

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,<br>2017<br>(Unaudited) | December 31,<br>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) <sup>(1)</sup> | 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 |
|--|--------------|--------------|

(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<br>Ended<br>June 30, |           | Six Months Ended<br>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<br>Ended<br>June 30, |          | Six Months Ended<br>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<br>Stock | Common<br>Stock | Additional<br>Paid-In<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Treasury<br>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 -<br>acquisitions  |                    | 1,116           | 1,780,819                        |                      |  |                   | 1,781,935    |
| Assumption of warrant due to<br>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 -<br>acquisitions  |                    | 341             | 403,690                          |                      |  |                   | 404,031      |
| Restricted stock compensation               |                    |                 | 2,916                            |                      |  |                   | 2,916        |
| Tax benefit of stock-based<br>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 |
|---|-----------|----------|-----------------------|--------------------|
| <b>Six Months Ended June 30, 2017</b>                 |           |          |                       |                    |
| 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               |
| <b>Six Months Ended June 30, 2016</b>                 |           |          |                       |                    |
| 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<br>Third<br>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<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>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<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>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<br>Months<br>Ended<br>June 30, |       | Six Months<br>Ended<br>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<br>Cost  | Fair<br>Value | Amortized<br>Cost | Fair<br>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,<br>2017 | December 31,<br>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 |
| <b>Securities Held to Maturity</b>             |                     |             |                   |                   |            |                   |       |             |                   |
| <b>June 30, 2017</b>                           |                     |             |                   |                   |            |                   |       |             |                   |
| 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)        |
| <b>December 31, 2016</b>                       |                     |             |                   |                   |            |                   |       |             |                   |
| 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<br>Loans and<br>Leases | Acquired<br>Loans | Total<br>Loans and<br>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,<br>2017 | December 31,<br>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,<br>2017 | December 31,<br>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,<br>2017 | December 31,<br>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,<br>2017 | December 31,<br>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<br>Past Due | > 90 Days<br>Past Due<br>and Still<br>Accruing | Non-<br>Accrual | Total<br>Past Due | Current      | Total<br>Loans and<br>Leases |
|------------------------------------|------------------------|--|-----------------|-------------------|--------------|------------------------------|
| <b>Originated Loans and Leases</b> |                        |  |                 |                   |              |                              |
| <b>June 30, 2017</b>               |                        |  |                 |                   |              |                              |
| 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                 |
| <b>December 31, 2016</b>           |                        |  |                 |                   |              |                              |
| 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<br>Days<br>Past<br>Due | > 90 Days<br>Past Due<br>and Still<br>Accruing | Non-<br>Accrual | Total<br>Past<br>Due (1) (2) | Current     | Discount    | Total<br>Loans |
|---------------------------|------------------------------|--|-----------------|------------------------------|-------------|-------------|----------------|
| <b>Acquired Loans</b>     |                              |  |                 |                              |             |             |                |
| <b>June 30, 2017</b>      |                              |  |                 |                              |             |             |                |
| 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    |
| <b>December 31, 2016</b>  |                              |  |                 |                              |             |             |                |
| 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<br>Category | Definition  |
|--------------------|---|
| Pass               | in general, the condition and performance of the borrower is satisfactory or better   |
| Special<br>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<br>Mention | Substandard       | Doubtful         | Total              |
| <b>Originated Loans and Leases</b>                  |   |                    |                   |                  |                    |
| <b>June 30, 2017</b>                                |   |                    |                   |                  |                    |
| 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            |
| <b>Total originated commercial loans and leases</b> | <b>\$7,424,731</b>                                  | <b>\$268,053</b>   | <b>\$ 169,009</b> | <b>\$ 10,099</b> | <b>\$7,871,892</b> |
| <b>December 31, 2016</b>                            |   |                    |                   |                  |                    |
| 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            |
| <b>Total originated commercial loans and leases</b> | <b>\$6,560,381</b>                                  | <b>\$238,893</b>   | <b>\$ 201,862</b> | <b>\$ 3,203</b>  | <b>\$7,004,339</b> |
| <b>Acquired Loans</b>                               |   |                    |                   |                  |                    |
| <b>June 30, 2017</b>                                |   |                    |                   |                  |                    |
| 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            |
| <b>Total acquired commercial loans</b>              | <b>\$4,346,302</b>                                  | <b>\$435,219</b>   | <b>\$ 306,590</b> | <b>\$ 336</b>    | <b>\$5,088,447</b> |
| <b>December 31, 2016</b>                            |   |                    |                   |                  |                    |
| 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            |
| <b>Total acquired commercial loans</b>              | <b>\$1,419,495</b>                                  | <b>\$106,487</b>   | <b>\$ 143,095</b> | <b>\$ 1,163</b>  | <b>\$1,670,240</b> |

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<br>by Payment Status |                    |              |
|---------------------------------|---|--------------------|--------------|
|                                 | Performing  | Non-<br>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:

|                        | Three Months Ended June 30, 2017           |  | Six Months Ended June 30, 2017             |  |
|------------------------|--|--|--|--|
|                        | Pre-Modification<br>Number of<br>Contracts | Post-Modification<br>Outstanding<br>Recorded<br>Investment | Pre-Modification<br>Number of<br>Contracts | Post-Modification<br>Outstanding<br>Recorded<br>Investment |
| (dollars in thousands) |  |  |  |  |
| Commercial real estate | 1  |  |  |  |