
Financial services industry	—	—	492	492
Insurance services industry	148	—	—	148
Total equity securities available for sale	148	—	492	640
Total securities available for sale	148	2,230,453	1,386	2,231,987
Derivative financial instruments:				
Trading	—	44,951	—	44,951
Not for trading	—	9,269	—	9,269
Total derivative financial instruments	—	54,220	—	54,220
Total assets measured at fair value on a recurring basis	\$ 148	\$2,284,673	\$ 1,386	\$2,286,207
Liabilities Measured at Fair Value				
Derivative financial instruments:				
Trading	\$ —	\$45,973	\$—	\$45,973
Not for trading	—	1,294	—	1,294
Total derivative financial instruments	—	47,267	—	47,267
Total liabilities measured at fair value on a recurring basis	\$ —	\$47,267	\$—	\$47,267

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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:

(in thousands)	Other Debt Securities	Equity Securities	Residential Non-Agency Collateralized Mortgage Obligations	Interest Rate Lock Commitments	Total
Six Months Ended June 30, 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	—	—	5,437	17,485
Issuances	—	—	—	—	—
Sales/redemptions	(12,047)	—	(874)	—	(12,921)
Settlements	—	—	(19)	(1,252)	(1,271)
Transfers from Level 3	—	(578)	—	—	(578)
Transfers into Level 3	—	—	—	1,252	1,252
Balance at end of period	\$ —	\$ —	\$ —	\$ 5,437	\$ 5,437
Year Ended December 31, 2016					
Balance at beginning of period	\$ —	\$ 439	\$ 1,184	\$ —	\$ 1,623
Total gains (losses) – realized/unrealized:					
Included in earnings	—	—	—	—	—
Included in other comprehensive income	—	53	(7)	—	46
Accretion included in earnings	—	—	6	—	6
Purchases, issuances, sales and settlements:					
Purchases	—	—	—	—	—
Issuances	—	—	—	—	—
Sales/redemptions	—	—	—	—	—
Settlements	—	—	(289)	—	(289)
Transfers from Level 3	—	—	—	—	—
Transfers into Level 3	—	—	—	—	—
Balance at end of period	\$ —	\$ 492	\$ 894	\$ —	\$ 1,386

We review fair value hierarchy classifications on a quarterly basis. Changes in the observability of the valuation attributes may result in reclassification of certain financial assets or liabilities. Such reclassifications are reported as transfers in/out of Level 3 at fair value at the beginning of the period in which the changes occur. See the “Securities Available for Sale” discussion within this footnote for information relating to determining Level 3 fair values. During 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 six 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. There were no transfers of assets or liabilities between the hierarchy levels during the first six months of 2016.

For the six months ended June 30, 2017 and 2016, there were no gains or losses included in earnings attributable to the change in unrealized gains or losses relating to assets still held as of those dates. The total (losses) gains included in earnings are in the net securities (losses) 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 previously described. For assets measured at fair value on a non-recurring basis still held at the balance sheet date, the following table provides the hierarchy level and the fair value of the related assets or portfolios:

(in thousands)	Level 1	Level 2	Level 3	Total
June 30, 2017				
Impaired loans	\$	—\$ 1,864	\$ 16,744	\$ 18,608
Other real estate owned	—	935	2,257	3,192
December 31, 2016				
Impaired loans	\$	—\$ 500	\$ 5,883	\$ 6,383
Other real estate owned	—	11,017	3,181	14,198

Substantially all of the fair value amounts in the table above were estimated at a date during the six months or twelve months ended June 30, 2017 and December 31, 2016, respectively. Consequently, the fair value information presented is not as of the period's end.

Impaired loans measured or re-measured at fair value on a non-recurring basis during the six months ended June 30, 2017 had a carrying amount of \$28.5 million and an allocated allowance for credit losses of \$10.1 million. The allocated allowance is based on fair value of \$18.6 million less estimated costs to sell of \$0.2 million. The allowance for credit losses includes a provision applicable to the current period fair value measurements of \$7.6 million, which was included in the provision for credit losses for the six months ended June 30, 2017.

OREO with a carrying amount of \$4.5 million was written down to \$2.8 million (fair value of \$3.2 million less estimated costs to sell of \$0.4 million), resulting in a loss of \$1.7 million, which was included in earnings for the six months ended June 30, 2017.

Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each financial instrument:

Cash and Cash Equivalents, Accrued Interest Receivable and Accrued Interest Payable. For these short-term instruments, the carrying amount is a reasonable estimate of fair value.

Securities. For both securities available for sale and securities held to maturity, fair value equals the quoted market price from an active market, if available, and is classified within Level 1. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities or pricing models, and is classified as Level 2.

Where there is limited market activity or significant valuation inputs are unobservable, securities are classified within Level 3. Under current market conditions, assumptions used to determine the fair value of Level 3 securities have greater subjectivity due to the lack of observable market transactions.

Loans and Leases. The fair value of fixed rate loans and leases is estimated by discounting the future cash flows using the current rates at which similar loans and leases would be made to borrowers with similar credit ratings and for the same remaining maturities less an illiquidity discount. The fair value of variable and adjustable rate loans and leases approximates the carrying amount. Due to the significant judgment involved in evaluating credit quality, loans and leases are classified within Level 3 of the fair value hierarchy.

Loan Servicing Rights. For both MSRs and SBA-servicing rights, both classified as Level 3 assets, fair value is determined using a discounted cash flow valuation method. These models use significant unobservable inputs including discount rates, prepayment rates and cost to service which have greater subjectivity due to the lack of observable market transactions.

Derivative Assets and Liabilities. See the "Derivative Financial Instruments" discussion included within this footnote.

Deposits. The estimated fair value of demand deposits, savings accounts and certain money market deposits is the amount payable on demand at the reporting date because of the customers' ability to withdraw funds immediately. The fair value of

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fixed-maturity deposits is estimated by discounting future cash flows using rates currently offered for deposits of similar remaining maturities.

Short-Term Borrowings. The carrying amounts for short-term borrowings approximate fair value for amounts that mature in 90 days or less. The fair value of subordinated notes is estimated by discounting future cash flows using rates currently offered.

Long-Term Borrowings. The fair value of long-term borrowings is estimated by discounting future cash flows based on the market prices for the same or similar issues or on the current rates offered to us for debt of the same remaining maturities.

Loan Commitments and Standby Letters of Credit. Estimates of the fair value of these off-balance sheet items were not made because of the short-term nature of these arrangements and the credit standing of the counterparties. Also, unfunded loan commitments relate principally to variable rate commercial loans, typically are non-binding, and fees are not normally assessed on these balances.

Nature of Estimates. Many of the estimates presented herein are based upon the use of highly subjective information and assumptions and, accordingly, the results may not be precise. Management believes that fair value estimates may not be comparable to other financial institutions due to the wide range of permitted valuation techniques and numerous estimates which must be made. Further, because the disclosed fair value amounts were estimated as of the balance sheet date, the amounts actually realized or paid upon maturity or settlement of the various financial instruments could be significantly different.

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The fair values of our financial instruments are as follows:

(in thousands)	Carrying Amount	Fair Value	Fair Value Measurements		
			Level 1	Level 2	Level 3
June 30, 2017					
Financial Assets					
Cash and cash equivalents	\$522,618	\$ 522,618	\$522,618	\$ —	—
Securities available for sale	2,593,455	2,593,455	1,255	2,592,200	—
Securities held to maturity	3,075,634	3,059,223	—	3,059,223	—
Net loans and leases ⁽¹⁾	2,536,327	20,365,723	—	121,941	20,243,782
Loan servicing rights	29,728	32,457	—	—	32,457
Derivative assets	44,159	44,159	—	38,722	5,437
Accrued interest receivable	76,573	76,573	76,573	—	—
Financial Liabilities					
Deposits	21,051,707	21,028,916	17,328,420	3,700,496	—
Short-term borrowings	4,425,967	4,426,483	4,426,483	—	—
Long-term borrowings	656,883	658,898	—	—	658,898
Derivative liabilities	25,857	25,857	—	25,843	14
Accrued interest payable	10,561	10,561	10,561	—	—
December 31, 2016					
Financial Assets					
Cash and cash equivalents	\$371,407	\$ 371,407	\$371,407	\$ —	—
Securities available for sale	2,231,987	2,231,987	148	2,230,453	1,386
Securities held to maturity	2,337,342	2,294,777	—	2,293,091	1,686
Net loans and leases ⁽¹⁾	14,750,792	14,464,274	—	—	14,464,274
Loan servicing rights	13,521	17,546	—	—	17,546
Derivative assets	54,220	54,220	—	54,220	—
Accrued interest receivable	58,712	58,712	58,712	—	—
Financial Liabilities					
Deposits	16,065,647	16,045,323	13,489,152	2,556,171	—
Short-term borrowings	2,503,010	2,503,277	2,503,277	—	—
Long-term borrowings	539,494	536,088	—	—	536,088
Derivative liabilities	47,267	47,267	—	47,267	—
Accrued interest payable	7,612	7,612	7,612	—	—

(1) Includes loans held for sale.

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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 six-month periods ended June 30, 2017 and 2016. This Discussion and Analysis should be read in conjunction with the consolidated financial statements and notes thereto contained herein and our 2016 Annual Report on Form 10-K filed with the SEC on February 23, 2017. Our results of operations for the six months ended June 30, 2017 are not necessarily indicative of results expected for the full year.

IMPORTANT CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This Report contains forward looking statements which may contain our expectations or predictions of future financial or business performance or conditions. Forward-looking statements, which do not describe historical or current facts, typically are identified by words such as, "believe", "plan", "expect", "anticipate", "intend", "outlook", "estimate", "forecast", "should", "project", "goal", and other similar words and expressions. These forward-looking statements are subject to numerous assumptions, risks and uncertainties. The forward-looking statements are intended to be subject to the safe harbor provided under Section 27A of the Securities Act of 1933, Section 21E of the Securities Exchange Act of 1934 and the Private Securities Litigation Reform Act of 1995.

In addition to factors previously disclosed in our reports filed with the SEC, the following risk factors, among others, could cause actual results to differ materially from forward-looking statements or historical performance: changes in asset quality and credit risk; changes in general economic, political or industry conditions; uncertainty in U.S. fiscal policy and monetary policy, including interest rate policies of the Federal Reserve Board (FRB); the inability to sustain revenue and earnings growth; changes in interest rates and capital markets; inflation; customer acceptance of our products and services; customer borrowing, repayment, investment and deposit practices; customer disintermediation; the introduction, withdrawal, success and timing of business initiatives; the inability to realize cost savings or revenues or to implement integration plans and other consequences associated with mergers, acquisitions and divestitures; the impact, extent and timing of technological changes, capital management activities, competitive pressures on product pricing and services; ability to keep pace with technological changes, including changes regarding maintaining cybersecurity; success, impact and timing of our business strategies, including market acceptance of any new products or services; and implementing our banking philosophy and strategies. Additional risks include the nature, extent, timing and results of governmental and regulatory actions, examinations, reviews, reforms, regulations and interpretations, including those related to the Dodd-Frank Wall Street Reform Act and Consumer Protection Act (Dodd-Frank Act) and Basel III regulatory or capital reforms (including Dodd-Frank Act stress testing protocols (DFAST)), as well as those involving the Office of the Comptroller of the Currency (OCC), FRB, Federal Deposit Insurance Corporation (FDIC), Financial Stability Oversight Council and Consumer Financial Protection Board; and other factors that may affect our future results. There is no assurance that any of the risks, uncertainties or risk factors identified herein is complete and actual results or events may differ materially from those expressed or implied in the forward-looking statements contained in this document.

Additional factors that could cause results to differ materially from those described above can be found in our Annual Report on Form 10-K for the year ended December 31, 2016, which is on file with the SEC and available in the "Investor Relations & Shareholder Services" section of our website, <http://www.fnbcorporation.com>, under the heading "Reports and Filings" and in other documents we file with the SEC.

All forward-looking statements speak only as of the date they are made and are based on information available at that time. We do not assume any obligation to update forward-looking statements to reflect circumstances or events that occur after the date the forward-looking statements were made or to reflect the occurrence of unanticipated events except as required by federal securities laws. As forward-looking statements involve significant risks and uncertainties, caution should be exercised against placing undue reliance on such statements.

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 2016 Annual Report on Form 10-K filed with the SEC on

February 23, 2017 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, 2016.

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USE OF NON-GAAP FINANCIAL MEASURES AND KEY PERFORMANCE INDICATORS

We use 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 common equity to tangible assets, efficiency ratio and net interest margin 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.

Non-GAAP financial measures should be viewed in addition to, and not as an alternative for, our reported results prepared in accordance with GAAP. In the event of such a disclosure, 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 "Non-GAAP Financial Measures and Key Performance Indicators."

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

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

FINANCIAL SUMMARY

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

Net income available to common stockholders for the second quarter of 2017 was \$72.4 million or \$0.22 per diluted share. Excluding the impact of merger-related expenses, operating earnings per diluted common share would have been \$0.23. Revenue (net interest income plus non-interest income) of \$284.5 million for the second quarter of 2017 reflects continued loan and deposit growth and strong performance from fee-based businesses.

Commercial loan growth during the second quarter of 2017 was largely driven by activity in the Pittsburgh, Baltimore and Cleveland metro markets. Potential commercial lending opportunities were strong, commensurate with the expanded geographic footprint, including new opportunities provided by the aforementioned YDKN acquisition.

Income Statement Highlights (Second quarter of 2017 compared to second quarter of 2016)

Net income available to common stockholders was \$72.4 million, compared to \$39.3 million.

Operating net income available to common stockholders (non-GAAP) was \$73.3 million, compared to \$46.1 million.

Earnings per diluted common share was \$0.22, compared to \$0.19.

Operating earnings per diluted common share (non-GAAP) was \$0.23, compared to \$0.22.

Net interest margin (FTE) (non-GAAP) was 3.42%, compared to 3.41%.

Non-interest income was \$66.1 million, compared to \$51.4 million.

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• Non-interest expense, excluding merger expenses, was \$162.4 million, compared to \$119.1 million.

• The efficiency ratio (non-GAAP) was 54.3%, compared to 55.4%.

Balance Sheet Highlights (June 30, 2017 compared to December 31, 2016, unless otherwise indicated)

• Total assets were \$30.8 billion, compared to \$21.8 billion.

• Total stockholders' equity was \$4.4 billion, compared to \$2.6 billion.

• Average loans grew 41.9% for the second quarter of 2017, compared to the second quarter of 2016 through continued organic growth and the loans added through the YDKN acquisition.

• Average deposits grew 35.1% for the second quarter of 2017, compared to the second quarter of 2016 through continued organic growth and the deposits added through the YDKN acquisition.

• The ratio of loans to deposits was 97.5%, compared to 92.7%.

• Asset quality was satisfactory with a delinquency ratio of 0.99% on the originated portfolio, compared to 1.04%.

RESULTS OF OPERATIONS

Three Months Ended June 30, 2017 Compared to the Three Months Ended June 30, 2016

Net income available to common stockholders for the three months ended June 30, 2017 was \$72.4 million or \$0.22 per diluted common share, compared to net income available to common stockholders for the three months ended June 30, 2016 of \$39.3 million or \$0.19 per diluted common share. The second quarter of 2017 and 2016 included merger-related expenses of \$1.4 million and \$10.6 million, respectively. The merger expenses in the second quarter of 2017 were primarily due to the YDKN acquisition that closed on March 11, 2017, while the merger expenses in the second quarter of 2016 related to the METR acquisition that closed on February 13, 2016 and the Fifth Third branch purchase that closed on April 22, 2016. Non-interest income increased \$14.7 million and non-interest expense increased \$34.1 million. Quarterly average diluted common shares outstanding increased 113.2 million shares, or 53.5%, to 324.9 million shares for the second quarter of 2017, primarily as a result of the YDKN acquisition, for which we issued 111.6 million shares. The common shares outstanding at June 30, 2017 were 323.2 million shares.

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Financial highlights are summarized below:

TABLE 1

	Three Months		Dollar	Percent
	Ended			
	June 30,		Change	Change
(in thousands, except per share data)	2017	2016		
Net interest income	\$218,415	\$154,369	\$64,046	41.5 %
Provision for credit losses	16,756	16,640	116	0.7
Non-interest income	66,078	51,411	14,667	28.5
Non-interest expense	163,714	129,629	34,085	26.3
Income taxes	29,617	18,211	11,406	62.6
Net income	74,406	41,300	33,106	80.2
Less: Preferred stock dividends	2,010	2,010	—	—
Net income available to common stockholders	\$72,396	\$39,290	\$33,106	84.3 %
Earnings per common share – Basic	\$0.22	\$0.19	\$0.03	15.8 %
Earnings per common share – Diluted	0.22	0.19	0.03	15.8
Cash dividends per common share	0.12	0.12	—	—

The following table presents selected financial ratios:

TABLE 2

	Three Months	
	Ended	
	June 30,	
	2017	2016
Return on average equity	6.80 %	6.56 %
Return on average tangible common equity (non-GAAP)	15.69 %	12.50 %
Return on average assets	0.98 %	0.80 %
Return on average tangible assets (non-GAAP)	1.11 %	0.89 %

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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 June 30, 2017					
	2017			2016		
	Average Balance	Interest Income/Expense	Yield/Rate	Average Balance	Interest Income/Expense	Yield/Rate
Assets						
Interest-earning assets:						
Interest-bearing deposits with banks	\$87,750	\$161	0.74%	\$109,432	\$97	0.36%
Taxable investment securities ⁽¹⁾	4,923,492	25,130	2.04	3,728,873	17,977	1.93
Tax-exempt investment securities ⁽¹⁾⁽²⁾	683,465	7,128	4.17	297,228	3,266	4.40
Loans held for sale	93,312	1,702	8.70	15,734	191	4.86
Loans and leases ⁽²⁾⁽³⁾	20,361,047	221,387	4.37	14,345,128	152,191	4.27
Total interest-earning assets ⁽²⁾	26,149,066	255,508	3.92	18,496,395	173,722	3.77
Cash and due from banks	338,752			284,061		
Allowance for credit losses	(165,888)			(150,487)		
Premises and equipment	350,255			221,030		
Other assets	3,692,460			1,929,414		
Total assets	\$30,364,645			\$20,780,413		
Liabilities						
Interest-bearing liabilities:						
Deposits:						
Interest-bearing demand	\$9,297,726	8,256	0.36	\$6,744,744	4,051	0.24
Savings	2,592,726	641	0.10	2,292,185	465	0.08
Certificates and other time	3,798,714	7,856	0.83	2,676,851	5,908	0.89
Short-term borrowings	3,886,410	10,959	1.13	1,716,565	2,559	0.59
Long-term borrowings	680,414	4,907	2.89	657,059	3,579	2.19
Total interest-bearing liabilities	20,255,990	32,619	0.65	14,087,404	16,562	0.47
Non-interest-bearing demand	5,466,286			3,941,857		
Other liabilities	255,931			218,926		
Total liabilities	25,978,207			18,248,187		
Stockholders' equity	4,386,438			2,532,226		
Total liabilities and stockholders' equity	\$30,364,645			\$20,780,413		
Excess of interest-earning assets over interest-bearing liabilities	\$5,893,076			\$4,408,991		
Net interest income FTE ⁽²⁾		222,889			157,160	
Tax-equivalent adjustment		(4,474)			(2,791)	
Net interest income		\$218,415			\$154,369	
Net interest spread			3.27%			3.30%
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 35% for each period presented. The yield on earning assets and the net interest margin are presented on an FTE basis. We believe this measure to be the preferred industry measurement of net interest income and provides relevant comparison between taxable and non-taxable amounts.

(3)

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

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Net Interest Income

Net interest income, which is our principal source of revenue, is the difference between interest income from interest-earning assets and interest expense paid on interest-bearing liabilities. For the three months ended June 30, 2017, net interest income, which comprised 76.8% of revenue (net interest income plus non-interest income) compared to 75.0% for the same period in 2016, was affected by the general level of interest rates, changes in interest rates, the shape of the yield curve, the level of non-accrual loans and changes in the amount and mix of interest-earning assets and interest-bearing liabilities.

Net interest income on an FTE basis (non-GAAP) increased \$65.7 million or 41.8% from \$157.2 million for the second quarter of 2016 to \$222.9 million for the second quarter of 2017. Average interest-earning assets of \$26.1 billion increased \$7.7 billion or 41.4% and average interest-bearing liabilities of \$20.3 billion increased \$6.2 billion or 43.8% from 2016 due to the YDKN acquisition, combined with organic growth in loans and deposits. Our net interest margin (non-GAAP) was 3.42% for the second quarter of 2017, compared to 3.41% for the same period of 2016, reflecting two interest rate increases resulting from the FRB's Federal Open Market Committee meetings in 2017, partially offset by larger incremental purchase accounting impacts in the prior year. The tax-equivalent adjustments (non-GAAP) to net interest income from amounts reported on our financial statements are shown in the preceding table.

The following table provides certain information regarding changes in net interest income on an FTE basis (non-GAAP) attributable to changes in the average volumes and yields earned on interest-earning assets and the average volume and rates paid for interest-bearing liabilities for the three months ended June 30, 2017, compared to the three months ended June 30, 2016:

TABLE 4

(in thousands)	Volume	Rate	Net
Interest Income			
Interest-bearing deposits with banks	\$(22)	\$86	\$64
Securities ⁽²⁾	10,473	542	11,015
Loans held for sale	1,283	228	1,511
Loans and leases ⁽²⁾	65,474	3,722	69,196
Total interest income ⁽²⁾	77,208	4,578	81,786
Interest Expense			
Deposits:			
Interest-bearing demand	1,794	2,411	4,205
Savings	135	41	176
Certificates and other time	2,317	(369)	1,948
Short-term borrowings	5,560	2,840	8,400
Long-term borrowings	133	1,195	1,328
Total interest expense	9,939	6,118	16,057
Net change ⁽²⁾	\$67,269	\$(1,540)	\$65,729

(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 35% for each period presented. We believe this measure to be the preferred industry measurement of net interest income and provides relevant comparison between taxable and non-taxable amounts.

Interest income on an FTE basis (non-GAAP) of \$255.5 million for the second quarter of 2017, increased \$81.8 million or 47.1% from the same quarter of 2016, primarily due to increased interest-earning assets, which was slightly offset by lower yields. During the second quarter of 2017 and 2016, we recognized \$1.6 million and \$3.1 million, respectively, in incremental purchase accounting accretion and cash recoveries on acquired loans. The increase in

interest-earning assets was primarily driven by a \$6.0 billion or 41.9% increase in average loans and leases, which reflects the benefit of our expanded banking

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footprint resulting from the YDKN acquisition and successful sales management, and includes \$951.0 million or 6.6% of organic loan growth resulting from strong origination volume. Loans added at closing of the YDKN acquisition were \$5.1 billion. Additionally, average securities increased \$1.6 billion or 39.3%, 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 15 basis points from the second quarter of 2016 to 3.92% for the second quarter of 2017.

Interest expense of \$32.6 million for the second quarter of 2017 increased \$16.1 million or 97.0% from the same quarter of 2016 due to an increase in rates paid and growth in average interest-bearing liabilities, as interest-bearing deposits and short-term borrowings increased over the same quarter of 2016. Average interest-bearing deposits increased \$4.0 billion or 33.9%, which reflects the benefit of our expanded banking footprint resulting from the YDKN acquisition. Additionally, interest-bearing deposits added at closing of the YDKN acquisition were \$3.8 billion. Organic growth in average non-interest-bearing deposits and money market balances was mostly offset by planned declines in higher-cost brokered time deposits. Average short-term borrowings increased \$2.2 billion or 126.4%, primarily as a result of increases of \$1.7 billion in short-term FHLB borrowings and \$471.9 million in federal funds purchased. Average long-term borrowings increased \$23.4 million or 3.6%, primarily as a result of a decrease of \$104.6 million in long-term FHLB advances, partially offset by increases of \$62.4 million and \$61.5 million in subordinated debt and junior subordinated debt assumed in the YDKN transaction. The rate paid on interest-bearing liabilities increased 18 basis points to 0.65% for the second quarter of 2017, due to changes in the funding mix as borrowings increased faster than deposits. Given the relatively low level of interest rates and the current rates paid on the various deposit products, we believe there is limited opportunity for reductions in the overall rate paid on interest-bearing liabilities.

Provision for Credit Losses

The provision for credit losses is determined based on management's estimates of the appropriate level of allowance for credit losses needed to absorb probable losses inherent in the 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		Dollar Change	Percent Change
	June 30, 2017	2016		
Provision for credit losses:				
Originated	\$ 17,538	\$ 16,384	\$ 1,154	7.0 %
Acquired	(782)	256	(1,038)	(405.5) %
Total provision for credit losses	\$ 16,756	\$ 16,640	\$ 116	0.7 %
Net loan charge-offs:				
Originated	\$ 12,660	\$ 9,885	\$ 2,775	28.1 %
Acquired	(821)	186	(1,007)	(541.4) %
Total net loan charge-offs	\$ 11,839	\$ 10,071	\$ 1,768	17.6 %
Net loan charge-offs (annualized) / total average loans and leases	0.23 %	0.28 %		
Net originated loan charge-offs (annualized) / total average originated loans and leases	0.38 %	0.35 %		

The provision for credit losses of \$16.8 million during the second quarter of 2017 was consistent with the same period of 2016, primarily due to higher organic loan growth and higher net charge-offs during the current quarter as compared to the year ago period, though this was partially offset by a decrease in rated credits and some positive performance in a few commercial loan categories. 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 June 30, 2017 and 2016 is presented in the following table:

TABLE 6

	Three Months		Dollar	Percent
	Ended	June 30,		
(in thousands)	2017	2016	Change	Change
Service charges	\$33,389	\$25,804	\$7,585	29.4 %
Trust services	5,715	5,405	310	5.7
Insurance commissions and fees	4,347	4,105	242	5.9
Securities commissions and fees	3,887	3,622	265	7.3
Capital markets income	5,004	4,147	857	20.7
Mortgage banking operations	5,173	2,753	2,420	87.9
Bank owned life insurance	3,092	2,592	500	19.3
Net securities gains	493	226	267	118.1
Other	4,978	2,757	2,221	80.6
Total non-interest income	\$66,078	\$51,411	\$14,667	28.5 %

n/m – not meaningful

Total non-interest income increased \$14.7 million, to \$66.1 million for the second quarter of 2017, a 28.5% increase from the same period of 2016. Following is a summary of the items making up non-interest income. The variances in significant individual non-interest income items are further explained in the following paragraphs, with an overriding theme of the increases relating to broad-based improvements in fee-related services and expanded opportunities from the YDKN acquisition.

Service charges on loans and deposits of \$33.4 million for the second quarter of 2017 increased \$7.6 million or 29.4% from the same period of 2016. The impact of the expanded customer base due to acquisitions, combined with organic growth in loans and deposit accounts, resulted in increases of \$3.7 million or 24.5% in deposit-related service charges and \$3.9 million or 36.5% in other service charges and fees over this same period.

Trust services of \$5.7 million for the second quarter of 2017 increased \$0.3 million or 5.7% from the same period of 2016, primarily driven by strong organic growth activity and improved market conditions. The market value of assets under management increased \$659.7 million or 17.7% from June 30, 2016 to \$4.5 billion at June 30, 2017.

Capital markets income of \$5.0 million for the second quarter of 2017 increased \$0.9 million or 20.7% from the same period of 2016, primarily as a result of an increase of \$3.4 million in the fees earned on interest rate swap activity with commercial loan customers. Our interest rate swap program allows commercial loan customers to swap floating-rate interest payments for fixed-rate interest payments enabling those customers to better manage their interest rate risk. The interest rate swap program adds short-term, adjustable rate loans to our consolidated balance sheet and is a key strategy in the management of our interest rate risk position.

Mortgage banking operations income of \$5.2 million for the second quarter of 2017 increased \$2.4 million or 87.9% from the same period of 2016. This increase was primarily due to the adoption of the fair value option in 2017, which added \$1.2 million to the second quarter of 2017, \$1.3 billion or 88.6% growth in the servicing portfolio and higher sold volume due to acquisitions and expansion into new markets. Sold loan margins have been lower in both retail and correspondent loans due to competitive pressure. During the second quarter of 2017, we sold \$240.4 million of residential mortgage loans, a 44.8% increase compared to \$166.0 million for the same period of 2016.

Other non-interest income was \$5.0 million and \$2.8 million for the second quarter of 2017 and 2016, respectively. During the second quarter of 2017, we recorded \$1.7 million more in dividends on non-marketable equity securities and \$1.0 million more in net gains on sale of fixed assets and lease inventory, partially offset by \$0.2 million less in gains from an equity investment.

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Non-Interest Expense

The breakdown of non-interest expense for the three months ended June 30, 2017 and 2016 is presented in the following table:

TABLE 7

	Three Months		Dollar	Percent
	Ended	June 30,		
(in thousands)	2017	2016	Change	Change
Salaries and employee benefits	\$84,899	\$61,329	\$23,570	38.4 %
Net occupancy	14,060	10,193	3,867	37.9
Equipment	12,420	10,014	2,406	24.0
Amortization of intangibles	4,813	3,388	1,425	42.1
Outside services	13,483	9,825	3,658	37.2
FDIC insurance	9,376	5,103	4,273	83.7
Supplies	2,474	2,754	(280)	(10.2)
Bank shares and franchise taxes	2,742	2,913	(171)	(5.9)
Merger-related	1,354	10,551	(9,197)	(87.2)
Other	18,093	13,559	4,534	33.4
Total non-interest expense	\$163,714	\$129,629	\$34,085	26.3 %

Total non-interest expense of \$163.7 million for the second quarter of 2017 increased \$34.1 million, a 26.3% increase from the same period of 2016. Following is a summary of the items making up non-interest expense. The variances in the individual non-interest expense items are further explained in the following paragraphs, with an overriding theme of the increases relating to merger expenses and expanded operations due to the acquisition of YDKN in the first quarter of 2017.

Salaries and employee benefits of \$84.9 million for the second quarter of 2017 increased \$23.6 million or 38.4% from the same period of 2016, primarily due to employees added in conjunction with the aforementioned acquisition, combined with merit increases and higher medical insurance costs in 2017.

Net occupancy and equipment expense of \$26.5 million for the second quarter of 2017 increased \$6.3 million or 31.0% from the same period of 2016, primarily due to the YDKN acquisition.

Amortization of intangibles expense of \$4.8 million for the second quarter of 2017 increased \$1.4 million or 42.1% from the second quarter of 2016, due to the additional core deposit intangibles added as a result of the YDKN acquisition.

Outside services expense of \$13.5 million for the second quarter of 2017 increased \$3.7 million or 37.2% from the same period of 2016, primarily due to increases of \$2.8 million in data processing services and \$0.5 million in other outsourced services, such as reporting, monitoring, shredding, printing and filing. These increases were driven primarily by the aforementioned acquisition.

FDIC insurance of \$9.4 million for the second quarter of 2017 increased \$4.3 million or 83.7% from the same period of 2016, primarily due to a higher assessment base resulting from merger and acquisition activity combined with an increased rate due to YDKN's construction loan portfolio. Additionally, effective July 1, 2016, the FDIC assessment rate was increased to include a surcharge equal to 4.5 basis points on assets in excess of \$10.0 billion.

Supplies expense of \$2.5 million for the second quarter of 2017 decreased \$0.3 million or 10.2% from the same period of 2016, primarily as a result of equipment related supplies now being reflected in equipment expense on the consolidated statements of income.

During the second quarter of 2017, we recorded \$1.4 million in merger-related expense, primarily associated with the YDKN acquisition. During the same period of 2016, we recorded \$10.6 million in merger-related expense, primarily associated with the acquisitions of METR and Fifth Third branches. These expenses are specific to each individual transaction, and may vary significantly based on the size and complexity of the transaction.

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The following table summarizes the composition of the merger-related expense for the three months ended June 30, 2017 and 2016:

TABLE 8

(in thousands)	Three Months Ended June 30,	
	2017	2016
Professional services	\$(1,534)	\$9,163
Severance and other employee benefit costs	463	518
Charitable contributions	—	1,115
Data processing conversion costs	1,268	483
Marketing costs	526	172
Other expenses	631	(900)
Total merger-related expense	\$1,354	\$10,551

For the three months ended June 30, 2017, the \$1.5 million reduction in professional services merger-related expenses resulted from vendor expense reimbursements.

Other non-interest expense was \$18.1 million and \$13.6 million for the second quarter of 2017 and 2016, respectively. During the second quarter of 2017, we recorded \$1.0 million more in miscellaneous losses, \$0.7 million more in business development expense and \$0.7 million more in expense relating to low-income housing tax credits.

Income Taxes

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

TABLE 9

(dollars in thousands)	Three Months Ended June 30,			
	2017		2016	
Income tax expense	\$29,617		\$18,211	
Effective tax rate	28.5	%	30.6	%
Statutory tax rate	35.0	%	35.0	%

Both periods' tax rates are lower than the 35% federal statutory tax rate due to the tax benefits primarily resulting from tax-exempt income on investments and loans, tax credits and income from BOLI. The variance between the second quarter of 2017 compared to the second quarter of 2016 in effective tax rate primarily relates to the increase in the level of tax credits recognized in the second quarter of 2017.

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Six Months Ended June 30, 2017 Compared to the Six Months Ended June 30, 2016

Net income available to common stockholders for the six months ended June 30, 2017 was \$93.4 million or \$0.33 per diluted common share, compared to net income available to common stockholders for the six months ended June 30, 2016 of \$63.4 million or \$0.31 per diluted common share. The first six months of 2017 and 2016 included merger-related expense of \$54.1 million and \$35.5 million, respectively. The merger expenses in the first six months of 2017 were primarily due to the YDKN acquisition that closed on March 11, 2017, while the merger expenses in the first six months of 2016 related to the METR acquisition that closed on February 13, 2016 and the Fifth Third branch purchase that closed on April 22, 2016. Average diluted common shares outstanding increased 26.9 million shares, or 15.3%, to 282.3 million shares for the first six months of 2017, primarily as a result of the YDKN acquisition, for which we issued 111.6 million shares.

Financial highlights are summarized below:

TABLE 10

(in thousands, except per share data)	Six Months Ended		Dollar	Percent
	June 30,	June 30,		
	2017	2016	Change	Change
Net interest income	\$391,167	\$294,723	\$96,444	32.7 %
Provision for credit losses	27,606	28,408	(802)	(2.8)
Non-interest income	121,194	97,455	23,739	24.4
Non-interest expense	351,269	266,277	84,992	31.9
Income taxes	36,101	30,061	6,040	20.1
Net income	97,385	67,432	29,953	44.4
Less: Preferred stock dividends	4,020	4,020	—	—
Net income available to common stockholders	\$93,365	\$63,412	\$29,953	47.2 %
Earnings per common share – Basic	\$0.33	\$0.31	\$0.02	6.5 %
Earnings per common share – Diluted	0.33	0.31	0.02	6.5
Cash dividends per common share	0.24	0.24	—	—

The following table presents selected financial ratios:

TABLE 11

	Six Months	
	Ended	Ended
	June 30,	June 30,
	2017	2016
Return on average equity	5.31 %	5.58 %
Return on average tangible common equity (non-GAAP)	11.51 %	10.45 %
Return on average assets	0.72 %	0.68 %
Return on average tangible assets (non-GAAP)	0.82 %	0.76 %

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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 12

(dollars in thousands)	Six Months Ended June 30, 2017					
	2017			2016		
	Average Balance	Interest Income/Expense	Yield/Rate	Average Balance	Interest Income/Expense	Yield/Rate
Assets						
Interest-earning assets:						
Interest-bearing deposits with banks	\$86,712	\$341	0.79%	\$116,439	\$214	0.37%
Federal funds sold	2,277	8	0.72	—	—	—
Taxable investment securities ⁽¹⁾	4,702,692	47,609	2.02	3,491,673	34,469	1.98
Tax-exempt investment securities ⁽¹⁾⁽²⁾	592,342	12,318	4.16	284,476	6,358	4.47
Loans held for sale	53,059	1,868	7.96	10,931	269	4.92
Loans and leases ⁽²⁾⁽³⁾	18,287,280	391,579	4.32	13,793,960	290,628	4.24
Total interest-earning assets ⁽²⁾	23,724,362	453,723	3.85	17,697,479	331,938	3.77
Cash and due from banks	316,867			266,505		
Allowance for credit losses	(163,642)			(146,715)		
Premises and equipment	312,292			206,286		
Other assets	3,040,903			1,824,971		
Total assets	\$27,230,782			\$19,848,526		
Liabilities						
Interest-bearing liabilities:						
Deposits:						
Interest-bearing demand	\$8,362,233	13,087	0.32	\$6,430,562	7,507	0.23
Savings	2,503,259	1,162	0.09	2,172,975	829	0.08
Certificates and other time	3,346,434	14,244	0.86	2,626,619	11,574	0.89
Short-term borrowings	3,546,112	17,633	1.00	1,638,035	4,920	0.60
Long-term borrowings	607,991	8,434	2.80	652,775	7,132	2.20
Total interest-bearing liabilities	18,366,029	54,560	0.60	13,520,966	31,962	0.48
Non-interest-bearing demand	4,943,226			3,695,543		
Other liabilities	220,574			201,047		
Total liabilities	23,529,829			17,417,556		
Stockholders' equity	3,700,953			2,430,970		
Total liabilities and stockholders' equity	\$27,230,782			\$19,848,526		
Excess of interest-earning assets over interest-bearing liabilities	\$5,358,333			\$4,176,513		
Net interest income FTE ⁽²⁾		399,163			299,976	
Tax-equivalent adjustment		(7,996)			(5,253)	
Net interest income		\$391,167			\$294,723	
Net interest spread			3.25%			3.29%
Net interest margin ⁽²⁾			3.39%			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 35% for each period presented. The yield on earning assets and the net interest margin are presented on an FTE basis. We believe this measure to be the preferred industry measurement of net interest income and provides relevant comparison between taxable and non-taxable amounts.

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

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Net Interest Income

Net interest income, which is our principal source of revenue, is the difference between interest income from interest-earning assets and interest expense paid on interest-bearing liabilities. For the six months ended June 30, 2017, net interest income, which comprised 76.3% of revenue compared to 75.2% for the same period in 2016, was affected by the general level of interest rates, changes in interest rates, the shape of the yield curve, the level of non-accrual loans and changes in the amount and mix of interest-earning assets and interest-bearing liabilities.

Net interest income on an FTE basis (non-GAAP) increased \$99.2 million or 33.1% from \$300.0 million for the first six months of 2016 to \$399.2 million for the first six months of 2017. Average interest earning assets of \$23.7 billion increased \$6.0 billion or 34.1% and average interest-bearing liabilities of \$18.4 billion increased \$4.8 billion or 35.8% from 2016 due to the acquisitions of YDKN and METR and the Fifth Third branches, combined with organic growth in loans and deposits. Our net interest margin FTE (non-GAAP) was 3.39% for the first six months of 2017, compared to 3.41% for the same period of 2016, due to an extended low interest rate environment and competitive landscape for earning assets, partially offset by the purchase accounting impacts. The tax-equivalent adjustments (non-GAAP) to net interest income from amounts reported on our financial statements are shown in the preceding table.

The following table provides certain information regarding changes in net interest income on an FTE basis (non-GAAP) attributable to changes in the average volumes and yields earned on interest-earning assets and the average volume and rates paid for interest-bearing liabilities for the six months ended June 30, 2017, compared to the six months ended June 30, 2016:

TABLE 13

(in thousands)	Volume	Rate	Net
Interest Income			
Interest-bearing deposits with banks	\$(66)	\$ 193	\$ 127
Federal funds sold	8	—	8
Securities ⁽²⁾	19,276	(176)	19,100
Loans held for sale	1,363	236	1,599
Loans and leases ⁽²⁾	95,224	5,727	100,951
Total interest income ⁽²⁾	115,805	5,980	121,785
Interest Expense			
Deposits:			
Interest-bearing demand	2,529	3,051	5,580
Savings	277	56	333
Certificates and other time	3,017	(347)	2,670
Short-term borrowings	9,050	3,663	12,713
Long-term borrowings	(519)	1,821	1,302
Total interest expense	14,354	8,244	22,598
Net change ⁽²⁾	\$ 101,451	\$(2,264)	\$ 99,187

(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 35% for each period presented. We believe this measure to be the preferred industry measurement of net interest income and provides relevant comparison between taxable and non-taxable amounts.

Interest income on an FTE basis (non-GAAP) of \$453.7 million for the first six months of 2017, increased \$121.8 million or 36.7% from the same quarter of 2016, primarily due to increased interest-earning assets, which was slightly offset by lower yields. During the first six months of 2017 and 2016, we recognized \$1.5 million and \$3.3 million, respectively, in incremental purchase accounting accretion and cash recoveries on acquired loans. The increase in interest-earning assets was primarily driven by a \$4.5 billion or 32.6% increase in average loans and leases, which reflects the benefit of our expanded banking footprint resulting from the YDKN and METR acquisitions and

successful sales management, and includes \$874.1 million or

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6.1% of organic growth. Loans added at closing of the YDKN acquisition were \$5.1 billion. Additionally, average securities increased \$1.5 billion or 40.2%, primarily as a result of the securities portfolio acquired from YDKN and the subsequent repositioning of that portfolio. The yield on average interest-earning assets (non-GAAP) increased 8 basis points from the first six months of 2016 to 3.85% for the first six months of 2017.

Interest expense of \$54.6 million for the first six months of 2017 increased \$22.6 million or 70.7% from the same quarter of 2016 due to an increase in rates paid and growth in average interest-bearing liabilities, as interest-bearing deposits and short-term borrowings increased over the same quarter of 2016. Average interest-bearing deposits increased \$3.0 billion or 26.6%, which reflects the benefit of our expanded banking footprint resulting from the YDKN and METR acquisitions. Additionally, interest-bearing deposits added at closing of the YDKN acquisition were \$3.8 billion. Average short-term borrowings increased \$1.9 billion or 116.5%, primarily as a result of increases of \$1.4 billion in short-term FHLB borrowings and \$462.1 million in federal funds purchased. Average long-term borrowings decreased \$44.8 million or 6.9%, primarily as a result of a decrease of \$124.2 million in long-term FHLB advances, partially offset by increases of \$38.7 million and \$36.7 million in subordinated debt and junior subordinated debt assumed in the YDKN transaction. The rate paid on interest-bearing liabilities increased 12 basis points to 0.60% for the first six months of 2017, due to changes in the funding mix as borrowings increased faster than deposits. Given the relatively low level of interest rates and the current rates paid on the various deposit products, we believe there is limited opportunity for reductions in the overall rate paid on interest-bearing liabilities.

Provision for Credit Losses

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

TABLE 14

(dollars in thousands)	Six Months Ended		Dollar Change	Percent Change
	June 30, 2017	2016		
Provision for credit losses:				
Originated	\$28,875	\$29,224	\$(349)	(1.2)%
Acquired	(1,269)	(816)	(453)	55.5
Total provision for credit losses	\$27,606	\$28,408	\$(802)	(2.8)%
Net loan charge-offs:				
Originated	\$20,574	\$15,790	\$4,784	30.3 %
Acquired	(608)	261	(869)	(333.0)
Total net loan charge-offs	\$19,966	\$16,051	\$3,915	24.4 %
Net loan charge-offs (annualized) / total average loans and leases	0.22 %	0.23 %		
Net originated loan charge-offs (annualized) / total average originated loans and leases	0.31 %	0.28 %		

The provision for credit losses of \$27.6 million during the first six months of 2017 decreased \$0.8 million from the same period of 2016, primarily due to a decrease of \$0.3 million in the provision for the originated portfolio, which was attributable to a decrease in rated credits and some positive performance in a few commercial categories which was slightly offset by higher organic loan growth and higher net charge-offs during the current year-to-date period as compared to the same period last year. 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 six months ended June 30, 2017 and 2016 is presented in the following table:

TABLE 15

(in thousands)	Six Months Ended		Dollar Change	Percent Change
	June 30, 2017	June 30, 2016		
Service charges	\$58,196	\$46,938	\$11,258	24.0 %
Trust services	11,462	10,687	775	7.3
Insurance commissions and fees	9,488	9,026	462	5.1
Securities commissions and fees	7,510	6,996	514	7.3
Capital markets income	8,851	6,996	1,855	26.5
Mortgage banking operations	8,963	4,348	4,615	106.1
Bank owned life insurance	5,245	4,687	558	11.9
Net securities gains	3,118	297	2,821	949.8
Other	8,361	7,480	881	11.8
Total non-interest income	\$121,194	\$97,455	\$23,739	24.4 %

n/m – not meaningful

Total non-interest income increased \$23.7 million, to \$121.2 million for the first six months of 2017, a 24.4% increase from the same period of 2016. Following is a summary of the items making up non-interest income. The variances in significant individual non-interest income items are further explained in the following paragraphs, with an overriding theme of the increases relating to expanded operations due to the acquisition of YDKN in the first quarter of 2017 and the acquisition of METR and Fifth Third branches in the first half of 2016.

Service charges on loans and deposits of \$58.2 million for the first six months of 2017 increased \$11.3 million or 24.0% from the same period of 2016. The impact of the expanded customer base due to acquisitions, combined with organic growth in loans and deposit accounts, resulted in increases of \$5.6 million or 20.3% in deposit-related service charges and \$5.6 million or 29.4% in other service charges and fees over this same period.

Trust services of \$11.5 million for the first six months of 2017 increased \$0.8 million or 7.3% from the same period of 2016, primarily driven by strong organic growth activity and improved market conditions. The market value of assets under management increased \$659.7 million or 17.7% to \$4.5 billion from June 30, 2016 to June 30, 2017.

Capital markets income of \$8.9 million for the first six months of 2017 increased \$1.9 million or 26.5% from the same period of 2016, primarily as a result of an increase of \$1.6 million in the fees earned on interest rate swap activity with commercial loan customers. Our interest rate swap program allows commercial loan customers to swap floating-rate interest payments for fixed-rate interest payments enabling those customers to better manage their interest rate risk.

Mortgage banking operations income of \$9.0 million for the first six months of 2017 increased \$4.6 million or 106.1% from the same period of 2016. This increase was primarily due to the adoption of the fair value option in 2017, which added \$2.6 million in the first six months of 2017, \$1.3 billion or 88.6% growth in the servicing portfolio and higher sold volume due to acquisitions and expansion into new markets. Sold loan margins have been lower in both retail and correspondent loans due to competitive pressure. During the first six months of 2017, we sold \$375.8 million of residential mortgage loans, a 44.9% increase compared to \$259.3 million for the same period of 2016.

Net securities gains were \$3.1 million for the first six months of 2017. These gains primarily relate to the sale of certain acquired YDKN securities after the closing of the acquisition to align their portfolio with our investment profile.

Other non-interest income was \$8.4 million and \$7.5 million for the first six months of 2017 and 2016, respectively. During the first six months of 2017, we recorded \$2.6 million more in dividends on non-marketable equity securities, \$0.6 million more in gains from an equity investment and \$0.7 million more in gains on sale of fixed assets and lease inventory. During the first half

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of 2016, we recognized a gain of \$2.4 million relating to the redemption of \$10.0 million of TPS originally issued by a company we previously acquired.

Non-Interest Expense

The breakdown of non-interest expense for the six months ended June 30, 2017 and 2016 is presented in the following table:

TABLE 16

(in thousands)	Six Months Ended		Dollar Change	Percent Change
	June 30, 2017	2016		
Salaries and employee benefits	\$ 158,477	\$ 117,754	\$40,723	34.6 %
Net occupancy	25,409	19,459	5,950	30.6
Equipment	22,050	18,570	3,480	18.7
Amortization of intangibles	7,911	6,037	1,874	31.0
Outside services	26,526	19,128	7,398	38.7
FDIC insurance	14,763	9,071	5,692	62.7
Supplies	4,670	5,408	(738)	(13.6)
Bank shares and franchise taxes	5,722	5,530	192	3.5
Merger-related	54,078	35,491	18,587	52.4
Other	31,663	29,829	1,834	6.1
Total non-interest expense	\$351,269	\$266,277	\$84,992	31.9 %

Total non-interest expense of \$351.3 million for the first six months of 2017 increased \$85.0 million, a 31.9% increase from the same period of 2016. Following is a summary of the items making up non-interest expense. The variances in the individual non-interest expense items are further explained in the following paragraphs, with an overriding theme of the increases relating to merger expenses and expanded operations due to the acquisition of YDKN in the first quarter of 2017 and the acquisition of METR and Fifth Third branches in the first half of 2016.

Salaries and employee benefits of \$158.5 million for the first six months of 2017 increased \$40.7 million or 34.6% from the same period of 2016, primarily due to employees added in conjunction with the aforementioned acquisitions, combined with merit increases and higher medical insurance costs in 2017.

Net occupancy and equipment expense of \$47.5 million for the first six months of 2017 increased \$9.4 million or 24.8% from the same period of 2016, primarily due to acquisitions and our continued investment in new technology. The increased technology costs include upgrades to meet customer needs via the utilization of electronic delivery channels, such as online and mobile banking, investment in infrastructure to support our larger company and expenditures deemed necessary by management to maintain proficiency and compliance with expanding regulatory requirements.

Amortization of intangibles expense of \$7.9 million for the first six months of 2017 increased \$1.9 million or 31.0% from the first six months of 2016, due to the additional core deposit intangibles added as a result of the acquisition of YDKN, METR and Fifth Third branches.

Outside services expense of \$26.5 million for the first six months of 2017 increased \$7.4 million or 38.7% from the same period of 2016, primarily due to increases of \$6.0 million in data processing services, \$1.4 million in other outsourced services, such as reporting, monitoring, shredding, printing and filing and an increase in legal expense of \$0.8 million. These increases were driven primarily by the aforementioned acquisitions.

FDIC insurance of \$14.8 million for the first six months of 2017 increased \$5.7 million or 62.7% from the same period of 2016, primarily due to a higher assessment base resulting from merger and acquisition activity combined with an increased rate due to YDKN's construction loan portfolio. Additionally, effective July 1, 2016, the FDIC assessment rate was increased to include a surcharge equal to 4.5 basis points on assets in excess of \$10.0 billion.

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During the first six months of 2017, we recorded \$54.1 million in merger-related expense, primarily associated with the YDKN acquisition. During the same period of 2016, we recorded \$35.5 million in merger-related expense, primarily associated with the acquisitions of METR and Fifth Third branches. These expenses are specific to each individual transaction, and may vary significantly based on the size and complexity of the transaction.

The following table summarizes the composition of the merger-related expense for the six months ended June 30, 2017 and 2016:

TABLE 17

(in thousands)	Six Months Ended	
	June 30, 2017	June 30, 2016
Professional services	\$24,030	\$16,289
Severance and other employee benefit costs	17,568	14,673
Charitable contributions	5,600	1,115
Data processing conversion costs	3,937	1,742
Marketing costs	1,526	1,102
Other expenses	1,417	570
Total merger-related expense	\$54,078	\$35,491

Other non-interest expense was \$31.7 million and \$29.8 million for the first six months of 2017 and 2016, respectively. During the first six months of 2017, we recorded \$1.4 million more in miscellaneous losses, \$1.1 million more in business development costs, \$0.7 million more in marketing expense, \$0.4 million more OREO expense and \$1.5 million less loan-related expense. Additionally, during the first six months of 2016, we incurred a \$2.6 million impairment charge on other assets relating to low income housing projects.

Income Taxes

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

TABLE 18

(dollars in thousands)	Six Months Ended			
	June 30, 2017		June 30, 2016	
Income tax expense	\$36,101		\$30,061	
Effective tax rate	27.0	%	30.8	%
Statutory tax rate	35.0	%	35.0	%

Both periods' tax rates are lower than the 35% federal statutory tax rate due to the tax benefits primarily resulting from tax-exempt income on investments and loans, tax credits and income from BOLI. The variance between the first six months of 2017 compared to the first six months of 2016 in income tax expense and effective tax rate primarily relates to the increase in merger expenses and an increase in the level of tax credits recognized in the first six months of 2017.

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FINANCIAL CONDITION

The June 30, 2017 balance sheet includes the YDKN acquisition mentioned previously. See Note 3, Mergers and Acquisitions, of the Notes to Consolidated Financial Statements (Unaudited). The following table presents condensed consolidated ending balance sheets:

TABLE 19

(dollars in thousands)	June 30, 2017	December 31, 2016	Dollar Change	Percent Change
Assets				
Cash and cash equivalents	\$522,618	\$371,407	\$151,211	40.7 %
Securities	5,669,089	4,569,329	1,099,760	24.1
Loans held for sale	168,727	11,908	156,819	1,316.9
Loans and leases, net	20,367,599	14,738,884	5,628,715	38.2
Goodwill and other intangibles	2,376,382	1,099,456	1,276,926	116.1
Other assets	1,649,311	1,053,833	595,478	56.5
Total Assets	\$30,753,726	\$21,844,817	\$8,908,909	40.8 %
Liabilities and Stockholders' Equity				
Deposits	\$21,051,707	\$16,065,647	\$4,986,060	31.0 %
Borrowings	5,082,850	3,042,504	2,040,346	67.1
Other liabilities	226,731	165,049	61,682	37.4
Total liabilities	26,361,288	19,273,200	7,088,088	36.8
Stockholders' equity	4,392,438	2,571,617	1,820,821	70.8
Total Liabilities and Stockholders' Equity	\$30,753,726	\$21,844,817	\$8,908,909	40.8 %

Non-Performing Assets

Non-performing assets increased \$42.1 million, from \$118.4 million at December 31, 2016 to \$160.5 million at June 30, 2017. This reflects an increase of \$29.8 million in non-accrual loans and \$13.2 million in OREO, which was partially offset by a decrease of \$0.9 million in TDRs. The increase in non-accrual loans is attributable to the migration of a few commercial borrowers in the commercial and industrial portfolio. The increase in OREO is the result of properties acquired from YDKN. The decrease in TDRs was primarily attributable to a number of residential mortgages that have consistently met their modified terms for at least six months, and were therefore returned to performing status.

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

TABLE 20

(in thousands)	June 30, 2017	December 31, 2016	Dollar Change	Percent Change
Commercial real estate	\$28,112	\$21,225	\$6,887	32.4 %
Commercial and industrial	46,886	26,256	20,630	78.6
Commercial leases	1,507	3,429	(1,922)	(56.1)
Total commercial loans and leases	76,505	50,910	25,595	50.3
Direct installment	16,435	14,952	1,483	9.9
Residential mortgages	14,365	13,367	998	7.5
Indirect installment	1,956	2,181	(225)	(10.3)
Consumer lines of credit	4,529	3,497	1,032	29.5
Other	1,000	1,000	—	—
Total non-performing loans and leases	\$114,790	\$85,907	\$28,883	33.6 %

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

TABLE 21

(in thousands)	Performing	Non-Performing	Non-Accrual	Total
Originated				
June 30, 2017				
Commercial real estate	\$ 103	\$ 10	\$3,876	\$3,989
Commercial and industrial	—	—	4,953	4,953
Total commercial loans	103	10	8,829	8,942
Direct installment	11,130	8,150	2,553	21,833
Residential mortgages	4,575	9,246	1,540	15,361
Indirect installment	—	212	—	212
Consumer lines of credit	2,305	1,173	972	4,450
Total TDRs	\$ 18,113	\$ 18,791	\$13,894	\$50,798
December 31, 2016				
Commercial real estate	\$ —	\$ 162	\$3,857	\$4,019
Commercial and industrial	—	4	2,113	2,117
Total commercial loans	—	166	5,970	6,136
Direct installment	10,414	8,468	1,597	20,479
Residential mortgages	4,730	10,051	1,128	15,909
Indirect installment	—	198	2	200
Consumer lines of credit	1,961	1,369	338	3,668
Total TDRs	\$ 17,105	\$ 20,252	\$9,035	\$46,392
Acquired				
June 30, 2017				
Commercial real estate	\$ —	\$ —	\$—	\$—
Commercial and industrial	—	—	—	—
Total commercial loans	—	—	—	—
Direct installment	—	—	—	—
Residential mortgages	—	—	—	—
Indirect installment	—	—	—	—
Consumer lines of credit	271	696	—	967
Total TDRs	\$ 271	\$ 696	\$—	\$967
December 31, 2016				
Commercial real estate	\$ —	\$ —	\$—	\$—
Commercial and industrial	—	—	—	—
Total commercial loans	—	—	—	—
Direct installment	—	—	—	—
Residential mortgages	—	—	—	—
Indirect installment	—	—	—	—
Consumer lines of credit	365	176	—	541
Total TDRs	\$ 365	\$ 176	\$—	\$541

Allowance for Credit Losses

The allowance for credit losses of \$165.7 million at June 30, 2017 increased \$7.6 million or 4.8% from December 31, 2016, primarily in support of growth in originated loans and leases, higher net charge-offs and additional specific reserves on non-

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performing credits. The provision for credit losses during the six months ended June 30, 2017 was \$27.6 million, covering net charge-offs of \$20.0 million, with the remainder primarily supporting strong organic loan and lease growth, as well as additional specific reserves on non-performing credits, which was somewhat offset by positive upgrade activity in the commercial portfolio and generally favorable credit quality performance in the consumer portfolio. The allowance for credit losses as a percentage of non-performing loans for our total portfolio decreased from 183.99% as of December 31, 2016 to 144.35% as of June 30, 2017, reflecting an increase in the level of non-performing loans relative to the increase in the allowance for credit losses during the six 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 22

	At or For the Three Months Ended			
	June 30, 2017	December 31, 2016	June 30, 2016	
Non-performing loans / total originated loans and leases	0.75%	0.66%	0.74%	%
Non-performing loans + OREO / total originated loans and leases + OREO	1.08%	0.91%	1.15%	%
Allowance for credit losses (originated loans) / total originated loans and leases	1.15%	1.20%	1.26%	%
Net charge-offs on originated loans and leases (annualized) / total average originated loans and leases	0.38%	0.38%	0.35%	%

Deposits

Following is a summary of deposits:

TABLE 23

(in thousands)	June 30, 2017	December 31, 2016	Dollar Change	Percent Change
Non-interest-bearing demand	\$5,544,753	\$4,205,337	\$1,339,416	31.9%
Interest-bearing demand	9,221,408	6,931,381	2,290,027	33.0
Savings	2,562,259	2,352,434	209,825	8.9
Certificates and other time deposits	3,723,287	2,576,495	1,146,792	44.5
Total deposits	\$21,051,707	\$16,065,647	\$4,986,060	31.0%

Total deposits increased from December 31, 2016 primarily as a result of the YDKN acquisition, combined with organic growth in relationship-based transaction deposits, which are comprised of demand (non-interest-bearing and interest-bearing) and savings accounts (including money market savings), partially offset by a decrease in organic certificates and other time deposits, led by a planned decline in higher-cost brokered time deposits. Generating growth in relationship-based transaction deposits remains a key focus for us.

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.

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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. During 2016, we redeemed \$10.0 million of the TPS issued by Omega Financial Capital Trust I, as these securities are no longer eligible for inclusion in tier 1 capital.

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 can initiate 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 June 30, 2017, the most recent notification from the federal banking agencies categorized FNB and FNBPA as “well-capitalized” under the regulatory framework for prompt corrective action. There are no conditions or events since the notification which management believes have changed this categorization. Our management believes that, as of June 30, 2017 and December 31, 2016, 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 June 30, 2017 and December 31, 2016 for FNB and FNBPA:

TABLE 24

(dollars in thousands)	Actual		Well-Capitalized Requirements		Minimum Capital Requirements	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
June 30, 2017						
F.N.B. Corporation						
Total capital	\$2,611,793	11.5%	\$2,274,417	10.0%	\$2,103,836	9.3%
Tier 1 capital	2,145,278	9.4	1,819,533	8.0	1,648,952	7.3
Common equity tier 1	2,039,433	9.0	1,478,371	6.5	1,307,790	5.8
Leverage	2,145,278	7.6	1,403,731	5.0	1,122,985	4.0
Risk-weighted assets	22,744,168					
FNBPA						
Total capital	2,461,115	10.8	2,269,429	10.0	2,099,222	9.3
Tier 1 capital	2,298,433	10.1	1,815,543	8.0	1,645,336	7.3
Common equity tier 1	2,218,623	9.8	1,475,129	6.5	1,304,922	5.8
Leverage	2,298,433	8.2	1,395,298	5.0	1,116,239	4.0
Risk-weighted assets	22,694,293					
December 31, 2016						
F.N.B. Corporation						
Total capital	\$1,917,386	12.0%	\$1,597,951	10.0%	\$1,378,232	8.6%
Tier 1 capital	1,582,251	9.9	1,278,360	8.0	1,058,642	6.6
Common equity tier 1	1,475,369	9.2	1,038,668	6.5	818,950	5.1
Leverage	1,582,251	7.7	1,027,831	5.0	822,265	4.0
Risk-weighted assets	15,979,505					
FNBPA						
Total capital	1,768,561	11.1	1,588,989	10.0	1,370,503	8.6
Tier 1 capital	1,614,167	10.2	1,271,191	8.0	1,052,705	6.6
Common equity tier 1	1,534,167	9.7	1,032,843	6.5	814,357	5.1
Leverage	1,614,167	7.9	1,019,034	5.0	815,227	4.0
Risk-weighted assets	15,889,893					

In accordance with Basel III standards, the implementation of capital requirements is transitional and phases-in from January 1, 2015 through January 1, 2019. The minimum capital requirements presented for each period above are based on the requirements that were in effect at that time.

Dodd-Frank Wall Street Reform and Consumer Protection 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 2016 Annual Report on Form 10-K as filed with the SEC on February 23, 2017. 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.

Enhanced Regulatory Capital Standards

Regulatory capital reform initiatives continue to be updated and released which may impose additional conditions and restrictions on our current business practices and capital strategies.

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In July 2013, the FRB published the Basel III Capital Rules (Basel III) establishing a new comprehensive capital framework for U.S. banking organizations. The rules implement the Basel Committee's December 2010 framework for strengthening international capital standards as well as certain provisions of the Dodd-Frank Act. These reforms seek to strengthen the components of regulatory capital by increasing the quantity and quality of capital held by banking organizations, increasing risk-based capital requirements and making selected changes to the calculation of risk-weighted assets.

Following are some of the key provisions resulting from the final rule:

- revises the components of regulatory capital to phase out certain TPS for banking organizations with greater than \$15.0 billion in total assets;
- adds a new minimum common equity Tier 1 (CET1) ratio of 4.5% of risk-weighted assets;
- implements a new capital conservation buffer of CET1 equal to 2.5% of risk-weighted assets, which will be in addition to the 4.5% CET1 ratio and phased in over a three-year period beginning January 1, 2016;
- increases the minimum Tier 1 capital ratio requirement from 4.0% to 6.0%;
- revises the prompt corrective action thresholds;
- retains the existing risk-based capital treatment for 1-4 family residential mortgages;
- increases capital requirements for past-due loans, high volatility commercial real estate exposures and certain short-term loan commitments;
- expands the recognition of collateral and guarantors in determining risk-weighted assets;
- removes references to credit ratings consistent with the Dodd-Frank Act and establishes due diligence requirements for securitization exposures.

The final rule, which became effective for us on January 1, 2015, includes a phase-in period through January 1, 2019 for several provisions of the rule, including the new minimum capital ratio requirements and the capital conservation buffer.

As required by the Dodd-Frank Act, the FRB and OCC published final rules regarding DFAST rules. The DFAST rules require institutions, such as FNB and FNBPA, with average total consolidated assets greater than \$10 billion, to conduct an annual company-run stress test of capital, consolidated earnings and losses under one base and at least two stress scenarios provided by the federal bank regulators. Implementation of the DFAST rules for covered institutions with total consolidated assets between \$10 billion and \$50 billion began in 2013. The DFAST rules and guidance require increased involvement by boards of directors in the stress testing process and public disclosure of the results. Public disclosure of summary stress test results under the severely adverse scenario began in June 2015 for stress tests commencing in 2014. We filed the results of this year's stress testing analysis with the FRB by July 31, 2017. The time period covered for this analysis was December 2016 through March 2019. Our capital ratios reflected in these stress test calculations exceeded the well-capitalized levels, even under the severely adverse scenario. This is an important factor considered by the FRB and OCC in evaluating the capital adequacy of FNB and FNBPA and whether the appropriateness of any proposed payments of dividends or stock repurchases may be an unsafe or unsound practice. In reviewing FNB's and FNBPA's stress test results, the FRB and OCC will consider both quantitative and qualitative factors.

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

FNBPA generates liquidity from its normal business operations. Liquidity sources from assets include payments from loans and investments, as well as the ability to securitize, pledge or sell loans, investment securities and other assets. Liquidity sources

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from liabilities are generated primarily through the banking offices of FNBPA in the form of deposits and customer repurchase agreements. FNB also has access to reliable and cost-effective wholesale sources of liquidity. Short- and long-term funds can be acquired to help fund normal business operations, as well as to serve as contingency funding in the event that we would be faced with a liquidity crisis.

The principal sources of the parent company's liquidity are its strong existing cash resources plus dividends it receives from its subsidiaries. These dividends may be impacted by the parent's or its subsidiaries' capital needs, statutory laws and regulations, corporate policies, contractual restrictions, profitability and other factors. In addition, FNB, through one of our subsidiaries, regularly issues subordinated notes, which are guaranteed by FNB. Cash on hand at the parent has been managed by various strategies over the last few years. These include strong earnings, increasing earnings retention rate and capital actions. The parent's cash position increased \$4.6 million from \$164.6 million at December 31, 2016 to \$169.2 million at June 30, 2017, partially due to cash acquired from YDKN.

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

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

TABLE 25

(dollars in thousands)	June 30, 2017	December 31, 2016	Internal limit
Liquidity coverage ratio (LCR)	1.8 times	2.3 times	> 1 time
Months of cash on hand (MCH)	10.5 months	14.9 months	> 12 months

The MCH ratio fell below our internal limit due to the YDKN acquisition in March 2017. As a result of YDKN, our twelve-month projected dividend payout is estimated at \$155 million, an increase of approximately \$54 million pre-merger. YDKN did not manage to a similar ratio and held only a minimal amount of cash on hand at their holding company. Our ALCO is evaluating several alternatives, each of which would place the MCH ratio back into policy compliance. Management believes that this policy exception will be cured by December 31, 2017.

Our liquidity position has been positively impacted by our ability to generate growth in relationship-based accounts. Total year-to-date average deposits totaled \$19.2 billion at June 30, 2017 and increased \$4.2 billion, or 28.3%, year over year, due to the acquisition of YDKN, as well as organic growth. Average organic growth was \$294.0 million or 1.9% annualized for the year-over-year period. Organic growth in low-cost transaction deposits for the first six months of 2017 was \$479.4 million, or 3.7%, led by strong organic growth in average non-interest-bearing deposits of \$362.1 million, or 9.5% annualized, and growth in average savings and NOW of \$117.3 million or 1.3% annualized. The strong organic growth in low-cost transaction deposits was partially offset by a planned decline in average time deposits, primarily due to higher-cost brokered time deposits, of \$185.4 million or 6.9% annualized for the period on an organic basis.

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

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

TABLE 26

(dollars in thousands)	June 30, 2017	December 31, 2016
Unused wholesale credit availability	\$7,121,907	\$6,343,433
Unused wholesale credit availability as a % of FNBPA assets	23.3 %	29.3 %
Salable unpledged government and agency securities	\$2,300,227	\$1,451,157
Salable unpledged government and agency securities as a % of FNBPA assets	7.5 %	6.7 %

Another metric for measuring liquidity risk is the liquidity gap analysis. The following liquidity gap analysis as of June 30, 2017 compares the difference between our cash flows from existing assets and liabilities over future time intervals. Management seeks to limit the size of the liquidity gaps so that sources and uses of funds are reasonably matched in the normal course of business. A reasonably matched position lays a better foundation for dealing with additional funding needs during a potential liquidity crisis. The liquidity gap decreased during the six months as the twelve-month cumulative gap to total assets was (4.8)% and (3.3)% as of June 30, 2017 and December 31, 2016, respectively. These ratios are within our policy limits. Management calculates this ratio at least quarterly and it is reviewed monthly by ALCO.

TABLE 27

(dollars in thousands)	Within 1 Month	2-3 Months	4-6 Months	7-12 Months	Total 1 Year
Assets					
Loans	\$542,115	\$982,937	\$1,257,189	\$2,292,516	\$5,074,757
Investments	191,984	174,044	257,928	491,346	1,115,302
	734,099	1,156,981	1,515,117	2,783,862	6,190,059
Liabilities					
Non-maturity deposits	168,759	337,518	506,283	1,012,564	2,025,124
Time deposits	220,988	500,506	494,665	724,898	1,941,057
Borrowings	3,476,563	21,253	65,589	139,160	3,702,565
	3,866,310	859,277	1,066,537	1,876,622	7,668,746
Period Gap (Assets - Liabilities)	\$(3,132,211)	\$297,704	\$448,580	\$907,240	\$(1,478,687)
Cumulative Gap	\$(3,132,211)	\$(2,834,507)	\$(2,385,927)	\$(1,478,687)	
Cumulative Gap to Total Assets	(10.2 %)	(9.2 %)	(7.8 %)	(4.8 %)	

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

MARKET RISK

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

Changes in market interest rates may result in changes in the fair value of our financial instruments, cash flows and net interest income. The ALCO is responsible for market risk management which involves devising policy guidelines, risk measures and limits, and managing the amount of interest rate risk and its effect on net interest income and

capital. We use derivative financial instruments for interest rate risk management purposes and not for trading or speculative purposes.

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

We use an asset/liability model to measure our interest rate risk. Interest rate risk measures we utilize include earnings simulation, economic value of equity (EVE) and gap analysis.

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

The following repricing gap analysis as of June 30, 2017 compares the difference between the amount of interest-earning assets and interest-bearing liabilities subject to repricing over a period of time. Management utilizes the repricing gap analysis as a diagnostic tool in managing net interest income and EVE risk measures.

TABLE 28

(dollars in thousands)	Within 1 Month	2-3 Months	4-6 Months	7-12 Months	Total 1 Year
Assets					
Loans	\$8,785,405	\$1,002,003	\$878,567	\$1,591,385	\$12,257,360
Investments	198,311	185,387	268,445	500,164	1,152,307
	8,983,716	1,187,390	1,147,012	2,091,549	13,409,667
Liabilities					
Non-maturity deposits	5,951,930	—	—	—	5,951,930
Time deposits	321,429	501,098	491,293	719,515	2,033,335
Borrowings	3,922,619	496,651	48,937	105,855	4,574,062
	10,195,978	997,749	540,230	825,370	12,559,327
Off-balance sheet	(100,000)	405,000	—	—	305,000
Period Gap (assets – liabilities + off-balance sheet)	\$(1,312,262)	\$594,641	\$606,782	\$1,266,179	\$1,155,340
Cumulative Gap	\$(1,312,262)	\$(717,621)	\$(110,839)	\$1,155,340	
Cumulative Gap to Assets	(5.0)%	(2.7)%	(0.4)%	4.4 %	

The twelve-month cumulative repricing gap to total earning assets was 4.4% and 4.9% as of June 30, 2017 and December 31, 2016, respectively. The positive cumulative gap positions indicate that we have a greater amount of repricing earning assets than repricing interest-bearing liabilities over the subsequent twelve months. If interest rates increase then net interest income will increase and, conversely, if interest rates decrease then net interest income will decrease.

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

Utilizing net interest income simulations, the following net interest income metrics were calculated using rate shocks which move market rates in an immediate and parallel fashion. The variance percentages represent the change

between the net interest income and EVE calculated under the particular rate scenario versus the net interest income and EVE that was calculated assuming market rates as of June 30, 2017.

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

TABLE 29

	June 30, 2017	December 31, 2016	ALCO Limits
Net interest income change (12 months):			
+ 300 basis points	3.1 %	3.9 %	n/a
+ 200 basis points	2.3 %	2.8 %	(5.0)%
+ 100 basis points	1.3 %	1.5 %	(5.0)%
- 100 basis points	(3.7)%	(4.0)%	(5.0)%
Economic value of equity:			
+ 300 basis points	(3.4)%	(3.8)%	(25.0)%
+ 200 basis points	(1.7)%	(2.4)%	(15.0)%
+ 100 basis points	(0.3)%	(0.6)%	(10.0)%
- 100 basis points	(3.6)%	(4.3)%	(10.0)%

We also model rate scenarios which move all rates gradually over twelve months (Rate Ramps) and also model scenarios that gradually change the shape of the yield curve. A +300 basis point Rate Ramp increases net interest income (12 months) by 2.4% at June 30, 2017 and 3.3% at December 31, 2016.

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 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 57.1% and 60.3% of total loans as of June 30, 2017 and December 31, 2016, respectively. As of June 30, 2017, 79.7% of these loans, or 57.1% of total loans, are tied to the Prime and one-month LIBOR rates. The investment portfolio is used, in part, to manage our interest rate risk position. We have managed the duration of our investment portfolio to be relatively short, resulting in a portfolio duration of 3.9 years for both June 30, 2017 and December 31, 2016. 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 June 30, 2017, the commercial swaps totaled \$2.0 billion of notional principal, with \$435.5 million in notional swap principal originated during the first six months of 2017. 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 six months of 2017. A number of management actions and market occurrences resulted in a decrease in the asset sensitivity of our interest rate risk position during the period. The decrease was due to management's actions with the acquisition of YDKN in conjunction with timing of funding loan and investment growth as well as deposit activity. The primary drivers increasing asset sensitivity involved repositioning the acquired investments and FHLB advances portfolios, with the biggest driver being an increase in our short-term funding position. These actions were done in conjunction with normal activity which included growth in transaction deposits referred to earlier, an increase in the amount of adjustable loans repricing in twelve months or less, and terming out fixed borrowings.

We recognize that all asset/liability models have some inherent shortcomings. Asset/liability models require certain assumptions to be made, such as prepayment rates on interest-earning assets and repricing impact on non-maturity deposits, which may differ from actual experience. These business assumptions are based upon our experience, business plans, economic and market trends and available industry data. While management believes that its

methodology for developing such assumptions to be reasonable, there can be no assurance that modeled results will be achieved.

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

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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.

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.

As noted above, we have a Risk Management Council comprised of senior management. The purpose of this committee is to provide regular oversight of specific areas of risk with respect to the level of risk and risk management structure. Management has also established an Operational Risk Committee that is responsible for identifying, evaluating and monitoring operational risks across FNB, evaluating and approving appropriate remediation efforts to address identified operational risks and providing periodic reports concerning operational risks to the Risk Management Council. The Risk Management Council reports on a regular basis to the Risk Committee of our Board of Directors regarding our enterprise-wide risk profile and other significant risk management issues. Our Chief Risk Officer is responsible for the design and implementation of our enterprise-wide risk management strategy and framework and 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, which reports to the Chief Risk Officer, 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.

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NON-GAAP FINANCIAL MEASURES AND KEY PERFORMANCE INDICATORS

We use certain non-GAAP financial information and performance measures to provide information useful to investors in understanding our operating performance, efficiency and trends, and to facilitate comparisons with our peers. The non-GAAP financial measures we use may differ from the non-GAAP financial measures other financial institutions use to measure their results of operations.

Non-GAAP financial measures should be viewed in addition to, and not as an alternative for, our reported results prepared in accordance with GAAP. Non-GAAP financial measures have inherent limitations, are not required to be uniformly applied and are not audited. Although non-GAAP financial measures are frequently used by stakeholders in the evaluation of a company, these measures have limitations as analytical tools and should not be considered in isolation or as a substitute for analyses of results as reported under GAAP. Accordingly, we encourage readers to consider our Consolidated Financial Statements in their entirety and not to rely on any single financial measure. Reconciliations of non-GAAP operating measures to the most directly comparable GAAP financial measures are included in the following tables.

TABLE 30

Operating Net Income Available to Common Stockholders

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
(dollars in thousands)				
Net income available to common stockholders	\$72,396	\$39,290	\$93,365	\$63,412
Merger-related expense	1,354	10,551	54,078	35,491
Tax benefit of merger-related expense	(419)	(3,693)	(17,998)	(12,104)
Merger-related net securities gains	—	—	(2,609)	—
Tax expense of merger-related net securities gains	—	—	913	—
Operating net income available to common stockholders (non-GAAP)	\$73,331	\$46,148	\$127,749	\$86,799

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

TABLE 31

Operating Earnings per Diluted Common Share

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income per diluted common share	\$0.22	\$0.19	\$0.33	\$0.31
Merger-related expense	0.01	0.05	0.19	0.17
Tax benefit of merger-related expense	—	(0.02)	(0.06)	(0.06)
Merger-related net securities gains	—	—	(0.01)	—
Tax expense of merger-related net securities gains	—	—	—	—
Operating earnings per diluted common share (non-GAAP)	\$0.23	\$0.22	\$0.45	\$0.42

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TABLE 32

Return on Average Tangible Common Equity

(dollars in thousands)	Three Months Ended		Six Months Ended		
	June 30,		June 30,		
	2017	2016	2017	2016	
Net income available to common stockholders (annualized)	\$290,381	\$158,025	\$93,365	\$63,412	
Amortization of intangibles, net of tax (annualized)	12,547	8,856	5,142	3,924	
Tangible net income available to common stockholders (annualized)	\$302,928	\$166,881	\$98,507	\$67,336	
Average total stockholders' equity	\$4,386,438	\$2,532,226	\$3,700,953	\$2,430,970	
Less: Average preferred stockholder equity	(106,882)	(106,882)	(106,882)	(106,882)	
Less: Average intangibles ⁽¹⁾	(2,348,767)	(1,090,542)	(1,381,712)	(1,089,216)	
Average tangible common equity	\$1,930,789	\$1,334,802	\$2,212,359	\$1,234,872	
Return on average tangible common equity (non-GAAP)	15.69	% 12.50	% 4.45	% 5.45	%

(1) Excludes loan servicing rights.

TABLE 33

Return on Average Tangible Assets

(dollars in thousands)	Three Months Ended		Six Months Ended		
	June 30,		June 30,		
	2017	2016	2017	2016	
Net income (annualized)	\$298,443	\$166,106	\$97,385	\$67,432	
Amortization of intangibles, net of tax (annualized)	12,547	8,856	5,142	3,924	
Tangible net income (annualized)	\$310,990	\$174,962	\$102,527	\$71,356	
Average total assets	\$30,364,645	\$20,780,413	\$27,230,782	\$19,848,526	
Less: Average intangibles ⁽¹⁾	(2,348,767)	(1,090,542)	(1,381,712)	(1,089,216)	
Average tangible assets	\$28,015,878	\$19,689,871	\$25,849,070	\$18,759,310	
Return on average tangible assets (non-GAAP)	1.11	% 0.89	% 0.40	% 0.38	%

(1) Excludes loan servicing rights.

TABLE 34

Tangible Book Value per Common Share

(in thousands, except per share data)	Three Months Ended	
	June 30,	
	2017	2016
Total stockholders' equity	\$4,392,438	\$2,545,337
Less: Preferred stockholders' equity	(106,882)	(106,882)
Less: Intangibles ⁽¹⁾	(2,346,653)	(1,094,687)
Tangible common equity	\$1,938,903	\$1,343,768
Ending common shares outstanding	323,226,474	210,120,601
Tangible book value per common share (non-GAAP)	\$6.00	\$6.40

(1) Excludes loan servicing rights.

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Efficiency Ratio

(dollars in thousands)	Three Months Ended		Six Months Ended	
	June 30, 2017	2016	June 30, 2017	2016
Non-interest expense	\$163,714	\$129,629	\$351,269	\$266,277
Less: Amortization of intangibles	(4,813)	(3,388)	(7,911)	(6,037)
Less: OREO expense	(1,008)	(172)	(1,991)	(1,581)
Less: Merger-related expense	(1,354)	(10,551)	(54,078)	(35,491)
Less: Impairment charge on other assets	—	—	—	(2,585)
Adjusted non-interest expense	\$156,539	\$115,518	\$287,289	\$220,583
Net interest income	\$218,415	\$154,369	\$391,167	\$294,723
Taxable equivalent adjustment	4,474	2,791	7,996	5,253
Non-interest income	66,078	51,411	121,194	97,455
Less: Net securities gains	(493)	(226)	(3,118)	(297)
Less: Gain on redemption of TPS	—	—	—	(2,422)
Adjusted net interest income (FTE) + non-interest income	\$288,474	\$208,345	\$517,239	\$394,712
Efficiency ratio (FTE) (non-GAAP)	54.26	% 55.45	% 55.54	% 55.88

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information called for by this item is provided under the caption Market Risk in Part I, Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations 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 2016 Annual Report on Form 10-K as filed with the SEC on February 23, 2017.

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 June 30, 2017, as required by paragraph (d) of Rules 13a-15

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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 9 of the Notes to the Consolidated Financial Statements, which portion 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, 2016. See also Part I, Item 2 (Management's Discussion and Analysis) of this Report.

Additionally, the risk factors below relate to the recently completed acquisition of YDKN and its wholly-owned subsidiary, Yadkin Bank, and are in addition to the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2016.

Our loan portfolio could be affected by the on-going correction in the North Carolina and South Carolina real estate markets, including reduced levels of home sales and declines in the performance of loans.

There continues to be a general real estate slowdown in some of YDKN's former market areas, reflecting declining prices and excess inventories. As a result, home builders and commercial developers have shown signs of financial deterioration for prolonged periods before recovery. A soft residential housing market, increased delinquency rates, and a weakened secondary credit market have affected the overall mortgage industry and have impacted in the past and could in the future adversely affect the builder finance division acquired from YDKN. We make credit and reserve decisions based on the current conditions of borrowers or projects combined with our expectations for the future. If conditions are worse than forecasted, we could experience higher charge-offs and delinquencies beyond that which is provided for in the allowance for loan losses. As such, our earnings could be adversely affected through higher than anticipated provisions for loan losses.

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

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

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

result in higher levels of nonperforming loans.

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Our decisions regarding the credit risk associated with YDKN's loan portfolio could be incorrect and our credit mark may be inadequate, which may adversely affect our financial condition and results of operations. Prior to the acquisition, we conducted extensive due diligence on a significant portion of the YDKN loan portfolio; however, our review did not encompass each and every loan in the YDKN loan portfolio. In accordance with customary industry practices, we evaluated the YDKN loan portfolio based on various factors including, among other things, historical loss experience, economic risks associated with each loan category, volume and types of loans, trends in classification, volume and trends in delinquencies and nonaccruals, and general economic conditions, both local and national. In this process, our management made various assumptions and judgments about the collectability of the loan portfolio, including the creditworthiness and financial condition of the borrowers, the value of the real estate, which is obtained from independent appraisers, other assets serving as collateral for the repayment of the loans, the existence of any guarantees and indemnifications and the economic environment in which the borrowers operate. In addition, the effects of probable decreases in expected principal cash flows on the YDKN loans were considered as part of our evaluation. If our assumptions and judgments turn out to be incorrect, including as a result of the fact that our due diligence review did not cover each individual loan, our estimated credit mark against the YDKN loan portfolio in total may be insufficient to cover actual loan losses after the merger is completed, and adjustments may be necessary to allow for different economic conditions or adverse developments in the YDKN loan portfolio. Additionally, deterioration in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside our control, may require an increase in the provision for loan losses. Material additions to the credit mark and/or allowance for loan losses would materially decrease our net income and would result in extra regulatory scrutiny and possibly supervisory action. We may not be able to compete successfully in our new North Carolina and South Carolina markets. We have no prior operating experience in the North Carolina and South Carolina markets, which is a more competitive market environment than our primary markets in Pennsylvania, Maryland and Ohio. Our success in these new markets will depend on a variety of factors, including our ability to successfully integrate the YDKN businesses with ours; our ability to retain and attract experienced personnel, build brand awareness, and retain existing customers as well as acquire new customers; the continued availability of desirable business opportunities and locations; and the competitive responses from other financial institutions in the new market areas. Unlike our previous acquisitions, the North Carolina and South Carolina markets are not geographically contiguous with our current market area, which could increase the difficulty of integrating the YDKN businesses with ours. Failure to compete successfully in these new market areas could have a material adverse effect on our business, financial condition and results of operations. Hurricanes, excessive rainfall, droughts or other adverse weather events could negatively affect the local economies in the North Carolina and South Carolina markets, or disrupt our operations in those markets, which could have an adverse effect on our business or results of operations. The economy of the coastal regions of North Carolina and South Carolina are affected, from time to time, by adverse weather events, particularly hurricanes. Upon completion of the YDKN acquisition, our market area will include the Outer Banks and other portions of coastal North Carolina. Agricultural interests are highly sensitive to excessive rainfall or droughts. We cannot predict whether, or to what extent, damage caused by future weather conditions will affect our operations, customers or the economies in our North Carolina and South Carolina markets. Weather events could cause a disruption in our day-to-day business activities in branches located in coastal communities, a decline in loan originations, destruction or decline in the value of properties securing our loans, or an increase in the risks of delinquencies, foreclosures, and loan losses. Even if a hurricane does not cause any physical damage in our North Carolina and South Carolina market areas, a turbulent hurricane season could significantly affect the market value of all coastal property.

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

NONE

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

NONE

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ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

ITEM 5. OTHER INFORMATION

NONE

ITEM 6. EXHIBITS

Exhibit Index

4.1 Assignment and Assumption Agreement between and among F.N.B. Corporation, Computershare Trust Company, N.A., as successor-in-interest to Registrar and Transfer Company, and The Bank of New York Mellon, dated May 10, 2017 (incorporated by reference to Exhibit 4.1 of F.N.B. Corporation's Current Report on Form 8-K filed on May 15, 2017).

4.2 Amendment to Deposit Agreement made on May 10, 2017 between F.N.B. Corporation and The Bank of New York Mellon (incorporated by reference to Exhibit 4.2 of F.N.B. Corporation's Current Report on Form 8-K filed on May 15, 2017).

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 June 30, 2017, formatted in XBRL: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Stockholders' Equity, (v) the Consolidated Statements of Cash Flows and (vi) the Notes to Consolidated Financial Statements. (filed herewith).

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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: August 4, 2017 /s/ Vincent J. Delie, Jr.
Vincent J. Delie, Jr.
President and Chief Executive Officer
(Principal Executive Officer)

Dated: August 4, 2017 /s/ Vincent J. Calabrese, Jr.
Vincent J. Calabrese, Jr.
Chief Financial Officer
(Principal Financial Officer)

Dated: August 4, 2017 /s/ James L. Dutey
James L. Dutey
Corporate Controller
(Principal Accounting Officer)